

National Portrait Gallery Annual Report and Accounts 2012-13

Presented to Parliament pursuant to Section 9(8) of
the Museums and Galleries Act 1992

ORDERED BY THE HOUSE OF COMMONS TO BE
PRINTED 17 JULY 2013

National Portrait Gallery Annual Report and Accounts 2012-13

Presented to Parliament pursuant to Section 9(8) of
the Museums and Galleries Act 1992

ORDERED BY THE HOUSE OF COMMONS TO BE
PRINTED 17 JULY 2013

© National Portrait Gallery 2013

The text of this document (this excludes, where present, the Royal Arms and all departmental and agency logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as The National Portrait Gallery copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries regarding this publication should be sent to us at nevans@npg.org.uk .

You can download this publication from our website at www.npg.org.uk.

ISBN: 9780102982466

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2549459 07/13 31069 19585

Printed on paper containing 75% recycled fibre content minimum

| | Page |
|---|-------------|
| Trustees' and Accounting Officer's Annual Report | 2 |
| Remuneration Report | 22 |
| Statement of Trustees' and Director's Responsibilities | 31 |
| Governance Statement | 32 |
| The Certificate and Report of the Comptroller and Auditor General | 41 |
| Consolidated Statement of Financial Activities | 43 |
| Consolidated Balance Sheet | 44 |
| Gallery Balance Sheet | 45 |
| Consolidated Cash Flow Statement | 46 |
| Notes to the Accounts | 47 |

TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

INTRODUCTION

The Trustees of the National Portrait Gallery have pleasure in submitting their Annual Report and Accounts for the year ended 31st March 2013. The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992 and are presented in accordance with the reporting requirements of the Statement of Recommended Practice (revised 2005), *Accounting and Reporting by Charities*.

The Annual Report sets out:

- the Gallery's structure, governance and management, including administrative details of the Gallery, its Trustees and advisers; and
- our aims and objectives, our strategy in achieving them, highlights of our performance during the past year (including performance against the indicators agreed with the Department for Culture, Media and Sport) and our plans for future periods.

STRUCTURE, GOVERNANCE AND MANAGEMENT (INCLUDING ADMINISTRATIVE DETAILS)

Constitution

The Museums and Galleries Act 1992 established the corporate status of the Board of Trustees of the National Portrait Gallery. This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established. The National Portrait Gallery is recognised as an exempt charity under the provisions of the Charities Act 2011.

History and Background

The National Portrait Gallery was founded in 1856 to collect and display portraits of eminent British men and women. The first acquisition to be registered was the portrait of Shakespeare, known as the 'Chandos' portrait. From its earliest days the Gallery has also collected extensive reference material relating to portraiture which has developed into a unique national resource. In the 1960s the Photographs Collection was revitalised and in 1969 portraits of living people were for the first time regularly admitted to the collection. Today it is among the largest and most prestigious collections of portraits in the world.

As well as a permanent display of portraiture from the sixteenth century to the present day, the Gallery provides a wide range of special exhibitions and displays. The Gallery's Learning department runs extensive education and outreach programmes for schools, colleges, families and visitors in general, promoting access to and understanding of the collections to a broad range of audiences.

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 11,799 portraits of the most famous people in British history. Of these more than 4,099 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 7,700 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Registrar. The Collection is also made widely available via the Portrait Explorer in the Digital Space (formerly the IT Gallery), by CD-Rom, on the internet (at www.npg.org.uk) and in Gallery and other publications.

The Gallery also holds reference collections of photographs and prints and drawings as a national resource; they form an image bank of the nation's famous and less famous faces. They are used for study and exhibition, and have been extensively reproduced in books and other publications. There are more than 335,000 images in the Reference Collections, divided between the Archive and Library's Reference Collection of about 85,000 items, mainly prints but also 2,500 drawings, 75 paintings and 140 sculptures, almost all relatively modest in nature, and the Photographs Collection of more than 250,000 photographs and historic negatives. The Heinz Archive and Library also contains 40,000 books and manages the Gallery's Records and Collected Archives.

The Collection has been housed at St Martin's Place since 1896. The building, designed by Ewan Christian, was the gift of William Henry Alexander. An extension was built in the 1930s from funds provided by Sir Joseph (later Lord) Duveen. 1993 saw the opening of a permanent home in Orange Street for the Gallery's archive and library, funded by the Drue Heinz Foundation, together with new offices and a conservation studio. The most recent addition was the Ondaatje Wing in 2000, providing additional gallery space, improved visitor facilities and a new lecture theatre, funded by Sir Christopher Ondaatje, the Heritage Lottery Fund and several donors. In 2004, the refurbished Regency display in the Weldon Galleries completed a ten year programme of buildings renewal.

The Gallery has ongoing national partnerships with Montacute House in Somerset, Beningbrough Hall in Yorkshire (both National Trust properties) and at Bodelwyddan Castle in Clwyd (by arrangement with Bodelwyddan Castle Trust). Partnerships have also been formed with museums and galleries in the North East and the South West of England, and there are ongoing loan and display arrangements with other galleries and historic houses.

Structure, Governance and Management

The Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport. A Board of sixteen trustees (including the Gallery's two *ex-officio* Trustees), appointed by the Prime Minister on the recommendation of the Secretary of State for Culture, Media and Sport with oversight by the Commissioner for Public Appointments, meets quarterly. Trustees have responsibility for overseeing the Gallery's affairs, determining the policies and overall strategy for the organisation. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. Outside Trustee meetings, it is assumed that they will make themselves available for consultation and specialist advice, whenever appropriate, as well as acting externally as advocates for the Gallery and assisting in the processes of fund-raising. There are committees of the Board which cover audit and compliance and the investment of the Gallery's reserves.

A list of Trustees during 2012/13 and up to the date on which the accounts were signed is at page 27. Following their appointment, new Trustees are given a Trustees' handbook, policy papers and a full induction about the National Portrait Gallery and their terms of appointment, duties, rights and responsibilities. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held, which is open to the public, and can be accessed in The Heinz Archive and Library.

The Director of the Gallery is Sandy Nairne CBE. The appointment of the Director is made by the Trustees and approved by the Prime Minister. The Director is responsible for the overall leadership of the Gallery, its programmes of activities, the soundness of its finances, business and financial planning and its external representation. The Director leads the Management Team, which carries responsibility for developing the work of the Gallery, and debating and deciding on particular initiatives within the policies set by the Board. The Management Team takes responsibility for evaluating current work and initiatives, as well as reviewing policies, and is supported by a Planning Team, which reviews the Strategic and Corporate Plans, the Corporate Risk Register and monitors budgets and financial matters. The Management Team meets fortnightly and also has an annual strategic review day.

The Gallery has regular Curatorial meetings, where all matters relating to acquisitions and loans are discussed, an Exhibitions Committee and groups for the development of Displays, Design, Publications, Digital Programmes, National Programmes and Interpretation.

The Gallery has a wholly owned subsidiary company, the National Portrait Gallery Company Limited. The Company has a Board of five Directors, including one Trustee, three Gallery senior executives (one of which is the Director of the Gallery), and an independent non-executive director.

In January 2012 HRH the Duchess of Cambridge became Patron of the National Portrait Gallery. In spring 2012 an independent foundation trust, The Portrait Trust, was established to work alongside

the Gallery in promoting the public's enjoyment, understanding and learning through the medium of portraiture.

Details of the Gallery's external advisers are at pages 27 and 28.

The Gallery's address is 2 St Martin's Place, London, WC2H 0HE.

OBJECTIVES

Objects and Key Policies of the Gallery

The overall aims of the Gallery, derived from the Museums and Galleries Act 1992, are:

- To promote through the medium of portraits the appreciation and understanding of the men and women who have made and are making British history and culture.
- To promote the appreciation and understanding of portraiture in all media.

In pursuing these aims the Gallery recognises the need to make the most efficient use of its assets and to generate income to supplement government grants. This income is generated from activities such as sponsorship, corporate and individual membership schemes, publishing and trading. Grant-giving bodies provide welcome support for acquisitions and projects. The Gallery has had a number of successful fundraising campaigns for its capital projects and major acquisitions.

The Gallery does not charge for general access to permanent Collection displays. Temporary exhibitions are partially funded by sponsorship, by admission charges in the Wolfson and Porter Galleries, and by retail sales associated with the exhibitions made through the Gallery's wholly owned trading subsidiary company. Earning revenue in addition to the government's grant-in-aid allows a wider public programme to be offered.

The National Portrait Gallery is an equal opportunities employer. The development of working practices and a working environment that facilitates this, in particular with regard to the employment of disabled persons, are key objectives, as embodied in its combined Equality Scheme. The Gallery has a comprehensive policy and training programme, and a wellbeing policy, aimed at securing the health, safety and welfare of its employees, (see pages 15 and 16).

Gallery employees are involved in the development of policies, strategic and corporate plans and performance targets through corporate planning and performance management processes. Management meetings and newsletters provide a regular means for the consideration of issues and dissemination of information to staff throughout the year. Regular meetings between staff and management ('Whitley Council' meetings) provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, as detailed on page 16.

Objectives and Performance Indicators

The Gallery has an interim Funding Agreement with the Department for Culture, Media and Sport which has operated during 2012/13. The DCMS reviewed the Funding Agreements with all sponsored museums and galleries and issued draft new Management Agreements. However, at the time of writing, the new Agreement remains in draft, although it is close to finalisation, and so for the time being the interim Funding Agreement remains in force. This interim Agreement is very similar to the earlier 2008/2011 Funding Agreement and includes the same seventeen key performance indicators. These indicators relate to audience profile, learning and outreach, visitor satisfaction, income generation and regional engagement, with a further four chosen by the Gallery. Funding Agreement performance indicators are reviewed quarterly by Trustees and annually by DCMS. Reference is made to these indicators throughout the Annual Report with the Gallery's performance in 2012/13 (with comparators for previous years, where appropriate) detailed on pages 29 and 30.

The 2012 to 2015 Corporate Plan established six primary objectives for the Gallery's three-year business plans as follows:

Charitable activities

- To extend and broaden the range of audiences for the National Portrait Gallery and its work through access and learning, a higher national and public profile, and effective communication;
- To develop the Collection, creating opportunities for acquisition and commission, while improving its care and conservation;
- To increase the understanding of and engagement with the Collection and the art of portraiture through outstanding research, exhibitions and displays, publishing, regional and digital programmes;

Increasing and developing resources

- To maximise the financial resources available through both public and private sector support, trading and licensing and through the effective management of the Gallery's assets and resources;
- To develop staff as an essential resource through the extension of staff diversity, training, development and learning programmes; and
- To bring the buildings, technical and managerial infrastructure of the Gallery to the highest standards.

ACTIVITIES, PERFORMANCE AND PLANNED FUTURE DEVELOPMENTS

1) Extending and broadening audiences

Visitor numbers

Over the past year the Gallery has continued to encourage new audiences, through communications, the public programme, outreach activities and increased access to the Collection via our partnerships across the UK.

The Gallery attracted 2.05 million visits in 2012/13, this was the best annual visitor figure in the Gallery's history and the second time we have received over two million visits. Much of this success was due to *Lucian Freud Portraits*, which was the most popular paid-for exhibition the Gallery has staged, attracting over 246,000 visitors. Summer 2012 saw the culmination of the *Road to 2012* project funded by BT. A free outdoor exhibition toured to cities across the UK including Cardiff, Birmingham and Edinburgh and the exhibition in London was viewed by 340,000 visitors. *The Queen: Art & Image*, which was staged to mark the Queen's Diamond Jubilee in 2012, was seen by over 240,000 visitors on its national tour of Edinburgh, Belfast, Cardiff and London.

Research results indicate that the Gallery continues to attract new and diverse audiences, in 2012/13 11% of UK visitors were from Black, Asian and minority ethnic (BAME) groups and 10% were from lower socio-economic groups (NS-SEC groups 5-8). The Gallery also saw an increase in visitors from overseas who account for 45% of visits during the period. Enjoyment and satisfaction levels remain high, with 98% rating their visit 'good' or 'excellent' and 97% of visitors said that they would be likely to recommend a visit to friends or family, with 76% saying they 'definitely would'.

Communications

The promotion of *Lucian Freud Portraits* was launched with a major advance booking advertising campaign, a first for the Gallery, which was a great success; 30,000 tickets were sold pre-opening. The *Late Shift* visual identity won an award in the Best Branding Category of the International Design Communication Awards 2012 and the campaign continues to encourage a young, diverse audience on Thursday and Friday evenings. Innovative promotion for the *Road to 2012: Aiming High* exhibition included social media activity and over fifteen different press adverts, that featured Olympic and

Paralympic athletes around the time that they were competing, and interactive video and YouTube advertising.

Campaigns for Gallery activities resulted in widespread media coverage. The unveiling of Paul Emsley's commissioned portrait of the Duchess of Cambridge in January 2013 dominated world news, headlining print and broadcast channels. The *Lost Prince* exhibition captured the media's imagination through extensive review coverage including a report on *Channel 4 News*, and front-cover feature for the *Sunday Times Culture*. Its launch coincided with a live broadcast from the Gallery of BBC Radio 3's *In Tune* programme in which music from the exhibition was performed. The *Road to 2012: Aiming High* press launch received widespread news coverage and the *Man Ray Portraits* campaign was marked by a particularly strong international media response.

Families

Children's book illustrator Salvatore Rubbino created characters for the *BP Portrait Award 2012* family labels and trail, with a 15,000 print run. The family-friendly provision for summer 2012 was enhanced by three new free self-directed resources, 'Explore', 'Sketch' and 'Look' available year-round. Programmes planned to increase family attendances include new drop-in sessions and a Christmas Special, featuring Henry VIII and Anne Boleyn from the Garrick Theatre's *Horrible Histories: Barmy Britain*, for nearly 500 participants. During the coming year, a staffed Family Arts Hub with activities and resources will be launched as a destination point for all families visiting the Gallery.

Young People

The Youth Forum, energised by a new Forward Plan, is shaping the programme and encouraging new participation through initiatives such as the 'Pick up a Pencil' monthly drawing sessions. A highlight of the regular Sunday sessions was 'Don't put my name on it', a poetry and photography workshop inspired by *Man Ray Portraits*, resulting in a public reading. The 'Domino Effect' NEET (Not In Education, Employment or Training) project, funded by the Dorset Foundation, delivered artist-led photography courses to young people from Westminster Youth Services and New Horizon Youth Centre in Camden. *BP Portrait Award: Next Generation 2012* engaged 400 14-19-year-olds onsite and at two regional venues, with an additional 300,000 visiting the Gallery display and 120,000 people accessing content online.

Schools

38,945 individual children and young people participated onsite with a further 1,225 off-site. New high-quality taught programmes included 'Who am I?', a session reading clues in Regency portraits with thirty primary classes, and a 'World Book Day' event in March with writer and illustrator Judith Kerr reading to 120 pupils from two local primary schools. Secondary art audiences participated in six 'Meet the Artist' events, and pilot study days for 'Image and Identity' and 'Photography', supported by new online resources. Exhibition-linked learning included photographer-led workshops and teacher events for *Man Ray Portraits* and a secondary history and art programme for *George Catlin: American Indian Portraits* featuring a booked-out study day.

Outreach

The Gallery's long-term partnership with hospital schools in London encouraged young people to explore inspirational figures in the Collection through art workshops. The project, 'My Superheroes' included developing an illustrated activity book to ensure all young people entering partner hospital schools can engage with the Gallery's Collection. A new project 'Creative Spaces' supports artists with learning disabilities by providing art studio space at the Gallery for creative sessions. A *Taylor Wessing Photographic Prize* community project working with young people at Kid's Company developed their skills and confidence, and our core work reaching out to young people and elders continued.

Participation Projects

The *National Portrait Gallery/BT Road to 2012* project gained extra momentum in the Olympic year

with students from the University of East London engaging with all the commissioned project photographers on a ten-week photography course, which resulted in an exhibition of new work in east London. Work with local sports and community groups continued in the host-boroughs with an oral storytelling project. Online, over forty digital films, including interviews with Olympic athletes were created. A research project with students from the University of Birmingham around *George Catlin: American Indian Portraits* resulted in online digital films and exhibition talks. 'Creative Connections' a new four-year participatory arts project, funded by the Palley Family, involved a contemporary artist working with 14-16 year olds in Tower Hamlets.

Adult Programme

Academic conferences around *The Lost Prince* and *George Catlin* exhibitions included international scholars discussing their research. Regular daytime lectures and talks continue to reach a wide variety of audiences. A group tours offer for adult visitors was launched, supported by a strong marketing campaign and in this first year reached fifty groups. The income-generating programme is continually expanding with new exhibition lectures for groups and monthly weekend photography and painting workshops led by established practitioners.

Late Shift

Every Thursday and Friday night the *Late Shift* programme, funded by FTI Consulting, reaches and engages new audiences with a rich and diverse mix of participatory events from the popular and varied Friday Evening Music programme to philosophy salons, film programmes, 'In Conversation' talks, drawing workshops and DJ sets. Three times a year *Late Shift Extra*, themed nights take place with free activities across the whole Gallery, attracting audiences of 2,500 people. Highlights include collaborations with contemporary artists such as Stuart Pearson Wright for *Back to the Drawing Board* and Chris Levine for a night inspired by *Man Ray Portraits*. Focussed programming strands to reach and engage LGBT (Lesbian, Gay, Bisexual and Transgender) and Black, Asian and minority ethnic (BAME) audiences are also core to the programme.

Interpretation

The audio guide for *Lucian Freud Portraits* was the first to be available for hire on-site, and simultaneously for download through the Apple App Store and the Android Marketplace making this in-depth interpretation available to the widest possible audience. Take up on-site by exhibition visitors was higher than for any other exhibition at the Gallery. The main Gallery audio guide app was made accessible to deaf visitors with the addition of subtitles and filmed British Sign Language interpretation for the Director's Introduction, the period curators' videos and the individual commentaries on the highlights tour. This app is free to download.

Partnerships

The Gallery is working on two large scale learning and participation programmes with partners across the UK. 'Making a Mark' is part of the DfE Museums and Schools Programme 2012-15. Working with six museum partners in the Tees Valley it engages children and young people, making reference to local heritage, heroes and portraits in the Collection. 'National Memories – Local Stories' is a creative participation programme, funded by the Paul Hamlyn Foundation, developed in partnership with five national and local area museums. It will involve young people in digital media production, working alongside artists, making creative response to museum collections and significant moments in the history of the First World War.

National Programme

Some exciting collaborations have resulted in exhibitions and displays of the Collection in venues around the country. The three venue partnership tour of the portrait of Auyba Suleiman Diallo to the International Slavery Museum, Liverpool, South Shields Museum and Art Gallery and New Walk Gallery, Leicester involved the poet and author Ben Okri responding to the portrait with community groups in each location. His writing will accompany the portrait on its return to the Gallery in autumn 2013.

The *Road to 2012* project included the Gallery's first outdoor exhibition of a selection of commissioned photographs of those who played a part in making the London Olympic & Paralympic Games. The exhibition, shown in busy city centre locations in Edinburgh, Cardiff and Birmingham, saw interest increasing as many of the sitters won medals.

Projects with students around the country included those from the University of Birmingham who had the opportunity to work with Curators and Collections staff at the Gallery and at the Barber Institute of Art and Design. *Facing the Music* celebrated the greatest names in British classical music and drew on the national collection and the University's own collections. As well as several other venues, exhibition collaborations and tours took place in Bristol, Plymouth and Manchester.

The Subject Specialist Network *Understanding British Portraits*, led by the Gallery, held four seminars around the country attracting a wide range of speakers and delegates. A new website was launched to encourage participation, discussion and sharing of information www.portraits.specialistnetwork.org.uk.

The Gallery lent to 118 venues in the UK in the year 2012/13 and to 31 venues overseas. Loans to exhibitions and displays organised by museums and galleries throughout the UK featured high profile loans to *Shakespeare Staging the World* at the British Museum, *Bronze* at the Royal Academy and *Treasures of the Royal Courts*, at the V&A. Abroad, loans were made to exhibitions in the USA, France, Germany, Italy and Russia.

2) Developing the Collection

Primary Collection acquisitions

One of the highlights among acquisitions of historic portraiture this year was a remarkable cabinet miniature depicting *Elizabeth I and the Three Goddesses*. This previously unknown image attributed to Isaac Oliver, shows the queen in an allegorical reworking of the Judgement of Paris and will be on regular display in the Tudor Gallery. Also acquired were several important eighteenth century works including the intriguing portrait of a Chevalier D'Eon, a diplomat and early transvestite by Thomas Stewart. D'Eon lived in London from 1763-1776 where he dressed as a woman and was one of the most colourful and celebrated characters of the eighteenth century. A watercolour of the organist and composer Sir George Job Elvey, by William Corden was acquired for our nineteenth century collections.

Among many twentieth century and contemporary acquisitions key highlights include several female portraits of artists and actresses including Angelica Garnett by Matthew Smith, a powerful plaster sculpture of the actress Margaret Rawlings, and a bust of the theatre designer Jocelyn Herbert. We also acquired an engaging double portrait of the artists and illustrators Eric Ravilious and Edward Bawden by Michael Rothenstein. To further develop our contemporary collections several outstanding portraits were acquired including a compelling double portrait of the artists Ishbel Myerscough and Chantal Joffe painted in 1991 and an unusual portrait of Gerry Adams by Conrad Atkinson in collage, pastel and oil from 2008.

Two portraits by Mario Testino of Prince William, Duke of Cambridge and the Engagement Portrait of The Duke and Duchess of Cambridge were generously presented as a gift from the photographer. We were also successful in acquiring several vintage photographs including a remarkable image of the prime minister Ramsay MacDonald and Albert Einstein taken in Germany in 1931 by Erich Salomon. In addition a remarkable album of sitters from the period 1890-1910, including members of the royal family was acquired as a gift.

The Gallery was also successful in securing two critically important long term loans of past prime ministers. The outstanding portrait of William Pitt (1759-1806) by John Hoppner will now be on permanent display for the course of the loan. We were also delighted to be able to borrow the extremely important portrait of Sir Winston Churchill by Sir William Orpen painted in 1916 which shows Churchill at a time of political crisis after the Battle of Gallipoli. Other important loans include

the portrait of the first major black actor on the British stage, Ira Aldridge after James Northcote and a portrait of Jessie Boot, founder of Boots the Chemist by Noel Davis.

Commissions

Craig Wylie's portrait of Dame Kelly Holmes celebrated a great British sporting figure and was unveiled shortly before the London 2012 Olympic Games. In the New Year, the Gallery's commissioned portrait of Catherine, Duchess of Cambridge by Paul Emsley was unveiled. Supported by a donation by Sir Hugh Leggatt through the Art Fund, this is the first portrayal of The Duchess in a public collection and it has been very popular with our visitors, although it divided critical opinion. James Lloyd's informal portrait of actress Dame Maggie Smith is a bold portrayal of a much-loved figure that was many years in the planning and making. We look forward to the unveiling of Peter Monkman's portrait of the outgoing Children's Laureate Julia Donaldson in June 2013 and the completion of portraits of figures from law, politics and the arts including Baroness Helena Kennedy, Baroness Betty Boothroyd and Dame Monica Mason.

The Photographs collection

Significant donations to the Photographs collection have included rare prints of the Bloomsbury poet Julian Bell and his circle given by Peter Stansky and documentary portraits covering Marilyn Monroe's visit to England by Larry Burrows, donated by Barbara Baker Burrows and Russell Burrows. We have actively collected contemporary and late twentieth century photographs from Iain Clark, Malcolm Crowthers, Anita Corbin, Alexander McIntyre, Chris O'Dell and Alistair Morrison. An important nineteenth-century collection, donated this year, was a collection of prints by Charles James Dinham (Dinham of Torquay), given by his grandson. Further Victorian additions to the collection include rare cartes-de-visite of Crimean war soldier Risk Allah Bey and artist Sir Lawrence Alma-Tadema.

The Heinz Archive and Library

A number of significant gifts were received by the Heinz Archive and Library, including portrait drawings of five leading French chefs and the head waiter at Simpsons in the Strand in the 1930s by Florence Enid Stoddard, and one of the artist by her mother Mary Stoddard, generously donated by Christine Hayes. A set of forty cigarette cards of Famous British Authors and two wood engravings of Marianne North and Sir Lawrence Alma-Tadema were given by Terence Pepper. Two volumes of photographs of the works of Ambrose McEvoy were generously donated by the artist's great-grandchildren Seán Marriott and Briony Marriott on behalf of their mother Pamela Marriot (née McEvoy). A substantial gift of 220 items, including runs of *The Studio* that fill significant gaps in our holdings, was received from BBC Information and Archives.

Collections care and Collections Management

This year work has continued to focus on improving storage conditions onsite with completion of a project sponsored by the Garfield Weston Family Trust. The refurbishment work, undertaken in the Special Collections Store, has provided new 'fit for purpose' plan chests, which has doubled the storage capacity and enabled significant improvements to the previously over packed cupboards. A new eighteen-month partnership was formed with the Wallace Collection, commencing in November 2012, providing and managing temporary storage for part of their Collection at Southwark Store, whilst they undergo a major refurbishment.

Significant conservation projects have been undertaken, including work on the portraits and frames for *Anne of Denmark* and *Catherine of Aragon*, but also structural treatment undertaken on the painting of Anne Boleyn. The rediscovered original plinth for the Anne Jameson bust was conserved and reunited. The early miniatures collection has also been surveyed and re-photographed as part of public digital resource.

Portrait Fund

The Gallery's Portrait Fund (the object of which is to assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation)

has benefited from substantial support, which built on previous generous donations from Viscountess Eccles, Lord Marcus Sieff and Sir Christopher Ondaatje, and the Lerner Foundation. The generous donations from these donors have been used to build up the Portrait Fund since its inception in 2006 and to enrich specific vital Gallery programmes.

The Fund operates under its own trust deed; the Trustees of the Portrait Fund are Sir William Proby, Lady Douro and Allegra Berman, from the Gallery's own Board of Trustees. The Fund also has two independent Trustees, Sir Christopher Ondaatje and Crispin Odey. Professor Sir David Cannadine stood down as a Trustee in June, following his standing down, at the same time, as Chairman of the Board of Trustees of the Gallery.

The Portrait Fund Trustees were delighted that the Gallery's bid to the Heritage Lottery Fund's *Catalyst: Endowment* match funding scheme was successful. The scheme is offered to cultural organisations to help them build endowments. The scheme will provide match funding of £1 million to the Portrait Fund if the Gallery raises £1 million for the fund by 2016. By the end of 2012/13 the Gallery had raised £100,000 towards the scheme. More information about the scheme is included in Notes 13 and 14 to the accounts. During the year the Portrait Fund also supported the acquisitions of the bust of Thomas Hollis by Joseph Wilton and the miniature of *Elizabeth I and the Three Goddesses* by Isaac Oliver.

For further information about supporting the Gallery and the Portrait Fund, please contact Pim Baxter, Director of Communications and Development on 020 7312 2448.

3) Increasing the Understanding of and Engagement with the Collection

2012 was an extraordinary year and provided a number of opportunities for the Gallery to consider portraiture in new and exciting ways. Activity has included major exhibitions such as *Lucian Freud Portraits* and *The Queen: Art and Image*, the creation of the largest photographic commission the Gallery has ever undertaken as part of the *Road to 2012* project, an extensive range of collection displays and interventions, the creation of a new digital photographic studio, continuing research and the ongoing cataloguing of the Collection and digitisation of images.

We have strengthened our existing partnership with the Scottish National Portrait Gallery and forged new ones with the Belfast Museum and the State Pushkin Museum of Fine Arts in Moscow. The relationship with research partners such as the National Maritime Museum and The National Archives have been expanded and new collaborations with a range of partners in relation to the *Road to 2012* have been significant.

The exhibition and displays programme over the coming year will maintain a strong mix of historic and contemporary material and research, cataloguing and digitisation will all be priorities as we seek to develop online public services and support income generation.

Exhibition Highlights

In 2012 the Gallery wanted to create a different kind of programme to celebrate not only the London 2012 Olympics and Paralympic Games but also the Queen's Diamond Jubilee. The *Lucian Freud Portraits* exhibition ran until the end of May 2012 and was a hugely important exhibition for the Gallery in terms of ambition and the overwhelming critical and public response. *The Queen: Art and Image* was staged to mark the Jubilee and was a collaboration with the Scottish National Portrait Gallery, the Ulster Museum, Belfast and the National Museum, Cardiff. The exhibition was shown at the three venues before coming to London in the summer 2012. *The Lost Prince: The Life and Death of Henry Stuart* was a research based exhibition focussing on a figure long forgotten in history and provided a suitable end to the year. A full listing of exhibitions during the period is available at www.npg.org.uk.

Immunity from Seizure

In response to concerns from museums that an increasing number of international lenders were refusing to lend items to UK museums without a guarantee of their safe return, legislation was created

to protect these objects. The Tribunals, Courts and Enforcements Act 2007 includes provisions which give immunity from seizure for cultural objects which are loaned from overseas to temporary public exhibitions in approved museums or galleries in the UK where conditions are met when the object enters the UK.

If the conditions of this legislation are met, a court cannot make an order to seize an object that has been loaned from abroad for an exhibition, except where required to under EU law or the UK's international obligations.

The National Portrait Gallery applied for approval under Section 136 of the Tribunals, Courts and Enforcement Act 2007 on 15 December 2008 and this was granted on 17 February 2009. The Gallery provides information on its website for Immunity from Seizure: <http://www.npg.org.uk/about/foi/immunity-from-seizure.php>.

The galleries and displays

Over the past year numerous Gallery displays have been staged to celebrate topical events and reflect the Gallery's varied Collection. A major popular intervention in the contemporary galleries, *Road to 2012: Aiming High*, took place over the summer and featured photographs of athletes and others involved in the journey to stage the London 2012 Olympics. In addition there were displays on the work of the photographers Mario Testino, Daniel Farson and Neil Libbert and our programme of interventions highlighted the work of contemporary and twentieth-century artists with portraits of Richard Hamilton and photographs by Thomas Struth. We also staged displays on drawings of contemporary and twentieth-century writers and 'Humphrey Ocean: A handbook of Modern life' featured a selection of Ocean's portraits of visitors to his studio. Nineteenth century showcase displays included features on the poet Samuel Coleridge-Taylor, Viceroy of India and the Victorian fashion for fancy dress and 'Double Take' showed versions and copies of Tudor portraits.

Digital programmes

Catalogued data, digitised images and content enhancement continued to ensure that the search the Collection facility remained the most popular area of the website, attracting 55% of all visits. Approaching 190,000 portraits are presented online and we passed the 100,000 mark for digitised works. A new photographic studio, the first in the Gallery's history was opened and the Gallery's spaces were re-photographed. The rebranded Digital Space now gives onsite access to the Gallery's website and new features were introduced on the Portrait Explorer including family trees, associations with places and promotions for the Diamond Jubilee and Olympic Games. Significant developments online included a comparative image viewer for the Making Art in Tudor Britain project and linked display and exhibition history for every portrait and a new interactive focussed on exploring Tudor miniatures was launched. Income generation saw image licenses completely revised, introducing academic and Creative Commons licenses, and bundle and free postage offers helped facilitate record online Shop income.

Research programmes

Progress continued on the *Catalogue of Later Victorian Portraits* with a launch event in July and the writing and publication of further tranches of entries. The year saw continued progress on the Catalogue of Later Victorian Portraits with a launch event in July and the writing and publication of further tranches of entries. This year also saw the culmination of the data collection phase of the Making Art in Tudor Britain project and further development of the database with three years research published online.

The Gallery entered into a consortium with the National Maritime Museum and The National Archives in a successful bid to Arts & Humanities Research Council (AHRC) for a Collaborative Doctoral Partnership. The year has also been a productive one for individual members of staff who have published books and articles: for further information see www.npg.org.uk/research .

Cataloguing the Collection

In the Reference Collection, 637 prints were catalogued and scanned, including the remaining lithographs from five volumes of political sketches by John Doyle and an album of prints by and after Thomas Charles Wageman and Michel Angelo Wageman. Scanning of the extra-illustrated set of the Rev. James Granger's *A Biographical History of England* continued alongside the Large Portfolio collection. Over 3,500 portraits in external collections were recorded in MIMSY, the Gallery's collections database system, as part of our ongoing commitment to recording British portraiture. A grant of £23,582 was awarded by the National Cataloguing Grants Programme for Archives to catalogue the papers of George Frederic Watts.

In the Photographs Collection a further 9,919 original negatives and prints have been catalogued including most significantly over 800 portraits of Anglican Bishops, given to the Gallery in 1949 by the Church House Corporation. In addition a further 4,000 images from the National Photographic Record that were created between 1917-71, a collection of 1,095 prints by the Hay Wrightson studio and over 800 images taken by the Baron Studios from the 1950s and 1960s have been catalogued. Work on the Francis Goodman archive, donated in 1989, was celebrated by a centenary display marking his birth in 2013.

Publishing

The different titles produced for *Lucian Freud Portraits* and *The Queen: Art & Image* exhibitions provided a good start to the year for Publications and strengthened the Gallery's publishing backlist, while the *Road to 2012* also received positive feedback externally as part of the Gallery's Olympic celebrations. *The Lost Prince* catalogue provided the definitive work to accompany this well-received exhibition and required a reprint due to strong sales throughout the show. For the landmark exhibition, *Man Ray Portraits*, a beautifully designed catalogue was produced in hardback and paperback with US, French and Spanish co-editions. The publication of *American Indian Portraits by George Catlin* was generously supported by The Terra Foundation, while the *Guide to 20th Century Portraits* was published in association with the National Trust, the third such collaboration. The Publications team carried out a tendering process for its UK and international publishing sales and distribution agency, which will take effect from Summer 2013. Future plans for the programme include expanding the number of Collection-based titles and further exploring children's publishing opportunities to develop a Gallery branded offering.

4) Increasing and Developing Resources

Financial summary

2012/13 has been a very successful year for the Gallery in terms of meeting internal financial targets and audience development objectives, as well as achieving good results across the range of performance indicators agreed with the Department for Culture, Media and Sport. The Gallery has nonetheless had to continue to adjust to the more difficult funding climate introduced with the 2010 Comprehensive Spending Review settlement and more recently with the 2012 Autumn Statement and 2013 Budget. Notwithstanding these funding constraints and the difficult economic climate, the Gallery had its most successful year in terms of visitor numbers, and with the success of the *Lucian Freud Portraits* exhibition, it was able to increase its free reserves by £329,000.

Voluntary income

It has been a challenging, but nonetheless very successful year for the Development team in the current climate. A number of new sponsors have joined our long-term supporters, as indeed have new trusts, and our individual donors continue to enjoy their association with the Gallery, with the retention rate at all levels remaining high. There were increases in all classes of membership, although exhibition sponsorship struggled to achieve targets for the year.

Individual Support (Patrons, Associates, Members)

Individual Giving support grew significantly as a direct result of *Lucian Freud Portraits*. Gallery Membership increased from 6,500 to 13,000 and Patrons from 120 to 144, in both cases the highest number to-date. Following this success, a retention plan was put in place to ensure maximum support and has seen Membership retention average 63% across cash renewals and direct debit, with Patrons retention at 98%. This year marked the launch of the Portrait Circle, a higher level supporter group with an annual commitment of £15,000 per year over three years, and five individuals now supporting at this level. The establishment of Exhibition Supporter Groups for specific exhibitions has been successful with funding towards *The Lost Prince*, *Man Ray Portraits* and the forthcoming *Laura Knight Portraits*.

Legacy giving was re-launched at an event in November 2012 and the Gallery is working with the National Free Wills Network, a specialist service provider, on the development of the Gallery's Legacy programme.

Development Board and Board of American Friends

The Development Council continued to give much appreciated helpful advice and support to the Development team. The arrangement of individual meetings, with opportunities during the year to all meet together including the annual Forum and dinner, work well. We are very pleased that Trustee David Ross has agreed to become the Chair of the Development Council. In September 2012 three new members joined the Board of the American Friends of the Gallery. Amelia Fawcett found that her role as President of the American Friends did not fit with her USA commitments and Robert Donnalley once again took on the role of Acting President. We are extremely grateful to him and Jeffrey Marks, our lawyer, for their time and expertise.

Charitable Trusts and Foundations

The Gallery is grateful to the Trusts and Foundations from the UK and overseas which continue to help fund many aspects of our work. The Terra Foundation for American Art has made a significant contribution to *George Catlin: American Indian Portraits*. Grants from the 29th May 1961 Charitable Trust and PF Trust also enabled the new Hospital Schools project to go ahead. The Paul Hamlyn Foundation is supporting an innovative participation project, National Memory Local Stories, which will work with young people across the UK, exploring a number of themes prompted by the First World War centenary commemorations in 2014.

Activities for generating funds

Corporate Support

This was a strong year for the Corporate Partnership scheme with a total of fourteen Partners including three new joiners. The Gallery's most popular ever ticketed exhibition, *Lucian Freud Portraits*, was supported by Bank of America Merrill Lynch. The Diamond Jubilee and the Olympics brought support to the Gallery from KPMG for *The Queen: Art and Image* and from BT for the final year of *Road to 2012*. New to exhibition support was the Weiss Gallery, giving assistance to *The Lost Prince*. A number of major partnerships were renewed this year including BP announcing a further five years of headline sponsorship for the *Portrait Award*; Taylor Wessing renewing for three more years of the *Photographic Portrait Prize* and Herbert Smith Freehills committed to a further three years of Spring Season sponsorship. FTI Consulting also renewed their support of *Late Shift* until mid 2014 and J.P. Morgan continued their Signature Series partnership for a further year following its 2011 launch.

Venue Hire

2012/13 has been a successful year for venue hire at the Gallery with a year on year increase in income. Corporate Partners and Sponsors were particularly active in hosting events during the first half of the financial year. Autumn in general was slightly quieter than usual for both corporate and private bookings with some key dates left unsold. New event clients included Starbucks, Exxon

Mobile, Family Business Network and Accenture. Agency bookings have increased since we agreed a new commission rate and looking ahead we are forming a comprehensive marketing strategy to further encourage event bookings.

Trading company

The Gallery's subsidiary trading company, the National Portrait Gallery Company Ltd, earned profits of £686,191, which it will Gift Aid to the Gallery. The Company's business includes retail, venue hire and the catering franchise. The profit earned in 2012/13 fell by 10% compared to that earned in the previous year. It was, nonetheless, a strong result, being the second highest profit the Company had achieved since it began trading in 2007. These profits were assisted by a very strong start to the year provided by the highly successful *Lucian Freud Portraits* exhibition, which attracted record numbers of visitors for a paying exhibition. However, trading was slower over the summer period, caused by a fall in visitor numbers to the Gallery as a result of the London Olympics. This affected in particular the Company's retail business, which struggled to achieve its budgeted profit from the summer onwards. Professor Sir David Cannadine resigned as a Company Director in June, following his standing down as Chairman of the Board of Trustees. In his place, Dr August Casely-Hayford was appointed to the Company's Board of Directors in March as the Trustee representative.

Retail

With the very successful *Lucian Freud Portraits* exhibition continuing throughout April and May, sales for 2012/13 started very strongly but were offset by a quieter summer and Christmas period. However, sales recovered during the *Man Ray Portraits* and *George Catlin* exhibitions to exceed targets for both February and March 2013, and at year end Retail had achieved its highest ever sales performance at £1.94m.

Earlier in the year the Gallery commissioned a review of its retail operation with particular emphasis on stock profile and merchandising, product development and buying processes, as well as the roles and structure of the Retail team. The review prompted a substantial restructure of the Retail management and buying team with the appointment of a new Head of Retail, Merchandising and Buying Manager and Marketing Co-ordinator. The appointment of these new staff members should enable Retail to develop and expand the retail offer to capitalise on the wide range of programmes and exhibitions. Plans to open a new Exhibition Shop and dedicated print sales gallery were put forward during the year and are expected to be completed in time for autumn 2013.

Rights and Images (Picture Library)

Structural changes in the Rights & Images team as part of the overall Trading restructure allowed the department's newly appointed Head of Business Development to make headway in developing and expanding our licensing programme as well as streamlining processes and increasing revenue generation. A new licensing interface was launched on the Gallery website in Summer 2012, to deliver free academic and non-commercial licensing for qualifying clients, and despite the loss of academic image sales, the team exceeded its overall sales targets, with a healthy profit margin. Going forward, the Rights & Images team plans to market strongly the Gallery's image licensing services to individual clients and key partners, whilst also exploring new international agency relationships. The team has implemented a proactive merchandise licensing strategy to further grow the business.

Catering franchise

Overall the Portrait Café and Portrait Restaurant had a good year, and during the period of *Lucian Freud Portraits* they both benefitted considerably from the increase in visitor numbers. There were some quieter periods, in particular for the Portrait Restaurant during the summer and early autumn, however, this experience was also felt more generally across the catering sector. Both the Portrait Café and Portrait Restaurant met annual targets in relation to the budget set by the Gallery. The catering franchise comes up for renewal in September 2013 and a rigorous tender process is in place. Overall income earned from the catering franchise in the year was £449,000, which was £1,000 lower than the income earned from the franchise in the previous year.

Investment and Other income

The Gallery receives a small amount of investment income from bank interest and dividend payments. This amounted to £33,000 in 2012/13, compared to £28,000 earned in 2011/12. The amounts held in interest bearing accounts provide the Gallery with its immediate working capital requirements. However, the majority of the Gallery's reserves are invested in portfolios under management with the Gallery's investment managers, Partners Capital LLP. These investment portfolios appreciated in value by £757,000, net of additional investments and management fees, compared to their values as at 31 March 2012. The appreciation is in the form of an unrealised gain. During the year a further £37,000 was transferred into the portfolios as a result of the redemption of the two charitable investment funds held with BlackRock and CCLA, which the Gallery had held since the 1990s. Notes to the accounts, (Notes 8 and 9), include information about the Gallery's investments. Other income increased by 4% compared to 2011/12.

Effectiveness and efficiency

Buildings and facilities

The Gallery's more strategic approach to procurement saw it focus on promoting the Government policy on 'shared contracts' across the public sector. We successfully collaborated with other museums on two common services: media buying and market research, to yield competitive rates and improved service delivery. The Gallery recently embarked on an innovative trial to share a 'Contracts and Procurement' team with the National Gallery (the first of its kind within the museums and galleries sector) and began actively reviewing opportunities for sharing the procurement of common commodities across both galleries. The reviews so far completed have resulted in cash and efficiency savings as well as improved contract terms for the Gallery. These expenditure reviews will continue to be a main focus for the Procurement team.

Staff

The average number of staff sick days taken in 2012/13 fell to 4 days per member of staff (excluding staff on long term sick), from 5 days in 2011/12. Including staff on long term sick absence, the average was 7 days per member of staff. Staff absence at the Gallery continues to remain below the average number of days sick absence for the public sector of 7.9 days, according to the Chartered Institute of Personnel and Development's 2012 Absence Management Survey.

Training

Management skills across the Gallery continue to be improved through the ILM accredited Management Development Programme. The Gallery also delivered tailored sessions for those with line management responsibility on managing attendance and absence and produced guidance notes to ensure a consistent approach is taken across the Gallery. The Gallery launched a new two year programme for some of its Curatorial staff to broaden their understanding of the Collection, acquisition and commissioning processes and conservation needs. Following the introduction of new systems in the Control Room, the Security team completed a programme of incident management and security awareness training. This was bespoke training, at industry standard level, that helped embed the new technology and enable knowledge sharing across the Visitor Services team.

Recruitment

Although the economic outlook remains challenging recruitment activity continued to remain brisk during the year, with employee turnover rising to 13.7%, compared to 10% for the previous year. Around a quarter of our recruitment needs arise through funding for project related activities and providing cover for temporary staffing needs. Other recruitment has arisen following department reviews that have been undertaken to ensure that the Gallery has the right structures, skills and resources in place for the future.

Diversity

The Gallery participated in the Creative Industry Jobs Programme funded through LOCOG as part of the Cultural Olympiad, providing six months work experience, on the job training and support with gaining a recognised qualification. The Archive, IT and Visitor Services teams took part in the Programme, with each section taking one young unemployed person. The Gallery also instigated a two year Apprentice Programme in collaboration with Kensington and Chelsea College and the V & A Museum and now have four Apprentices working in a variety of Gallery departments.

The compositions of the Gallery's workforce is 87% white, 13% black and minority ethnic, 34.5% male, 65.5% female, 3% disabled and 34% part time employees.

During 2012/13, the Gallery received valuable support from volunteers as follows:

| | Full-time equivalent |
|--|----------------------|
| Extending and broadening audiences: | 1.1 |
| Developing the Collection: | 1.9 |
| Increasing understanding and engagement with the Collection: | 6.0 |
| Trading/Fundraising: | 0.1 |
| Support: | 1.0 |

Improving our services

There have been a number of improvements to the building during the year, most notably the refurbishment of gallery Rooms 3, 4 and 11. This project, made possible by a grant from the DCMS/Wolfson Fund, allowed Rooms 4 and 11 to be re-configured and Room 3 to be designated to temporary displays with a digital screen and specially commissioned display case. Information for visitors has been improved in this area, as part of this project, and LED lighting was used throughout. A public address system was installed across the Gallery, allowing messages to be professionally delivered.

There have also been office improvements and the reception area was redesigned with a new desk to greet visitors and maintain security. IT systems have been updated and the structure of both the IT and Buildings teams reviewed, allowing for the appointment of a dedicated Gallery handyperson.

Sustainability

The Gallery's continued commitment to improving services has been demonstrated in a number of practical ways. During the year good progress was made in improving the Gallery's sustainability and recycling goals. One important area was in the recycling of food waste. Food waste now follows a process of anabolic digestion. This in turn is returned to crops as fertilizer after the process has been completed. All of the Gallery's food waste is now handled in this way. The Gallery also began the process of reviewing its waste management contract with the ambition of reducing further the amount of its waste that goes to landfill. As it stands the Gallery recycles over 80% of its waste and its aim will be to improve on this. In addition, further energy saving initiatives such as installing LED lighting in four additional gallery rooms and the first crop of honey from the hives on the Gallery roof was sold in our shop.

Visitor Services

Security behind the scenes of the Gallery has been improved by the introduction of an Access Control system. ISIS Picture Alarms are now used throughout the Gallery's exhibitions, and the structure of the Security team itself improved, with the appointment of shift leaders. The Gallery's Emergency and Business Continuity Plans were revised and 'desk-top' exercise completed with the Senior Management Team.

The Visitor Services team improved their engagement with our diverse audiences through various training schemes and initiatives. This included the successful Portrait of the Day talk series increasing

from one to four days a week and the introduction of foreign language talks in response to our growing overseas audience.

Services to research and readers

The Heinz Archive and Library received 1,076 visitors and 2,081 enquiries in 2012/13 and use of the web-based archive and library catalogues increased from 1,200 to 1,700 hits a month. The Archive & Library hosted group visits from the Institute of Historical Research, Central St Martin's, Sotheby's Institute, Women's Library, London Appreciation Society and London Library Patrons. Two practical teaching sessions were provided for young people participating in the Learning Department's Creative Connections programme. With generous support from the Garfield Weston Foundation, on-site collections storage was upgraded and a digital photography suite constructed. Over the course of the year, thirteen Freedom of Information requests and eleven Parliamentary Questions were answered. Work on the shared drives project continued with the rationalisation of publication and shared working drives and the creation of an archive drive. Review of departmental records and retention schedules continued and regular records management and data protection training was provided.

Records and information

Cataloguing of regularly accruing series of the Gallery's Records continued and, supported by the Cataloguing Grants Programme administered by The National Archives, work has begun on the correspondence of the artist George Frederic Watts. As part of the current Records Management project, e-records required for permanent retention are being identified and transferred to a newly created archive drive and catalogued onto the archive system CALM. Retrospective cataloguing of the Library is proceeding well and bibliographical records continue to be added to the online National, Academic and Specialist Library Catalogue COPAC.

The National Portrait Gallery has suffered no protected personal data incidents in 2012/13 or prior years and has made no such report to the Information Commissioner's Office.

Governance

Upholding the highest standards of governance through the accountability and transparency of management processes, decision-making and communications continues to be a key aim. Actions taken to strengthen governance included revised policies covering Wellbeing and Business Continuity with updates made to the Emergency Procedures and the Financial Regulations. During the year, Professor Sir David Cannadine stood down as Chairman of the Board of Trustees and Sir William Proby succeeded him as Chairman. Two new Trustees were appointed: Dr Brian Allen and Stephan Shakespeare.

FINANCIAL REVIEW

Presentation

The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992.

The Accounts are presented in accordance with the reporting requirements of the Statement of Recommended Practice (SORP, revised 2005), *Accounting and Reporting by Charities*.

As required by the SORP, the Statement of Financial Activities shows total incoming resources for the year, including income received for capital expenditure and future projects occurring in 2012/13 and beyond. The Statement of Financial Activities apportions the cost of support services (directorates, personnel, finance, IT, utilities, maintenance, communications and office expenses) and depreciation across the various headings of cost of generating funds and charitable expenditure.

Financial Performance

Like 2011/12, 2012/13 proved to be another record breaking year in terms of visitor numbers. This helped the Gallery to a strong financial performance during the year, which was underpinned by a very successful exhibition programme. *Lucian Freud Portraits* attracted very large numbers of visitors, becoming the most popular paying exhibition the Gallery has ever held. *Henry the Lost Prince* also attracted more visitors than had been budgeted for. However, *The Queen: Art and Image* and the *BP Portrait Award* had lower visitor numbers than had been budgeted for, mainly as a result of the general decline in visitor numbers over the period of the Olympic and Paralympic Games. Despite this, the Gallery earned a strong operating surplus at the year end, which was greater than that which had been budgeted in the 2012/15 Corporate Plan. The Gallery also achieved good results across the range of performance indicators agreed with the Department for Culture, Media and Sport.

Statement of Financial Activities

During the year, the Gallery received £7,277,000 (£7,398,000 in 2011/12) in grant-in-aid from DCMS, a 1.6% decrease on the previous year. Grant-in-aid represented 42% of total income received in 2012/13, (44% in 2011/12).

Overall, total incoming resources were 3.5% higher than in 2011/12, with self-generated income being 8% higher. This outturn was driven by the very strong performance from the *Lucian Freud Portraits* exhibition in attracting admissions and retail income early in the 2012/13 financial year, which built upon the good results produced by the exhibition in the closing weeks of 2011/12.

Gross self-generated income represented 58% of total income, compared to 56% in 2011/12. The strongest income earning performance was provided by exhibition admissions, which were up 35% compared to 2011/12. This again was the result of the *Lucian Freud* exhibition, which was the Gallery's most successful paying exhibition held to date. Voluntary income also saw an increase, up 7% compared to the previous year and mainly on the back of increased membership subscriptions arising from *Lucian Freud*, donations for acquisitions and donated acquisitions. Income from trading activities, both charitable and non-charitable, struggled during the year, falling by 3% compared to 2011/12. Although Retail increased income compared to 2011/12 by 2%, the fall off in visitor numbers during the summer and autumn period prevented the Gallery's trading activities from capitalising on the strong start to the year given by *Lucian Freud*. Visitor numbers to the *The Queen: Art and Image* were lower than budgeted and visitor numbers to the 2012 *BP Portrait Award* exhibition were considerably down on the record numbers experienced in 2011/12. Visitor numbers improved towards the end of the year with the opening of *Man Ray Portraits*.

Despite the difficult trading conditions during the summer and autumn, the Gallery's trading company had another successful year, posting profits before tax of £686,191 which were the second highest profits it had achieved since it commenced trading in 2007.

Overall, resources expended increased by 5%. The increases were mainly as a result of projects undertaken by the Learning Department and through the Gallery's National Programmes work. Costs associated with collection management also increased compared to 2011/12, mainly as a result in improvements to security introduced during the *Lucian Freud* exhibition. The Gallery also made a grant of £380,000 to the Portrait Trust in support of the Trust's charitable objects.

Support costs fell by 2% compared to 2011/12, mainly as a result of a reduction in facilities management costs and depreciation.

Total staff costs as a proportion of total resources expended increased by 1% to 54%, compared to 53% in the previous year. The average cost per employee rose by 3.4%, with staff numbers rising by 2%. The pay freeze ended in 2012/13 which increased salary levels across the board compared to 2011/12. The Gallery also awarded each member of staff a one-off bonus of £240 as a result of the successful *Lucian Freud* exhibition. There were some departmental restructures undertaken during the year, following reviews of the make-up and skills sets in the departments concerned, with the intention to improve performance in these departments and make them more responsive to the challenges the Gallery would face in the future. In some cases this involved the recruitment of

additional staff to bring in the skills and experience which the restructures had identified as a requirement. Some severance payments arose as a result of the restructures and details are provided in the Remuneration Report. By the end of 2012/13 most of the restructures had been completed.

The table on pages 29 and 30 demonstrates that the Gallery performed well against the majority of performance indicators included as part of the Gallery's Funding Agreement with DCMS.

Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £12.9 million decreased by £0.6 million during the year, as a result of a reduction in unrestricted fixed asset values relating to the Gallery's plant and machinery, and the Gallery expending its Deferred Projects Fund to fund ongoing projects. The closing balance was £12.3 million of which £7.8 million represents the capital assets – plant and machinery and furniture and equipment - funded from self-generated income (which are therefore not available to spend). £4.2 million has been designated for the Investment and Contingency Fund (see Reserves Policy below) and for projects deferred to 2013/14 (held in the Deferred Projects Fund). The General Fund remains at £250,000 in accordance with the Reserves Policy below. Going forward, it will be important for the Gallery to maintain a healthy unrestricted reserve to ensure it has sufficient funds to finance its key activities during what is likely to be a prolonged period where the public sector finances will be under continuing strain.

Restricted Funds

The brought forward Restricted Funds balance of £60.7 million was increased by £1 million. The closing balance of £61.7 million consists of £25.5 million representing the Gallery's land and buildings, £15.6 million of revaluation gains on the Gallery's land and buildings, and £13 million representing the value of the Gallery's capitalised collections; none of these amounts is therefore available to spend. The balance of £7.4 million represents The Portrait Fund, together with funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits. This includes the amount the Gallery has fundraised in relation to the HLF's *Catalyst: Endowment* scheme, together with the amounts in match funding it has drawn down from the scheme to date.

Fixed Assets

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued professionally at 31 March 2009. In accordance with Treasury guidance, the Gallery has adopted a policy of using appropriate indices to adjust the carrying values of its land and buildings, and Office for National Statistics indices to adjust the carrying values of its plant and machinery, in the years when they are not professionally re-valued. Other classes of assets have been valued on an historic cost accounting basis. The net book value of St Martin's Place and Orange Street, including fit-out but excluding plant and machinery, at 31 March 2013 was £41.1 million.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. In 2012/13 the Gallery paid approximately 69% of its invoices within 30 days of the invoice date, compared to 67% in 2011/2012. However it paid 79% (83% in 2011/12) of the invoices within 30 days of receipt of the invoice, in accordance with its terms and conditions of purchase.

Investment Policy

Investments are held in accordance with the Trustees Act 2000. A proportion of surplus cash is held on deposit with National Westminster Bank Plc. This provides daily access while earning interest, but also maintaining an adequate level of liquidity necessary for the payment of current liabilities.

The majority of the Gallery's cash reserves are held in investment portfolios under management with the Gallery's investment advisors, Partners Capital LLP. In 2009/10 the Gallery established an Investment Committee with the purpose of preparing an investment strategy for the Gallery's and Portrait Fund's cash reserves. The Committee is chaired by a Gallery Trustee - Allegra Berman. The Committee includes Lord Janvrin, as the other Trustee representative. The Committee also includes three external members, Anthony Brooke, Jeremy Sillem and Ben Whitmore. The Committee's role is to monitor the funds invested by Partners Capital LLP and ensure that the funds are invested in compliance with the agreed Investment Strategy.

The Gallery and Portrait Fund's Investment Strategy is based on a consideration of the risk, return and cash flow requirements arising from each reserve fund. The strategy is implemented through investment in two portfolios managed by Partners Capital LLP. The market value of the Gallery's investment was £10 million, and of this, £6.5 million related to the Portrait Fund's restricted long and short term investments combined.

Investment levels and reserves are reviewed frequently and when necessary investments are sold to realise gains and make cash available. The investment objectives of each reserve, in terms of the general objective of its portfolio of funds and the performance objective of the portfolio, are as follows:

| Fund | Portfolio objective | Performance objective |
|---|---|---|
| Portrait Fund Reserve | To assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation. | The chosen investment portfolio is designed by Partners Capital to target 3.7% per annum real returns, (or 6.7% nominal returns after assumed long term inflation of 3%). |
| Long term: | Long term total return, looking for modest capital appreciation. Investment timeframe of up to 5 years. | |
| Short term: | Preservation of capital the highest priority. Investment timeframe of 12 months. | |
| Investment and Contingency Fund Reserve | A designation of surpluses to be invested in projects in accordance with the reserves policy. Preservation of capital the highest priority. Investment timeframe of up to 12 months. | The chosen investment portfolio is designed by Partners Capital to target 2.2% per annum real returns, (or 5.2% nominal returns after assumed long term inflation of 3%). |

Fund performance is measured against agreed benchmarks, and an asset allocation profile is agreed for each fund. Portfolio rebalancing normally occurs at each Investment Committee meeting (usually three times a year), but may be taken on a more frequent basis where required in response to market conditions. There is no leverage (borrowing to invest) at the portfolio level. Funds may not invest in illiquid assets (defined as assets that cannot be liquidated for cash within 18 months under normal redemption terms).

Where practicable, investments are made in Sterling denominated securities or in collective investment funds that have a Sterling hedged share class to minimize exposure to non-Sterling currencies. However, the investment portfolios include investments in overseas assets so some non-Sterling currency exposure may remain, particularly where exposure is to emerging market currencies where the cost of currency hedging may be prohibitive.

During the year, the Portrait Fund portfolio earned a nominal return of 8.3% and the Investment and Contingency Fund portfolio earned a nominal return of 7.9%, over the same period, ignoring transfers into the Fund in the year. In both cases, the portfolios exceeded their performance objectives in the year. The Investment Committee reviewed the Portrait Fund portfolio's benchmark, given that it had not provided a meaningful comparator since the portfolio's inception. The benchmark was based on a 60/40 equity/bond portfolio. However, the Portrait Fund was much more defensive in its construction, with less exposure to both equities and bonds than the benchmark. Following the Committee's review of the benchmark, a new composite benchmark was proposed by the investment advisors, and this replaced the 60/40 benchmark for the final quarter of 2012. During the final quarter the Portrait Fund portfolio outperformed the benchmark by 0.4%. The Committee also reviewed the composition of the Investment and Contingency Fund portfolio, which had performed very strongly during the year. The Committee and the investment advisors were concerned that the changing dynamic of investment markets had resulted in the portfolio being exposed to more risk than intended, and although this was good for returns, it was not desirable. As a result, the portfolio was rebalanced to reduce the risk within it. Notwithstanding this, taking into account the extremely challenging investment environment, the Investment Committee was very pleased with the performance of both the portfolios in the year.

The Investment Committee's outlook remains similar to the previous year, anticipating that given the current situation of weak economic growth and nominal interest rates below CPI inflation, it will continue to be a challenge to achieve the target real returns (i.e. net of the effects of inflation) in the short term. The Bank of England believes that UK inflation remains elevated currently and that the prospects for inflation are uncertain. Earlier in the year the Bank had expected inflation to have fallen further, and it considers that inflation is now likely to remain above the Monetary Policy Committee's target of 2% for the next year or so.

The Investment Committee took the view that the macroeconomic outlook for the next few years was not promising, with the dominant features being austerity, political uncertainty, volatility and low interest rates. The Eurozone sovereign debt crisis remained a significant cause for concern, with the potential for shocks and surprises in the future. In the light of this, the Committee and the investment advisors agreed an investment strategy in which the portfolios would remain defensive, with a move away from nominal gilts in favour of inflation linked bonds and other forms of credit, with increasing investment in The Master Portfolio in the case of the Portrait Fund portfolio.

Reserves Policy

The Trustees perform an annual review of the Gallery's needs for reserves in line with the guidance issued by the Charity Commission. Around 50% of annual income is received as recurrent grant-in-aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to the prevailing economic climate. The Gallery has no general endowment and only a modest endowment for the support of the acquisition of major portraits (see below).

General funds need to be sufficient to enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £250,000 in the General Reserve equates in total to at least three-quarters of the average stock levels in the accounts.

The Trustees have designated an Investment and Contingency Fund to finance expenditure which:

- enables the objectives of the Gallery's five year Strategic and three year Corporate Plans to be achieved, in particular those which increase future income or the efficiency of operations; and/or
- acts as bridging to future increases in recurrent income.

Approximately £0.9 million of the £3.9 million balance as at 31 March 2013 has been allocated and earmarked to specific projects for these purposes in 2013 to 2016. A further £0.55 million has been

set aside for contingencies, consisting of £0.3 million held as contingency against unforeseen expenditure and short-term losses of income and £0.25 million held in order to smooth fluctuations on baseline expenditure which needs to be averaged across several years, such as the exhibitions programme. Any balance (up to £0.25 million per annum) allows the Director to take advantage of unexpected opportunities during the year. The fund is replenished with one-off unrestricted income (apart from legacies designated for The Portrait Fund as below) and with any annual surplus in excess of the balance maintained in the General Reserve.

The Deferred Projects Fund represents underspends generated in the previous financial year, which are to be employed in specific projects, usually in the current financial year; the full balance of £371,000 is expected to be spent in 2013/14.

Trustees have also designated The Portrait Fund for acquisitions and development of the Collection. Whenever the Gallery receives unrestricted legacies of £10,000 or more, Trustees consider their designation for The Portrait Fund (every legacy to the Gallery goes towards developing and caring for the Collection for future generations). Legacies under £10,000 will generally be spent on acquisitions, at the discretion of the Director.

The level of unrestricted funds is reviewed by Trustees four times a year. The reserves policy is reviewed by Trustees once a year.

Related Parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. More information on the Gallery's related party transactions is included in Note 23.

REMUNERATION REPORT

The following sections provide details of the remuneration and pension interests of the Gallery's most senior management, consisting of the Director, Sandy Nairne CBE, and the Deputy Director, Pim Baxter - Director of Communications and Development.

Service Contracts

Appointments of the Gallery's Director and Director of Communications and Development are made on merit and on the basis of fair and open competition.

The Director has a permanent contract of employment, effective from November 2009, with a six month notice period and its terms are agreed with the Department for Culture, Media and Sport. Prior to this, he was employed on a seven year fixed term contract of employment. The Director's contract is open ended. Early termination, other than for misconduct, would result in the Director receiving compensation as set out in the Civil Service Compensation Scheme.

The Deputy Director holds an appointment which is also open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Trustees are appointed to serve for a period of four years with the possibility of renewal for a further period of four years at the end of that period. Their appointment is unremunerated, although Trustees may be reimbursed for expenses incurred on Gallery business.

Audited Information

Remuneration paid to the Director and the Deputy Director during the year was as follows – figures in the table are audited information, (comparative figures for the previous year's salaries are shown in brackets):

| Name | Salary £000 | Bonus payments £000 | Real increase in pension as at 31/3/13 and related lump sum £000 | Total accrued pension at age 60 at 31/3/13 and related lump sum £000 | CETV at 31/3/12 £000 | CETV at 31/3/13 £000 | Real increase in CETV £000 |
|---|----------------------|---------------------------|--|---|-------------------------------|-------------------------------|-------------------------------------|
| Sandy Nairne <i>Director</i> | 110-115 (110-115) | 0.24 (Nil) | 3.5-4 Plus lump sum of 0-2.5 | 45-50 | 771 | 884 | 52 |
| Pim Baxter <i>Deputy Director</i> | 70-75 (65-70) | 0.24 (Nil) | 0-2.5 Plus lump sum of 4-4.5 | 10-15 Plus lump sum of 40-45 | 281 | 329 | 30 |
| Band of highest paid director's total remuneration (£000) | | | 110-115 (110-115) | | | | |
| Median Total Remuneration (£) | | | 20,517 (20,637 - restated) | | | | |
| Ratio | | | 5.5 (5.5 restated) | | | | |

As from 2011/12, reporting bodies were required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The banded remuneration of the highest-paid director in the Gallery in 2012/13 was £110-115,000 (2011/12, also £110-115,000), relating to the remuneration of the Director. The mid-point of this banding was 5.5 times the median remuneration of the workforce (5.5 also in 2011/12), which was £20,517, (£20,637 in 2011/12). The 2011/12 figure was re-stated to include casual staff. In 2012/13, no employees received remuneration in excess of the highest-paid director, (likewise for 2011/12). Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The actuarial factors used to calculate CETVs were changed in 2012/13. The CETVs at 31/3/12 and 31/3/13 have both been calculated using the new factors, for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. None of the above mentioned senior staff received any benefits in kind in 2012/13 (none also in 2011/12).

The Trustees neither received nor waived any emoluments during the year (none also in 2011/12). Expenses reimbursed or paid on behalf of three Trustees amounted to £297, all relating to travel and subsistence (in 2011/12, £427 for travel and subsistence of one Trustee).

Salary

"Salary" includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. Performance pay or bonuses paid, (Director's salary only), are disclosed separately.

The Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Audit and Compliance Committee and is composed of the members of the Audit and Compliance Committee (see page 27) and the Chairman of the Trustees. Once a year the Chairman leads a discussion on the Director's work, against the objectives agreed at the previous meeting of the Committee, in order to recommend to the Board the awarding of any performance related pay. The Director's bonus can be up to 15% of his annual salary, subject to performance against the agreed objectives for that period. Up to 1.5% of the bonus can be consolidated, although this may vary in line with guidance issued by H M Treasury from time to time.

The remuneration of the Director, Sandy Nairne CBE, was £110,000, which was his contractually agreed annual salary. During the year the Director received a small bonus payment of £240, which was paid to all members of Gallery staff following the success of the *Lucian Freud Portraits* exhibition. In the light of the strong results achieved by the Gallery during 2012/13, and in particular the success of the *Lucian Freud Portraits* exhibition and the wider 2012 programme, the Trustees awarded the Director a 10% bonus, 1.5% of which would be consolidated into his pay. However, the Director declined to take this bonus in recognition of the continuing constraint on public sector pay. In 2011/12 the Trustees also awarded the Director a 10% bonus, but the Director waived the right to the bonus in recognition of the continuing public sector pay freeze that remained in force during that year.

The remuneration of the Deputy Director, Pim Baxter, is set out in her contract and subject to the annual pay review framework for all staff. Her salary does not include any performance related pay or bonuses. However, during 2012/13, the Deputy Director received a one-off bonus payment of £240 in recognition of the success of the *Lucian Freud Portraits* exhibition. This bonus payment of £240 was awarded to all Gallery staff.

Pensions

Pension benefits are provided through the Civil Service Pension arrangements and the Director and Deputy Director are members of the Principal Civil Service Pension scheme. From 30 July 2007, Directors and Gallery staff may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute

a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions> .

Cash Equivalent Transfer Values

The above table shows the Director’s and Deputy Director’s Cash Equivalent Transfer Value (CETV) accrued at the beginning and the end of the reporting period. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Reporting of Civil Service and other compensation schemes - exit packages

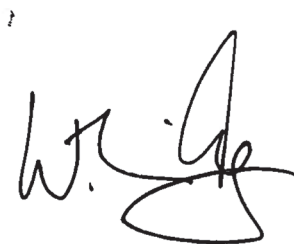
Following consultation between HM Treasury and Government Departments the Gallery must now provide summary data on its use of exit packages, in addition to any details it might have disclosed about the individual packages for those senior staff covered by the Remuneration Report. It must show the number of exit packages according to cost band, analysed by the number of compulsory redundancies and the number of other departures agreed. This information relating to exit packages agreed in 2012/13 - and the prior year - is provided in the table below, and is also audited information.

| Exit package cost band | Number of Compulsory Redundancies | | Number of other departures agreed | | Total number of packages by cost band | |
|--------------------------------------|-----------------------------------|---------|-----------------------------------|----------------|---------------------------------------|----------------|
| | 2012/13 | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 |
| <£10,000 | - | - | - | 4 | - | 4 |
| £10,000 - 25,000 | - | - | 1 | 1 | 1 | 1 |
| £25,000 - 40,000 | - | - | 1 | 2 | 1 | 2 |
| £40,000 - 55,000 | - | - | 1 | - | 1 | - |
| Total number of exit packages | - | - | 3 | 7 | 3 | 7 |
| Total cost in £ | - | - | 115,031 | 118,446 | 115,031 | 118,446 |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Gallery has agreed early retirements, the additional costs are met by the Gallery and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chairman of Trustees
4 July 2013

THE BOARD OF TRUSTEES AND PROFESSIONAL ADVISERS

Between 1 April 2012 and 4 July 2013, the date on which the accounts were signed, the Trustees were:

Dr Brian Allen (from 3 September 2012)
Zeinab Badawi (until 10 October 2012)
Ms C. Allegra Berman ‡
Professor Dame Carol Black DBE
Sir Nicholas Blake*
Dr Rosalind P Blakesley
Professor Sir David Cannadine, FBA, FRSL (Chairman, until 28 June 2012)
Dr Augustus Casely-Hayford*
The Marchioness of Douro OBE (until 2 September 2012)
Kim Evans OBE*
The Rt Hon The Lord Janvrin GCB GCVO QSO ‡ #
Mary McCartney
Sir William Proby Bt CBE DL (Deputy Chairman until 28 June 2012; Chairman from 29 June 2012)
Dr Andrew Roberts (from 1 June 2013)
David Ross * #
Stephan Shakespeare (from 11 October 2012)
Marina Warner CBE FBA

ex officio

President of the Royal Academy of Arts – Christopher Le Brun
Lord President of the Council – The Rt Hon Nick Clegg MP

* Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee during the year was Mr David Ross. Mr Stephen Souchon is co-opted on to the Audit and Compliance Committee to provide specialist accountancy knowledge (for a period of two years from June 2011). Mr Neil Spence and Ms Jacqueline Riding were appointed as additional co-opted, independent members of the Committee to increase its knowledge of museum and gallery operations and public sector and charity finances. Both were appointed for two year terms, expiring in May 2013 and June 2013 respectively. Dr Augustus Casely-Hayford stood down as a member of the Audit and Compliance Committee on 28 March 2013.

Development Council members. The Development Council was reformatted in April 2011 and David Ross was appointed Chair in October 2012. Members meet individually with the Director and Deputy Director throughout the year, rather than attending formal Board meetings.

‡ Investment Committee members. The Chair of the Investment Committee during the year was C. Allegra Berman.

EXTERNAL ADVISERS

Bankers: National Westminster Bank
2a Charing Cross Road
London WC2H 0PD

External Auditors: Comptroller & Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Littlejohn LLP
Chartered Accountants
1 Westferry Circus
Canary Wharf
London E14 4HD

Solicitors: Farrer & Co LLP
66 Lincoln's Inn Fields
London WC2A 3LH

Michelmores LLP
Woodwater House
Pynes Hill
Exeter
Devon EX2 5WR

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's accounts for the year 2012/13. The audit fee in respect of this work was £33,000 (£30,000 in 2011/12). Littlejohn LLP is the auditor for the National Portrait Gallery Company Limited and the audit fee in respect of their work was £8,850 (£8,700 in 2011/12).

So far as the Accounting Officer, and each person who was a Trustee at the date of approving this report, are aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Having made enquiries of the Board of Trustees and Gallery's auditor, the Accounting Officer has taken all the steps that he is obliged to take as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. Having made enquiries of the Accounting Officer, fellow Trustees and the Gallery's auditor, each Trustee has taken all the steps that he/she is obliged to take as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Internal Auditors: Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

Investment Advisors: Partners Capital LLP
5th Floor
5 Young Street
London W8 5EH



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chairman of Trustees
4 July 2013

PERFORMANCE AGAINST 2012/13 FUNDING AGREEMENT INDICATORS

The Gallery's interim Funding Agreement with the Department for Culture, Media & Sport contains 21 separate performance indicators. Seventeen of the indicators are stipulated by the Department, with a further 4 chosen by the Gallery. The table below includes the 17 indicators stipulated by DCMS, and 2 of the 4 chosen by the Gallery. (Of the remaining two indicators, one relates to attendance numbers at specific exhibitions and this is disclosed in the 'Extending and broadening audiences' section of the Trustees and Accounting Officer's Annual Report; the other is a more detailed indicator than that stipulated by DCMS and is disclosed in the table instead). Some of the indicators continue from previous Funding Agreements, and where this is the case, prior year comparators have been provided. These indicators are reviewed annually and revised where appropriate. Summarised performance is given below and further reference within the relevant context is made within the Annual Report.

| Core target | Note | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Actual | 2011/12 Actual | 2012/13 Actual |
|---|------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total number of visits to the Gallery excluding virtual visits (000s) | 1 | 1,665 | 1,646 | 1,834 | 1,984 | 1,758 | 2,048 | 2,054 |
| Number of unique users visiting the website (000s) | | 9,888 | 14,869 | *15,546 | 12,205 | 13,725 | ‡3,214 | ‡3,626 |
| Number of visits to the Gallery by children aged 15 or under (000s) | | 85 | 151 | *173 | 157 | 118 | 134 | 161 |
| Number of visits to the Gallery by adult UK visitors (aged 16 or over) from NS-SEC groups 5-8 (000s) | 2 | 107 | 82 | §72 | 119 | 81 | 105 | 110 |
| Number of visits to the Gallery by adult UK visitors (aged 16 or over) from BAME background (000s) | 3 | 83 | 165 | §77 | 88 | 120 | 121 | 132 |
| Number of visits to the Gallery by adult UK visitors (aged 16 or over) who consider themselves as disabled (000s) | 3 | - | 66 | §28 | 25 | 13 | 28 | 23 |
| Number of overseas visits (000s) | 3 | 500 | 560 | 680 | 712 | 612 | 821 | 923 |
| Number of facilitated and self-directed visits to the Gallery by children aged 15 and under (000s) | 3 | - | 38 | *43 | 37 | 34 | 39 | 39 |
| Number of instances of children aged 15 and under participating in on-site organised educational sessions (000s) | 3 | - | 15 | *4 | 4 | 5 | 3 | 4 |
| Number of instances of children aged 15 and under participating in outreach activity outside the Gallery (000s) | 4 | - | 4 | *4 | 5 | 5 | 1 | 1 |
| Number of instances of adults aged 16 and over participating in on-site organised activities (000s) | 3 | - | 43 | *35 | 32 | 43 | 55 | 50 |

| | | | | | | | | |
|--|---|--------|-------|--------|-------|-------|-------|-------|
| Number of instances of adults aged 16 and over participating in outreach activities outside the Gallery (000s) | 3 | - | 1 | 1.2 | 1 | 1 | 2 | 1 |
| % of visitors who would recommend a visit | 7 | 97 | 99 | 98 | 99 | 93 | 97 | 97 |
| Profit from trading company (£000) | 5 | n/a | 509 | 449 | 444 | 406 | 765 | 686 |
| Income from Exhibition Admissions and touring (£000) | 3 | 1,504 | 1,324 | 2,063 | 1,716 | 990 | 1,955 | 2,640 |
| Income from fundraising (£000) | 6 | 2,788 | 4,117 | 5,195 | 4,014 | 2,148 | 2,631 | 2,813 |
| Total expenditure on exhibitions (£000) | 3 | *1,159 | 1,114 | *1,336 | 1,270 | 1,172 | 1,173 | 1,245 |
| Number of UK loan venues | 3 | 47 | 57 | *108 | 165 | 133 | 118 | 118 |
| Number of new acquisitions | 3 | 81 | 200 | 32 | 57 | #324 | #581 | 616 |

* § Figures have been re-stated, to ensure that from 2008/09 onwards they are prepared on a consistent basis.

Figures have been re-stated to provide a more accurate reflection of the number of individual acquisitions made in the year. In past years certain acquired collections were treated as a single acquisition, even though they were made up of a number of individual items.

‡ The method of reporting of website visits was changed to a method based on Google Analytics, which gives a more accurate picture of web usage. The figures for 2011/12 were re-stated to reflect web visit figures based on Google Analytics, to provide a comparator to the statistics for 2012/13.

Note 1: Visits to St Martin's Place only (excludes visits to national partner sites).

Note 2: Introduced in the 2003 to 2006 Funding Agreement.

Note 3: Introduced in the 2008 to 2011 Funding Agreement.

Note 4: Introduced in the 2003 to 2006 Funding Agreement.

Note 5: Introduced in the 2008 to 2011 Funding Agreement (not applicable prior to 2007/08).

Note 6: Introduced in the 2008 to 2011 Funding Agreement and equates to Voluntary Income as expressed in the Statement of Financial Activities.

Note 7: Introduced in the 2008 to 2011 Funding Agreement and equates to visitors 'very likely' and 'fairly likely' to recommend a visit to the Gallery.

(It has not been possible in all cases to provide statistics for years prior to 2008/09 for the performance indicators introduced in the 2008/11 Funding Agreement. Where these statistics are readily available, they have been included).

STATEMENT OF TRUSTEES' AND DIRECTOR'S RESPONSIBILITIES

Under Sections 9(4) and 9(5) of the Museums and Galleries Act 1992, the Board of Trustees is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The Accounts are prepared on an accruals basis and must show a true and fair view of the National Portrait Gallery's financial activities during the year and of its financial position at the end of the year.

In preparing the National Portrait Gallery's accounts the Board of Trustees is required to:

- observe the Accounts Direction* issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Gallery will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Director as Accounting Officer for the National Portrait Gallery. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Portrait Gallery's assets, are set out in a Treasury Memorandum and the Treasury Handbook '*Regularity, Propriety and Value for Money*'.



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chairman of Trustees
4 July 2013

*a copy of which is available from:
National Portrait Gallery
2 St Martin's Place,
London WC2H 0HE

GOVERNANCE STATEMENT

The Accounting Officer and the Chairman of Trustees (as representative of the Board of Trustees), have joint responsibility for maintaining a sound system of internal control that supports the achievement of the National Portrait Gallery's policies, aims and objectives, whilst safeguarding the public funds and Gallery assets. The purpose of the Governance Statement is to show how these responsibilities have been carried out in the course of the year.

The National Portrait Gallery's governance framework

The National Portrait Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport (DCMS). The Museums and Galleries Act 1992 established the corporate status of the Board of Trustees of the National Portrait Gallery. The Gallery has a Management Statement and Financial Memorandum with the DCMS which defines the Gallery's status as a Non Departmental Public Body and outlines the processes and procedures the DCMS expect the gallery to observe when managing public funds. Funding from Government is provided in the form of grant-in-aid and how the Gallery deploys this funding is laid out in an interim Funding Agreement with DCMS. The Funding Agreement includes seventeen key performance indicators upon which the Gallery is required to report, and the results are included on pages 29 and 30 of this report, together with the results from prior years.

A Board of sixteen trustees (including the Gallery's two ex-officio Trustees), appointed by the Prime Minister on the recommendation of the Secretary of State for Culture, Media and Sport with oversight by the Commissioner for Public Appointments, meets quarterly. Trustees have responsibility for overseeing the Gallery's affairs, determining the policies and overall strategy for the organisation, as prepared by the Director and the Senior Management Team, and in ensuring that the Gallery fulfils its statutory obligations. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. There is a committee of the Board which covers Audit and Compliance, and another which advises on senior staff remuneration. The Gallery also has a Development Council to support fundraising initiatives, and more recently the Gallery formed an Investment Committee with a mix of trustees and independent members to manage the investment of its cash reserves. During the year there was a significant change in the leadership of the Board of Trustees, with Professor Sir David Cannadine stepping down as Chairman in June, to be succeeded by Sir William Proby. There were other changes to the Board and these are covered later in the Statement.

The Director of the Gallery is Sandy Nairne CBE, who is also the Accounting Officer. The appointment of the Director is made by the Trustees and approved by the Prime Minister. The Director is responsible for the overall leadership of the Gallery, its programmes of activities, the soundness of its finances, business and financial planning, its internal control and risk management processes and its external representation. As Accounting Officer, the Director is personally responsible, along with the Chairman of Trustees, for safeguarding the public funds and Gallery assets, in accordance with the responsibilities assigned to him in *Managing Public Money* and ensuring compliance with the requirements of the Gallery's Management Statement and Financial Memorandum.

The Audit and Compliance Committee is responsible for independent oversight of the Gallery's affairs. It receives reports annually from the internal and external auditors so that members of the Committee can assure themselves that the Gallery's affairs are managed economically, efficiently and within the powers delegated to it. The Committee also assesses and advises on the systems by which the Gallery manages and mitigates risk throughout the organisation. The Chair of the Committee advises in the event of any unexpected threat to the Gallery's resources, operations or reputation. The Audit and Compliance Committee generally meets ahead of the plenary Board meeting so that Board level matters can be considered and discussed at the Committee meetings and then communicated to the Board.

The Senior Staff Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Audit and Compliance Committee, and is composed of the members of the Audit and Compliance Committee and the Chairman of Trustees.

The Investment Committee is appointed by the Board of Trustees to monitor the funds invested by the appointed investment consultants and ensure that the funds are invested in compliance with the agreed Investment Strategy. The Committee is chaired by a Trustee but also includes independent co-opted members who have particular skills in investment management.

The Development Council consists of Trustees - one of which chairs the Council - and independent members that have strengths in different industries and social networks and who act as senior volunteer advisers to the Gallery's Development department on priority fundraising projects. They act as high profile advocates of the Gallery's work in both a professional and private capacity.

While responsibility for financial oversight rests with the whole Board of Trustees, the Board invites one of its members to act as Finance Trustee and to report to the Board on budgetary matters and financial planning. This role focuses on the financial health of the Gallery, and is distinct from the work undertaken by the Audit and Compliance Committee.

A list of Trustees who served on the Board during 2012/13 and up to the date on which the accounts were signed is at page 27. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held by them, close family and persons living in the same household, which is open to the public, and is available in The Heinz Archive and Library.

All Trustees must declare publicly any personal or business interests that might be perceived to conflict with their public duties. Common law requires that members of public bodies should not at a meeting participate in the discussion or determination of matters in which they have a direct pecuniary interest. Trustees are prompted at the start of meetings to declare if they, close family members or persons living in the Trustee's household have an interest, pecuniary or other, in a matter being considered. The Board or Committee will then decide whether it is appropriate for the Trustee to participate in or have information concerning the matter being considered, or whether the Trustee should withdraw from the meeting. Detailed guidance about how Trustees should handle conflicts of interest is contained in the Trustees' Handbook, which is issued to each Trustee upon appointment.

On average, over the year 2012/13, each Board meeting was attended by 80% of the Trustees, excluding the ex-officio Trustees. A significant majority of Trustees had a 100% attendance record and no Trustee attended fewer than 50% of the meetings in the period. For Audit and Compliance Committee, an average of 86% of the Committee membership attended each meeting. Attendance at meetings increased compared to the prior year as a result of the appointment of two additional co-opted members. No member of the Audit and Compliance Committee attended fewer than 75% of the meetings. Attendance rates were high for the Investment Committee, which was attended by, on average, 80% of the membership. No member of the Investment Committee attended fewer than 67 % of the meetings in the year. Detailed attendance records for each Trustee attending main Board meetings and Board sub-committee meetings during 2012/13 are disclosed in the Appendix to the Governance Statement on pages 39 and 40.

The Director leads the Management Team, which carries responsibility for developing the work of the Gallery. The Management Team takes responsibility for evaluating current work and initiatives, as well as reviewing policies, and is supported by a Planning Team (consisting of Gallery Heads of Departments), which reviews the Strategic and Corporate Plans, the Corporate Risk Register and monitors budgets and financial matters. The Management Team meets fortnightly and also has an annual review day.

In 2006 the Gallery established the Portrait Fund to support the acquisition and conservation of important portraits for the Collection. The Portrait Fund was established under a Declaration of Trust with the purpose of creating a restricted fund to support the purchase of acquisitions. The Fund has its own Board of Trustees, the majority of whom are also Gallery Trustees. The results of the Fund are consolidated into the Gallery's annual accounts.

The Gallery has a wholly owned subsidiary company, the National Portrait Gallery Company Limited, the "Company". The Company has a Board of five Directors, including one Trustee, three Gallery senior executives (one of which is the Director of the Gallery), and an independent non-executive

director. The Board of Directors meets three times a year. As well as the Directors of the Company, the Audit & Compliance Committee also reviews the performance of the Company, its annual report and accounts and the Company external auditors' Management Letter. To date the external auditors have not identified any significant control weaknesses in the processes and controls operated by the Company.

The Board of Trustees' performance in 2012/13

The objectives for the Gallery in 2012/13 are laid out in the 2012/15 Corporate Plan, which can be viewed on the Gallery's website at <http://www.npg.org.uk/assets/files/pdf/corporate/busplan20122015.pdf>. The Board approves the Corporate Plan, the objectives outlined in it and oversees the progress that the Director and the senior management team make in implementing the Plan, providing commentary and guidance on their work as necessary. Progress in delivering the objectives is reviewed twice a year by the Board, at the midyear point and at the year end. 2012/13 was a very successful year, with the Gallery attracting record numbers of visitors, beating the previous year's record number by 6,000. It also produced better than budgeted results for the year, increasing its free reserves by an amount greater than budgeted, net of a grant made to the Portrait Trust. Good progress had also been made in delivering the timetable of programmes and activities planned for the year. The Board also reviews a set of financial and non-financial performance indicators on a quarterly basis and these too showed that the Gallery had, overall, performed very well in most areas during the year. Pages 29 and 30 include a table of performance indicators comparing the results to those achieved in previous years: again, the performance in 2012/13 in most areas improved upon that achieved in the previous year.

The Board has a governance review session every year, and every other year all trustees complete a detailed questionnaire to assess the Board's effectiveness. This session is undertaken at the Trustees' Strategic Review Day and consists of an overall review of the Board's effectiveness, and is followed up by a review by the Chairman of Trustees of the effectiveness of individual Trustees. The last Board full review took place in September 2011. At that time the Board considered that, overall, the Board had performed effectively. The Board considered that its terms of reference were well understood, that it had a good understanding of the Gallery's business, and that the Board had the right mix of skills and experience. It considered that meetings were effective and that Trustees were able to contribute adequately, although they would have preferred to make more time for discussions about strategy and programmes and activities. A governance review session was also held at the Strategic Review Day in September 2012. This was the first occasion in which the new Chairman, Sir William Proby, was able to discuss the changes he proposed to make to the governance arrangements of the Board. In particular he proposed to hold one-to-one meetings with each Trustee every year, and would put forward a process whereby he could elicit feedback on his own performance from Board members. He also proposed that formal succession plans should be raised for key areas across the Board to assist planning in the future when Board membership became vacant. During the discussions about governance, Trustees were concerned that there should be more time available at Board meetings for in-depth discussion and debate, bringing in other members of staff to contribute to the discussions as necessary. The Board also discussed the outcomes of the review of Board Effectiveness by Charles Mackay, this included the preparation of a long-term succession plan and a skills audit which would be shared with DCMS Ministers.

Committee reports to the Board

The minutes of the Audit & Compliance Committee and the Investment Committee are circulated to all Trustees and at each Board meeting the Chairs of the two committees brief the Board about the business which was discussed at the Committee meetings and the key outcomes arising. Each year, the Chair of the Audit and Compliance Committee submits an annual report on the effectiveness of the Gallery's risk management processes. As well as the annual report from the Chair of the Audit & Compliance Committee, the Accounting Officer and Board rely on assurances from several other sources, including the Annual Internal Audit Report to the Audit & Compliance Committee from the Head of Internal Audit (HIA), and Budget Holder, Budget Supervisor and Budget Manager end-of-year assurance statements. Together these reports and statements provide assurances confirming that a sound system of internal control has been maintained throughout the year. The Chair of the Audit and Compliance Committee's report details the actions which have been taken by the Gallery during the year to mitigate risk and to improve and strengthen internal control, during 2012/13 this included:

- *Governance & management effectiveness and reputation.*
 - Recruited new independent non-executive director for the Company.

- *To maximize the financial resources.*
 - Implementation of contingencies following further cuts in the Gallery's grant-in-aid in the forthcoming years, for inclusion in the 2013/16 Budget.
 - Continued to monitor closely the actions of the investment advisors while uncertainty in world financial markets remained. Both Gallery investment portfolios performed well during the year.
 - Provided first grant to The Portrait Trust as the first step in providing more secure funding for Gallery projects and activities.
 - Awarded match funding from the HLF's Catalyst Endowment scheme for the Portrait Fund, whereby if the Gallery earns £1 million by 2016, HLF will match fund £1 million.
 - Introduction of Portrait Circle as a means of expanding the pool of longer term donors to the Gallery.
 - Secured long term sponsorship for the spring season of the exhibition programme and the Photographic Portrait Prize.

- *To bring the buildings, technical and managerial infrastructure of the Gallery to the highest standards.*
 - Shared drives project continued to improve the storage of data on the Gallery's network and also within the archive.
 - Completed the project to improve Archive and Library storage in the archive basement and Special Collections Store.
 - Completed refurbishment of Rooms 3, 4 and 11, funded by a DCMS/Wolfson grant.
 - Secured a 25 year extension of the East Wing lease with the National Gallery.
 - Financial Regulations updated.
 - Security Policy updated.
 - Wellbeing Policy published.
 - Business Continuity Plan completed and published, together with updated Emergency Procedures.
 - Introduction of an access control system.
 - Introduction of a public address system in the main Gallery building.
 - Improvements continued to CCTV and installation of picture alarms to improve security, including the introduction of a ground floor monitoring team, as well as other security improvements arising from the experience gained during the *Lucian Freud Portraits* exhibition.
 - Reviews undertaken of Trading Department resulting in a restructuring of the department and strengthening of marketing and buying functions.
 - Reviews undertaken of IT and Facilities Team and Development Team to ensure that the teams can meet the challenges faced by the Gallery in future years.
 - Upgrade of PS Financials accounting system to improve the application's control environment.
 - Introduction of new web-based GPC payment system.

- *Major Projects – Road to 2012.*
 - Events linked to *Road to 2012* and Cultural Olympiad programme completed successfully.

The report also outlines the key risks facing the Gallery in the near future. These are highlighted in the risk assessment later in the Statement. Any key issues arising from the previous year's audit of the Gallery's consolidated accounts and the Company's accounts are covered in the report, as well as progress with the implementation of audit recommendations made by the external auditors, which are also outlined in the report. The report concluded that the Audit and Compliance Committee considered that the risk management processes operated by management in the year have been sound, and that the key areas of risk identified for the forthcoming year were appropriate.

The HIA's report provided the Accounting Officer with reasonable assurance on the effectiveness of the Gallery's risk management, control and governance processes reviewed as part of the 2012/13

internal audit plan. The audit work consisted of nine audits, which included a review of Collections storage, media handling, research strategy and delivery, security, key financial controls, risk management and a follow up audit of business continuity. In overall terms, there was one audit where some control weaknesses were found, with the remainder either being assessed as having sound controls or minor weaknesses. The weaknesses related to a recommendation to extend the current access control system to a storage area, the Gallery accepted the recommendation and is planning to implement it subject to funding being available. However, no significant weaknesses in internal control were identified by any of the audits undertaken in the year, and the Head of Internal Audit considered that the internal controls for the Gallery operate satisfactorily in most areas. Furthermore, follow up work undertaken by internal audit showed that progress has been made in implementing audit recommendations where they remained appropriate, and the HIA's report noted that the Gallery responded positively to recommendations made by internal audit and maintained a record of the progress made in the implementation of these recommendations. The report also noted that risk management processes and culture to be mature and largely embedded. The risk management was taken seriously and the Gallery's management was engaged with the process. Progress with implementation of internal audit recommendations is reviewed by Planning Team and Audit and Compliance Committee at each meeting.

The regular reports from the Chair of the Investment Committee update the Board on performance of the Gallery's investment portfolios, and the effectiveness of the investment advisors managing the portfolios. The Investment Committee plays a significant role in the management of investment risk. Key to this is ensuring that the investment advisors adhere to the Investment Strategy. The Investment Strategy was prepared with assistance from the Investment Committee and was approved by the Board of Trustees. The Strategy determines the objectives of the Gallery's investment portfolios, taking into account the differing requirements with regard to risk and liquidity of the various reserves held by the Gallery. The Strategy also includes any restrictions the Trustees have stipulated in how the reserves are to be invested and how performance should be measured. Asset allocations proposed by the investment advisors are reviewed against the objectives of the Investment Strategy to ensure that what is proposed is acceptable. The reports from the Chair of the Investment Committee cover the performance of the investment portfolios during the quarter, the changes made to asset allocations and the consequences for the portfolios as a result in terms of risk. To date the Chair of the Investment Committee has reported to Trustees that the Committee was working well and that she believed that the independent members provided good advice and constructive challenge to the investment proposals put forward by the investment advisors. In the light of the two difficult years for world financial markets, the Investment Committee had ensured that the investment advisors paid close attention to developments in the markets and responded quickly when action was needed. She reported that risk in the portfolios had been reduced over the year, with a more defensive position taken and a general move to reduce exposure to nominal gilts and with minimal exposure to European sovereign debt. Nonetheless, the Committee has overseen good returns on the portfolios over the year. The Portrait Fund portfolio had risen by 3.8% in the first quarter of 2013 (to 31 March) and 8.3% over the year. The performance benchmark was revised in the year from the 60/40 (equity/bond portfolio) to a more composite benchmark which better reflected the Portrait Fund portfolio. The Portrait Fund portfolio performed better than the new composite benchmark by 0.4% over the period it was used as the key comparator. The Investment & Contingency portfolio had increased in value by 7.9% over the year as a whole, (excluding an additional investment of £37,000 at the end of the year). This was well ahead of the benchmark (LIBOR). More detail about the performance of the investments is provided on pages 19 to 21 and the balances are disclosed in Note 8 to the accounts.

Compliance with the *Corporate Governance Code*, and other good practice

The Gallery seeks to uphold the highest standards of governance through the accountability and transparency of its management processes, decision-making and communications. Board of Trustee meeting minutes can be viewed on the Gallery's website at <http://www.npg.org.uk/about/corporate/trustees-and-trustees-meetings.php>. During the year the Gallery has sought to maintain the effectiveness of its corporate governance structures, in ensuring that the Board continues to have the right mix of Trustees and that there is a seamless transition between Trustees retiring and new Trustees joining the Board. In the period of this report two Trustees retired and two new Trustees were appointed. In addition to these changes, as noted earlier, Professor Sir David Cannadine stepped down as Chairman in June and was succeeded by Sir

William Proby. The list of Trustees on page 27 includes the details of retirements and new appointments. The Company recruited a new independent non-executive director in March 2012 to replace the previous non-executive director who retired in November 2011, and he attended his first Company Board meeting in May 2012. The Board complies with the principles laid out in *Corporate governance in central government departments*, “the Code”. There are certain principles in the Code which are not applicable to the Gallery’s Board and these relate in the main to central government boards’ roles relating to government policy making and the powers of ministers. Other elements which are not applicable include certain elements in the Code dealing with board composition and the board’s relationship with its Arms Length Bodies. Furthermore, there is a key difference between the Gallery’s Board and those in central government, for whom this guidance has been written, in that the Gallery’s Board of Trustees has statutory obligations to observe under the Museums and Galleries Act 1992, whereas central government boards are purely advisory.

Assurances and other data provided to the Board

The Board receives information from a wide variety of sources which underpins its assessment of the effectiveness and strength of governance and internal control. Besides its own review of effectiveness and the reports from the Chair of Audit and Compliance Committee, the Board receives and places reliance on reports from both internal and external audit. The Board also receives quarterly financial reports (in the form of summary management accounts including an explanatory narrative) which are supported by financial and non-financial key performance indicators, to provide Trustees with a broad picture of performance in the quarter. The data in the financial reports is reconciled to the year-end accounts which are independently audited. The Board and the Audit and Compliance Committee review on a quarterly basis the Corporate Risk Register, which contains the key risks facing the Gallery. Audit & Compliance Committee also review certain of the Departmental Risk Registers which underpin the Corporate Risk Register to see how the risks in the Departmental Registers feed up into the Corporate Risk Register. The Audit and Compliance Committee also discusses, on a regular basis, internal control and risk management in areas critical to the Gallery’s business with the relevant Heads of Department, to ensure that risks are effectively managed in these areas, and that the Corporate Risk Register reflects the profile of risk covered in the discussions with the Head of Department. Trustees receive a weekly summary of the Gallery’s coverage in the Press, including high-lights, which assist in providing Trustees with an external view of the Gallery’s performance.

As a matter of course, the Board reviews and approves key Gallery policies, and revisions to them. It also receives annual reports from senior management relating to important areas of compliance and how the Gallery has conducted itself in these areas, for instance in Health and Safety and Freedom of Information. Senior management also provide annual reports covering important Gallery programmes, like the Exhibitions Programme and the work undertaken as part of its National Programme with regional bodies and other external partners. These reports and submissions provide the Board with a broad picture of how the Gallery is performing.

At the year end, budget managers provide the Accounting Officer with an annual assurance statement confirming that they have complied with the National Portrait Gallery’s published policies and with the financial and risk management procedures. In rare circumstances budget managers have qualified their statements and where this is considered material, the statement is brought to the attention of the Audit & Compliance Committee. No material qualifications were brought to the attention of the Accounting Officer or the Audit and Compliance Committee in 2012/13.

The Board’s review of risk management during the year and into the future


Each year the Trustees review the Gallery’s risk appetite, which sets the level of risk the Gallery is willing to accept across different areas of its programmes and operations. They also review the criteria for evaluating risk. Both these factors are critical in ensuring that risk is evaluated in a consistent manner and that the Gallery’s response to the risk is appropriate. How the Gallery’s risk profile is reviewed and monitored has been explained already. Internal Audit review the Gallery’s risk management processes every other year – last reviewed in December 2012 - and report their findings to the Accounting Officer and Audit & Compliance Committee. The Chair of the Audit & Compliance Committee, in an annual report on risk to the Board, explains the Gallery’s response to risk during the year, and outlines the key risks facing the Gallery into the future. As at 31 March 2013 the key risks

facing the Gallery in the forthcoming year are mainly financial and reputational, these include the following:

- *Grant-in-aid allocations from DCMS* – two rounds of cuts have been announced to the Gallery's allocations amounting to in aggregate 2% in 2013/14 and 3% in 2014/15. A further very significant cut could result in 2015/16, following announcements made in the Chancellor's 2013 Budget. In response to this, the Gallery has prepared a budget for the three years from 2013/16 which strengthens its ability to earn sustainable self-generated income to make-up for the reduction in its support from Government. However, it will take time for the benefits from this investment in resources to accrue and the Gallery will need to fund deficit budgets in the short term.
- *Restricted access to historic reserves.* Treasury resource budgeting rules continue to restrict the Gallery's full access to its historic reserves to fund certain elements of its expenditure. To date the Gallery and the DCMS have been able to manage this satisfactorily, but the significant deficits in the Gallery's 2013/16 Budget make this a potential risk in future years. Adequate cover has been secured for access to capital reserves in 2013/14.
- *The Eurozone.* There remains a risk that the Eurozone sovereign debt crisis, if it remains unresolved, could hamper any prospect of growth in the Eurozone countries and therefore act as a drag on the UK economy. Recent events in Cyprus continue to show that confidence in the Eurozone is fragile and that the possibility remains of further damaging shocks. As it is, growth in the UK economy is likely to be sluggish in 2013/14, and the outlook for the Eurozone economy remains unpromising, with any growth likely to be marginal. The Gallery and its investment advisors are monitoring closely the effect on world financial markets of events in the Eurozone in order to respond swiftly to any immediate impact such events might have on the Gallery's reserves invested in them.
- *High inflation.* According to the Office of Budget Responsibility, inflation looks set to remain elevated over the next two years before returning to the MPC target of 2% by 2015. The Gallery's 2013/16 Budget has made a prudent assessment of inflation over the period.

The National Portrait Gallery has suffered no protected personal data incidents in 2012/13 and has made no such report to the Information Commissioner's Office.

No ministerial directions were given.



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chair of Trustees
4 July 2013

Appendix to Governance Statement – Trustee attendance 2012/13

Full Board meeting attendance

| | Attendance in 2012/13 (%) |
|--|------------------------------|
| Current Trustees | |
| Professor Sir David Cannadine (Chairman up to 28 June) | 100 |
| Dr Brian Allen (from September 2012) | 50 |
| Zeinab Badawi (until October 2012) | 50 |
| Allegra Berman | 75 |
| Professor Dame Carol Black | 100 |
| Sir Nicholas Blake | 100 |
| Dr Rosalind Blakesley | 75 |
| The Marchioness Douro (until September 2012) | 100 |
| Dr Augustus Casely-Hayford | 75 |
| Kim Evans | 100 |
| Lord Janvrin | 100 |
| Mary McCartney | 50 |
| Sir William Proby (Chairman from 29 June) | 75 |
| David Ross | 50 |
| Stephan Shakespeare (from October 2012) | 100 |
| Marina Warner | 75 |
| Average attendance by Trustees over the year | 80 |

Audit and Compliance Committee attendance

| | Attendance in 2012/13 (%) |
|--|------------------------------|
| Attendance | |
| David Ross (Trustee) | 75 |
| Sir Nicholas Blake (Trustee) | 75 |
| Dr Augustus Casely-Hayford (Trustee) | 100 |
| Kim Evans (Trustee) | 100 |
| Stephen Souchon | 75 |
| Neil Spence | 75 |
| Jacqueline Riding | 100 |
| Average attendance by Committee members over the year | 86 |

Investment Committee attendance

Attendance in
2012/13 (%)

Attendance

| | |
|--------------------------|-----|
| Allegra Berman (Trustee) | 100 |
| Lord Janvrin (Trustee) | 67 |
| Jeremy Sillem | 67 |
| Anthony Brooke | 100 |
| Ben Whitmore | 67 |

Average attendance by Investment Committee members over the year

80

These statistics show attendance by Trustees at full Board and Board sub-committee meetings held during 2012/13. The tables do not include the Trustees' attendance at numerous events held by the Gallery during the year, or the meetings attended or consultations given by Trustees about Gallery business outside of these Board and sub-committee meetings.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the National Portrait Gallery for the year ended 31 March 2013 under the Museum and Galleries Act 1992. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and Gallery Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of Trustees, the Director and auditor

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Trustees and the Director, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Portrait Gallery's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by National Portrait Gallery; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate and report.

I am required to obtain evidence sufficient to give reasonable assurance that the incoming resources and resources expended recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the incoming resources and resources expended recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the National Portrait Gallery's affairs as at 31 March 2013 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Museums and Galleries Act 1992 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Museums and Galleries Act 1992; and
- the information given in Activities, Performance and Planned Future Developments; the Financial Review; and in The Board of Trustees and Professional Advisers for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

9 July 2013

**CONSOLIDATED STATEMENT OF FINANCIAL
ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2013**

| | Notes | Unrestricted Funds £000 | Restricted Funds £000 | Total 2013 £000 | Total 2012 £000 |
|--|-------|-------------------------------|-----------------------------|--------------------|--------------------|
| INCOMING RESOURCES | | | | | |
| Grant in Aid | 2a | 7,038 | 239 | 7,277 | 7,398 |
| Incoming resources from generated funds | | | | | |
| Voluntary Income | 2b | 875 | 1,938 | 2,813 | 2,631 |
| Activities for generating funds | 2c | 3,593 | - | 3,593 | 3,695 |
| Investment income | 3 | 33 | - | 33 | 28 |
| Incoming resources from charitable activities | | | | | |
| Exhibitions admissions and touring income | | 2,640 | - | 2,640 | 1,955 |
| Exhibition and programme sponsorship income | | 753 | - | 753 | 819 |
| Learning and access income | | 41 | - | 41 | 41 |
| Other income | 2d | 238 | 1 | 239 | 230 |
| Total incoming resources | | 15,211 | 2,178 | 17,389 | 16,797 |
| RESOURCES EXPENDED | | | | | |
| Costs of generating funds | | | | | |
| Costs of generating voluntary income | 5 | 669 | 3 | 672 | 607 |
| Fundraising trading: cost of goods sold and other costs | 5 | 2,630 | 15 | 2,645 | 2,763 |
| Investment management costs | 5 | 21 | 15 | 36 | 30 |
| Total costs of generating funds | | 3,320 | 33 | 3,353 | 3,400 |
| Resources expended on charitable activities | | | | | |
| Extending and broadening audiences | 5 | 2,589 | 1,143 | 3,732 | 3,267 |
| Developing the Collection | 5 | 4,430 | 151 | 4,581 | 4,261 |
| Increasing understanding and engagement with the Collection | 5 | 5,512 | 903 | 6,415 | 6,268 |
| Governance costs | 5 | 121 | 10 | 131 | 140 |
| Total Resources expended | | 15,972 | 2,240 | 18,212 | 17,336 |
| Net (outgoing)/incoming resources for the year before transfers | | (761) | (62) | (823) | (539) |
| Transfers between funds in year | 13 | (204) | 204 | - | - |
| Net (outgoing)/incoming resources for the year before other recognised gains and losses | | (965) | 142 | (823) | (539) |
| Gains on investments | 8 | 265 | 562 | 827 | 455 |
| Gains on revaluation of fixed assets for charity's own use | 6&13 | 113 | 341 | 454 | 4,189 |
| Net movement in funds | | (587) | 1,045 | 458 | 4,105 |
| Fund balances brought forward at 1 April | | 12,925 | 60,680 | 73,605 | 69,500 |
| Fund balances carried forward at 31st March | | 12,338 | 61,725 | 74,063 | 73,605 |

All operations of the Gallery continued throughout both periods and no operations were acquired or discontinued in either period. There are no recognised gains or losses other than those shown above.

The notes on pages 47 to 70 form part of these accounts.

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2013

| | Notes | £000 | 2013 £000 | 2012 £000 |
|---|-------|---------------|----------------------|----------------------|
| Fixed Assets | | | | |
| Tangible assets | 6 | | 48,897 | 50,299 |
| Heritage Assets | 7 | | 13,216 | 11,973 |
| Available for Sale Financial Assets - Investments | 8 | | <u>3,068</u> | <u>2,715</u> |
| | | | 65,181 | 64,987 |
| Current Assets | | | | |
| Stock | 11 | 408 | | 310 |
| Debtors and prepayments | 10 | 1,309 | | 969 |
| Available for Sale Financial Assets - Investments | 8 | 6,956 | | 6,552 |
| Cash at bank and in hand | 9 | <u>2,497</u> | | <u>3,252</u> |
| | | 11,170 | | 11,083 |
| Current Liabilities | | | | |
| Creditors (amounts falling due within one year) | 12 | | <u>2,280</u> | <u>2,442</u> |
| Net Current Assets | | | 8,890 | 8,641 |
| Total Assets less Current Liabilities | | | <u>74,071</u> | <u>73,628</u> |
| Long Term Liabilities | | | | |
| Creditors (amounts falling due after one year) | 12 | | 8 | 23 |
| Net Assets | | | <u>74,063</u> | <u>73,605</u> |
| Represented by: | | | | |
| Restricted Funds | 13 | | 46,136 | 45,432 |
| Fixed Asset Revaluation Fund | 13 | | 15,589 | 15,248 |
| Total Restricted Funds | 13 | | <u>61,725</u> | <u>60,680</u> |
| Unrestricted Funds | | | | |
| Designated funds | 13 | | 11,796 | 12,496 |
| Fixed asset revaluation fund | 13 | | <u>292</u> | <u>179</u> |
| Total Designated funds | 13 | | 12,088 | 12,675 |
| General funds | 13 | | 250 | 250 |
| Total Funds | | | <u>74,063</u> | <u>73,605</u> |

The notes on pages 47 to 70 form part of these accounts.



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chairman of Trustees
4 July 2013

GALLERY BALANCE SHEET
AS AT 31 MARCH 2013

| | Notes | £000 | 2013 £000 | 2012 £000 |
|---|-------|---------------|----------------------|---------------|
| Fixed Assets | | | | |
| Tangible assets | 6 | | 48,897 | 50,299 |
| Heritage Assets | 7 | | 13,216 | 11,973 |
| Available for Sale Financial Assets - Investments | 8 | | <u>3,068</u> | <u>2,715</u> |
| | | | 65,181 | 64,987 |
| Current Assets | | | | |
| Stock | 11 | 253 | | 124 |
| Debtors and prepayments | 10 | 2,014 | | 1,693 |
| Available for Sale Financial Assets - Investments | 8 | 6,956 | | 6,552 |
| Cash at bank and in hand | | <u>1,856</u> | | <u>2,643</u> |
| | | 11,079 | | 11,012 |
| Current Liabilities | | | | |
| Creditors (amounts falling due within one year) | 12 | | <u>2,189</u> | <u>2,371</u> |
| Net Current Assets | | | 8,890 | 8,641 |
| Total Assets less Current Liabilities | | | <u>74,071</u> | <u>73,628</u> |
| Long Term Liabilities | | | | |
| Creditors (amounts falling due after one year) | 12 | | 8 | 23 |
| Net Assets | | | <u>74,063</u> | <u>73,605</u> |
| Represented by: | | | | |
| Restricted Funds | 13 | | 46,136 | 45,432 |
| Fixed Asset Revaluation Fund | 13 | | <u>15,589</u> | <u>15,248</u> |
| Total Restricted Funds | 13 | | 61,725 | 60,680 |
| Unrestricted Funds | | | | |
| Designated funds | 13 | | 11,796 | 12,496 |
| Fixed asset revaluation fund | 13 | | <u>292</u> | <u>179</u> |
| Total Designated funds | 13 | | 12,088 | 12,675 |
| General funds | 13 | | 250 | 250 |
| Total Funds | | | <u>74,063</u> | <u>73,605</u> |

The notes on pages 47 to 70 form part of these accounts.



Sandy Nairne CBE
Accounting Officer
4 July 2013



Sir William Proby
Chairman of Trustees
4 July 2013

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 MARCH 2013

| | Notes | 2013 £000 | 2012 £000 |
|--|-------|----------------------------|---------------------|
| Net cash inflow from operating activities | 19(a) | 447 | 1,652 |
| Capital expenditure and financial investment | 19(b) | (1,305) | (1,031) |
| Management of liquid resources | 19(b) | 70 | (1,054) |
| Return on investments and servicing of finance | 19(b) | 33 | 28 |
| (Decrease)/Increase in cash in the year | | <u>(755)</u> | <u>(405)</u> |

The notes on pages 47 to 70 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2013

1. ACCOUNTING POLICIES

a) *Basis of accounting*

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings and required valuation methods for financial instruments. The accounts comply with the Statement of Recommended Practice 2005, Accounting and Reporting by Charities, applicable accounting standards and the Accounts Direction issued by the Department for Culture, Media and Sport. The accounts include the Grant-in-Aid account and two trust funds (established by the Gallery under Deeds of Trust) administered by the Gallery (the Dame Helen Gardner bequest and the Portrait Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The accounts also exclude the Portrait Trust, which is an independent foundation trust established in March 2012, over which the Gallery has no control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 2011.

The Consolidated accounts are for the National Portrait Gallery and its subsidiary National Portrait Gallery Company Limited (the Company); the Company began trading on 1 April 2007. The Gallery is exempt from corporation tax on its charitable activities under section 505 of the Income and Corporation Taxes Act 1998. Income arising from activities of the trading subsidiary are gift aided to the Gallery.

b) *Incoming resources*

All incoming resources are included in the Statement of Financial Activities when the Gallery is entitled to the income and the amount can be quantified with reasonable accuracy.

Income received in advance is deferred where it would be repayable if conditions are not met in the future.

Grant-in-Aid from the Department for Culture, Media and Sport allocated to general purposes is taken to the Statement of Financial Activities in the year it is received.

Gifts in kind are treated as donations in the period the gift is received at the gross value to the Gallery at the time of the gift.

Legacies are recognised as income when there is entitlement, certainty of receipt and measurability of the legacy.

All income from exhibition sponsorship is recognised in full in the year in which the exhibition commences.

c) *Expenditure*

Expenditure is classified under the principal categories of charitable expenditure and the costs of generating funds rather than the type of expense, in order to provide more useful information to users of these accounts. Irrecoverable VAT is treated as an expense.

Charitable expenditure and costs of generating funds comprise direct expenditure including direct staff costs attributable to the Gallery. Where costs cannot be directly attributed, they have been allocated to activities on a basis consistent with the use of the resources (these general overheads include the costs of directorate and office services, personnel, finance and planning, IT and communications, facilities management and depreciation). Fundraising costs are those incurred in seeking voluntary contributions for the Gallery.

Liabilities are recognised where legal or constructive obligations mean that it is more likely than not that a transfer of economic benefit will be made.

1. ACCOUNTING POLICIES (continued)

d) *Fund accounting*

Unrestricted funds:

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes.

Restricted funds are those subject to specific restrictions imposed by donors, by the purpose of the appeal or conditions of the funding.

Restricted funds include the Portrait Fund. The Portrait Fund is governed by a separate Declaration of Trust, through which an initial balance for the Fund of £1,087,000 was transferred to restricted funds. Subsequent income provided to the Fund can only be recognised as restricted income if it is received from donors specifying that the donation is for the purposes of the Portrait Fund.

e) *Heritage assets*

Heritage assets are capitalised where cost and valuation information is available. Where assets have been acquired jointly with another party, their carrying value reflects the proportion of the Gallery's holding. Trustees have considered the cost of capitalising acquisitions where no appropriate valuation exists and have found that the cost outweighs the benefit of doing so. Heritage assets are not depreciated as a matter of routine. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate, and are not revalued in future periods. Impairment reviews are carried out at the end of each reporting period, to ensure that the carrying values of the heritage assets reflect their carrying amounts.

Expenditure which is required to preserve or prevent further deterioration of individual collection items is recognised in the Statement of Financial Activities when it is incurred.

f) *Tangible fixed assets*

The Gallery capitalises the purchase of assets which cost more than £5,000. IT hardware and software assets which cost more than £1,000 are also capitalised, as too are laptops, PC monitors and central processor units.

Land and buildings are professionally valued every five years; the last such valuation was undertaken as at 31 March 2009. In the years between professional valuations of land and buildings, and every year for certain other fixed assets, National Statistical and other appropriate indices are used to adjust the net book value of the assets. In 2012/13 a valuation provided by BNP Paribas Real Estate was used to value Gallery land. The buildings were valued according to indices provided from the Department for Business, Innovation and Skills Price Tender Index for Public Sector Buildings (Non Housing), and National Statistics were used to value Gallery plant and machinery. Assets other than land, buildings, plant and machinery are accounted for on a depreciated historical cost basis, these assets are either of low value or have short lives, therefore the impact of applying indexation would not be material. Impairment reviews are carried out at the end of each reporting period, in accordance with FRS11, to ensure that the carrying values of the assets reflect the recoverable amounts.

Depreciation is provided on all tangible fixed assets, except freehold land, at rates calculated to write off the costs less estimated residual value of each asset on a straight line basis. For buildings and plant and machinery, depreciation is calculated after indexation; for assets under construction, depreciation is not charged until the year the asset has been brought into use. Depreciation is charged on additions and not on disposals.

Indicative asset lives are as follows:

| | |
|------------------------------|-----------------|
| Freehold buildings | 20 - 70 years |
| Leasehold land and buildings | length of lease |
| Leasehold land and buildings | 10 - 30 years |
| Plant and machinery | 10 - 15 years |
| Furniture and equipment | 4 - 10 years |

1. ACCOUNTING POLICIES (continued)

Where the recoverable amount of a fixed asset is found to be below its net book value, the asset is written down to the recoverable figure and the loss on revaluation is recognised in the Statement of Financial Activities.

g) *Financial Instruments*

Financial Assets

The Gallery classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial asset was acquired.

i. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Gallery has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value, these assets are carried at amortised cost, less impairment, using the effective interest method. Loans and receivables consist of trade and other debtors.

ii. Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are mainly investments that the Gallery does not plan to hold until maturity. They are included in fixed assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments that are treated as AFS financial assets are stated at fair value (market value). Where possible, investments are valued using unadjusted quoted prices in active markets for identical financial instruments. It is the Gallery's policy to keep valuations up to date such that when investments are sold there is no gain or loss arising. As a result, the Statement of Financial Activities only includes those unrealised gains or losses arising from the revaluation of the portfolio throughout the year. Disclosure is made in Note 8 of the difference between historical cost and the sale proceeds of the investments sold during the year.

Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. A financial asset, or group of financial assets, is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the asset or group of assets that can be reliably estimated.

Where there is objective evidence that an impairment loss exists on loans and receivables carried at amortised cost, impairment provisions are made to reduce the carrying value to the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The charge to the Statement of Financial Activities represents the movement in the level of provisions, together with any amounts written off, net of recoveries in the year.

Financial liabilities

Trade, other creditors and accruals are recorded at their initially recognised amount, in recognition that these liabilities fall due within 1 year.

h) *Stock*

Stock is valued at the lower of cost and net realisable value and mainly comprises goods for resale. It also includes any work-in-progress which arises out of material expenditure on a publication that is not due to be completed until after the end of the financial year in which the expenditure occurs.

Books, catalogues, posters and postcards produced by the Gallery are sold to the Company on consignment. The consignment stock is an asset of the Gallery.

1. ACCOUNTING POLICIES (continued)

i) *Leases*

The Gallery has one finance lease relating to a 99 year lease for part of the East Wing for which the Gallery is charged a peppercorn rent. Costs in relation to operating leases are charged to the Statement of Financial Activities over the life of the lease.

j) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are recorded at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the Statement of Financial Activities.

k) *Pension costs*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 5. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Gallery recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Gallery recognises the contributions payable for the year.

l) *Governance costs*

Internal and external audit fees, costs of Trustees meetings, planning costs and an allocation of the cost of certain staff within the Finance Department are categorised as Governance costs.

| 2a. GRANT IN AID | Unrestricted Funds £000 | Restricted Funds £000 | Total 2013 £000 | Total 2012 £000 |
|-------------------------|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| Running costs | 7,038 | - | 7,038 | 7,170 |
| Capital costs | - | 239 | 239 | 228 |
| | | | <u>7,277</u> | <u>7,398</u> |

£7,277,000 of Grant-in-Aid was received during the year (£7,398,000 in 2011/12).

This money is available for running costs, capital improvements and collection purchases; of this, £239,000 was utilised by the Gallery towards Primary Collection acquisitions.

| 2b. VOLUNTARY INCOME | Unrestricted Funds £000 | Restricted Funds £000 | Total 2013 £000 | Total 2012 £000 |
|---|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| Fundraising dinners | 47 | - | 47 | 133 |
| Individual giving | 609 | - | 609 | 547 |
| Grants and donations | 158 | 1,111 | 1,269 | 1,410 |
| Donated acquisitions | - | 264 | 264 | 173 |
| Donations for acquisitions | - | 351 | 351 | 363 |
| The Heritage Lottery Fund/Department for Culture, Media & Sport Catalyst: Endowment | - | 212 | 212 | - |
| Legacies | - | - | - | 1 |
| Other fundraising income | 61 | - | 61 | 4 |
| | <u>875</u> | <u>1,938</u> | <u>2,813</u> | <u>2,631</u> |

| 2c. ACTIVITIES FOR GENERATING FUNDS | Unrestricted Funds £000 | Restricted Funds £000 | Total 2013 £000 | Total 2012 £000 |
|--|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| Corporate members | 188 | - | 188 | 148 |
| Publications | 328 | - | 328 | 509 |
| Picture Library | 348 | - | 348 | 334 |
| Trading income | | | | |
| Gallery hire | 337 | - | 337 | 358 |
| Retail | 1,943 | - | 1,943 | 1,896 |
| Catering franchise | 449 | - | 449 | 450 |
| | <u>3,593</u> | <u>-</u> | <u>3,593</u> | <u>3,695</u> |

| 2d. OTHER INCOME | Unrestricted Funds £000 | Restricted Funds £000 | Total 2013 £000 | Total 2012 £000 |
|--|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| Recovery of utility costs | 63 | - | 63 | 62 |
| Sale of audio guide, floor plans, locker charges | 154 | - | 154 | 39 |
| Miscellaneous trading income | 8 | - | 8 | 110 |
| Collection loans income | 8 | - | 8 | 8 |
| Other | 5 | 1 | 6 | 11 |
| | <u>238</u> | <u>1</u> | <u>239</u> | <u>230</u> |

| 3. INVESTMENT INCOME | 2013 £000 | 2012 £000 |
|-----------------------------|----------------------|------------------|
| Bank interest | 32 | 26 |
| Investment dividends | 1 | 2 |
| | <u>33</u> | <u>28</u> |

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS

| is stated after charging: | 2013 £000 | 2012 £000 |
|---|----------------------|--------------|
| a) External auditors' remuneration | | |
| National Audit Office | 33 | |
| Littlejohn LLP | 9 | 39 |
| b) Internal auditors' remuneration | 22 | 23 |
| c) Operating lease rentals on land and buildings | 141 | 17 |
| d) Operating lease rental on fixtures & equipment | 9 | 8 |
| e) Depreciation | 2,168 | 2,225 |
| f) Loss on any disposal of fixed assets | - | 26 |

The audit fee relates solely to audit services provided by the National Audit Office and Littlejohn LLP.

Loss on disposal of fixed assets is included under Depreciation in Note 5.

5. TOTAL RESOURCES EXPENDED

| | Direct costs | Allocated support costs | 2013 | 2012 |
|--|---------------|-------------------------|---------------|---------------|
| | | | Total | Total |
| | £000 | £000 | £000 | £000 |
| Costs of generating funds | | | | |
| Costs of generating voluntary income | 478 | 194 | 672 | 607 |
| Fundraising trading: cost of goods sold and other costs | | | | |
| Charitable trading | 939 | 218 | 1,157 | 1,374 |
| Non-charitable trading | 1,197 | 291 | 1,488 | 1,389 |
| Total costs of fundraising trading | 2,136 | 509 | 2,645 | 2,763 |
| Investment management costs | 36 | - | 36 | 30 |
| Extending and broadening audiences | | | | |
| Publicity and information | 1,111 | 67 | 1,178 | 1,113 |
| National programme | 455 | 33 | 488 | 223 |
| Learning and access | 1,320 | 746 | 2,066 | 1,931 |
| | 2,886 | 846 | 3,732 | 3,267 |
| Developing the Collection | | | | |
| Collection management | 3,350 | 1,231 | 4,581 | 4,261 |
| Increasing understanding and engagement with the Collection | | | | |
| Research and documentation | 1,342 | 792 | 2,134 | 2,100 |
| Exhibitions and display | 1,816 | 2,085 | 3,901 | 4,168 |
| Charitable grants | 380 | - | 380 | - |
| | 3,538 | 2,877 | 6,415 | 6,268 |
| Governance costs | 87 | 44 | 131 | 140 |
| | 12,511 | 5,701 | 18,212 | 17,336 |

ALLOCATION OF SUPPORT COSTS

| | Directorate & Office Services | Personnel | Finance & Planning | IT & Communications | Facilities Management | Depreciation | Support Salary costs | Total 2013 | Total 2012 |
|--|-------------------------------|------------|--------------------|---------------------|-----------------------|--------------|----------------------|--------------|--------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Costs of generating voluntary income | 12 | 12 | 2 | 34 | 18 | 22 | 94 | 194 | 167 |
| Charitable trading | 11 | 11 | 4 | 32 | 33 | 39 | 88 | 218 | 204 |
| Non-charitable trading | 3 | 20 | 9 | 15 | 79 | - | 165 | 291 | 288 |
| Costs of generating funds | 26 | 43 | 15 | 81 | 130 | 61 | 347 | 703 | 659 |
| Publicity and information | 3 | 2 | 5 | 7 | 18 | 13 | 19 | 67 | 65 |
| National programme | 3 | 1 | 2 | 4 | 7 | 5 | 11 | 33 | 30 |
| Learning and access | 13 | 14 | 5 | 39 | 226 | 340 | 109 | 746 | 784 |
| Extending and broadening audiences | 19 | 17 | 12 | 50 | 251 | 358 | 139 | 846 | 879 |
| Collection management | 5 | 71 | 14 | 11 | 240 | 335 | 555 | 1,231 | 1,206 |
| Developing the Collection | 5 | 71 | 14 | 11 | 240 | 335 | 555 | 1,231 | 1,206 |
| Research and documentation | 23 | 25 | 6 | 71 | 189 | 281 | 197 | 792 | 783 |
| Exhibitions and display | 19 | 20 | 8 | 58 | 714 | 1,107 | 159 | 2,085 | 2,258 |
| Charitable grant | - | - | - | - | - | - | - | - | - |
| Increasing understanding and engagement with the Collection | 42 | 45 | 14 | 129 | 903 | 1,388 | 356 | 2,877 | 3,041 |
| Governance costs | 1 | - | - | - | 17 | 26 | - | 44 | 57 |
| Total | 93 | 176 | 55 | 271 | 1,541 | 2,168 | 1,397 | 5,701 | 5,842 |

The charitable grant is a grant made to the Portrait Trust as support in the pursuit of its charitable objects.

5. TOTAL RESOURCES EXPENDED (continued)

BASIS OF ALLOCATION OF SUPPORT COSTS

Support costs have been allocated across activities as follows:

Directorate: equally across departments

Personnel, salary costs: per capita

Office Services, IT, Telephones: per capita excluding Visitor Services staff

Finance and Planning, Consultancy fees: per direct and staff costs

Rent and Rates, Energy and Water, Maintenance and Housekeeping, Premises works, Depreciation: per square meterage

| GOVERNANCE COSTS | 2013 | 2012 |
|---------------------------------|-------------|-------------|
| | £000 | £000 |
| Breakdown of direct costs | | |
| Trustees' meetings and expenses | 3 | 3 |
| Internal Audit | 22 | 23 |
| External Audit | 33 | 30 |
| Finance and Planning costs | 29 | 27 |
| | <u>87</u> | <u>83</u> |

External audit fees stated are for the Gallery only. The audit fees for the Company are included under Non-charitable trading costs.

| a) Staff costs | 2013 | 2012 |
|--|--------------|--------------|
| | £000 | £000 |
| Staff costs during the year amounted to: | | |
| Wages and salaries | 8,035 | 7,598 |
| National Insurance | 580 | 529 |
| Pension | 1,154 | 1,126 |
| | <u>9,769</u> | <u>9,253</u> |

| | | |
|--|----|----|
| Of which staff costs capitalised for digitising the Collection: equivalent to 2 FTE staff in both 2012/13 and 2011/12 | 54 | 56 |
|--|----|----|

The Company does not employ any staff directly and uses staff seconded from the Gallery. The costs of the staff were recharged to the Company. In 2012/13 the value of the seconded staff costs was £537,510 (£481,831 in 2011/12), which was equivalent to 18.3 full time staff (19.5 in 2011/12).

The Trustees neither received nor waived any emoluments during the year (also in 2011/12). Expenses reimbursed or paid on behalf of three Trustees amounted to £296, relating to travel and subsistence (in 2011/12, £427 for travel and subsistence of one Trustee).

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice-pensions.gov.uk/>.

5. TOTAL RESOURCES EXPENDED (continued)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Portrait Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions). For 2012/13, employers' contributions of £1,125,960 were payable to the PCSPS (2011/12 £1,098,874) at one of four rates in the range 16.7% to 24.3% (2011/12, 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £27,523 (£27,356 in 2011/12) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,122 (£2,014 in 2011/12), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £4,103 (£3,018 in 2011/12). There were no contributions prepaid at that date.

All staff joining the Gallery as from July 2007 who are contracted for one year or more automatically join the nuvos pension scheme whereas if their contract is for less than one year they have the option to join it. The Employee/Employer contributions are the same for nuvos as for premium and classic plus schemes.

Numbers of Employees

The number of employees, comprising the Director and 5 other members of the Senior Management Team (4 in 2011/12) whose emoluments as defined for taxation purposes amounted to over £60,000 in the year are as follows:

| | 2013 | 2012 |
|---------------------|------|------|
| £60,001 - £70,000 | 4 | 3 |
| £70,001 - £80,000 | 1 | - |
| £100,001 - £110,000 | - | 1 |
| £110,001 - £120,000 | 1 | - |

These employees are accruing benefits under defined benefit schemes and received no benefits-in-kind.

The average number of full time equivalent (FTE) employees analysed by function during the year was as follows:

| | Permanent staff | Temporary staff | 2013 | 2012 |
|--|-----------------|-----------------|------------|------------|
| | | | Number | Number |
| Costs of generating voluntary income | 15 | - | 15 | 13 |
| Charitable trading | 14 | - | 14 | 13 |
| Non-charitable trading | 18 | - | 18 | 18 |
| Extending and broadening audiences | | | | |
| Publicity and information | 3 | - | 3 | 3 |
| National programme | 2 | - | 2 | 2 |
| Learning and access | 17 | 1 | 18 | 18 |
| Developing the Collection | | | | |
| Collection management | 79 | 11 | 90 | 86 |
| Increasing understanding and engagement with the Collection | | | | |
| Research and documentation | 31 | 1 | 32 | 29 |
| Exhibitions and display | 26 | - | 26 | 30 |
| Governance | - | - | - | 1 |
| Support | 29 | - | 29 | 29 |
| | <u>234</u> | <u>13</u> | <u>247</u> | <u>242</u> |

As at 31 March 2013, 65 staff had season ticket and training loans outstanding worth a total of £67,302 included in Other Debtors (2011/12 59 staff had loans totalling £63,201).

6. TANGIBLE FIXED ASSETS

| | Land and buildings £000 | Plant and machinery £000 | Furniture & equipment £000 | Total tangible assets £000 |
|---------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Valuation/cost at 1 April 2012 | 44,212 | 11,236 | 2,552 | 58,000 |
| Additions | - | 68 | 244 | 312 |
| Disposals | - | - | (11) | (11) |
| Revaluation adjustment | 348 | 155 | - | 503 |
| Transfer of assets | - | - | - | - |
| Valuation/cost at 31 March 2013 | 44,560 | 11,459 | 2,785 | 58,804 |
| Depreciation at 1 April 2012 | 2,567 | 3,051 | 2,083 | 7,701 |
| Transfers | - | - | - | - |
| Disposals | - | - | (11) | (11) |
| Depreciation | 859 | 1,055 | 254 | 2,168 |
| Revaluation adjustment | 7 | 42 | - | 49 |
| Depreciation at 31 March 2013 | 3,433 | 4,148 | 2,326 | 9,907 |
| Net book value at 31 March 2013 | 41,127 | 7,311 | 459 | 48,897 |
| Net book value at 31 March 2012 | 41,645 | 8,185 | 469 | 50,299 |

Tangible fixed assets relate to the Gallery. The Company has no fixed assets.

The net book value at 31 March 2013 represents fixed assets for:

| | Land & Buildings £000 | Plant & Machinery £000 | Furniture & Equipment £000 | Total £000 |
|-----------------------|-----------------------------|------------------------------|----------------------------------|---------------|
| Charitable activities | 37,234 | 6,616 | 419 | 44,269 |
| Other activities | 3,893 | 692 | 43 | 4,628 |
| Total | 41,127 | 7,308 | 462 | 48,897 |

All the Gallery's land and buildings were revalued in accordance with the RICS Valuation Standards (the "Red Book") by the firm of chartered surveyors, Atisreal UK, at 31 March 2009, at which time they were valued at £40.1 million (excluding plant and machinery, which was valued at £9.8 million, and this excluded the value of plant and machinery at the Merton store, which the Gallery vacated in February 2011). In accordance with HM Treasury guidance, all other assets have been valued on a depreciated historical cost basis.

In accordance with Financial Reporting Standard 15, *Tangible Fixed Assets*, where a fixed asset comprises two or more major components with substantially different economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its useful economic life. The buildings have three separable material components, which have different remaining asset lives; structural, fit out and plant and machinery. Structural and fit out are disclosed under the land and buildings category.

St Martin's Place: The main Gallery at St. Martin's Place was transferred from ('vested by') the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994, although title was not registered to the Trustees until 7 June 1994. The main Gallery was brought into the books in 1994 at a net book value of £43.7million and was revalued at 31 March 2009 on a depreciated replacement cost basis of £43.1million (including plant and machinery). The current net book value is £40.5 million (including plant and machinery).

Orange Street and Charing Cross Road: The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988/89 for £1.5 million. This conveyance contains a covenant which states: "that the property shall not be used for any purpose other than for the purposes of The National Portrait Gallery as a non-profit making public art gallery and offices, library and storage and shop for the sale of books, souvenirs and pictures and restaurant and catering for visitors to the public and/or other similar. In each case strictly ancillary to the use of the property or the premises now known as The National Portrait Gallery as a public art gallery." They were reconstructed as part of the Gallery Development Plan to provide new accommodation for the archives and gallery administration. The buildings were occupied from October 1993, and were brought into the balance sheet as at 31 March 1994 at a value of £9.1 million (including plant and machinery). These properties were revalued at 31 March 2009 on an existing use basis at £6.8million (including plant and machinery), with an allowance to reflect the restrictions described. The current net book value is £6.8 million (including plant and machinery).

The net book value of land and buildings relates to:

| | £000 |
|---|---------------|
| Freehold | 40,325 |
| Long term lease (greater than 50 years) | 802 |
| Short term lease (less than 50 years) | - |
| | <u>41,127</u> |

7. HERITAGE ASSETS

| | Assets reported at Cost | | | Assets reported at Valuation | | | Total £000 |
|---------------------------------|-------------------------|-------------------|---------------------|------------------------------|-------------------|---------------------|---------------|
| | Primary £000 | Reference £000 | Photographs £000 | Primary £000 | Reference £000 | Photographs £000 | |
| Valuation/cost at 1 April 2012 | 9,084 | 40 | 476 | 2,170 | 37 | 166 | 11,973 |
| Additions | 866 | 3 | 110 | 160 | 3 | 101 | 1,243 |
| Valuation/cost at 31 March 2013 | 9,950 | 43 | 586 | 2,330 | 40 | 267 | 13,216 |

Heritage assets are capitalised at the point of acquisition, where cost and valuation information is available. Where assets have been acquired jointly with another party, their carrying value reflects the proportion of the Gallery's holding. Trustees have considered the cost of capitalising acquisitions where no appropriate valuation exists and have found that the cost outweighs the benefit of doing so. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate. In reaching these valuations curators compare portraits donated to the Collection with the values of comparable items on the open market, taking account differences in condition, size, status and market desirability. Such items are not depreciated or re-valued as a matter of routine.

There were no disposals or impairments of heritage assets in the period.

Additions in the year comprise:

Primary Collection

£866,000 purchases of portraits – paintings, sculptures and photographs.
£160,000 donations of paintings, sculptures and photographs.

Reference Collection

£3,000 purchases of prints, drawings, paintings and sculptures.
£3,000 donations of prints, drawings, paintings and sculptures.

Photographs Collection

£110,000 purchases of photographs and historic negatives.
£101,000 donations of purchases of photographs and historic negatives.

Summary of Heritage asset transactions

| | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 | 2009 £000 |
|------------------|--------------|--------------|--------------|--------------|--------------|
| Additions | | | | | |
| Purchased assets | 979 | 715 | 161 | 340 | 1,919 |
| Donated assets | 264 | 173 | 368 | 714 | 112 |
| Total | 1,243 | 888 | 529 | 1,054 | 2,031 |

There were no disposals or impairments of heritage assets in the period.

The Gallery's collections are held in support of its statutory obligations to promote, through the medium of portraits, the appreciation and understanding of the men and women who have made and are making British history and culture, and to promote the appreciation and understanding of portraiture in all media.

Primary Collection

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 11,800 portraits of the most famous people in British history. Of these more than 4,100 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere, including loans outside the UK. In addition, there are some 7,700 works on paper, shown on a rotating basis of about 300 items a year. All the portraits in the Primary Collection are accessible on the website in the search mechanism, Search the Collections. Those wishing to see paintings and other portraits in the Primary Collection not on display, or to consult the records of the collection, should contact the Collections Manager in writing. Normally items not on display can readily be made available for viewing. The Collection is also made widely available via the Portrait Explorer in the IT Gallery, by CD-Rom and on the internet (at www.npg.org.uk).

Reference Collection

The Gallery holds its Reference Collection as a national resource; it contains more than 85,000 portraits and forms an image bank of the nation's famous and less famous faces. The range of work held in the Reference Collection complements the Gallery's Primary Collection and contributes to a better understanding of British portraiture generally. It consists of prints mainly, but also includes 2,500 drawings, 75 paintings and 140 sculptures, almost all relatively modest in nature. Examples of preparatory studies and working drawings record the process of making portraits and extensive holdings of engraved reproductions of portraits provide evidence for their distribution and consumption. The Reference Collection is used for study and exhibition, and has been extensively reproduced in books and other publications.

7. HERITAGE ASSETS (continued)

Photographs Collection

The Photographs Collection consists of more than 250,000 original photographic images of which at least 130,000 are original negatives. They date from the 1840s to the present day. The collection is divided into two parts; photographic portraits that are subsumed into the Gallery's Primary Collection of portraits, and the remainder which form the Photographs Collection.

More information about the Gallery's collections is available at (www.npg.org.uk/collections.php).

Capitalisation of the Collections

The capitalised heritage assets reflect a small proportion of the Gallery's collections: only 4% of the Primary Collection and under 1% of the Reference and Photographs Collections. The Gallery has calculated that it would not be cost effective – in terms of expense and staff time - to capitalise all of its collections acquired before 2001 (for the Primary and Photographs Collections) and 2005 (in the case of the Reference Collection). The findings from the Gallery's review into the cost of capitalising all of its collections can be viewed at www.npg.org.uk/about/corporate/gallery-policies.php.

Acquisitions and disposals

Acquisitions for the Primary Collection are subject to the approval of the Board of Trustees which meets four times a year. The Gallery's formal collecting policy is set out in the Acquisition and Disposal policy, which can be viewed on the Gallery's website, at www.npg.org.uk/about/corporate/gallery-policies/acquisition-and-disposal-policy.php.

Conservation

The National Portrait Gallery's conservation staff perform one of the Gallery's core functions, the long-term preservation of all Collection items, to make them accessible now and in future. The majority of conservation work at the Gallery is undertaken in the Frame Conservation and General Conservation studios.

Conservators have a variety of responsibilities, including: remedial work, such as cleaning, consolidating, infilling and retouching; preservation work, to ensure works are stable and suitable for display in the Gallery or on loan; providing advice and guidance to ensure all Collection items are correctly handled, packed, moved and displayed; and regularly surveying Collections in the Gallery and in storage.

Collections Management

The Primary, Photograph and Reference Collections are recorded on the Gallery database, Multi Mimsy, and this database serves as the register of the Collection. It is used to provide information on portraits in the Collection on the Gallery website.

The condition and storage of acquisitions for the Collection are considered at the point of acquisition. Items in the various collections are kept in environmentally controlled conditions. The condition and the management of the collections are then subject to review on a portrait-by-portrait basis as and when portraits are used for exhibition or other use at the Gallery or elsewhere. The condition and the management of the collection is also subject to review in other ways, firstly across a whole group of objects in a particular medium as and when opportunity or the need arises for a wider survey, secondly at a particular location as a matter of regular review and, thirdly as a matter of day-to-day review by staff working with the collections on display and in store. The Collection is subject to periodic random audit to make sure that portraits are located as recorded on the database. There is close and frequent liaison between collection managers, curators and conservators, and also with security staff as necessary.

8. AVAILABLE FOR SALE FINANCIAL ASSETS - INVESTMENTS

Fixed asset investments

| | Restricted Funds | Unrestricted Funds | | 2013 £000 | 2012 £000 |
|--|---------------------------------|---------------------------------|------------------------|--------------|--------------|
| | Partners Capital TMP £000 | BlackRock (Charinco) £000 | CCLA (COIF) £000 | | |
| Market value at 1 April 2012 | 2,678 | 18 | 19 | 2,715 | 2,136 |
| Additions | - | - | - | - | 550 |
| Disposals | - | (18) | (19) | (37) | - |
| Net gain on revaluation | 390 | - | - | 390 | 29 |
| Market value at 31 March 2013 | 3,068 | - | - | 3,068 | 2,715 |
| Historical cost at 31 March 2013 | 2,550 | - | - | 2,550 | 2,567 |
| Unrealised Investment Gains at 31 March 2013 | 518 | - | - | 518 | 148 |

All investments relate to the Gallery only. These investments are being held for the purposes of producing a long term return and are not intended to be spent within the next 12 months. Funds held by Partners Capital LLP are invested in The Master Portfolio (TMP), which is a collective investment scheme, created by Partners Capital, that invests across a range of asset classes and securities (which may include investments in other collective investment schemes). The investments in The Master Portfolio are held within the Portrait Fund portfolio. The investments held in the common investment funds held with BlackRock and CCLA were redeemed during the period. The proceeds were re-invested in the Investment and Contingency Fund portfolio. The funds are analysed as follows:

| | 2013 £000 | 2012 £000 |
|----------------------------------|--------------|--------------|
| Investment assets in the UK | - | 37 |
| Investment assets outside the UK | 3,068 | 2,678 |
| | 3,068 | 2,715 |

Current asset investments

| | Partners Capital | | 2013 £000 | 2012 £000 |
|--|---|---|--------------|--------------|
| | Restricted Funds Portrait Fund £000 | Unrestricted Funds Investment & Contingency Fund £000 | | |
| Market value at 1 April 2012 | 3,327 | 3,225 | 6,552 | 5,622 |
| Add: Acquisitions at cost | 197 | 37 | 234 | 1,076 |
| Less: disposal proceeds | (250) | - | (250) | (550) |
| Investment management charges deducted | (7) | (10) | (17) | (22) |
| Gain/(loss) on revaluation | 172 | 265 | 437 | 426 |
| Market value at 31 March 2013 | 3,439 | 3,517 | 6,956 | 6,552 |
| Historical cost at 31 March 2013 | 3,082 | 3,037 | 6,119 | 6,082 |
| Unrealised Investment Gains at 31 March 2013 | 357 | 480 | 837 | 470 |

These investments are being held for the purposes of producing a return, but the Gallery considers that they should remain highly liquid and available to spend within the next 12 months.

The investment management charges in the SOFA are charged on an accruals basis. The investment management charges are deducted from the funds one quarter in arrears.

All investments are held outside the UK.

9. FINANCIAL RISK MANAGEMENT

FRS29 *Financial Instruments: Disclosures* requires entities to provide disclosures which allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments during the period.

The majority of financial instruments relate to contracts to buy non-financial items in line with the Gallery's expected purchase and usage requirements and in the case of these contracts the Gallery is exposed to little credit, liquidity or market risk. In the past year the Gallery has invested a proportion of its reserves in the world financial markets. Overall this will expose the Gallery to more foreign exchange risk, although its exposure to interest rate risk and liquidity risk will not have increased materially as a result of this investment.

Liquidity risk

Approximately 42% of the Gallery's income (excluding income for buildings and net of trading and fundraising costs) is provided as Grant-in-Aid from the Department for Culture, Media and Sport. The remaining proportion is therefore generated via self-generated income, which is volatile. The risk is managed by the reserves policy for general funds which ensures that an amount at least equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds. As the cash requirements of the Charity are met largely through Grant-in-Aid received from the Department for Culture, Media and Sport, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

The Gallery has sufficient unrestricted funds to cover its current liabilities.

Credit risk

The Gallery group is exposed to credit risk of £893,000 of trade debtors – however this risk is not considered significant as major customers are familiar to the Gallery. The Gallery has recovered 99.9% of trade debtors over the last three years. Bad and doubtful debts are provided for on an individual basis. Write offs in the year for bad debts amounted to £10,000, (nil in 2011/12).

Cash is held by the Gallery's bankers. The Gallery has not suffered any loss in relation to cash held by bankers.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 75% of the Gallery's financial assets represents cash and investments held for these short term requirements. Of these, 31% earn interest at a floating rate and 69% carry fixed rates of interest. The fixed rate investments consist of investments in UK inflation linked gilts and overseas government gilts, and corporate and inflation linked bonds. About 24% of the Gallery's financial assets are held in collective investment schemes with assets allocated across a diverse range of asset classes and securities. However, the Gallery has taken a conservative approach to the amount of investment income it can expect from its investments to fund its operations and is therefore not exposed to significant interest rate risk. Asset allocations across all investment portfolios are reviewed regularly and can be adjusted at short notice in response to significant changes in market conditions. Furthermore, the Gallery's budgets are reviewed and updated regularly to take account of fluctuations in interest rates to ensure that operations are not jeopardised in the event of a significant fall in investment income.

Interest rate profile

The following table shows the interest rate profile of the Group financial assets.

| | Floating rate | Fixed rate | Non-interest bearing | Assets earning equity return | Total | Weighted average interest rate | Weighted average period for which rate is fixed |
|------------------|---------------|--------------|----------------------|------------------------------|---------------|--------------------------------|---|
| | £000 | £000 | £000 | £000 | £000 | % | |
| At 31 March 2013 | | | | | | | |
| Sterling | 2,927 | 6,475 | 51 | 3,068 | 12,521 | 2.77 | 4.71 years |
| Other | - | - | - | - | - | | |
| | 2,927 | 6,475 | 51 | 3,068 | 12,521 | | |
| At 31 March 2012 | | | | | | | |
| Sterling | 3,707 | 6,054 | 80 | 2,678 | 12,519 | 3.59 | 5.22 years |
| Other | - | - | - | - | - | | |
| | 3,707 | 6,054 | 80 | 2,678 | 12,519 | | |

The book value equals the fair value for all assets held.

9. FINANCIAL RISK MANAGEMENT (continued)

Reconciled to the Balance Sheet

| | 2013 £000 | 2012 £000 |
|---------------------------|---------------|---------------|
| Fixed Asset Investments | 3,068 | 2,715 |
| Current Asset Investments | 6,956 | 6,552 |
| Cash at Bank | 2,497 | 3,252 |
| Total | 12,521 | 12,519 |

Foreign currency risk

As the Gallery's policy is to convert foreign currency into sterling on receipt, the Gallery's exposure to foreign currency risk is not significant.

Where practicable, investments will be made in Sterling denominated securities or in collective investment funds that have a Sterling hedged share class to minimize exposure to non-Sterling currencies. However, the investment portfolios include investments in overseas assets so some non-Sterling currency exposure may remain, particularly where exposure is to emerging market currencies where the cost of currency hedging may be prohibitive. The residual exposure to non-Sterling currencies means that the investment portfolio will benefit proportionately from any appreciation in non-Sterling currencies against Sterling and be negatively affected by depreciation against Sterling. Overall, it is expected that the exposure to any single non-Sterling currency will not be significant.

If all of the emerging market currencies depreciated against sterling by 10%, the overall impact on the portfolio of investments would be a fall in value of around £28,000. A similar appreciation of emerging market currencies against sterling would result in an appreciation in the value of the portfolio by a similar amount.

10. DEBTORS AND PREPAYMENTS

| | GROUP | | GALLERY | |
|--|---------------------|-------------------|---------------------|---------------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| a) Debtors falling due within one year | | | | |
| Trade debtors | 893 | 457 | 786 | 283 |
| Less provision for bad debts | (13) | (4) | - | - |
| | <u>880</u> | <u>453</u> | <u>786</u> | <u>283</u> |
| Other debtors | 196 | 223 | 171 | 194 |
| Prepayments | 55 | 63 | 55 | 62 |
| Accrued income | 178 | 230 | 132 | 166 |
| Amounts due from the Company | - | - | 870 | 988 |
| | <u><u>1,309</u></u> | <u><u>969</u></u> | <u><u>2,014</u></u> | <u><u>1,693</u></u> |

Debtors are financial assets with fixed or determinable payments that are not quoted in an active market. The Gallery has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value, these assets are carried at amortised cost, less impairment, using the effective interest method.

Of the amount due from the Company, £686,191 relates to the distribution under Gift Aid of profits from the Company, and the remaining balance represents the intergroup balance as at 31st March 2013.

| | GROUP | |
|---|---------------------|-------------------|
| | 2013 £000 | 2012 £000 |
| b) Intra-Government Balances | | |
| Balances with Central Government Bodies | 97 | 142 |
| Balances with Local Authorities | 70 | 8 |
| Balances with Public Corporations and Trading Funds | - | - |
| Balances with NHS Bodies | - | - |
| Sub-total Intra-Government Balances | <u>167</u> | <u>150</u> |
| Balances with Bodies external to Government | <u>1,142</u> | <u>819</u> |
| | <u><u>1,309</u></u> | <u><u>969</u></u> |

This note provides an analysis of the amounts owed to the Group by different groups of public sector bodies and bodies external to government.

11. STOCK

| | GROUP | | GALLERY | |
|------------------|--------------|--------------|--------------|--------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| Goods for resale | 378 | 307 | 223 | 121 |
| Work in progress | 30 | 3 | 30 | 3 |
| | <u>408</u> | <u>310</u> | <u>253</u> | <u>124</u> |

12. CURRENT LIABILITIES

a) Creditors falling due within one year

| | GROUP | | GALLERY | |
|---|--------------|--------------|--------------|--------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| Trade creditors | 132 | 376 | 130 | 367 |
| Other creditors | 141 | 129 | 141 | 129 |
| Taxation and social security | 172 | 181 | 172 | 181 |
| Accrued expenses | 879 | 815 | 851 | 753 |
| Deferred income | 847 | 763 | 786 | 763 |
| VAT payable | 109 | 168 | 109 | 168 |
| Provision for liabilities and charges | - | 10 | - | 10 |
| | 2,280 | 2,442 | 2,189 | 2,371 |
| of which creditors for capital expenditure: | 10 | 24 | 10 | 24 |

b) Creditors falling due after one year

| | GROUP | | GALLERY | |
|------------------------|--------------|--------------|--------------|--------------|
| | 2013 £000 | 2012 £000 | 2013 £000 | 2012 £000 |
| Energy efficiency loan | 8 | 23 | 8 | 23 |
| | 8 | 23 | 8 | 23 |

The loan is from Salix Finance Ltd from their energy efficiency funding programme to fund energy saving schemes in the public sector. The loan, which was provided in 2010, was for £60,141, is interest free and is repayable over 4 years, to fund the purchase and installation of a Voltage Power Optimisation Unit to help reduce the Gallery's electricity consumption.

c) Intra-Government Balances

Intra-Government Balances falling due within one year

| | GROUP | |
|---|--------------|--------------|
| | 2013 £000 | 2012 £000 |
| Balances with Central Government Bodies | 615 | 564 |
| Balances with Local Authorities | - | - |
| Balances with Public Corporations and Trading Funds | - | - |
| Balances with NHS Bodies | - | - |
| Sub-total Intra-Government Balances | 615 | 564 |
| Balances with Bodies external to Government | 1,665 | 1,878 |
| | 2,280 | 2,442 |

Intra-Government Balances falling due after one year total £7,517 for both the Group and the Gallery and relate to the loan from Salix Finance Ltd.

This note provides an analysis of the amounts owed by the Group to different groups of public sector bodies and bodies external to government.

d) Movement on deferred income

| | GROUP | | | | | | | | Total |
|---|-------------|---|-------------------|--------------------------|-------------------|-----------|-----------------|----------------|------------|
| | Sponsorship | Theatre Hire, Conferences & Group Tours | Conservation Fees | Exhibition Income & Fees | Registration Fees | Donations | Membership Fees | Event Deposits | |
| Balance as at 1 April | 215 | 4 | 9 | 182 | 65 | 88 | 200 | - | 763 |
| Amounts released from previous years | (215) | (4) | (9) | (182) | (65) | (88) | (200) | - | (763) |
| Incoming resources deferred in the current year | 400 | 2 | 2 | 19 | 64 | 90 | 209 | 61 | 847 |
| Balance as at 31 March | 400 | 2 | 2 | 19 | 64 | 90 | 209 | 61 | 847 |

The disclosure includes the deferred income related to the Group.

13. STATEMENT OF FUNDS

| | Note | Balance at 1 April 2012 | Income | Expenses | Net gains/losses | Transfers | Balance at 31 March 2013 |
|---|------|----------------------------|---------------|-----------------|---------------------|--------------|-----------------------------|
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| Unrestricted funds | 14 | | | | | | |
| Designated funds: | | | | | | | |
| Fixed Asset Fund | | 8,474 | 312 | (1,309) | - | - | 7,477 |
| Fixed Asset Revaluation Fund | | 179 | - | - | 113 | - | 292 |
| Investment and Contingency Fund | | 3,542 | - | - | - | 329 | 3,871 |
| Portrait Fund | | 77 | - | - | - | - | 77 |
| Deferred Projects Fund | | 403 | - | (388) | - | 356 | 371 |
| Total designated funds | | 12,675 | 312 | (1,697) | 113 | 685 | 12,088 |
| General Funds (Working Capital) | 14 | 250 | 14,899 | (14,275) | 265 | (889) | 250 |
| Total unrestricted funds | | 12,925 | 15,211 | (15,972) | 378 | (204) | 12,338 |
| Restricted funds | 15 | | | | | | |
| Fixed Asset Fund | | 26,398 | - | (859) | - | - | 25,539 |
| Fixed Asset Revaluation Fund | | 15,248 | - | - | 341 | - | 15,589 |
| Capitalised Collection Fund | | 11,973 | 506 | - | - | 737 | 13,216 |
| | | 53,619 | 506 | (859) | 341 | 737 | 54,344 |
| Portrait Fund | | 6,125 | - | (14) | 562 | (250) | 6,423 |
| Heritage Lottery Fund/Department for Culture, Media & Sport Catalyst: Endowment | | - | 212 | - | - | - | 212 |
| Grants and Donations Fund | | 931 | 1,459 | (1,367) | - | (283) | 740 |
| Dame Helen Gardner Bequest Fund | | 5 | 1 | - | - | - | 6 |
| | | 7,061 | 1,672 | (1,381) | 562 | (533) | 7,381 |
| Total restricted funds | | 60,680 | 2,178 | (2,240) | 903 | 204 | 61,725 |
| Total Funds | | 73,605 | 17,389 | (18,212) | 1,281 | - | 74,063 |

The Heritage Lottery Fund/Department for Culture, Media & Sport Catalyst: Endowment is a match funding scheme offered to cultural organisations to assist them in building endowments from which they can earn interest. The scheme began in 2012/13. Further details are provided in Note 15.

| Fair Value Reserve (Investments) | As at 1 April 2012 | Unrealised gains/losses under fair value | Realised gains/losses under fair value | As at 31 March 2013 | Reserve/Fund excl fair value as at 31 March 2013 | Reserve/Fund incl fair value as at 31 March 2013 |
|----------------------------------|-----------------------|---|--|------------------------|---|---|
| | Unrestricted | | | | | |
| General Fund | 245 | 255 | - | 500 | (250) | 250 |
| Restricted | | | | | | |
| Portrait Fund | 373 | 555 | - | 928 | 5,495 | 6,423 |

14. DESIGNATED FUNDS

FIXED ASSET FUND

This fund represents the net book value of all the Gallery's furniture and equipment, (mainly IT equipment), and plant and machinery.

FIXED ASSET REVALUATION RESERVE

This fund represents the indexation and revaluation increases on the plant and machinery assets held in the Unrestricted Fixed Asset Fund.

INVESTMENT AND CONTINGENCY FUND

This fund represents a designation of surpluses to be invested in projects in accordance with the reserves policy. Transfers represent the year-end surplus transferred to this fund.

PORTRAIT FUND

This fund represented income designated for the development of the Collection (acquisitions and related costs such as conservation and displays, including unrestricted legacies and interest earned).

DEFERRED PROJECTS FUND

This fund represents underspends generated this year which are to be employed in projects next year. The projects include an access control system, structural minor works, future exhibitions planning, funding relating to projects supported by the Lerner Gift, and publications projects outstanding from 2012/13. The Fund also includes funding earmarked for future acquisitions. Transfers represent the underspends identified in this year set aside for projects to be undertaken in future years.

GENERAL FUND

General funds need to be sufficient to enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £250,000 in the General Reserve equates in total to at least three-quarters of the average stock levels in the accounts.

15. RESTRICTED FUNDS

FIXED ASSET FUND

This fund represents the net book value of the Gallery's restricted tangible assets. These assets consist of the main Gallery building - including the Ondaatje extension and the Duveen Wing - the Orange Street complex and the leased East Wing.

FIXED ASSET REVALUATION RESERVE

This fund represents the indexation and revaluation increases on the Land and buildings assets held in the Restricted Fixed Asset Fund.

CAPITALISED COLLECTION FUND

This fund represents the value of Heritage Assets funded by restricted donations and Grant-in-Aid allocated to capitalised acquisitions for Collections. (For an explanation of the transfers, see Grants and Donations Fund below).

PORTRAIT FUND

This fund represents restricted funds received specifically for the Portrait Fund for the development of the Collection (acquisitions and related costs such as conservation and displays).

HERITAGE LOTTERY FUND/DEPARTMENT FOR CULTURE, MEDIA AND SPORT CATALYST: ENDOWMENT FUND

The Heritage Lottery Fund/Department for Culture, Media & Sport Catalyst: Endowment is a match funding scheme offered to cultural organisations to assist them in building endowments from which they can earn interest. The terms of the Catalyst: Endowment require the Gallery to raise £1 million by June 2016. During this period the scheme will match this fund raising £1:£1. To date the Gallery has raised over £100,000 towards the £1 million target and has been able to draw down its first tranche of match funding. The figure for income includes both the amount the Gallery has raised to date and the match funding drawn down from the scheme. The funds raised through the scheme will be used to support the Portrait Fund.

GRANTS AND DONATIONS FUND

This fund represents grants and donations given for a specified purpose. Transfers on this occasion represent heritage assets purchased with restricted income transferred to the Capitalised Collection Fund.

DAME HELEN GARDNER BEQUEST

This fund represents royalties received under Dame Helen Gardner's bequest, restricted to purchasing literary or early 17th Century portraits.

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2013 are represented by:

| | Unrestricted | | Restricted £000 | Total £000 |
|-------------------------|--------------------|-----------------|--------------------|----------------|
| | Designated £000 | General £000 | | |
| Fixed Assets | 7,769 | - | 41,128 | 48,897 |
| Heritage Assets | - | - | 13,216 | 13,216 |
| Investments | - | - | 3,068 | 3,068 |
| Current Assets | 4,319 | 2,538 | 4,313 | 11,170 |
| Current Liabilities | - | (2,280) | - | (2,280) |
| Long term Liabilities | - | (8) | - | (8) |
| Total Net Assets | 12,088 | 250 | 61,725 | 74,063 |

17. FINANCIAL COMMITMENTS

As at 31 March 2013 the Gallery had annual commitments under non-cancellable operating leases and other arrangements as follows:

| Arrangements which expire: | 2013 | | 2012 | |
|----------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|
| | Land and buildings £000 | Other Operating Leases £000 | Land and buildings £000 | Other Operating Leases £000 |
| Less than one year | - | - | - | 1 |
| One to five years | 133 | 9 | 129 | 10 |
| Greater than five years | 13 | - | - | - |

18. CAPITAL COMMITMENTS

| | 2013 £000 | 2012 £000 |
|---|--------------|--------------|
| Capital expenditure contracted for but not provided in the accounts | - | 13 |
| Capital expenditure authorised but not contracted for | 754 | 541 |

Capital expenditure authorised but not contracted for relates to the planned purchase of a portrait, software enhancements and planned works to the Gallery.

19. CASH FLOW INFORMATION

a) Reconciliation of changes in resources to net cash (outflow)/ inflow from operating activities

| | 2013 | 2012 |
|---|-------------------|---------------------|
| | £000 | £000 |
| Net incoming/(outgoing) resources before revaluations | (823) | (539) |
| less: Investment income | (33) | (28) |
| Donated acquisitions | (264) | (173) |
| Loss on disposal of fixed assets | - | 26 |
| Depreciation | 2,168 | 2,225 |
| (Increase) / Decrease in debtors | (340) | (389) |
| (Decrease) / Increase in creditors | (247) | 269 |
| Increase / (Decrease) in deferred income | 84 | 330 |
| (Increase)/ Decrease in stock | (98) | (69) |
| Net cash flow from operating activities | <u>447</u> | <u>1,652</u> |

b) Analysis of Cash Flows

Capital expenditure and financial investment

| | | |
|---|-----------------------|-----------------------|
| Payments to acquire tangible fixed assets | <u>(1,305)</u> | <u>(1,031)</u> |
|---|-----------------------|-----------------------|

Management of liquid resources

| | | |
|-------------------------------|------------------|-----------------------|
| Purchase of investments | (234) | (1,076) |
| Disposals of investments | 287 | - |
| Investment management charges | 17 | 22 |
| | <u>70</u> | <u>(1,054)</u> |

Return on investments and servicing of finance

| | | |
|----------------------|------------------|------------------|
| Interest received | 32 | 26 |
| Investment dividends | 1 | 2 |
| | <u>33</u> | <u>28</u> |

c) Reconciliation of net cash flow to movement in net funds

| | | |
|---|---------------------|-----------------------|
| (Decrease)/Increase in cash in period | (825) | 649 |
| Cash flow from change in liquid resources | <u>70</u> | <u>(1,054)</u> |
| Movement in net funds in the period | (755) | (405) |
| Net funds at 1 April | <u>3,252</u> | <u>3,657</u> |
| Net funds at 31 March | <u>2,497</u> | <u>3,252</u> |

d) Analysis of net funds

| | 1 April 2012 | Cash flow | 31 March |
|--------------------------|---------------------|---------------------|---------------------|
| | £000 | £000 | 2013 £000 |
| Cash at bank and in hand | 3,252 | (755) | 2,497 |
| Net funds | <u>3,252</u> | <u>(755)</u> | <u>2,497</u> |

**20. TRADING SUBSIDIARY
NATIONAL PORTRAIT GALLERY COMPANY LIMITED**

The National Portrait Gallery owns the whole of the issued share capital of 1 issued share of £1 nominal value of the National Portrait Gallery Company Limited, a company registered in England and Wales. The Company's principle activities are Retail, Gallery Hire and running the Gallery catering franchise.

A summary of the results of the subsidiary is shown below:

| | 2013 | 2012 |
|--|--------------------------|-------------------|
| | £000 | £000 |
| <u>Profit and loss account</u> | | |
| Turnover | 2,763 | 2,722 |
| Cost of sales | (1,041) | (1,014) |
| Gross Profit | <u>1,722</u> | <u>1,708</u> |
| Administrative expenses | (1,040) | (943) |
| Trading Profit | <u>682</u> | <u>765</u> |
| Interest receivable | 4 | 1 |
| Loan interest payable | - | - |
| Profit on Ordinary Activities Before Taxation | <u>686</u> | <u>766</u> |
| Taxation | - | - |
| Profit on Ordinary Activities After Taxation | <u><u>686</u></u> | <u><u>766</u></u> |
| <u>Balance sheet</u> | | |
| Tangible fixed assets | - | - |
| Current assets | 961 | 1057 |
| Creditors | (275) | (291) |
| Payment under Gift Aid to Gallery | (686) | (766) |
| Net assets | <u>-</u> | <u>-</u> |
| Share capital and reserves | <u><u>-</u></u> | <u><u>-</u></u> |

Reconciliation of results of the Company to the Consolidated Statement of Financial Activities.

| | 2013 | 2012 |
|---|---------------------|--------------|
| | £000 | £000 |
| Turnover | 2,763 | 2,722 |
| Intra group transactions | - | - |
| Trading income included within SOFA | <u>2,763</u> | <u>2,722</u> |
| Cost of sales | (1,041) | (1,014) |
| Administrative expenses | (1,040) | (943) |
| Taxation | - | - |
| Intragroup transactions | 1,522 | 1,441 |
| Trading costs included within SOFA | <u>(559)</u> | <u>(516)</u> |
| Interest receivable | 4 | 1 |
| Included in investment income per SOFA | <u>4</u> | <u>1</u> |

21. CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 March 2013.

22. POST BALANCE SHEET EVENTS

Dr Andrew Roberts was appointed to the Board of Trustees as of 1 June 2013.

23. RELATED PARTY TRANSACTIONS

The National Portrait Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various transactions (greater than £500) with the Department and with other entities for which the Department is regarded as the parent Department as follows: British Broadcasting Corporation (BBC), British Library, British Museum, Channel Four Television Corporation, Historic Royal Palaces, National Gallery, Tate Gallery, Imperial War Museum and the Victoria & Albert Museum. The Gallery has a ten year licence agreed with Tate for the provision of storage for the Gallery's collections.

Other Related Party Transactions

Organisations in which Trustees or key members of management (or their connected persons) have an interest are also regarded as related parties. During the year, the Gallery entered into the following transactions, under normal business terms, with the following organisations in which either a Trustee or a member of management was regarded as having an interest:

| <u>Trustee</u> | <u>Related party</u> | <u>Position held at related party</u> | <u>Transaction and balance details</u> |
|---------------------|---------------------------------|---------------------------------------|---|
| Dr Brian Allen | Hazlitt Gooden Fox | Chairman of Hazlitt Group | £10,200 of sales for Corporate Membership. £720 of purchases for reproduction fees. Nil balance at year end. |
| Kim Evans | National Heritage Memorial Fund | Trustee | £100,000 received from NHMF for the purchase of a heritage asset. |
| Christopher Le Brun | Royal Academy of Arts | Trustee | £1,142 of sales for NPG publications. £53 balance at year end. Purchases of £471 for advertising and event hire. Nil balance at year end. |

Independent Members (Audit & Compliance Committee)

| | | | |
|-------------------|--------------------------|--|---|
| Jacqueline Riding | National Maritime Museum | Close family member is Head of Arts at NMM | £126 of purchases for reproduction fees. Nil balance at year end. |
|-------------------|--------------------------|--|---|

Independent Members (Investment Committee)

| | | | |
|----------------|--------------------|---------|--|
| Anthony Brooke | The Portrait Trust | Trustee | The Gallery provided a grant of £380,000 to the Trust in the year. |
|----------------|--------------------|---------|--|

Gallery Management

| | | | |
|---------------------|---|--|--|
| Sandy Nairne CBE | Courtauld Institute of Art | Close family member employed at the Courtauld | £538 of purchases for art transport, royalty and conference fees. Nil balance at year end. |
| Peter Funnell | British Academy | Member of Pictures Portraits and Decorations Committee | £38 refund relating to venue hire. Nil balance at year end. |
| Pim Baxter | Association of Leading Visitor Attractions (ALVA) | Director | £7,778 of purchases for benchmarking and research fees, and annual ALVA membership fee. |
| Sarah Moir | Rocket Food Company | Close family member is director of company | £35,471 of purchases for events catering. Nil balance at year end. |

Trustees: Sir William Proby donated £1,250 to the Gallery and Allegra Berman made a donation of £150. Marina Warner received a fee of £1,200 for providing a contribution to the *Man Ray Portraits* catalogue. Lord Janvrin and Allegra Berman are both employees of HSBC and HSBC Private Bank (Luxembourg) is the custodian bank for the Gallery's and Portrait Fund's reserves under management with Partners Capital LLP. Professor Sir David Cannadine as a retirement gift was given a pencil portrait of himself by artist Sheldon Hutchinson, valued at £400, in recognition of his services to the Gallery as Chairman of the Boards of Trustees.

Independent Members: Jeremy Sillem - an independent member of the Investment Committee - is a shareholder with Partners Capital LLP. Partners Capital LLP are the Gallery's investment advisors with £10 million of the Gallery's reserves under management.

Staff: Terence Pepper (the Gallery's Head of Photographic Collection) donated 260 photographs with an aggregated value of £7,144 to the Gallery's photographic collection.



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-Call: 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Houses of Parliament Shop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders: 020 7219 3890/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: shop@parliament.uk

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other accredited agents

ISBN 978-0-10-298246-6



9 780102 982466