

The National Gallery Annual Report and Accounts for the year ended 31 March 2018

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

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Objectives and activities

The National Gallery exists so that people can engage with great art.

It is a public museum with a uniquely important collection of pictures for the benefit of all. It tells a coherent story of European painting spanning seven centuries and reflects how artists and the societies in which they lived have responded to myth and religion, history and contemporary events, landscape and the human form, and to the tradition of art itself. The National Gallery constitutes a living legacy of humanity's highest cultural achievements in painting and is an inestimable resource for understanding the world as we have inherited it.

Established in 1824, the National Gallery is a national responsibility ultimately underwritten by Parliament. A quarter of a century ago the Gallery's statutory responsibilities were set out: to care for and add to the collection, to display it for the public, to advance scholarship and research, and to promote enjoyment and understanding. The Trustees have had regard to the Charity Commission guidance on public benefit and the activities described in this report further the Gallery's purposes to this end.

Millions of people now visit the National Gallery every year and we reach many more online. We are committed to the idea of the National Gallery as a place of learning and enjoyment and we aim to realise the Gallery's potential as a source of inspiration for this and future generations.

The National Gallery has an important role to play in enabling people to understand and negotiate the changes that society is undergoing by providing long-term historical perspective, mediated access to works of art of great significance and beauty, and a safe environment for reflection on questions of identity, beliefs, and on the relationship between the past and the present.

In order to achieve these ambitions, the Gallery was working towards the following strategic objectives during 2017-18:

- to care for and enhance the Collection for the public;
- to be accessible to all;
- to inspire research, learning and engagement;
- to invest in our staff;
- to maintain and develop our buildings; and
- to increase our income.

Taking the changing world our audience lives in as its context, and as we approach the National Gallery's bicentenary in 2024, in March 2018 the Gallery published its new Strategic Plan, which sets out our vision for the future. This is discussed further later on in the Annual Report, where we set out our future plans. The Strategic Plan is rooted in the Gallery's traditions and strengths, but responds to both the new opportunities and new challenges we face.

The outcome of our Strategic Plan will be a stronger, more resilient museum, well prepared to fulfil our large ambitions for the decades ahead.

Review of achievements and performance in 2017-18

Care for and enhance the Collection for the public¹

Acquire pre-eminent paintings and develop new areas of the Collection

In 2017-18, the Gallery made seven significant acquisitions to enhance the collection for the public.

In the summer we acquired *The Fortress of Königstein from the North* by Bernardo Bellotto, which was due to be exported from Britain. This is the first major painting by Bellotto in the National Gallery, and the collection's first Central European landscape.

¹ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) and (b) that the Board shall "care for, preserve and add to the works of art and documents in their collection" and "secure that the works of art are exhibited to the public".

Still life of lemons, lilies, carnations, roses and a lemon blossom in a wicker basket, together with a goldfinch perched on a blue-and-white porcelain bowl of water, on top of a silver tray, all arranged upon a stone ledge is the first painting by Juan de Zurbarán to enter a British collection. This painting was acquired in October 2017 and, following the completion of conservation treatment, went on display in April 2018.

In December 2017, the National Gallery announced the acquisition of four exceptional Dutch and Flemish paintings, generous bequests to the collection from Willem Baron van Dedem (1929-2015): *Christ crowned with Thorns* by David Teniers the Younger, *Butterflies, Moths and Insects with Sprays of Common Hawthorn and Forget-Me-Not* and *Butterflies and Moths and Insects with Sprays of Creeping Thistle and Borage* both by Jan van Kessel the Elder, along with *Still Life with a Bowl of Strawberries, a Spray of Gooseberries, Asparagus and a Plum* by Adriaen Coorte.

John Singer Sargent's *Wineglasses*, which had been on loan to the National Gallery since 2016, was permanently allocated by HM Government to the National Gallery in March 2018 as an acceptance in lieu of inheritance tax.

Develop relationships with museums and private collectors with a view to expanding the displays with significant long-term loans and rethink the permanent collection display in relation to new developments in the collection

Several major redisplay of the permanent collection were inaugurated in 2017-18 including the Wohl Galleries, dedicated to the post-1800 collection, and the North Galleries, devoted to Dutch and Flemish Painting.

The opening of the Wohl Galleries in the summer of 2017 gave the ideal opportunity for a number of new long-term loans to be included in the collection displays.

These include Menzel's *Blind Man's Bluff*, Russell's *Les Terrasses de Montecassino* (previously seen in *Australia's Impressionists*), Matisse's *The Forest at Fontainebleau* and Derain's *Madame Matisse in a Kimono*.

St Dominic, by the important Florentine 14th century painter Bernardo Daddi, has been lent by a private collector, to the displays in the Sainsbury Wing. Daddi is the most significant of the Florentine painters of the generation following Giotto, and this loan complements the only work by this artist in the collection, *The Coronation of the Virgin*.

Jan van Eyck's *St Barbara* recently shown in the *Monochrome* exhibition, will remain on loan at the National Gallery until 2020. This generous loan from the Royal Museum of Fine Arts Antwerp (KMSKA), while it is closed for refurbishment, is an important work by one of the most significant painters of 15th century Europe.

The curators have been working on plans to rethink the permanent collection displays throughout the collection as a whole. These will be developed further in 2018, with the refurbishment of the Sainsbury Wing and Room 32 (the largest room in the National Gallery). A new interpretation strategy is being developed by the curators and a cross-directorate Working Group.

Protect the Collection and maintain the highest standards of collection care and management

Supporting conservation through examination of the materials and structure of paintings is a core activity of the scientific department. Most of the conservation treatments undertaken each year will involve at least some scientific analysis to provide firm evidence of later repaint or of the identity of varnishes and other accretions.

One example this year has been the conservation of Bartolomé Bermejo's *Saint Michael Triumphs over the Devil*, painted in Spain in the 15th century. Analysis of paint samples and non-invasive chemical imaging using the Gallery's macro X-ray fluorescence scanner, purchased last year, were used to confirm the presence of 19th century pigments in the retouchings. At the same time it was discovered that the rather flat and plain clasp on Saint Michael's chest originally had an intricate pattern that is no longer visible due to deterioration of the yellow arsenic sulphide pigment orpiment. The concurrent investigation of Bermejo's working practices also gave insight into his highly skilled oil painting technique, which he may have learned from Netherlandish artists that were working in Spain.

The completion of the long and challenging restoration of Giovanni Bellini's *The Assassination of Saint Peter Martyr* and the forthcoming exhibition *Mantegna and Bellini* opening in Autumn 2018 provided the occasion for a detailed technical study of the National Gallery's remarkable holding of paintings by Giovanni Bellini. A programme of technical study by a team of conservators and scientists has been conducted this year on all of these works. The results will be published later this year in a special issue of the National Gallery Technical Bulletin. This will trace Bellini's technique over his long career, which coincided with the important technical transition in Italy from egg tempera as a paint binding medium to drying oils, the latter being already adopted by Bellini in his works from as early as the 1470s.

Accessible to all²

Maintain and promote free access to the Collection

We remain free for everyone to visit and enjoy one of the world's greatest collections, masterpiece by masterpiece. 5,050,020 people visited the Gallery in London in the past year with more than 8.3 million visits to our digital channels.

To help us understand and diversify our audience we produced an audience framework, designed to develop in line with the changing behaviours of audience, both physical and digital. Underpinned by over seven years' of data and overlaid with bespoke research, the framework helps us better understand how to reach and engage broad audiences, informing activity and programme development.

Realise an ambitious new digital strategy

This year saw some ground breaking activity and innovation in our digital development.

On 14 August 2017, in a world-first Facebook Live relay, the National Gallery brought together five of Vincent van Gogh's Sunflower paintings from around the globe, called #Sunflowers Live.

Led by the National Gallery, this unique collaboration made the impossible possible, using digital technology and Gallery expertise to bring the paintings together in a way the artist could never have imagined, and would not be possible outside of the digital space.

The online event consisted of five 15-minute episodes, presented in a live relay by leading art experts from the National Gallery, the Van Gogh Museum in Amsterdam, the Neue Pinakothek in Munich, the Philadelphia Museum of Art and the Seiji Togo Memorial Sompo Japan Nipponkoa Museum of Art.

To further unite the paintings we worked with Facebook to create a fully immersive digital exhibition, Sunflowers 360, where anyone could access a virtual display of the five paintings and listen to a mesmerising narration by Willem van Gogh, great grandson of Van Gogh's brother Theo. The event attracted a huge audience from around the world and was watched live by 5.7 million people, a record views for Facebook live.

We continue our collaboration with Facebook and together have developed a 3D immersive tour of the Sainsbury Wing Galleries, available on the National Gallery Website.

Working with Google we are testing new ways to tell stories in a contemporary context and engage a broader audience with *The Credit Suisse Exhibition: Monet and Architecture*. This includes the first large-scale interactive digital installation in the Sainsbury Wing foyer and a wealth of online content accessible all over the world from our website and the Google Arts and Culture platform.

Make the visit to the National Gallery excellent at every level

A new wayfinding system has been designed and installed throughout the Gallery to help visitors navigate the space and discover all parts of the collections.

We continue to develop and improve the visitor welcome. This year we worked with our partners to develop an updated set of service standards and values which are now in use across the Gallery delivery team. This project was developed and led by the welcome team, cafes, shops and security staff.

Foster and develop relationships with institutions throughout the UK

Our UK touring exhibitions programme, called *The Masterpiece Tour*, will see three major and much loved National Gallery paintings tour the UK over the next three years. The first tour, Holbein's *A Lady with a Squirrel and a Starling* opened on 12 January 2018 at The New Art Gallery, Walsall. The artist in residence, George Shaw's exhibition, *George Shaw: My Back to Nature* has been shown at:

De La Warr Pavilion, Bexhill-on-Sea (25 March – 18 June 2017)

The Collection, Lincoln (4 November 2017 – 14 January 2018)

Royal Albert Memorial Museum & Art Gallery, Exeter (27 January – 8 April 2018)

Southampton City Art Gallery (4 May – 1 September 2018)

² Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall "secure that the works of art are exhibited to the public" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

As well as encouraging people to engage with great art we seek to promote the understanding, knowledge and appreciation of Old Master paintings throughout the UK and continue to make all our resources – the Collection, exhibitions, staff expertise, educational activities and research resources in the library and archives – available to the public and professionals.

Our Curatorial Traineeship programme nurtures the next generation of curators and addresses the need for object-and collections-based expertise.

After receiving six months' training in the curatorial department at the Gallery, the current trainees, Eleanor Hutchison and Kate O'Donoghue will research and plan re-displays of the collections at Compton Verney (the early Netherlandish and German collection) and at the Walker Art Gallery, Liverpool (the Baroque paintings) respectively.

Inspire research, learning and engagement³

Develop the National Gallery's Research Centre into a powerful generator of research at an international level

To develop our understanding and knowledge of Old Master paintings, our Research Centre provides resources to visitors, digital users and Gallery staff.

Throughout the year we planned and delivered academic programmes consisting of seven seminars, three academic conferences, and two colloquia in conjunction with the exhibitions programme. Our Research Centre continues to accommodate the Gallery's cohort of Collaborative Doctorial Partnership students and assists in the programming of the Gallery's four joint MA courses.

The Subject Specialist Network: European Paintings pre-1900, run by us, is a free network for museum professionals around the UK to facilitate discussion around research, interpretation, display, and learning programmes. This aims to promote more in-depth research and interpretation of paintings in UK collections to encourage public engagement. The current network provides study days, workshops, research bursary and a digital hub for members.

In December the library catalogue was placed online which is a major improvement for researchers wishing to access this material.

This complements the library's presence on WorldCat, a significant international union catalogue. More than half of the library's stock is now searchable in the online catalogue and we continue to add the remaining records. In addition, seventeen early National Gallery catalogues have been digitised and the full-text versions are now available online.

In July 2017 our Research Centre began a pilot project with King's Digital Laboratory at King's College London. Together we will explore how data in the digitised Agnew's stock books relating to the London art trade can be presented and used in innovative ways across a number of research disciplines. Two workshops have been held and the pilot project will conclude in late spring 2018.

The main library of the Research Centre was completely refurbished in 2017-18, including the restoration of the room's parquet floor and repainting of the walls and ceilings.

To provide an Education Programme that covers children, families, schools, lifelong learning, special needs and outreach, and develop new programmes for young adults

In the past year we diversified participation with our schools programme through a variety of outreach projects. One of these is our partnership with City Year UK and Credit Suisse. In 2017 this was shortlisted for the Charity Times Awards Cross-sector Partnership of the Year Award. The programme creates strong relationships with secondary schools currently not participating in the arts.

Family festivals took place throughout 2017, supporting our objective of being accessible to all. Families participated in Chinese New Year and Diwali celebrations through artist-led outreach workshops prior to the festivals and interactive performances, storytelling, dance and opera workshops. Creating partnerships with ChickenShed (an inclusive theatre company) and ZooLab (who specialise in animal handling and lifelong learning) contributed to the success of these festivals.

³ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b), (c) and (d) that the Board shall "secure that the works of art are exhibited to the public", "secure that the works of art and documents are available to persons seeking to inspect them in connection with study and research" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

The Young Producers programme thoroughly embedded young people in the day to day work of the Gallery. Our first cohort made short films for International Women's day and were commissioned by GLA to create short films on the Fourth Plinth Shortlist Exhibition. They worked with the Events team to deliver their first public event for the *Australia's Impressionists* Friday Late. This was followed by workshops for a Renaissance themed late and their own evening take-over event *A Little Controversy*.

Promoting inclusivity and access to the arts, the Young Producers also delivered a project with young people from refugee backgrounds. Collaborating with a range of partners (Autograph ABP, Counterpoint Arts, Migrant Rights Network, British Red Cross), this project supported a group of young people in exploring their cultural rights.

2017 also saw the beginning of a fruitful partnership with City Lit, for their Mental Wealth Festival, a three-day festival of discussions and workshops exploring mental health issues.

The education department's work was showcased at conferences in Australia, USA, Italy, France, Ireland and Israel. Papers highlighted new models of participation for adults, the development of a professional SEND network and Take One Picture.

Develop and realise an ambitious and attractive exhibition programme of temporary exhibitions, in collaboration with prestigious international partners and work with contemporary artists on a variety of projects

We significantly developed the temporary exhibition programme in 2017-18, increasing the number of projects delivered on-site and off-site both nationally and internationally, and developing more ambitious content with the ability to appeal to a range of audiences.

At the Gallery, ten temporary exhibitions were mounted across four different spaces including the newly opened Ground Floor Galleries.

The following temporary exhibitions were open during the year. "(£)" denotes a ticketed exhibition:

Exhibition	Attendance	Venue
<i>Cagnacci's Repentant Magdalene</i> 15 February – 21 May 2017	26,722 (from 1 April 2017)	Room 1
<i>The Credit Suisse Exhibition: Michelangelo & Sebastiano</i> (£) 15 March – 25 June 2017	94,185 (from 1 April 2017)	North Galleries
<i>Chris Ofili: Weaving Magic</i> 26 April – 28 August 2017	143,875	Sunley Room
<i>Giovanni da Rimini: A 14th Century Masterpiece Unveiled</i> 14 June- 8 October 2017	256,759	Room 1
<i>Drawn in Colour: Degas from the Burrell</i> 20 September 2017 – 7 May 2018	324,178 (to 31 March 2018)	Ground Floor Galleries
<i>Reflections: Van Eyck & the Pre-Raphaelites</i> (£) 2 October 2017 – 2 April 2018	82,907 (to 31 March 2018)	Sunley Room
<i>Monochrome: Painting in Black and White</i> (£) 30 October 2017 – 18 February 2018	45,954	Sainsbury Wing
<i>Lake Keitele: A Vision of Finland</i> 15 November 2017 – 4 February 2018	77,611	Room 1
<i>Murillo: The Self-Portraits</i> 28 February – 21 May 2018	36,990 (to 31 March 2018)	Room 1
<i>Tacita Dean: Still Life</i> 15 March – 28 May 2018	19,793 (to 31 March 2018)	Room 20

Our exhibitions offered audiences the opportunity to engage with major artists and themes through a range of significant international loans, including several works never before displayed in the UK. The *Credit Suisse Exhibition: Michelangelo & Sebastiano* included Michelangelo's *Risen Christ* (Church of San Vincenzo Matire, Viterbo) and Goltzius' *Without Ceres and Bacchus, Venus Would Freeze* (State Hermitage Museum, St Petersburg).

Other exhibitions, such as *Reflections* and *Lake Keitele*, took their starting point from some of the Gallery's most well-loved paintings and displayed them in a new context to offer fresh insight for visitors.

The newly-acquired panel painting by Giovanni da Rimini was presented publically for the first time in a jewel-like display of other early Riminese loans.

Modern and contemporary art continued to play an important role, with the inclusion of important 20th century works in *Monochrome*, including Malevich's seminal painting *Black Square* (State Tretykov Gallery, Moscow) and a light installation by Olafur Eliasson. The Sunley Room hosted the only public display of a new tapestry by Chris Ofili set within a lively wall painting, especially designed by the artist for the exhibition.

2017-18 saw a major boost in our national and international touring programme. *Monochrome* was developed as a touring project with the Museum Kunstpalast, Düsseldorf. In New York, *Murillo: The Self-Portraits* opened at The Frick Collection and *Thomas Cole* at the Metropolitan Museum, both to great acclaim.

Nationally, the exhibition programme included a wealth of partnerships with a range of organisations across the country. *Beyond Caravaggio* was shown at the National Galleries of Scotland, Edinburgh as well as National Gallery of Ireland, Dublin, and *Reflections* was organised in collaboration with Tate Britain. *Drawn in Colour* was the outcome of a successful curatorial and technical collaboration with The Burrell Collection, Glasgow, which helped the collection of Degas pastels to be loaned to London, most of which had not been previously lent. The Gallery was also pleased to secure five national venues for a tour of *George Shaw: My Back to Nature*. For this we worked with a different range of organisations, engaging a broader audience across the country, in addition to opening *The National Gallery Masterpiece Tour 2018* at The New Art Gallery, Walsall, the first of three national venues for this exhibition.

As well as providing a new income stream, touring exhibitions created greater opportunity for publishing and merchandise sales. Revenue potential was developed through the ticketing of *Reflections*, in addition to the two major exhibitions. The more prominent presence of the Sunley Room shop and introduction of a counter in the Ground Floor Galleries also offered new ways to maximise the commercial potential of exhibitions.

Invest in our staff, maintain and develop our buildings and increase our income⁴

Invest in our staff

We have reworked our terms and conditions of employment for all employees to provide a more transparent system, simplifying and standardising a range of old terms and procedures from 1 April 2017. This will provide a firm foundation for moving forward over coming years to support agile working, empower line managers and improve working relationships.

Our employee relations record has improved significantly with the introduction of processes designed to target resolution of issues (rather than simply providing the legal requirement for a mechanism for complaints) and reward (to incentivise positive contribution). A new Recognition Agreement has been negotiated and agreed with the Prospect and FDA trade unions to underpin a new working relationship and to establish clear ways of working in partnership to resolve key issues as well as ensuring that there is a range of additional support networks and employee oversight of proposed changes in the future.

Additionally, the Gallery introduced a new set of flexible benefits for all employees and eligible workers, accessed through a bespoke 'one stop shop' (The Palette). Take-up during the year has exceeded projections.

Maintain and develop our buildings

We completed a major refurbishment of our East Wing Galleries that included a new roof structure and membrane together with high performance glazing, automated solar blinds and internal decoration.

We also planned and embarked on phase one of a three phase refurbishment programme of our Sainsbury Wing main floor Galleries (all 16) that includes new oak flooring and a complete redecoration of the spaces including cleaning of stone architraves and skirting.

We continue to pursue a long-term maintenance plan that has been in place for a number of years, with the aim of keeping the buildings in a sound condition and fit for purpose. We have introduced a new computer-aided facility management (CAFM) system that now integrates a Planned Preventative Maintenance system for our fabric elements and comprehensive asset schedules to improve efficiency.

Significant progress has been made on the development of our One Gallery Accommodation hub, which will bring all staff together in one building and improve spaces in the Gallery. This now includes the refurbishment of room 32, our largest picture Gallery, providing much needed full environmental control. We have reached tender stage gaining internal approvals from the Board and external approvals through Westminster City Council, Historic England and DCMS resulting in full planning approval and outline business case sign off.

⁴ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) that the Board shall "care for, preserve and add to the works of art and documents in their collection".

Through implementing energy efficient initiatives from our carbon plan we have gained recertification in July 2017 for continued Carbon saving through the Carbon Trust Standard.

We have also commissioned a feasibility study of our whole estate to consider how we can maximise the potential of our unique asset, meet strategic objectives, and continue to improve visitor experience in the coming years.

Increase our income

In 2017-18 we launched the International Circle in line with our plan to focus on proactive international giving. With an event in New York and networks growing through Houston and Dallas, this was an encouraging start for our long-term investment and commitment to building relationships with future major donors.

We were supported by our first contemporary art partner, Hiscox, committing to a two and a half year initial relationship. Exhibition support remained strong across corporates, individuals and trusts.

We seek to bridge the gap between younger prospective donors and our Patron's group with the launch of the Family's Circle. This encourages engagement with the Gallery for families with children up to 18 at an annual event plus a philanthropic gift towards this area of work.

We continue to build our Benefactor's Circle with major donors who provide multi-year commitments, enabling us to deliver ongoing projects and plan ahead with confidence. We are also grateful for the continued loyalty and generosity of our patrons through the George Beaumont Group and George Beaumont Circle.

Alongside the strategy to increase revenue fundraising, the Gallery has the ongoing objective to strengthen its collection and the requirement to react to opportunities to acquire nationally important paintings. In 2017 *The Fortress of Königstein from the North* by Bernardo Bellotto was successfully purchased and saved from being exported outside of Britain. The acquisition of the painting was made possible through a legacy from Mrs Madeline Swallow, a generous grant from Art Fund, contributions from the American Friends of the National Gallery and the National Gallery Trust, and the support of individual donors, trusts, and foundations.

The National Gallery Membership programme, now in its fourth year, continues to grow in strength and is set to grow in volume and popularity over the next five years. The introduction of Members Preview Days on the Friday prior to exhibition opening has proved very popular. We extended opening hours so more Members can attend and enjoy the introductory lectures. Throughout the year, there has been a monthly film screening plus a series of concerts with ENO along with the very popular summer and Christmas parties.

A major project to improve our systems for managing membership and ticket conversion is now underway. In 2017 we also started testing tiered ticket pricing and releasing early bird tickets to drive early booking, ensure a 'best value' ticket is available to all and improve overall income from exhibition ticket sales.

DCMS Key performance indicators

Specific information relevant to the Gallery's contribution to DCMS performance indicators for 2017-18 as set out in the Funding Agreement agreed with DCMS:

	Performance in 2017-18	Performance in 2016-17
1. Number of visits to the Gallery (excluding virtual visitors)	5.1m	6.2m
2. Number of unique users visiting the website	3.8m	4.8m
3. Number of visits by children under 16	0.5m	0.4m
4. Number of overseas visits	3.2m	4.0m
5. (a) Number of facilitated and self-directed visits to the Gallery by visitors under 18 in formal education	157k	121k
5. (b) Instances of visitors under 18 participating in on-site organised activities	11k	12k
6. % of visitors who would recommend a visit	99%	99%
7. Number of UK loan venues	23	23
8. (a) Self-generated income – admissions	£1.8m	£2.8m
8. (b) Self-generated income – trading	£3.5m	£3.2m
8. (c) Self-generated income – fundraising	£27.1m ⁵	£11.1m ⁶

Plans for the future

The landscape in which we operate presents significant challenges and constraints, some of them unprecedented. This is a time of fast-paced social change. Our plans for the next five years identify six key challenges and opportunities that we intend to respond to, dramatically expanding the scope of our activity whilst achieving the financial resilience that allows us to continue to fulfil our core objectives.

Expanding programmes and activities to engage with the contemporary audience

We will address our existing audience and engage new generations of visitors from Britain and abroad with new displays of the collection, and a more varied and lively series of special events and activities, as well as working more with contemporary artists to explore their insights on the collection. Alongside this, we will undertake a more ambitious programme of major exhibitions on the great masters, as well as shows which explore aspects of the collection and introduce visitors to lesser known facets of the history of art.

Our education programme is of crucial importance in developing engagement and understanding of art and creativity especially among children and young people and we are committed to developing the Gallery's educational offer and to improving facilities.

The Gallery will have a broader international reach: the majority of its large exhibitions will be organised in collaboration with international partners. More of our displays will tour nationally enabling us to engage with more varied audiences. At the same time, we must rethink how we use our physical estate to accommodate the collection and amenities to serve the needs of a growing public in London.

New areas for collection growth

The Gallery's collection has grown organically through acquiring works by the recognised artists of the European canon and also by advancing into the lesser known territories of art history. The collection must continue to be enhanced with preeminent paintings, adding excellence to excellence, and also reflect a broader interpretation of European art and its wider influence, including unrepresented schools and genres. We aim to acquire distinguished works by artists from outside the established European canon.

The collection must be more completely displayed and more gallery space is required to achieve this. We must present it so as to enrich understanding and to promote the public's enjoyment, thereby contributing to national

⁵ £9.7m was raised in the year towards the purchase Bellotto's *The Fortress of Konigstein, from the North*, and £2.1m in fundraising contributed to the purchase of Zurbaran's *Still Life with Lemons*. The fundraising figure also includes the receipt of heritage assets donated to the Gallery and valued at £4.9m.

⁶ This figure excludes £31.1m raised towards an offer to purchase Pontormo's *Portrait of a Young Man in Red Cap*. Unfortunately the offer was not accepted and the funds were returned

cultural life and to the international republic of knowledge. We will continue with our programme of renewal of older galleries to bring them up to the highest international environmental standards, embarking upon a complete renewal of Gallery 32 (2018-20), the largest room in the building.

A digital National Gallery for a digital world

We will create a National Gallery with digital at its heart, to reflect a more digital world. Advances in technology and its role in society mean that the Gallery must now have a more varied, multi-layered and more tailored relationship with its physical and digital audiences.

Every aspect of the Gallery's activity from displays to education, from frontline scientific research to social communication, from publishing to broadcasting, has digital purchase. In the years ahead we will transform the role of digital in our visitor experience, and by 2023 digital will be fully embedded into our practice so that every talk, every lecture, every exhibition and display is designed not just to be physically experienced, but to be consumed as digital content. Our growing digital presence will allow us to offer leadership to the sector, sharing knowledge and know-how with other museums and cultural institutions both in the UK and round the world.

A National Gallery for all

Great art should enrich the daily life of everyone in Britain today, and we are committed to ensuring that the inspiration it brings can reach as many people as possible. The National Gallery is a resource and source of support for the entire country, not only for those who are able to visit the collection in Trafalgar Square.

Through creative and flexible partnerships we will ensure that the National Gallery's collection is widely known, shared and engaged with throughout the UK. We will extend our current reach by fostering and developing relationships with smaller, under-resourced regional collections.

We see our collection and its curators, scientists, conservators and educators as a national resource and are committed to sharing expertise and to increasing our range of programmes to enable this. As well as sharing great works from our collection throughout the UK through loans and through our masterpiece touring, more of our exhibitions and displays will tour nationally, enabling us to engage with more diverse audiences.

Our activities will extend to encompass our nationwide collaborative education programmes as well as a greater use of digital resources. We will seek to share our expertise as widely as possible, to continue to enhance the national curatorial capacity for the future, and to contribute to the diversity of the national workforce by broadening our programme of skills sharing.

Advancing intellectual leadership

The Gallery is already a world leader in several of its areas of research, notably in the fields of collection cataloguing, conservation science and technical art history. Our ambition is greater still, to develop a National Gallery Research Centre which is at the cutting edge of research on painting, preeminent in 'Thought Leadership' in our sector and at the heart of the international art museum network. The National Gallery Research Centre will have a clear and ambitious remit and will be a significant generator of new art historical and technical research; it will advance in new interdisciplinary areas and develop academic and institutional collaborations, nationally and internationally, as well as high-level training for museum professionals.

Investing in people and delivering the One Gallery Accommodation Hub

We will make a significant investment in our staff. The employment experience at the National Gallery must be a beacon of excellence in the sector and we will ensure that this is a feature of our recruitment, career progression, learning and development, health and wellbeing and retention plans. We are improving internal communication and increasing staff involvement in business improvement and planning exercises.

The delivery in 2020 of the major infrastructure project One Gallery Accommodation Hub in the North East corner of the Wilkins Building will bring most of the staff together in a single inspiring space and offer opportunities for synergetic working.

We aim to be 50% self-funding by 2022-23

The 2016 Spending Review provided a degree of certainty until 2020, maintaining the current levels of funding. However, in real terms this means a reduction in contribution over the period of about 5%. We will need to raise significantly more income to realise our ambition of being 50% self-funded by 2022-23, which will allow us to deliver the plans outlined above and increase resilience, although the Gallery will continue to depend on Government support. We will do this through digital initiatives, developing new commercial opportunities (with the National Gallery Company) and increasing membership, among other activities.

Financial Review

Financial performance

The Statement of Financial Activities is set out on pages 39 – 40 of this document. The Gallery presents its income and expenditure across three groups of columns, being:

- Operating income and expenditure – any income or expenditure not relating to the acquisition or development of assets
- Funded capital projects and revaluations – building works, depreciation and any further income or expenditure relating to physical assets other than the collection
- Acquisitions for the collection – income to acquire, or gifts of, paintings

The income in each of these areas is split between unrestricted income – that the Gallery may spend as it chooses, and restricted income – that donors have instructed the Gallery to spend in a particular way. Where expenditure incurred by the Gallery meets the criteria of any unspent restricted income this is allocated against the same column. All expenditure not met by restricted income is allocated to the first column, unrestricted operating income.

Income for 2018 amounted to £56.8 million (2017: £41.2 million); total expenditure amounted to £37.6 million (2017: £37.9 million), resulting in initial net income of £19.2 million. Adding in the gain on property and investments of £21.7 million, we achieved final net income of £40.9 million (2017: £6.8 million).

Income

Income is disclosed in the Statement of Financial Activities by method of income generation:

- Income from donations & legacies
- Income from other trading activities
- Investment income
- Income from charitable activities

Further detail is available in notes 3-7 on pages 48 – 49.

Income from donations and legacies for the year totalled £47.9 million (2017: £32.0 million). This figure includes income relating to picture acquisitions, Government Grant-in-Aid and other donations, as well as legacy income.

Income relating to picture acquisitions was mainly attributable to the fundraised income in relation to two paintings acquired in the year and pictures donated to the Gallery, for which we raised £11.8 million in total. The pictures purchased were Bernardo Bellotto's *The Fortress of Konigstein* for which we raised £9.8 million with a further £0.9 million expected in future years, and Juan de Zurbaran's *Still Life with Lemons in a Wicker Basket* for which we raised £2.1 million. Pictures which were donated to the Gallery in 2017-18 were valued at just over £4.7 million in total (in the prior year the Gallery received four donated works of art valued at £0.4 million in total).

Income from charitable activities for the year totalled £1.8 million (2017: £2.8 million), this includes admission to exhibitions and other educational events.

The balance of income, £7.1 million (2017: £6.4 million), is mainly from the Gallery's corporate and individual membership schemes, and sponsorship income.

Expenditure

Expenditure is disclosed in the Statement of Financial Activities, analysed according to the activities that the expenditure relates to; being either the raising of funds or one of the Gallery's charitable activities to which the spend relates, which are:

- Exhibitions
- Broaden our appeal and provide an exceptional visitor experience
- Preserve, enhance and develop the potential of our collections
- Inspire learning and engagement
- Invest in our staff, increase income and care for our physical facilities

Further analysis of our expenditure is available in notes 8-11 on pages 49 – 52.

The Gallery allocates support costs across our charitable activities; full details of this allocation are shown in note 9 on page 49. It should be noted that the costs of front of house and security staff are included within the activity 'Broaden our appeal and provide an exceptional visitor experience'.

The Gallery's total expenditure for the year was £37.6 million (2017: £37.9 million). Spend on preserving, enhancing and developing the potential of our collections was £1.2 million lower in 2017-18, following an increased level of activity in 2016-17. An additional £0.3 million was invested in raising funds, helping to generate the additional £15.9 million income from donations and legacies. Expenditure on learning and engagement increased by £0.4 million.

Financial position

The Balance Sheet is shown on page 41 of this document, with further analysis shown in notes 12-22 on pages 52 – 62.

The net movement in funds for the year amounted to £40.9 million (2017: £6.8 million). Of the net income of £40.9 million, £40.7 million relates to restricted funds; including £21.4 million revaluation on the Gallery property (including land and buildings, and plant and machinery), £4.9 million in donated works of art, £13.5 million of donations to fund collection acquisitions, and £0.9 million of funding restricted to operational projects in future years. There was net income of £0.1 million associated with unrestricted funds; with the balance of £0.2 million being a movement on permanent endowments.

The net movement includes any gain or loss on the value of the Gallery's land and buildings, any gain or loss on its investments and the value of donated works of art capitalised as collection acquisitions. This year the movement includes a surplus on revaluation of £21.4 million (2017: £0.2 million) and investment gains of £0.3 million (2017: gains: £3.3 million).

In accordance with the Government Financial Reporting Manual (FRM) – which reflects the requirements of FRS 102, Section 34 – works of art are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

The Trustees consider that the cost of valuing pictures in the National Gallery Collection, where cost or valuation information is not available but would be possible to obtain, would not be commensurate with any benefit that could be derived by the user of the financial statements from the inclusion of part of the National Gallery Collection on the Balance Sheet.

The treatment required by FRS 102, Section 34 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the collection will mislead readers of the accounts as to the nature and value of the collection as a whole. Further information on the nature and scale of the Gallery's collection can be found in note 13 and on the Gallery's website.

Details of the treatment of pension liabilities are disclosed in the Remuneration Report and the effect of the revaluation of land, buildings, and plant and machinery is disclosed in note 12.

Fundraising and resources

Grant-in-Aid from the Department for Digital, Culture, Media and Sport (DCMS) amounted to £24.1 million for the year ended 31 March 2018 (2017: £24.1 million). Additional income was generated as a result of the Gallery's exhibitions, educational activities and fundraising programme. Fundraising is carried out by the Gallery's Development department, raising income through donations, patrons and corporate supporter schemes.

Our Development department focused on raising charitable income from individuals, grant-making trusts and companies and on generating other income through corporate sponsorship and membership. Charitable support, largely from individuals and grant-making trusts, made an important contribution to the Gallery's operational activities and capital development. Our education work benefited significantly as a result of major donations and grants from individual donors and charitable trusts.

The Gallery attracted private support for 3 senior curatorial posts and several curatorial fellow positions, academic colloquia and the publication of catalogues. Charitable income also supported the work of the framing, scientific and conservation departments. We were extremely grateful for the support in reaching our target of £11.67 million to raise sufficient funds to purchase Bellotto's *The Fortress of Königstein from the North*, so saving it from export; as well as significant grants to fund our acquisition of a rare still life by Juan de Zurbarán.

Our exhibition programme has continued to see strong charitable support, with a number of significant donations from trusts and individuals for *Monochrome: Painting in Black and White*, as well as valuable in kind sponsorship from IAG Cargo; while *Drawn in Colour: Degas from the Burrell* was sponsored by Eurotunnel, with additional support from the Elizabeth Cayzer Charitable Trust.

Our partnership with Credit Suisse continued to play a vital role in contributing to the Gallery's activities as a whole and in sponsoring the year's major exhibition: *Michelangelo & Sebastiano*. In addition, corporate membership once again provided a stable source of unrestricted income.

Philanthropic support and corporate sponsorship continued to make an essential contribution to the Gallery's capacity to preserve, enhance and display its collection for public enjoyment. We remain indebted to every individual, trust and company for their support during the course of this year.

Fundraising is undertaken largely by National Gallery staff, however in 2017-18 Boo Consultancy Ltd was employed to carry out front of house and fundraising activities at the National Gallery premises. In order to ensure that vulnerable people and other members of the public are not put under undue pressure to give money the Gallery monitors fundraising activities through a programme of training and induction, weekly meetings with fundraising managers, dip sampling assessments and feedback from colleagues and visitors.

The National Gallery is registered with the Fundraising Regulator and individual members of staff are members of the Institute of Fundraising which has standards of best practice in fundraising. We are part of the Fundraising Preference Centre service to ensure we do not contact people who do not wish to receive communications from us. We have recently undertaken an organisation wide review of our data handling policies in preparation for the General Data Protection Regulation (GDPR) and in doing so will ensure we are open and transparent about our data handling practices. As part of the process we have carried out legitimate interest assessments to ensure we consider the rights of all individuals whose personal data is processed by us.

In the year to 31 March 2018 there have been no failures to comply with the fundraising schemes and standards that the Gallery has committed to. During this period we received five formal complaints, all of which related to front of house fundraising activities. Each of the complaints received a prompt response in line with the Gallery's operating procedure for dealing with complaints and other feedback.

Investment policy

Scope of investment powers and power to delegate management of investments

The Trustees, in respect of their general funds, including assets given to them without restriction by donors or testators, rely for their investment powers on the general power in section 2(6) of the Museums and Galleries Act 1992, which permits them to do such things as they may think necessary or expedient for the purpose of fulfilling their functions under the Act. This implies a wide power of investment. In respect of general funds, the Board may delegate investment decisions to a committee of the Board, under the powers in the 1992 Act, but have no power to delegate investment decisions to third parties.

Funds held on trust ('trust funds') are governed by a Charities Act Scheme varied by resolution of the Board in March 2012 to provide wide powers of investment similar to those available under the Trustee Act 2000. In respect of these funds, the Board has a power to delegate investment decisions to a committee of the Board and also has an express power to delegate the management of investments to financial experts, subject to the restrictions laid out in the Scheme.

Investment objectives

The Gallery's reserves policy sets out the level of general funds required to meet working capital needs and to provide a safeguard against volatile and unpredictable income streams. National Gallery Funds are split between:

- *Unrestricted:* These include funds designated by the Gallery for Picture Purchase and funds held for contingency. In normal circumstances the Gallery will hold £1.5m as operating contingency, but may increase this sum in specific circumstances – for example to cover anticipated fluctuations in income from exhibitions. The assets representing these funds are short term and should be readily realisable.
- *Restricted:* These funds are held for a wide range of specific purposes ranging from current projects which are expected to be delivered in the next 12 months and ongoing staffing commitments, to picture purchase and longer term research work. The assets representing these funds are matched to the purposes for which the funds are held and are a mix of short and long term.
- *Non spendable 'endowment':* These are historic funds held for picture purchase and research work. The assets representing these funds are expected to be invested for the long term with a minimum time horizon of five years.

The overall objective of long term funds is to maintain the real value of the portfolio and produce the best financial return within an acceptable level of risk. Long term returns over rolling three year periods are compared to UK RPI +3% and over shorter periods returns are compared to appropriate indices for the asset classes the investment manager is invested in.

The investment objective for the short term funds is to ensure certainty of value i.e. preserve capital with minimum level of risk. Some or all of this portfolio should be readily available to meet potential acquisition/expenditure requirements.

Attitude to risk

The National Gallery recognises that the key risk to the investment portfolio is the erosion of capital value by inflation and therefore the long term portfolio needs to be invested in assets which mitigate that risk. The Trustees understand that this is likely to mean that the investments will be concentrated in real assets (that is equities, fixed interest instruments and property) though diversified by asset class.

The National Gallery accepts that although diversification reduces risk, the capital value will fluctuate. Since the Unrestricted Funds, and a significant portion of the Restricted Funds, may be required at short notice, capital volatility cannot be tolerated. These assets are held in sterling cash or via cash funds.

Types of investment

The National Gallery's assets can be widely invested and should be diversified by asset class. The base currency is Sterling, but investments may be made in non-sterling assets and hedging is permitted in the Non spendable Endowment Funds and a significant portion of the Restricted Funds. The majority of cash deposits will be held in Sterling, other than modest sums held in currency for operational purposes, and, where practicable, will be spread by counterparty and deposited with institutions with a minimum rating of BBB- or invested in a diversified money market fund.

The Funds to be held as long term investments should be invested in assets which can be realised within three months. The short term Funds held within net current assets should be invested in cash or near term cash deposits to ensure immediate liquidity and certainty of value.

Investment management

The Finance Committee has the responsibility of overseeing the National Gallery Funds, and usually meets four times a year. The Committee aims to meet the investment managers once a year and receives quarterly reports and valuations. The Finance Committee is responsible for agreeing strategy and monitoring the investment assets.

The Finance Committee will review and, if it sees fit, approve any change in Investment Manager or Fund into which National Gallery assets are placed. The Finance Committee will also approve any substantial change in the approach or nature of investments made by the incumbent Fund Manager.

Investment performance

Permanent endowments and restricted funds held for the longer term were invested in a developed market equity index fund for the majority of the year, but transferred in March 2018 to a multi asset managed index fund. The gross total return on the developed market equity index fund during the year to 31 March 2018 before fees was positive 13.82% (2017: 14.98%). The benchmark for the fund is the MSCI World Net TR Index, which delivered a net total return for the year after fees of positive 13.59% (2017: 14.77%).

The Gallery also holds fixed-rate interest accounts, including accounts with 30 and 90 day notice periods. Performance is measured against the official Bank Rate set by the Bank of England. In the year to 31 March 2018 the fixed-rate weighted average interest rate was 0.29% (2017: 0.33%) compared with the weighted average base rate of 0.35% (2017: 0.34%).

Details on the movement of investments during the year can be found in note 14.

Reserves policy

The Gallery seeks to maintain unrestricted general funds not committed or invested in tangible fixed assets at a level equivalent to six months' worth of non-guaranteed (i.e. non-contractual) income, as a safeguard against volatile and unpredictable income streams.

However, given that Grant-in-Aid is not drawn down in advance of need and that significant funds may be required for picture purchases, the level of unrestricted general funds may exceed this level at any point in time. Grant-in-Aid should not be held in reserves and will therefore normally be expended in the month it is received.

Restricted funds represent funds held for specific purposes as specified by the donor. These are separately recorded and invested until they can be expended in accordance with the restriction in place. Some restricted funds are held for the long term due to the nature of the restriction.

Permanent endowments represent funds that cannot be expended. These are separately recorded and invested for the long term in accordance with the investment policy.

The reserves policy is reviewed by the Audit Committee annually and changes may be made where appropriate to reflect likely funding requirements in the coming year.

The aggregate value of reserves is £639.0 million (2017: £598.2 million). A breakdown of these is shown in the Balance Sheet and in the Statement of Funds (note 20). A significant proportion of the funds (£300.7 million; 2017: £277.8 million) relate to the Gallery's land and buildings, being the Trafalgar Square site, plant and machinery, and equipment. £315.2 million (2017: £296.5 million) is represented by the value at the date of acquisition of donations to the Collection and pictures acquired since 1 April 2001, and £2.2 million (2017: £2.6 million) relates to funds restricted for future acquisitions.

Of the remaining £21.0 million (2017: £21.3 million), £8.6 million (2017: £8.5 million) is in permanent endowments, where the capital must be retained, and £8.3 million (2017: £8.9 million) represents other restricted funds. A further £2.0 million (2017: £1.9 million) is income, mainly from bequests, which the Trustees have designated for picture purchases. The remaining balance of £2.0 million (2017: £2.0 million) represents undesignated general funds arising from the Gallery's fundraising, trading, and charitable activities. At their meeting in March 2018, the Board agreed this was an appropriate level to maintain, in accordance with this policy.

The Trust Funds of the National Gallery

The Trust Funds of the National Gallery are made up of a number of bequests, which were constituted as a pool for investment purposes by a scheme approved by the Secretary of State for Education and Science in 1972. The Trust Funds are controlled by the National Gallery Trustees and included within these financial statements.

Reference and Administrative Details

These accounts have been prepared in a form directed by the Secretary of State for Digital, Culture, Media and Sport with the consent of HM Treasury in accordance with Sections 9(4) and 9(5) of the Museums and Galleries Act 1992, the Government's Financial Reporting Manual and the Accounting and Reporting by Charities: Statement of Recommended Practice (2015) (FRS 102).

So far as the Accounting Officer and the Trustees are aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

History

The National Gallery was established in 1824 when the House of Commons agreed to pay £57,000 for the purchase, presentation and display of a group of 38 paintings, part of the collection of the late John Julius Angerstein.

Organisation

The Gallery is a Non-Departmental Public Body, whose sponsor department is the Department for Digital, Culture, Media and Sport (DCMS). The Gallery is exempt from the need to register with the Charity Commission.

Further information about Trustees and senior management, together with information on structure, governance and management can be found in the Governance Statement.

The principal address of the charity is:

The National Gallery
Trafalgar Square
London WC2N 5DN

The National Gallery website address is: www.nationalgallery.org.uk.

Advisors

Banking Services	Government Banking Service (GBS) Southern House 7th Floor Wellesley Road Wellesley Croydon CR9 1WW	Coutts & Co. 440 Strand London WC2R 0QS
Auditors	The Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road Victoria London SW1W 9SP	
Solicitors	Farrer & Co 66 Lincoln's Inn Fields London WC2A 3LH	Various other solicitors are used as required.
Investment Managers	BlackRock Investment Management (UK) Ltd Drapers Gardens, 12 Throgmorton Avenue London EC2N 2DL	

Payment policy

The Gallery aims to settle all bills either within the period stated by the supplier or within 30 days.

The year-end creditor day ratio was 45 days (2017: 27 days) due to a very high level of invoices received shortly before the year end.

Immunity from Seizure Report 2017-18

This report applies to the ninth successive year of the application of the legislation passed in 2007 (under Part 6 of the Tribunals, Courts and Enforcement Act 2007) to provide immunity from seizure for objects from abroad lent to temporary exhibitions. The National Gallery gained approval in 2008 to apply for protection for specific loans to exhibitions under the provisions of the Act.

The Gallery has continued to apply the necessary processes developed in the first year following its approval under the Act. These involve compiling details of provenance for each exhibition loan, researching and recording further information and carefully considering any gaps in provenance. Details of the objects requiring immunity from seizure, together with details of the research undertaken, are published on the National Gallery website at least four weeks and one day before the objects are imported into the UK.

Exhibitions including works for which protection under the legislation was sought during 2017-18 are as follows:

Cagnacci's Repentant Magdalene: A Baroque Masterpiece from the Norton Simon Museum

15 February -21 May 2017

The Credit Suisse Exhibition: Michelangelo & Sebastiano

15 March – 25 June 2017

Giovanni da Rimini: A 14th Century Masterpiece Unveiled

14 June – 8 October 2017

Monochrome: Painting in Black and White

30 October 2017 – 18 February 2018

Murillo: The Self Portraits

28 February – 21 May 2018

At the balance sheet date, no enquiries and no claims have been received with respect to the objects under section 7 of the Protection of Cultural Objects on Loan (Publication and Provision of Information) Regulations 2008.

Sustainability report

Our sustainability aim is to save energy and reduce our consumption of resources, generation of waste and our carbon footprint. We are committed to integrating environmental considerations into our activities and working towards the goals of sustainable development and pollution prevention through a programme of continuous environmental improvement.

We have prepared this sustainability report in order to provide information on the plans we have in place for reducing carbon emissions. The report has been prepared in accordance with HM Treasury Public Sector Annual Reports: Sustainability Reporting.

Summary of performance

We are in the process of implementing our second Carbon Management Plan to cover the period 2015-2020. During 2017-18 we have undertaken a number of projects, to improve sustainability and to lay the foundations for significant reductions in emissions in future years. These included:

- Successful re-certification Carbon Trust Standard (2017–19),
- The absorption chiller & combined heat and power (CHP) feasibility study has been completed,
- Installation of LED floodlights to the building exterior,
- Roof glazing / blind refurbishments within rooms 13 & 39,
- Low energy filters continue to be installed to air handling plant across the site,
- Plant replacements / upgrades (primary CHW pumps, HWS calorifiers),

The consolidation of computer server rooms has commenced.

Our performance is summarised in the table below:

Area	2017-18		2016-17		2015-16		
	Actual	Target	Actual	Target	Actual	Target	
Greenhouse Gas Emissions (Scopes 1, 2 & 3) tCO ₂	5,335	5,105 ⁷	5,746	5,405	6,177	5,706	
Estate energy	Consumption (million KWh)	24.6	–	24.8	–	24.6	–
	Expenditure (£ million)	0.95	–	1.07	–	1.13	–
Estate waste	Amount (tonnes)	497	–	673	–	660	–
	Expenditure (£'000)	73.5	–	84.5	–	66.0	–
Estate water	Consumption ('000 m ³)	66.5 ⁸	–	34.9	–	40.1	–
	Expenditure (£'000)	56.1	–	77	–	88	–
Paper Use	A3 (Reams)	180	–	125	–	360	–
	A4 (Reams)	1,620	–	2,201	–	2,080	–
	A3 and A4 Expenditure (£'000)	4.03	–	4.86	–	5.60	–

Overall, the National Gallery has achieved an absolute reduction in carbon emissions for the 2017-18 reporting period (-7%). In relative terms, this equates to 1.055kgCO₂ emissions per visitor based on 5,052,789 visitors during 2017-18, this is a 13% increase compared with 2016-17 relative emissions when visitor numbers equated to 6,173,344 (+18%).

Along with on-going energy reduction projects, the absolute emissions reduction can be attributable in part to the minimisation of emissions associated with refrigerant during 2017-18. In addition there has been a reduction by around 15% in the electricity carbon emissions factor, this is due to a significant decrease in coal generation and an increase in gas and renewables generation⁹ of UK energy. The overall emissions reduction translates into a

⁷ Please note that the 2017-2018 target is based on a 5% annual reduction from the 2014-2015 baseline. This is in line with the Carbon Management Plan.

⁸ The 2017-18 estate water consumption has been calculated using meter reads whereas in previous years invoices have been used, some of which have included estimated consumption figures. As such this may be a reason for the considerable increase in consumption for the 2017-18 reporting year.

⁹ <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2017>

reduction of 7.6% of Scope 1 emissions sources, 6.0% of Scope 2 emissions sources and 4.2% of Scope 3 emissions sources when compared with 2016-17 emissions results.

Summary of future strategy

Our draft 2015-2020 Carbon Management Plan outlines our sustainability strategy and the specific measures we will take to reduce our carbon dioxide emissions by over 25% by 2020. The key strategy is to reduce greenhouse gas emissions through the installation of energy-efficient plant and equipment. Key projects under investigation for achieving this include;

- CHP, Absorption Chiller & Electric Humidifiers;
- Photovoltaic Panels (PV);
- Optimisation of humidifiers;
- BMS optimisation strategies;
- Chiller flow control optimisation,
- Air in-take screens for the chillers;
- Additional LED lighting installations.

Greenhouse gas (GHG) emissions

The National Gallery's collection is predominately housed in a grade 1 listed 19th century building which accommodates around 6 million visitors a year. The nature of the collection is such that it requires carefully controlled environmental conditions, and most of our spaces are fully air-conditioned to best preserve the paintings. A high proportion of our carbon footprint is associated with the energy required to maintain the environmental conditions within the galleries.

Our Carbon Management Plan sets out the direction we are taking to reduce our GHG emissions. A fundamental strategy for reduction is the installation of a combined heat and power unit, commissioned in 2012. During 2017-18 we have made every effort to ensure the continued operation of the CHP to maximise our proportion of self-generated electricity and minimise our draw of electricity from the national grid.

The following table shows our GHG emissions in the current and previous three financial years.

Greenhouse gas emissions		2017-18	2016-17	2015-16
Non-financial indicators (tCO ₂ e)	Total gross emissions	5,355	5,764	6,203
	Gross emissions Scope 1 (direct)	3,851	4,167	3,933
	Gross emissions Scope 2 (indirect)	1,332	1,417	2,055
	Gross emissions Scope 3 (indirect) ¹⁰	173	180	215
Related energy consumption (million KWh)	Grid electricity	3.8	3.4	4.4
	Electricity generated on site	6.67	7.0	6.2
	Natural gas	20.8	21.3	20.1
Financial indicators (£ million)	Expenditure on energy	0.95	1.1	1.1
	CRC license expenditure	0.078	0.086	0.099
	Expenditure on accredited offsets	–	–	–
	Expenditure on official business travel	0.035	0.04	0.1

¹⁰ Due to the complexity of calculating business travel from the data available, assumptions have been made with regard to the methodology used; these are in line with Guidance requirements. This emissions source accounts for less than 0.5% of the total emissions inventory and therefore this calculation falls within the materiality threshold of <5% of the total carbon footprint. Moving forward efforts will be made to facilitate the collection and reporting of staff travel. A small proportion of the taxi journey data is not yet available and as such have not been included within this table, this emissions source accounts for <0.3% of the overall carbon footprint.

Key performance indicators (KPI)

The number of visitors has decreased by 18% from 2016-17 to 2017-18, analysis shows a relative increase of 13% in carbon emissions per visitor in 2017-18¹¹. Over the coming year we aim to make full use of the CHP along with the progression of other planned works, with the aim of reducing carbon emissions where possible across the site.

KPI – visitor numbers	2017–18	2016–17	2015–16
Total visitors	5,052,789	6,173,344	5,828,629
Total carbon (tCO ₂ e)	5,335	5,764	6,203
Emissions per visitor (tCO ₂ e)	0.00106	0.00093	0.001064

Waste management

We aim to reduce waste and to ensure as much waste as possible is reused or recycled. We have been utilising two cardboard balers since April 2016, thus reducing the volume of waste requiring collection and reducing our upstream environmental impact by decreasing the number of waste collections. Continued communications are carried out on waste management both with employees and visitors to decrease waste generation at the Gallery. The waste management contract in place aims to increase volumes of waste being recycled along with training for staff and contractors, particularly those working in the restaurants regarding waste minimisation, this is an on-going process. No waste from the National Gallery is sent to landfill.

Our performance with respect to waste can be seen in the following table:

Waste		2017–18	2016–17	2015–16	
Non-financial indicators (tonnes)	Total waste	497	673	660	
	Hazardous waste	Total	–	–	–
		Non-hazardous waste			
		Landfill	–	–	–
		Reused/recycled	197.4	378.6	419.0
		Anaerobic digestion	48.9	47.6	–
	Incinerated with energy recovery	251.1	246.6	241.0	
	Incinerated without energy recovery	–	–	–	
Financial indicators (£'000)	Total disposal cost	73.5	84.5	66.0	

Use of resources

Water is used both within the office environment for general welfare purpose as well as within the process of maintaining the internal environment of the National Gallery. Every effort is made to minimise water consumption through the installation of efficient toilet fittings across the Gallery.

Finite resource consumption		2017–18	2016–17	2015–16
Non-financial indicators ('000m ³)	Water consumption	66.5	34.9	40.1
Financial indicators (£'000)	Water supply costs	56	77	88

Remuneration report

The figures in this report have been subject to audit.

The remuneration report includes salary and pension details of National Gallery staff defined as “directors” of functional areas. These members of staff are considered to constitute senior management, however executive authority over the decisions of the Gallery as a whole remains solely in the hands of the Director, guided by the Chairman and Board of Trustees. For the purposes of this report directors of functional areas are described as “senior managers”.

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2017: £nil).

Director's remuneration and benefits

The salary and performance award details for the Director are as follows:

	Salary	Performance related pay	Benefits in kind (to nearest £100)	Pension benefits (to nearest £1000)	Total
Dr Gabriele Finaldi	£'000	£'000	£'000	£'000	£'000
Year ended 31 March 2018	140–145	35–40 ¹	0.9	56	235–240
Year ended 31 March 2017	140–145	55–60 ²	–	56	255–260

¹ Performance related pay of £35,980 was awarded for the period to 31 March 2018.

² Performance related pay of £21,909 was awarded for the period to 31 March 2016. Performance related pay of £35,624 was awarded for the period to 31 March 2017.

The Director's performance-related bonus is determined by the Remuneration Committee. The Remuneration Committee (which comprised Hannah Rothschild, Rosemary Leith and Lance Batchelor, and was attended by RoseMarie Loft in an advisory capacity during the year) reviews the Director's performance annually, taking account of the achievement of the Gallery's objectives as set out in the funding agreement between the Department for Digital, Culture, Media and Sport and the National Gallery.

Dr Finaldi is eligible for a performance-related bonus in the range of 0% to 25%. In the year to 31 March 2018, Dr Finaldi was offered and accepted a 25% performance-related, nonconsolidated bonus of £35,980 relating to performance in the same year. In the year to 31 March 2017, Dr Finaldi was offered and accepted a 25% performance-related, nonconsolidated bonus of £35,624 relating to performance in the year to 31 March 2017, and a 25% performance-related nonconsolidated bonus of £21,909, pro-rated for the period 17 August 2015 to 31 March 2016 relating to performance in the year to 31 March 2016.

The Director's appointment is for an indefinite period. In accordance with the provisions of the Alpha occupational defined benefit pension scheme the Director may retire at the later of age 65 or his state pension age. The Director's contract of employment determines the circumstances in which a compensation payment may be made. The compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme. The notice period of the Director is six months.

Senior managers' remuneration and benefits

The remuneration details for the senior managers, including any compensation benefits, are as follows:

	Salary		Benefits in kind (to nearest £100)		Pension benefits (to nearest £000)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Caroline Campbell <i>Director of Collections and Research (from 28 March 2018)</i>	0 – 5 ¹	–	0.5	–	2	–	0 – 5	–
Susan Foister <i>Director of Public Engagement</i>	90 – 95	85 – 90	–	–	14	37	105 – 110	125 – 130
Larry Keith <i>Interim Director of Collections (until 27 March 2018)</i>	70 – 75 ²	70 – 75	–	–	5	60	75 – 80	130 – 135
RoseMarie Loft <i>Interim Director of Change (27 April 2015 – 30 April 2016)</i>	–	5 – 10 ³	–	–	–	3	–	5 – 10
Chris Michaels <i>Digital Director (from 10 April 2017)</i>	90 – 95 ⁴	–	0.6	–	10	–	100 – 105	–
Chris Walker <i>Director of Finance and Operations</i>	95 – 100	90 – 95	–	–	37	37	135 – 140	130 – 135

¹ Full year equivalent is £90,000 – £95,000.

² Full year equivalent is £70,000 – £75,000.

³ Full year equivalent is £75,000 – £80,000.

⁴ Full year equivalent is £90,000 – £95,000.

The Gallery's remuneration policy applies to all staff, including senior management. Members of staff are paid according to the nature of the role they perform and each job is graded and included in a salary band. There are eight salary bands and the senior managers covered by this report are all in salary band one.

No further provision is made within the contracts of the above individuals for non-cash benefits, and there is no entitlement to performance-related awards. None of the individuals mentioned above received any bonus. The notice period for the above individuals is three months. The appointment of the above individuals is for an indefinite period and the compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

Pensions

The Director's pension is covered by the same scheme as other employees. His contract is for no fixed term, in common with other members of staff at the Gallery.

The accrued pension and lump sum payments as at 31 March 2018 for senior managers and the Director are as follows:

Pension	Accrued pension at pension age as at 31 March 2018 and related lump sum	Real increase (decrease) in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase (decrease) in CETV¹²
	£'000	£'000	£'000	£'000	£'000
Caroline Campbell	20 – 25	0 – 25	247	246	1
Gabriele Finaldi	5 – 10	2.5 – 5	102	61	28
Susan Foister	40 – 45	0 – 2.5	939	909	13
	plus 130 – 135 lump sum	plus 2.5 – 5 lump sum			
Larry Keith	20 – 25	0 – 2.5	524	488	4
	plus 70 – 75 lump sum	plus 0 – 2.5 lump sum			
Chris Walker	10 – 15	0 – 2.5	156	125	20

Chris Michaels is a member of the Civil Service Partnership pension scheme, and accrued pension benefits are therefore not disclosed. Employer contributions to Mr Michaels' Partnership pension in the year to 31 March 2018 were £10,400.

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include an additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or 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.

Calculation of pay differentials

Reporting bodies are 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 full year equivalent remuneration of the highest-paid director at the National Gallery during the year to 31 March 2018 was in the range £180,000 to £185,000 (2017: £200,000 – £205,000¹³). This is 5.4 times (2017: 6.5 times) the median remuneration of the workforce, which was £33,716 (2017: £31,000). The timing of bonus payments to the Director artificially increased the differential for 2016-17. Remuneration ranged from £21,014 to £180,795 on a full year basis as at 31 March 2018 (2017: £18,146 to £200,028).

No employee was paid more than the highest-paid director in the year.

¹² Taking account of inflation, the CETV funded by the employer may have decreased in real terms.

¹³ This amount includes two performance-related bonuses amounting in total to £55,000 – £60,000, and relating to performance in 2016-17 and performance in 2015-16 pro-rated for time in post.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include employer pension contributions and the Cash Equivalent Transfer Value of pensions.

Signed:
Dr Gabriele Finaldi
Director and Accounting Officer

Dated: 3 July 2018

Signed:
Sir John Kingman
On behalf of the Board of Trustees

Dated: 3 July 2018

Staff report

The figures in this report have been subject to audit.

A full analysis of staff numbers and costs is presented in Account Note 10.

Staff composition

The split of permanent and fixed term staff (excluding agency staff) by gender at 31 March 2018 was:

	Female	Male
Directors	2	3
Other employees	163	73

Sickness absence management

The average number of days of employee absence due to sickness was 5.2 days (2017: 3.1 days). Excluding long term sickness, the average number of days of absence was 2.9 days (2017: 2.2 days).

Supporting diversity

The Gallery is committed to giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities. We operate the Guaranteed Interview Scheme (GIS), and we are updating recruitment processes to include 'name free' applications to ensure fair consideration on merit alone. Once recruited, the Gallery supports disabled employees through the implementation of capability policies and procedures. All training programmes are open access and able to be tailored to the needs of the employee.

The Gallery maintains a complete suite of policies and procedures which are regularly reviewed for suitability and to ensure compliance with current employment legislation. These include a grievance policy and related procedure to support positive working relationships and to provide a mechanism for employees to raise disputes, a whistleblowing procedure for protected disclosures, Health and Safety policy and procedures, new Recognition Agreements covering aspects of change, consultation and negotiation within the collective agreements, a pay policy and related procedures. The Gallery has no formal 'career management' provision at present however over the next five years we plan to complete our substantial programme of modernisation and improvement in respect of the Gallery's employment model which will incorporate this.

Employees receiving remuneration over £60,000

The total number of employees, including the Director, whose remuneration as defined for taxation purposes amounted to over £60,000 in the year, was:

	2018 No.	2017 No.
£60,000 – £69,999	7	7
£70,000 – £79,999	3	2
£80,000 – £89,999	–	1
£90,000 – £99,999	3	1
£180,000 – £189,999	1	–
£200,000 – £209,999	–	1
	<u>14</u>	<u>12</u>

All but one of the employees earning more than £60,000 participated in the Principal Civil Service Pension Scheme (PCSPS) pension schemes (2017: all participated in the Civil Service Pension arrangements).

Compensation payments

There were three exit packages agreed for staff that left between April 2017 and March 2018. This included two members of staff who left on Voluntary Exit or Voluntary Redundancy. There was one member of staff who left on Compulsory Redundancy terms during this period (2017: Nil).

Exit package cost band	2018			2017		
	Number of compulsory redundancies	Number of other departures agreed	Total cost of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total cost of exit packages by cost band
	No.	No.	£	No.	No.	£
£0 – £10,000	1	–	8,521	–	2	8,072 ¹
£10,000 – £25,000	–	2	32,048	–	1	21,790
£50,000 – £100,000	–	–	–	–	1	65,315
Total number of exit packages	1	2	40,569	–	4	95,177

¹ A further £1,534 was paid in the year to 31 March 2018 to a member of staff who left in the year to 31 March 2017, and whose exit package was disclosed within the £0 – £10,000 disclosure band for that year.

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. Where the organisation has agreed early retirements, the additional costs are met by the organisation 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.

Whistleblowing policy and procedure

In 2017-18 the National Gallery reported no whistleblowing cases. All cases are investigated in accordance with whistleblowing policy.

The National Gallery's whistleblowing guidance, policy and procedure document is available for all staff to refer to and can be located through the Gallery's intranet.

Trade Union Facility Time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 requires the Gallery to publish information in relation to paid facility time taken by trade union officials.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	6
Full-time equivalent employee number	5.1

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	6
1-50%	0
51%-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£119
Total pay bill	£11,001,452
Percentage of the total pay bill	0%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time hours¹⁴ 100%

Off payroll engagements and advisory consultancy

As at 31 March 2018 the Gallery had no off-payroll engagements for more than £245 per day lasting longer than six months (2017: nil).

There was expenditure of £30,000 excluding VAT on 'advisory consultancy' during the year (2017: £15,000). All other consultancy fell within the 'business-as-usual' environment and has been classified as 'operational consultancy'.

Signed:
Dr Gabriele Finaldi
Director and Accounting Officer

Dated: 3 July 2018

Signed:
Sir John Kingman
On behalf of the Board of Trustees

Dated: 3 July 2018

¹⁴ This is calculated as (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100

Statement of Trustees' and Director's responsibilities

Under the Section 9(4) of the Museums and Galleries Act 1992 the Secretary of State for Digital, Culture, Media and Sport, with the consent of HM Treasury has directed the National Gallery to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the National Gallery and of its income and expenditure, changes in funds and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction¹⁵ issued by the Secretary of State for Digital, Culture, Media and Sport, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- 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 a going concern basis.

The Secretary of State for Digital, Culture, Media and Sport has designated the Director as Accounting Officer of the National 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 Gallery's assets, are set out in *Managing Public Money* published by HM Treasury.

The Accounting Officer confirms that as far as he is aware there is no relevant audit information of which the National Gallery's auditors are unaware. Furthermore, the Accounting Officer confirms that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the National Gallery's auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable, and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Signed:
Dr Gabriele Finaldi
Director and Accounting Officer

Dated: 3 July 2018

Signed:
Sir John Kingman
On behalf of the Board of Trustees

Dated: 3 July 2018

Governance Statement

This statement sets out the Gallery's corporate governance and risk management framework, which provides the structure within which resources are managed and controlled.

Governance framework

The Gallery is governed by the Museums and Galleries Act 1992, under which a body corporate known as the Board of Trustees of the National Gallery was established. The Charities Act 2011 confirms the charitable status of the Board of Trustees of the National Gallery and its exemption from the need to register with the Charity Commission. Both acts can be viewed at www.legislation.gov.uk.

The Gallery is governed by a Board of Trustees, who are non-Executive and unpaid. The establishment, constitution, functions, property and powers of the Board of Trustees are dealt with in Sections 1-8 of the Museums and Galleries Act 1992; Schedule 1 to the Act deals with membership and proceedings of the Board. The Trustees have complied with their duty in Section 17 of the Charities Act 2011 to have due regard to guidance published by the Charity Commission.

The Gallery has no fewer than 12 and no more than 14 Trustees at any time. All Trustees except one are appointed by the Prime Minister, usually for a period of four years with the possibility of renewal. In addition, Tate appoints one Trustee from its own Board.

The Board usually meets 6 times a year (in the year to 31 March 2018, there were six regular Board meetings) and also convenes annually for an offsite strategy day. Minutes of Board meetings are published on the Gallery's website.

The following is a list of the Trustees of the National Gallery who served for all or part of the year to 31 March 2018, together with a summary of their attendance at meetings which they were eligible to attend. The strategy weekend is treated as a Board meeting for the purpose of calculating attendance. Overall, attendance by Board members at meetings they were eligible to attend during the year averaged over 90%.

	Attendance at Board meetings
Ms Hannah Rothschild (Chair)	7/7
Professor Anya Hurlbert (retired 7 March 2018)	6/6
Mr John Nelson (Deputy Chair)	7/7
Mr Lance Batchelor	6/7
Mr Dexter Dalwood	6/7
Mr John Singer	7/7
Mr Charles Sebag-Montefiore	6/7
Lord King of Lothbury	5/7
Ms Lisa Milroy (retired 19 July 2017)	2/3
Ms Katrin Henkel	7/7
Ms Rosemary Leith	7/7
Mr David Marks	6/7
Sir John Kingman (appointed 3 April 2017)	6/7
Ms Moya Greene (appointed 16 February 2018)	1/1

The Chair of the Board is responsible for approving adequate arrangements for induction and training for new Board members. New Trustees are:

- given the Trustee Handbook, which sets out the structure, role and responsibilities of the Board (including the scheme of delegation to management), and includes detailed information about standards, accountability and governance, including the Code of Practice for individual Trustees, and the Board's Conflicts of Interest Policy;
- given copies of the latest Corporate Plan, Funding Agreement, Annual Review and Financial Statements and key strategy documents; and
- given the equivalent of about 2 days' worth of induction, which includes meeting members of the senior management team to learn about the work of the Gallery.

The Gallery follows governance best practice for public service and charitable bodies, and where relevant and practical adopts the principles of the *Corporate governance in central government departments: code of good practice 2017*.

The Board has a Code of Practice for individual Trustees (based on and consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies 2011), which sets out the responsibilities of individual Trustees and also the Board's Conflicts of Interest Policy. This provides that Trustees must avoid conflicts of interest wherever possible; discuss any difficulty with the Chair; agree the right course of action; and record the decision. Actual or potential conflicts of interest are formally identified at the start of each meeting of the Board and the manner in which the conflict is dealt with is minuted.

The Board maintains a Register of Trustees' Interests which is updated twice a year and is reviewed once a year by the Board's Audit Committee. The Register is available for inspection on application to the Secretary to the Board.

The Board collectively is responsible for ensuring the Gallery operates within the provisions of its governing statute and charity law; for the Gallery's statements of values, aims and strategy; for statements of required governance, procedures, standards and structures; for specific decisions which are not delegated to the Executive and the holding of management to account for implementation and performance.

The Chair's responsibilities, (last approved by the Board in May 2016 and reviewed from time to time), are consistent with the requirements of the Gallery's Management Agreement with DCMS. These responsibilities include responsibilities for leadership; composition and effective working of the Board; effective conduct of Board business; sub-committees of the Board, standards of Governance; close working with the Director and external relations and fundraising.

The Deputy Chair's responsibilities (last approved by the Board in May 2016 and reviewed from time to time) include deputising for the Chair as and when required; leading the annual process of appraisal of the Chair's performance; acting as an intermediary in the event of a serious breakdown of relations between the Chair and Director; and acting as an intermediary to raise concerns which they feel it is inappropriate to raise with the Chair direct.

The Board delegates operational responsibility to management within an agreed framework. The Director and Accounting Officer as at 31 March 2018 is Dr Gabriele Finaldi. The Accounting Officer is responsible for accounting to Parliament, DCMS, the Board of Trustees and other stakeholders. The Accounting Officer has personal responsibility for ensuring propriety and regularity in the management of public funds and for the day-to-day management of the National Gallery.

The Director has appointed a number of senior staff to act as executive directors of certain functional areas. These individuals are considered senior managers for the purposes of the Remuneration Report. The individuals defined as senior managers at some point during the year ended 31 March 2018 were:

Caroline Campbell
Dr Susan Foister
Larry Keith
Chris Michaels
Chris Walker

Senior management take decisions through the mechanism of an Executive Committee, whose members are responsible for the main departments in the Gallery. Management communicates with staff through meetings, the intranet, e-mail and staff notices. Regular meetings are held between senior management and recognised trade unions representing a number of members of staff (three unions until 30 June 2017 and two thereafter).

Committees of the Board

The Board delegates some of its responsibilities to a number of formal sub-committees of the Board, the membership of which is determined by the Board. The remit and membership of formal sub-committees operating during the year is set out below, and external committee members are indicated with an asterisk. Attendance by committee members during the year is also shown.

Committee	Key responsibilities	Membership	Number of meetings attended	Number of meetings eligible to attend
Audit	To support the Board and Accounting Officer in their responsibilities for issues of risk, control and governance, by reviewing the reliability and integrity of assurances provided.	John Kingman (appointed 3 April 2017, Chair from 19 May 2017)	4	4
		Gautam Dalal ¹⁶ (Chair until 18 May 2017)	3	4
		Hannah Rothschild	4	4
		Charles Sebag-Montefiore	4	4
Finance	To support the Board and Accounting Officer in their responsibilities for effective financial management of the Gallery and to invest funds in the National Gallery's Trust Funds Pool.	John Kingman (appointed 3 April 2017, Chair from 19 May 2017)	5	5
		Gautam Dalal ¹⁶ (Chair until 18 May 2017)	4	5
		Hannah Rothschild	5	5
		Charles Sebag-Montefiore	4	5
Governance	To support the Board in its responsibilities for governance procedures and standards.	John Singer	5	5
		Charles Sebag- Montefiore (Chair)	1	1
		John Singer	1	1
Nominations	To keep under review the balance of skills and experience on the Board so as to ensure that the Board has the range of diverse skills, backgrounds and experience it requires for the achievement of its statutory, charitable and financial objectives; it participates in the process of appointment of new Trustees which is run by DCMS in accordance with the OCPA Code.	Dexter Dalwood (from 13 July 2017)	1	1
		Hannah Rothschild (Chair)	2	2
		Anya Hurlbert (to 7 March 2018)	2	2
Remuneration	To advise the Board on the remuneration of the Director and other remuneration issues.	Dexter Dalwood	2	2
		Hannah Rothschild (Chair)	1	1
		Lance Batchelor	1	1
Masterplan (from 13 July 2017)	To support the Board in developing a Masterplan in relation to the Gallery's buildings and estate	Rosemary Leith	1	1
		David Marks (Chair)	4	4
		Hannah Rothschild	4	4
		Sir John Kingman	4	4

¹⁶ Independent Committee member

The Committees of the Board reported the following during the year:

The Audit Committee provided assurance to the Board in the form of its Annual Report, which covered the work of external and internal auditors during the year as well as the overall risk management framework. The Audit Committee monitored changes to policy during the year and one area of particular focus was the Gallery's towards insurance arrangements for the collection and pictures loaned to the Gallery. The Committee also reviewed the resilience of information systems and considered how this might be strengthened.

The Finance Committee has monitored the finances of the Gallery during the year and in particular the Gallery's approach to planning for an ambitious new strategy, which will see the Gallery expand its activities and focus on income generation to support this expansion. The Committee received detailed presentations from all of the key areas responsible for income generation and tested the basis of their proposals for income growth. The Committee recommended the adoption of the budget set out within the corporate plan for 2018-23, having asked the Executive to develop and model additional scenarios that would enable them to respond to any risk within the plan.

The Governance Committee met once during the year. It agreed by correspondence the form of a Board effectiveness survey questionnaire which was distributed to the Board; it considered responses to the questionnaire and made recommendations to the Board arising out of those responses; it also reported to the Board on actions taken to implement recommendations arising from the Board effectiveness survey in 2016-17.

The Nominations Committee met twice during the year to consider the vacancy which existed on the Board at the beginning of the year and the further vacancy which arose in the course of the year. The Committee reviewed the balance of skills and experience on the Board in the light of those vacancies and recommended to the Board that a search should be instituted for two new Trustees (one a scientist with the skills and experience required to chair the Gallery's Scientific Consultative group and one with experience of public engagement, outreach and/or communities, to assist the Gallery in delivering its commitment to audience diversity), and the Board endorsed these recommendations. Proposed role and person specifications for these roles were approved by Ministers and a search was conducted by DCMS in accordance with OCPA rules. At the end of the year, the sift and interviews for these roles were scheduled but had yet to take place, and there were two vacancies on the Board.

The Remuneration Committee met once during the year to review the performance of the Director, Dr Gabriele Finaldi, for the period to 31 March 2017; to agree a recommended bonus for the Director for the period to 31 March 2017; and to agree recommended performance objectives for the year to 31 March 2018.

The Masterplan Committee (formed in July 2017) met four times during the year; it recommended terms of reference for approval by the Board; it oversaw the engagement of a professional team to carry out a preliminary Masterplanning exercise and feasibility study and received reports on progress during the year.

Achievements and Effectiveness of the Board

Significant achievements of the Gallery during 2017-18 are recorded under the heading of '*Review of achievements, performance and plans for the future*', within the Annual Report.

In relation to achievements of the Board during the course of the year, the Board:-

- Gave detailed consideration to and made input into the development of the Gallery's new 5 year Strategic Plan for 2018-23 and approved the plan in a form for publication on the Gallery's website in March 2018;
- Oversaw the planning for implementation of a new pay and reward structure; endorsed the model recommended by management subject to final sign off on affordability as part of the Gallery's corporate plan for 2018-19 and delegated oversight of additional matters (including approval of amendments to the Gallery's Pay Policy and Procedure) to the Remuneration Committee;
- Approved the formation of and membership of a Masterplan Committee as a new formal sub-committee of the Board, charged with supporting the Board in developing a Masterplan in relation to the Gallery's buildings and estate;
- Oversaw the planning for the development of a One Gallery Accommodation hub for staff including sign off of plans to go to tender;
- Endorsed modifications and developments to the Gallery's Strategy for Acquisitions;
- Endorsed a revised strategic direction for Digital activity;

- Approved the acquisition of and funding for a number of key acquisitions for the Gallery's collection including the purchase of *The Fortress of Königstein from the North* by Bernardo Bellotto, and *Still Life with Lemons, Lilies, Carnations, Roses and a Lemon Blossom in a Wicker Basket, together with a Goldfinch perched on a Porcelain Bowl of Water, on top of a Silver Dish, arranged upon a Stone Ledge* by Juan de Zurbarán;
- Oversaw the Gallery's preparations for the introduction of GDPR including approving a new Data Protection policy;
- Approved adoption by the Gallery of a proposed Modern Slavery and Human Trafficking Statement and an Anti- Slavery Policy.

In relation to Board effectiveness, the Board reviewed its own effectiveness in November 2017. Board members were asked to complete a questionnaire rating the Board's effectiveness ("How well does the Board do what it is supposed to do?") by responding to questions relating to the following areas namely: vision, mission and strategy; governance; financial stability; protection and maximising of assets; fundraising; mentoring/advisory; and management of risk. Board members were also asked to assess how well equipped the Board is to be effective in its responsibilities, by responding to questions relating to the following areas, namely: skills on the Board; knowledge of the organisation and its people; environment for team work and leadership; Board process, management and follow up; interaction with the Executive.

In relation to the quality of information provided to the Board, Board members were specifically asked to confirm whether they feel adequately briefed in advance of Board meetings; whether Board papers are of an appropriate length and quality; whether reports from the management team are adequate; and whether the Board receives adequate reporting on key risks and on financial progress during the year. They agreed or agreed strongly with all these statements. The quality of information provided is of a high quality and is subject to continuing review and improvement.

The Governance committee considered responses to the Board effectiveness survey and made a number of recommendations arising from those responses, including recommendations relating to the definition and communication of the Gallery's strategic plan; recommendations in relation to reporting from sub- Committees of the Board; recommendations in relation to the reporting from the Executive on exhibition performance; recommendations in relation to the Board strategy weekend. The Board accepted all these recommendations. The Board in considering these recommendations also asked that consideration be given to the introduction of an electronic Board portal for dissemination and sharing of Board papers.

In relation to individual performance of the Chair and other Trustees, the performance of the Chair is reviewed annually with the process being led by the Deputy Chair. In the year to 31 March 2018 he spoke to all Trustees and to the Director, conducted an appraisal of the Chair and reported back to the full Board on the outcome.

The Chair conducts an appraisal of individual performance of each Trustee once every other year; during the year to 31 March 2018 she carried out 4 individual appraisals.

Risk Management

The National Gallery recognises that the effective management of risk and uncertainty is core to its ability to achieve its objectives.

The Board of Trustees (assisted by the Audit Committee) sets risk management standards and the degree of risk aversion for the Gallery, and reviews the major risks to the Gallery.

The Accounting Officer is responsible for managing risk and ensuring an effective system of internal control is in place. The Accounting Officer places assurance on the work of the Internal Controls Committee, an executive committee which meets 4-5 times a year (4 in 2017-18) to review actively the risk environment, to monitor the adequacy of controls and to assess emerging risks. The Committee's membership includes the Director of Finance and Operations, a number of Heads of Department responsible for areas of the Gallery's activity with high risk exposure, as well as the Head of Internal Audit, Secretary to the Board and Legal Counsel and the Senior Collection Registrar.

The Internal Controls Committee uses a comprehensive risk register as a tool for managing risk, and recommends areas for internal audit based on the analysis of risks in the register. The Internal Controls Committee also reviews and is informed by the work of Internal Audit. The minutes of the Internal Controls Committee, together with its assessment of key risks, are reviewed by the Audit Committee at each meeting. Overall, the levels of risk at the Gallery remained stable during the year, as some project risks that were resolved were replaced by other new risks as activities continued to develop.

The Committee continued to monitor closely risks that had been introduced around change and the process of change management. The risk around upgrade of security infrastructure has now been closed, following the successful launch of a new security control room with fully upgraded equipment. This risk had already been replaced by new project-based risks around two significant building projects launched in-year: the One Gallery accommodation hub and the refurbishment of room 32. The risk register recognised the potential for project creep leading to financial or reputational damage; as well as the possible impact on visitor flows and access during the works. In mitigation, a separate governance structure has been put in place for these projects, with Board and Director participation, and delivery against key milestones is being monitored closely.

The Internal Controls Committee also continued to closely monitor financial risk. In the 2015 government Spending Review the Gallery received a settlement that remained flat for the 5 year period. However, there were continuing financial pressures from the Gallery's ambitious strategic plan, which included plans for investment in staff pay and reward as part of a new employment model, expansion of digital services, further development of its National Programmes and research activities, as well as some significant capital projects. The corporate planning round continued to look ahead across the next 5 years, from 2018-23, with the Gallery setting out a clear goal to increase self-generated income, publicly stating its aim to be 50% self-funding by 2022-23.

The Gallery's risk register continues to monitor a number of risks that recognise the possibility of damage to the collection, whether accidental or malicious. These risks continue to have high inherent scores, because of the impact that any such damage could have, but the Gallery's mitigating controls, including a detailed conservation plan to deal with any such incidents, means that the residual risk is tracking at the target level, and has been throughout the year. The Gallery did specifically recognise the additional emphasis to these risks as a result of an expanding Events programme, as the Gallery continues to build its venue hire offer, as well as the range and number of events in its public programme. The use of space for events is carefully scrutinised and there are procedures in place to deal with any issue that might arise.

Internal Audit reviewed a number of areas of the Gallery's work during 2017-18, with a focus on many of the Gallery's visitor and public facing areas, including membership, visitor experience and reputation management. There were also reviews of areas such as governance and business continuity, which are essential for effectively managing risk at the Gallery. All reviews provided either substantial or reasonable assurance that the controls in these areas were operating effectively and that risks were being appropriately managed. There were some high priority recommendations arising from the annual key controls review, particularly around management of the Gallery's collection database and how controls in this area could be strengthened. There were also recommendations covering the formalisation of strategy in some areas, such as the communications strategy, objectives for visitor experience and policy around disposal and de-accessioning of frames.

The new Head of Internal Audit, who took up post towards the end of 2016-17, has adopted a holistic approach in reviewing recommendations from prior years' audits. Their review of implementation of past recommendations has considered recommendations dating back several years, rather than focusing just on the 19 recommendations from the 2016-17 audit programme. This work identified that while responses were good, there was a backlog of recommendations to fully address, with just over half of the recommendations overdue for closure as at the time of the Internal Auditor's year-end report. This issue has been addressed by the introduction of a structured follow-up procedure, with members of staff who are responsible for the completion of actions arising from audits being circulated every two months with a list of their outstanding actions and due dates. They are asked to confirm which actions have been completed and thus which recommendations can be closed. They are also asked to provide evidence to support the proposal to close the point.

Internal Audit's primary role is to give the Accounting Officer and the Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. Internal Audit issues an Annual Report to the Accounting Officer, which is reviewed by the Accounting Officer and the Audit Committee and which includes Internal Audit's opinion of risk management in the Gallery and a Statement of Assurance on Internal Control.

The Audit Committee provides an annual report to the Board, which includes its opinion on the comprehensiveness, reliability and integrity of assurances received for the purpose of supporting the Board in their overall management of risk. The Audit Committee is of the opinion that the Gallery is responding appropriately to the risks around certain management processes and the documentation of controls.

All Budget Holders provide the Accounting Officer with annual Assurance Statements, and these are subject to Internal Audit review.

Risk assessment

The Accounting Officer and Board of Trustees consider the framework of internal controls and risk management to be effective. The Internal Auditor's assurance to the Accounting Officer and the Audit Committee on the National Gallery's risk management, control and governance processes was that they are generally adequate and effective. Audit recommendations have been accepted and corrective action is being taken.

The Gallery has suffered no protected personal data incidents during 2017-18 and has made no report on such a loss to the Information Commissioner's office.

Signed:
Gabriele Finaldi
Director and Accounting Officer

Dated: 3 July 2018

Signed:
Sir John Kingman
On behalf of the Board of Trustees

Dated: 3 July 2018

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of the National Gallery for the year ended 31 March 2018 under the Museums and Galleries Act 1992. The financial statements comprise: the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). I have also audited the information in the Remuneration Report and the Staff Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the National Gallery's affairs as at 31 March 2018 and of its net income 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 regularity

In my opinion, in all material respects the expenditure and income 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Gallery in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board of Trustees and Accounting Officer

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Board of 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence

that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Gallery's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Gallery's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Board of Trustees and Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report and of the Staff Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Museums and Galleries Act 1992;
- in the light of the knowledge and understanding of the National Gallery and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Annual Report which we provide a positive consistency opinion on 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 and of the Staff 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.

Sir Amyas C E Morse
Comptroller and Auditor General

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

Dated: 9 July 2018

Statement of Financial Activities

for the year ended 31 March 2018

	Note	OPERATING INCOME AND EXPENDITURE			Funded capital projects and revaluations (a)			Acquisitions for the collection (b)			TOTAL 2018			2017	
		Unrestricted funds	Restricted funds	Total core operations	Unrestricted funds	Restricted funds	Total capital projects and revaluations	Unrestricted funds	Restricted funds	Total collection acquisition funds	Unrestricted funds	Restricted funds	Permanent endowment	Total	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income															
Income from donations and legacies															
Grant-in-Aid	3	20,432	–	20,432	–	3,660	3,660	–	–	–	20,432	3,660	–	24,092	24,092
Other government grants	4	–	151	151	–	–	–	–	–	–	–	151	–	151	–
Donations	5	1,290	3,496	4,786	–	950	950	–	16,895	16,895	1,290	21,341	–	22,631	7,628
Legacies	5	1	–	1	–	–	–	–	1,000	1,000	1	1,000	–	1,001	296
Income from other trading activities	6	6,775	(2)	6,773	–	–	–	–	–	–	6,775	(2)	–	6,773	6,108
Investment income	7	16	106	122	–	–	–	55	132	187	71	238	–	309	305
Income from charitable activities															
Exhibitions		1,559	–	1,559	–	–	–	–	–	–	1,559	–	–	1,559	2,550
Educational activities		255	–	255	–	–	–	–	–	–	255	–	–	255	250
Total income		30,328	3,751	34,079	–	4,610	4,610	55	18,027	18,082	30,383	26,388	–	56,771	41,229
Expenditure on:															
Raising funds	9	(2,310)	(12)	(2,322)	–	–	–	–	–	–	(2,310)	(12)	–	(2,322)	(2,049)
Other	9	21	(5)	16	–	–	–	(1)	(3)	(4)	20	(8)	(12)	–	(17)
		(2,289)	(17)	(2,306)	–	–	–	(1)	(3)	(4)	(2,290)	(20)	(12)	(2,322)	(2,066)
Charitable activities															
Exhibitions	9	(2,636)	(1,618)	(4,254)	–	(448)	(448)	–	–	–	(2,636)	(2,066)	–	(4,702)	(4,776)
Broaden our appeal and provide an exceptional visitor experience	9	(11,325)	(500)	(11,825)	–	(1,924)	(1,924)	–	–	–	(11,325)	(2,424)	–	(13,749)	(13,675)
Preserve, enhance and develop the potential of our collections	9	(3,245)	(447)	(3,692)	–	(551)	(551)	–	–	–	(3,245)	(998)	–	(4,243)	(5,351)
Inspire learning and engagement	9	(1,767)	(1,601)	(3,368)	–	(300)	(300)	–	–	–	(1,767)	(1,901)	–	(3,668)	(3,252)
Invest in our staff, increase income and care for our physical facilities	9	(7,443)	(191)	(7,634)	–	(1,266)	(1,266)	–	–	–	(7,443)	(1,457)	–	(8,900)	(8,741)
		(26,416)	(4,357)	(30,773)	–	(4,489)	(4,489)	–	–	–	(26,416)	(8,846)	–	(35,262)	(35,795)
Total expenditure	9	(28,705)	(4,374)	(33,079)	–	(4,489)	(4,489)	(1)	(3)	(4)	(28,706)	(8,866)	(12)	(37,584)	(37,861)

Statement of Financial Activities

for the year ended 31 March 2018 (continued)

Note	OPERATING INCOME AND EXPENDITURE			Funded capital projects and revaluations (a)			Acquisitions for the collection (b)			TOTAL 2018				2017	
	Unrestricted funds	Restricted funds	Total core operations	Unrestricted funds	Restricted funds	Total capital projects and revaluations	Unrestricted funds	Restricted funds	Total collection acquisition funds	Unrestricted funds	Restricted funds	Permanent endowment	Total	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Realised and unrealised investment gains/ (losses)	14	-	76	76	-	-	-	12	44	56	12	120	163	295	3,265
Net income/(expenditure) before transfers and other recognised gains and losses		1,623	(547)	1,076	-	121	121	66	18,068	18,134	1,689	17,642	151	19,482	6,633
Transfers	20	(1,637)	(83)	(1,720)	-	1,426	1,426	-	294	294	(1,637)	1,637	-	-	-
Net income/(expenditure) resources before other recognised gains and losses		(14)	(630)	(644)	-	1,547	1,547	66	18,362	18,428	52	19,279	151	19,482	6,633
(Loss)/gain on revaluation of fixed assets for charity's own use	12	-	-	-	-	21,376	21,376	-	-	-	-	21,376	-	21,376	164
Net movement in funds		(14)	(630)	(644)	-	22,923	22,923	66	18,362	18,428	52	40,655	151	40,858	6,797
Opening funds		2,033	8,942	10,975	-	277,765	277,765	1,917	299,007	300,924	3,950	585,714	8,488	598,152	591,355
Closing funds	20	2,019	8,312	10,331	-	300,688	300,688	1,983	317,369	319,352	4,002	626,369	8,639	639,010	598,152

(a) representing the value of capital assets, excluding the Collection, and any restricted funds for future additions.

(b) representing the value, at the date of acquisition, of donations to the Collection and picture acquisitions since 1 April 2001, and restricted and designated funds for future acquisitions.

All operations continued throughout the period.

There are no recognised gains and losses other than those shown above.

For full details of the prior year comparatives please see note 2. For an explanation of transfers please see note 20.

This Statement of Financial Activities is shown in this expanded format to enable a reader of the accounts to distinguish between the Gallery's operating activities and those activities relating to capital projects and acquisitions, which due to their high value could otherwise have a distorting effect on the overall presentation of income and expenditure.

The notes on pages 43 to 64 form part of these accounts.

Balance Sheet as at 31 March 2018

		2018		2017	
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	12	300,686		277,811	
Heritage Assets	13	315,191		296,433	
Investments	14a	15,969		15,381	
			631,846		589,625
Current Assets					
Stock		54		12	
Debtors	15	9,453		9,419	
Investments	14b	3,550		5,743	
Cash at bank and in hand	22b	4,707		3,340	
		17,764		18,514	
Creditors					
Amounts falling due within one year	16a	(7,793)		(8,805)	
Net current assets			9,971		9,709
Total assets less current liabilities			641,817		599,334
Creditors:					
Amounts falling due in more than one year	16b		(2,807)		(1,182)
Net assets			639,010		598,152
Represented by:					
Restricted funds					
Restricted funds (excluding revaluation reserves)		515,476		496,197	
Revaluation reserves	20	110,893		89,517	
			626,369		585,714
Unrestricted funds					
Designated		1,983		1,917	
General funds	20	2,019		2,033	
			4,002		3,950
Total income funds			630,371		589,664
Endowment funds	20		8,639		8,488
Total funds			639,010		598,152

The notes on pages 43 to 64 form part of these accounts.

Signed:
Dr Gabriele Finaldi
Director and Accounting Officer

Dated: 3 July 2018

Signed:
Sir John Kingman
On behalf of the Board of Trustees

Dated: 3 July 2018

Statement of Cash Flows

for the year ended 31 March 2018

		2018	2017
		£'000	£'000
Cash flows from operating activities:			
Net cash provided by (used in) operating activities	22a	<u>18,034</u>	<u>4,097</u>
Cash flows from investing activities:			
Dividends, interest and rents from investments		309	305
Purchase of property, plant and equipment		(5,008)	(7,245)
Purchase of heritage assets	13	(13,868)	(88)
Purchase of investments		1,900	1,714
Net cash provided by (used in) investing activities		<u>(16,667)</u>	<u>(5,314)</u>
Change in cash and cash equivalents in the reporting period		1,367	(1,217)
Cash and cash equivalents at the beginning of the reporting period		3,340	4,557
Cash and cash equivalents at the end of the reporting period		<u>4,707</u>	<u>3,340</u>

The notes on pages 43 to 64 form part of these accounts.

Notes to the Financial Statements

1. Accounting policies

a. Accounting convention

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets and the inclusion of the investments at market value. The financial statements have been prepared in accordance with the accounts direction issued by the Secretary of State for Digital, Culture, Media and Sport, the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP), published in 2015, the Government's Financial Reporting Manual and FRS 102. The Gallery is a public benefit entity.

The Trustees are of the view that the Gallery will continue to be a going concern for the foreseeable future and the accounts have therefore been prepared on that basis. There are no material uncertainties about the Gallery's ability to continue.

b. Income

All income is included in the SoFA when the Gallery is legally entitled to the income, receipt is probable and the amount can be quantified with reasonable accuracy.

The Grant-in-Aid from the Department for Digital, Culture, Media and Sport is taken to the SoFA in the year in which it is received. Lottery income is recognised as income when the conditions for its receipt have been met. Other grants, donations and legacies are recognised as incoming resources when the Gallery becomes entitled to the income, receipt is probable and the amount is quantifiable.

Gifts in kind intended for use by the Gallery are recognised in the SoFA as income at a reasonable estimate of their current value on receipt. Contractual income is recognised as income to the extent that the Gallery has provided the associated goods or services; income from the corporate membership programme, for example, is recognised over the period of membership. Where income is received in advance, and the Gallery does not have entitlement to these resources until the goods or services have been provided, the income is deferred in the accounts.

Income derived from endowments has been included within unrestricted funds in the SoFA, except where the application of the income is restricted to a particular purpose, in which case the income and expenditure has been appropriately identified in restricted funds. See note 20 for further details.

c. Expenditure

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category, including an apportionment of overhead and support costs. The allocation of these support costs, including overheads, is analysed in note 9.

Fundraising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities. Exhibitions costs represent the costs of mounting exhibitions. Other direct costs are allocated against the relevant strategic objectives of the Gallery, which are described in detail in the Annual Report.

Governance costs include the costs of providing the governance infrastructure that allows the Gallery to operate, as well as the costs of the strategic planning processes that contribute to the Gallery's future development. These costs include the costs of statutory and internal audit, as well as staff costs.

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

Irrecoverable VAT is apportioned across the activity cost categories detailed in note 9.

d. Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the Gallery and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The funds include bequests made to the Gallery where it was clearly the wish of the donor that the money is to be used for picture purchase but where no legal restriction exists as to the use made of the bequest. The details of each designated fund are disclosed in note 20.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor. The aim and use of restricted funds is explained in note 20.

Permanent endowment funds are funds which the donor has stated are to be held as capital.

e. Tangible fixed assets

Tangible fixed assets, other than collection acquisitions, are accounted for using modified historic cost accounting. However, adjustments to the net book value are only made where material. The Gallery applies a £5,000 threshold to the capitalisation of all fixed assets (2017: £5,000).

All of the Gallery's land, properties and plant and machinery are revalued for accounting purposes by external chartered surveyors in accordance with the Appraisal and Valuation Standards as published by the Royal Institute of Chartered Surveyors and with FRS 102, section 17 – Property, Plant and Equipment, every five years. The last quinquennial valuation of the Gallery's land, buildings and plant and machinery was carried out by BNP Paribas on 31 March 2014. The valuation included the main Gallery site on Trafalgar Square and the connected Sainsbury Wing. In the years in between the full five yearly valuations the revaluation is based on a desktop exercise.

Depreciation is provided on all tangible assets, other than collection acquisitions, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life:

Freehold buildings	75 years
Plant and machinery	30 years
Equipment	4 years

Depreciation is charged on capital costs in the year in which the asset is brought into use. Collection acquisitions are capitalised at historic cost and are not depreciated or revalued as a matter of routine.

The Gallery has chosen to account for property, plant and equipment under the revaluation model, in line with FRS 102, section 17 – Property, Plant and Equipment. We consider that there exists no market-based evidence of fair value of the freehold buildings because such property is rarely sold, except as part of a continuing business, therefore land and buildings and plant and machinery are revalued annually on a depreciated replacement cost basis. Movements are taken to the revaluation reserve.

f. Heritage assets

The National Gallery's collection comprises pictures, frames and archive material, and these are treated as heritage assets.

In accordance with the Government Financial Reporting Manual (FReM) – which reflects the requirements of FRS 102, section 34 – Specialised Activities – works of art acquired or donated are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

Additions to the Collection are made by purchase, gift of the asset and/or the purchase of assets funded by donation. Works of art donated by third parties are capitalised and accounted for through the donated works of art reserve.

Capitalised heritage assets are not subject to depreciation or revaluation as a matter of routine.

The Trustees of the National Gallery believe that the Collection is unusual as an asset in many ways. It is inalienable, unique, irreplaceable, ancient, fragile and very valuable. In this regard, it is an asset that cannot be valued in a way that would be meaningful for readers of the financial statements.

The Trustees consider that even if valuations could be obtained for some of the pictures in the Collection, the cost of performing such an exercise would not be commensurate with any benefit that could be derived by the user of the financial statements from the inclusion of part of the Collection on the Balance Sheet. As a result, no value has been included in the Balance Sheet for heritage assets acquired before April 2001, the point at which additions to the Collection were first capitalised.

The treatment required by FRS 102, section 34 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. The distorting effect of this inconsistent treatment is exacerbated by the volatility of the international art market and fluctuations in inflation, which will render the value of those capitalised heritage assets less reliable over time. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the Collection will mislead readers of the accounts as to the nature and value of the collection as a whole.

Further information on the nature and scale of the Gallery's collection can be found in note 13.

Expenditure which is required to preserve or prevent further deterioration of individual collection items, as well as the costs of managing the Collection, are recognised in the Statement of Financial Activities when incurred. More information about preservation and management of the Collection can be found in note 13.

g. Investments

Investments held as fixed assets are included at market value at the year end. The SoFA includes any realised and unrealised investment gains and losses arising on revaluation and disposals throughout the year.

Cash held for investment purposes in 30-day and 90-day notice accounts is treated as a current asset investment.

h. Stocks

Tangible stocks are held by the Gallery for use in the staff canteen and membership packs for future membership sales. Stocks for the gift shops situated within the Gallery premises are owned by the National Gallery Company Limited which is a separate legal entity and therefore not consolidated in these accounts. The café and restaurant facilities are also franchised out. Stocks are stated at the lower of cost and net realisable value.

i. Debtors

The measurement of debtors is based on the anticipated recoverable value of cash or services owed to the Gallery at the year end.

j. Cash at bank and in hand

Cash at bank and cash in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar account.

k. Creditors

Creditors are recognised where the charity has a present obligation resulting from a past event that will probably result in the transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any trade discounts due.

l. Leases

The National Gallery has no finance leases. Costs in relation to operating leases are charged to the SoFA over the life of the lease.

m. Foreign currencies

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

Following political events in 2016 there has been some increase in volatility on foreign currency markets. The Gallery undertakes the majority of its transactions in sterling, and so has limited exposure to foreign currency risk. Any loss on exchange resulting from market volatility should be manageable through general contingency funds, without resulting in any material risk to the business.

The Gallery does hold some investments in US dollar denominated funds and the risk around these investments is discussed further in note 17, financial instruments.

n. Pensions

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. Full details of the pension scheme are included in note 11.

o. Trust funds

These funds represent amounts which have been bequeathed to the Gallery mainly for the purposes of picture acquisition. Income earned on the capital held in restricted funds is recognised in the SoFA as it arises. Any unutilised income together with the capital is held in a separate restricted fund which can only be used for the purposes originally specified by the donor.

p. Taxation

The Gallery is eligible under the Corporation Tax Act 2010 to seek from HMRC exemption from taxes on income arising from the pursuit of its charitable objectives. HMRC has granted this exemption.

2. Prior year SOFA

	Note	OPERATING INCOME AND EXPENDITURE			Funded capital projects and revaluations (a)			Acquisitions for the collection (b)			TOTAL 2017			2016	
		Unrestricted funds	Restricted funds	Total core operations	Unrestricted funds	Restricted funds	Total capital projects and revaluations	Unrestricted funds	Restricted funds	Total collection acquisition funds	Unrestricted funds	Restricted funds	Permanent endowment	Total	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income															
Income from donations and legacies															
Grant-in-Aid	3	20,432	–	20,432	–	3,660	3,660	–	–	–	20,432	3,660	–	24,092	24,092
Other government grants	4	–	–	–	–	–	–	–	–	–	–	–	–	–	264
Donations	5	797	3,131	3,928	–	3,095	3,095	–	605	605	797	6,831	–	7,628	11,887
Legacies	5	237	–	237	–	–	–	–	59	59	237	59	–	296	834
Income from other trading activities	6	6,090	18	6,108	–	–	–	–	–	–	6,090	18	–	6,108	5,598
Investment income	7	12	116	128	–	–	–	55	122	177	67	238	–	305	272
Income from charitable activities															
Exhibitions		2,550	–	2,550	–	–	–	–	–	–	2,550	–	–	2,550	3,237
Educational activities		250	–	250	–	–	–	–	–	–	250	–	–	250	185
Total income		30,368	3,265	33,633	–	6,755	6,755	55	786	841	30,423	10,806	–	41,229	46,369
Expenditure on:															
Raising funds	9	(2,041)	(8)	(2,049)	–	–	–	–	–	–	(2,041)	(8)	–	(2,049)	(1,436)
Unrealised foreign exchange gain/(loss)	8	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other	9	5	(6)	(1)	–	–	–	(1)	(3)	(4)	4	(9)	(12)	(17)	(21)
		(2,036)	(14)	(2,050)	–	–	–	(1)	(3)	(4)	(2,037)	(17)	(12)	(2,066)	(1,457)
Charitable activities															
Exhibitions	9	(3,502)	(744)	(4,246)	–	(530)	(530)	–	–	–	(3,502)	(1,274)	–	(4,776)	(4,401)
Broaden our appeal and provide an exceptional visitor experience	9	(11,703)	(202)	(11,905)	–	(1,770)	(1,770)	–	–	–	(11,703)	(1,972)	–	(13,675)	(14,867)
Preserve, enhance and develop the potential of our collections	9	(4,320)	(378)	(4,698)	–	(653)	(653)	–	–	–	(4,320)	(1,031)	–	(5,351)	(3,477)
Inspire learning and engagement	9	(1,715)	(1,278)	(2,993)	–	(259)	(259)	–	–	–	(1,715)	(1,537)	–	(3,252)	(3,166)
Invest in our staff, increase income and care for our physical facilities	9	(7,586)	(14)	(7,600)	–	(1,141)	(1,141)	–	–	–	(7,586)	(1,155)	–	(8,741)	(8,312)
		(28,826)	(2,616)	(31,442)	–	(4,353)	(4,353)	–	–	–	(28,826)	(6,969)	–	(35,795)	(34,223)
Total expenditure	9	(30,862)	(2,630)	(33,492)	–	(4,353)	(4,353)	(1)	(3)	(4)	(30,863)	(6,986)	(12)	(37,861)	(35,680)
Realised and unrealised investment gains/(losses)	14	–	840	840	–	–	–	123	472	595	123	1,312	1,830	3,265	(247)
Net income/(expenditure) before transfers and other recognised gains and losses		(494)	1,475	981	–	2,402	2,402	177	1,255	1,432	(317)	5,132	1,818	6,633	10,442
Transfers	20	(836)	(400)	(1,236)	–	1,245	1,245	–	(9)	(9)	(836)	836	–	–	–
Net income/(expenditure) before other recognised gains and losses		(1,330)	1,075	(255)	–	3,647	3,647	177	1,246	1,423	(1,153)	5,968	1,818	6,633	10,442
(Loss)/gain on revaluation of fixed assets for charity's own use	12	–	–	–	–	164	164	–	–	–	–	164	–	164	1,682
Net movement in funds		(1,330)	1,075	(255)	–	3,811	3,811	177	1,246	1,423	(1,153)	6,132	1,818	6,797	12,124
Opening funds		3,363	7,867	11,230	–	273,954	273,954	1,740	297,761	299,501	5,103	579,582	6,670	591,355	579,231
Closing funds	20	2,033	8,942	10,975	–	277,765	277,765	1,917	299,007	300,924	3,950	585,714	8,488	598,152	591,355

3. Grant-in-Aid

	2018	2017
	£'000	£'000
Department for Digital, Culture, Media and Sport	<u>24,092</u>	<u>24,092</u>

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £3.7 million (2017: £3.7 million) was restricted for capital purposes.

4. Other government grants

	2018	2017
	£'000	£'000
EU Iperion	62	–
EU Cross Cultivation	84	–
British Council – Gulf Project	5	–
	<u>151</u>	<u>–</u>

5. Donations and legacies

	2018	2017
	£'000	£'000
Donations and legacies relating to Gallery activities excluding acquisitions and other capital expenditure can be split as follows:		
Individuals	1,011	711
Trusts and foundations	3,388	2,726
Gifts in kind	387	491
Legacies	1	237
	<u>4,787</u>	<u>4,165</u>

Restricted donations included above total £3,496k (2017: £3,131k).

	2018	2017
	£'000	£'000
Donations relating to collection acquisitions can be split as follows:		
Individuals	307	18
Trusts and foundations	11,698	152
Legacies	1,000	59
Acceptance-in-lieu	4,890	435
	<u>17,895</u>	<u>664</u>

	2018	2017
	£'000	£'000
Donations relating to other capital expenditure can be split as follows:		
Trusts and foundations	900	3,076
Individuals	50	19
	<u>950</u>	<u>3,095</u>
Total donations and legacies	<u>23,632</u>	<u>7,924</u>

6. Income from other trading activities

	2018 £'000	2017 £'000
Activities for generating funds		
Trading	5,416	4,728
Concessions	1,015	1,024
Miscellaneous	344	356
	6,775	6,108
Other income		
Loss on disposal of equipment	(2)	–

Trading income includes royalties, venue hire, floor plan sales, exhibition sponsorship, membership subscriptions, cloakroom charging and the corporate membership programme.

7. Investment income

	2018 £'000	2017 £'000
Income from UK bank deposits	16	36
Income from overseas funds	293	269
	309	305

8. Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2017: £nil). The total value of expenses reimbursed to Trustees amounted to £nil for the year (2017: £nil). The total value of waived expenses based on an estimate of travel costs to attend meetings in the year was £3,127 (2017: £2,566).

9. Total expenditure

	Direct costs £'000	Support costs £'000	Depre- ciation £'000	Total 2018 £'000	Total 2017 £'000
Raising funds	1,940	382	–	2,322	2,049
Other Costs	–	–	–	–	17
	<u>1,940</u>	<u>382</u>	<u>–</u>	<u>2,322</u>	<u>2,066</u>
Exhibitions	4,063	191	448	4,702	4,776
Broaden our appeal and provide an exceptional visitor experience	10,897	928	1,924	13,749	13,675
Preserve, enhance and develop the potential of our collections	2,988	704	551	4,243	5,351
Inspire learning and engagement	2,932	436	300	3,668	3,252
Invest in our staff, increase income and care for our physical facilities	7,204	432	1,264	8,900	8,741
	<u>28,084</u>	<u>2,691</u>	<u>4,487</u>	<u>35,262</u>	<u>35,795</u>
	<u>30,024</u>	<u>3,073</u>	<u>4,487</u>	<u>37,584</u>	<u>37,861</u>

A breakdown of support costs, and a description of the basis on which these costs have been allocated to each of the activity cost categories, is set out below:

Cost type	Fundraising costs	Exhibitions	Appeal and visitor experience	Preserve, enhance and develop	Learning and engagement	Staff and physical facilities	Total	Basis of allocation
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Finance	24	82	341	25	15	242	729	Direct expenditure of activity
Human Resources	125	24	149	242	149	24	713	Headcount
Information Services	191	37	228	367	228	37	1,088	Headcount
Office Services	30	6	36	58	36	6	172	Headcount
Governance	12	42	174	12	8	123	371	Direct expenditure of activity
	<u>382</u>	<u>191</u>	<u>928</u>	<u>704</u>	<u>436</u>	<u>432</u>	<u>3,073</u>	

Analysis of governance costs:

	2018	2017
	£'000	£'000
Staff costs	183	179
Auditor's remuneration	36	36
Internal audit fees	33	11
Cost of meetings	–	2
Operational consultants	54	–
Legal fees	65	137
	<u>371</u>	<u>365</u>

Total expenditure includes the following:

	2018	2017
	£	£
Auditor's remuneration:		
Statutory audit	35,600	35,600
Leased rental payments on equipment and office space	<u>625,719</u>	<u>624,997</u>

The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

In the prior year total expenditure included a grant to the National Gallery Trust of £1.15m for the furtherance of the National Gallery's charitable objectives. There is no similar grant in 2018.

10. Staff costs

	2018	2017
	£'000	£'000
Wages and salaries	8,549	7,512
Social security costs	906	772
Pension costs	1,627	1,456
Apprenticeship levy	28	–
Agency staff	310	477
	<u>11,420</u>	<u>10,217</u>

Total spend on contingent labour is disclosed under the heading 'agency staff'.

The average number of employees during the year, analysed by function was:

	2018	2018	2018	2017
	Permanent	Other	Total	Total
	contracts	contracts	contracts	Total
	No.	No.	No.	No.
Fundraising	24	5	29	30
Exhibitions	8	4	12	9
Broaden our appeal and provide an exceptional visitor experience	39	8	47	43
Preserve, enhance and develop the potential of our collections	54	11	65	61
Inspire learning and engagement	30	42	72	97
Invest in our staff, increase income and care for our physical facilities	8	3	11	9
Support	30	3	33	34
Governance	2	–	2	2
	<u>195</u>	<u>76</u>	<u>271</u>	<u>285</u>

The employees shown above under 'Other contracts' includes freelance lecturers who provide ad-hoc talks on specialist areas but who do not undertake established posts within the Gallery.

Further information relating to staff pay can be found in the Staff Report.

Further information relating to the Director's and senior managers' pay can be found in the Remuneration Report.

11. Pension costs

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply.

All present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) or the Civil Servant and Other Pension Scheme (CSOPS) – known as "alpha".

PCSPS and alpha are unfunded multi-employer defined benefit schemes. The National Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2018, employer's contributions of £1,560,492 were payable to the PCSPS (2017: £1,375,336) at one of four rates in the range 20% to 24.5% of pensionable pay based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 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. Employer's contributions of £78,077 (2017: £58,257) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,987 (2017: £2,262), 0.5% (2017: 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 and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £8,156 (2017: £5,309).

No individuals retired early on ill-health grounds during the year ended 31 March 2018 (2017: none).

Further information relating to the Director's and senior managers' pay can be found in the Remuneration Report.

12. Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Equipment £'000	Total £'000
Cost or valuation				
As at April 2017	210,862	76,900	5,103	292,865
Additions	2,648	3,156	184	5,988
Disposals	–	–	(48)	(48)
Revaluation	19,289	2,087	–	21,376
As at 31 March 2018	232,799	82,143	5,239	320,181
Depreciation				
As at 1 April 2017	3,662	7,300	4,092	15,054
Disposals	–	–	(46)	(46)
Charge for year	1,337	2,643	507	4,487
As at March 2018	4,999	9,943	4,553	19,495
Net book value				
31 March 2018	227,800	72,200	686	300,686
31 March 2017	207,200	69,600	1,011	277,811

The freehold of the National Gallery, including both the Wilkins Building and the Sainsbury Wing, was transferred from the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994.

The freehold property was independently valued as at 31 March 2018 by Mark Thompson BA (Hons) MRICS IRRV of BNP Paribas Real Estate, (the "Valuer") acting in the capacity of an external valuer. The valuation was in accordance with the requirements of the Government's Financial Reporting Manual, the Statement of Recommended Practice 'Accounting and Reporting by Charities, the current RICS Valuation – Professional Standards and FRS 102 the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

The valuation was on the basis of Fair Value, subject to the following assumption;

- That the property would be sold as part of the continuing business (or entity) in occupation.

The Valuer's opinion of Fair Value was primarily derived using;

- The depreciated replacement cost method of valuation because the specialised nature of the asset means that there are no market transactions of this type of asset except on the basis of a sale as part of the business or entity in occupation.

The Valuer has reported a total Fair Value of £300,000,000 (three hundred million pounds).

Had the revaluation model not been applied, the carrying amount that would have been recognised had the assets been carried under the historical cost model for each class of revalued assets is as follows:

	Freehold land and buildings £'000	Plant and machinery £'000
Effective value under historical cost model	154,186	34,921

The financial effect of revaluing other assets (excluding plant and machinery) was considered to be immaterial in terms of the overall net book value and therefore they have been disclosed at their historic cost value.

The net book value at 31 March 2018 represents fixed assets held for charitable purposes only.

13. Heritage assets

The National Gallery houses one of the greatest collections of Western European painting in the world. These pictures belong to the public and entrance to see them is free. The Gallery aims to tell the story of European painting as completely as possible and at the highest possible level. The Collection contains over 2,300 works, including many iconic masterpieces such as van Eyck's *Arnolfini Portrait*, Piero della Francesca's *Baptism*, Holbein's *Ambassadors*, Leonardo's *Virgin of the Rocks*, Vermeer's *Young Woman Standing at a Virginal*, Velázquez's *Rokeby Venus*, Turner's *Fighting Temeraire* and Van Gogh's *Sunflowers*. The work of some of the greatest painters, including Raphael, Titian, Rembrandt, Monet and Cezanne, is represented in great depth, with a range of works of varying types and from different periods of the artists' careers.

A full description of the Collection, including zoomable images of every picture, can be found on the National Gallery's website.

Heritage assets capitalised in the Balance Sheet are shown below:

	Cost £'000	Valuation £'000	Total £'000
As at 1 April 2017	28,254	268,179	296,433
Additions	<u>13,868</u>	<u>4,890</u>	<u>18,758</u>
As at 31 March 2018	<u>42,122</u>	<u>273,069</u>	<u>315,191</u>

All heritage assets acquired since 1 April 2001 have been included in the Balance Sheet at their cost or value at the date of acquisition.

Where heritage assets have been acquired under the Acceptance in Lieu Scheme or Cultural Gifts Scheme, valuations are provided by the Arts Council England. Where pictures have been donated, bequeathed or acquired other than on the open market, valuations have been performed by the Gallery's curators, who are recognised experts in their fields, or by external valuers. The primary method of valuation involves the analysis of recent market values for comparable works, together with a detailed technical assessment of the painting's physical condition to arrive at a reasonable valuation. However, there is an inherent limitation to valuation of works acquired by the National Gallery, simply because by their nature they are usually unique and iconic works of art for which little or no comparable market data exists.

Additions during the year ending 31 March 2018 comprise:

- Adriaen Coorte's *Still Life with a Bowl of Strawberries, a Spray of Gooseberries, Asparagus and a Plum*, a gift from the collection of Willem Baron van Dedem at a value £1,500,000.
- David Teniers' the Younger *Christ Crowned with Thorns*, a gift from the collection of Willem Baron van Dedem at a value £850,000.
- Jan van Kessel's the Elder *Butterflies, Moths and Insects with Sprays of Common Hawthorn and Forget-Me-Not*, a gift from the collection of Willem Baron van Dedem at a value £425,000.
- Jan van Kessel's the Elder *Butterflies, Moths and Insects with Sprays of Creeping Thistle and Borage*, a gift from the collection of Willem Baron van Dedem at a value £425,000.
- Bernardo Bellotto's *The Fortress of Konigstein, from the North* bought with the support of the American Friends of the National Gallery, The National Gallery Trust, the Estate of Mrs Madeline Swallow, the Art Fund (with a contribution from The Wolfson Foundation), Howard and Roberta Ahmanson, The Deborah Loeb Brice Foundation, The Manny and Brigitta Davidson Charitable Foundation, The Sackler Trust and through private appeal at a cost £11,670,000.
- Juan de Zurbaran *Still Life with Lemons in a Wicker Basket* bought with the support of the American Friends of the National Gallery, and the National Gallery Trust at a cost £2,096,070.
- John Singer Sargent *Wineglasses* accepted by HM Government in lieu of Inheritance Tax and allocated to the National Gallery at a value £1,540,000.
- The Burlington Magazine Archive, a gift from the Burlington Magazine valued at £150,000.
- 19 frames for various pictures at an aggregate cost of £94,245.

Five year financial summary of acquisitions

	2018	2017	2016	2015	2014
	£'000	£'000	£'000	£'000	£'000
Donated assets and acquisitions funded by donations	18,738	523	5,604	3,873	17,386
Other acquisitions	20	–	103	277	115
Total cost/value of acquisitions	<u>18,758</u>	<u>523</u>	<u>5,707</u>	<u>4,150</u>	<u>17,501</u>

Significant additions over the last five years include:

- Bernardo Bellotto's *The Fortress of Königstein, from the North* bought with the support of the American Friends of the National Gallery, The National Gallery Trust, the Estate of Mrs Madeline Swallow, the Art Fund (with a contribution from The Wolfson Foundation), Howard and Roberta Ahmanson, The Deborah Loeb Brice Foundation, The Manny and Brigitta Davidson Charitable Foundation, The Sackler Trust and through private appeal in 2017 at a cost £11,670,000. This is one of five large-scale views of Königstein commissioned from Bellotto by his most important and prestigious patron, Augustus III, King of Poland and Elector of Saxony.
- Juan de Zurbaran *Still Life with Lemons in a Wicker Basket* bought with the support of the American Friends of the National Gallery, and the National Gallery Trust in 2017 at a cost £2,096,070. This is one of only a dozen or so still life paintings by Juan de Zurbarán, son of the celebrated painter Francisco de Zurbarán.
- John Singer Sargent *Wineglasses* accepted by HM Government in lieu of Inheritance Tax and allocated to the National Gallery in 2018 at a value £1,540,000. The study of a sun-dappled veranda at St-Enogat in Brittany reveals the influence of the Impressionists, whose work was encountered by Sargent in Paris, where he was studying.
- Giovanni da Rimini *Scenes from the Lives of the Virgin and other Saints* acquired with a generous donation from Ronald S. Lauder in 2015 at a cost of £4,885,188. The painting is divided into four narrative scenes, each of which depicts episodes from the lives of holy figures key to late Medieval Christian devotion.
- Luca Signorelli *Man on a Ladder* Accepted by HM Government in Lieu of Inheritance Tax and allocated to the National Gallery in 2016 at a value of £630,000. The painting is part of a larger altarpiece depicting the Lamentation over Christ's dead body.
- Jean-Baptiste-Camille Corot *The Four Times of Day: 'Morning', 'Noon', 'Evening' and 'Night'* bought with the assistance of the Art Fund (with a contribution from The Wolfson Foundation), in 2014, at a cost of £3,325,000.
- Italian, Venetian – *Christ carrying the Cross* was donated to the National Gallery by Angus Neill. The picture was valued for indemnity purposes at £500,000 when it was first received by the Gallery on long-term loan in autumn 2014. The unknown Venetian painter was influenced by Giovanni Bellini and Giorgione.
- George Bellows' *Men of the Docks* which was purchased at a cost of \$25.5 million (£15,436,000). The painting was bought with a grant from the American Friends of the National Gallery, made possible by Sir Paul Getty's fund, and by private appeal, 2014.

Heritage assets not capitalised on the Balance Sheet

The proportion of the Collection not capitalised on the Balance Sheet is set out below:

	Total number of items	Number capitalised	% capitalised	Number not capitalised	% not capitalised
Pictures	<u>2,370</u>	<u>85</u>	<u>4%</u>	<u>2,285</u>	<u>96%</u>

The vast majority of the Gallery's collection is not capitalised. The nature and scale of the Collection can be viewed in detail on the Gallery's website.

Heritage asset management

Acquisitions

The acquisition of pictures and frames is one of the Gallery's statutory objectives. Acquisitions are essential to enhance the Collection now and for future generations. In particular, acquisitions enable the Gallery to develop its presentation of the history of Western European painting.

The Gallery's principal aims in making acquisitions are as follows:

- to obtain masterpieces of outstanding quality;
- to develop the Gallery's uniquely coherent narrative of Western European painting beyond the canon established during the nineteenth century; and
- to build on the Gallery's strengths.

All acquisitions, whether by purchase or donation, require the approval of the Board of Trustees. Prior to approval, potential acquisitions are subject to detailed checks concerning the ownership, provenance, condition and value of the picture, taking into account guidelines published by the Department for Digital, Culture, Media and Sport (*Combating Illicit Trade: due diligence guidelines for museums, libraries and archives on collecting and borrowing cultural material*).

Preservation

The most effective strategy for preservation is the application of principles of preventive conservation, largely achieved through environmental and light control. These principles are the subject of research and refinement and are specified by the Scientific and Conservation departments working with the Gallery's engineers. In addition to conservation treatments, the Conservation department's work includes assessment of the Collection, preventive maintenance and minor treatment such as blister laying, surface cleaning and re-varnishing. Except in an emergency, all proposals for major conservation work including cleaning are referred to the Board, both for permission to begin and on completion, for approval of the work done and for the painting's return to exhibition. All minor work is discussed with and agreed by the relevant curator.

Detailed information on the Gallery's preservation policies can be found in the Conservation Risk Management Statement and Preventive Conservation Risk Management Statement on the Gallery's website.

Management

The Gallery's collection comprises 2,370 paintings and approximately 2,489 frames. As at 31 March 2018 1,153 (49%) paintings were on public display at the Gallery, 106 (4%) on loan elsewhere and the remainder were in the conservation and photographic studios or in storage.

The National Gallery is committed to the widest possible access to the collection which it houses, conserves and displays. Details of the policy adopted by the Gallery to provide access can be found in the Access Statement on the Gallery's website.

The Museum System (TMS), a sophisticated collections management system, is used by a number of departments to catalogue the Collection and to manage acquisitions, location recording, exhibitions and loans. Location recording in TMS is a core part of the processes involved in moving paintings within and into and out of the National Gallery. This is supported by daily inventory checks of the public display galleries and regular checks of other areas where pictures may be stored.

Disposals

The Trustees of the Gallery have a statutory responsibility to hold and maintain the collection of pictures in trust for future generations in accordance with the Gallery's charitable objectives. The Trustees are not empowered to dispose of any pictures: the Collection is inalienable. Any disposal of an item in the Collection could only be made by transfer to another national collection in accordance with the provisions of the Museums and Galleries Act 1992.

14. Investments**a. Fixed asset investments**

	2018	2017
	£'000	£'000
Market value as at 1 April	15,381	11,853
Investment portfolio additions	293	263
Realised and unrealised (losses)/gains	295	3,265
Market value as at 31 March	<u>15,969</u>	<u>15,381</u>

Fixed asset investments comprise the following:

	2018	2017
	£'000	£'000
Authorised funds	14,954	14,658
Cash held as part of the investment portfolio	1,015	723
	<u>15,969</u>	<u>15,381</u>

Fair value reserve:

	2018	2017
	£'000	£'000
Investment in funds at historic cost	14,880	8,087
Fair value reserve	74	6,571
Cash held as part of the investment portfolio	1,015	723
Market value of investments	<u>15,969</u>	<u>15,381</u>

b. Current asset investments

	2018	2017
	£'000	£'000
Current asset investments	<u>3,550</u>	<u>5,743</u>
Movement in the year		
Total as at 1 April	5,743	7,720
Net transfers in year	<u>(2,193)</u>	<u>(1,977)</u>
Total as at 31 March	<u>3,550</u>	<u>5,743</u>

Cash held for investment purposes in 30-day and 90-day notice accounts is treated as a current asset investment.

15. Debtors

	2018	2017
	£'000	£'000
Amounts falling due within one year		
Trade debtors	1,436	587
Other debtors	303	353
Tax and social security	798	1,584
Prepayments and accrued income	6,916	6,895
	<u>9,453</u>	<u>9,419</u>

16. Creditors**a. Creditors: amounts falling due within one year**

	2018	2017
	£'000	£'000
Trade creditors	4,056	2,623
Other creditors	669	695
Accruals and deferred income	3,068	5,487
	<u>7,793</u>	<u>8,805</u>

b. Creditors: amounts falling due in more than one year

	2018	2017
	£'000	£'000
Amounts falling due in more than one year		
Accruals and deferred income	2,807	1,182
	<u>2,807</u>	<u>1,182</u>
In more than one year but not more than two years	1,388	131
In more than two years but not more than five years	1,419	1,051
	<u>2,807</u>	<u>1,182</u>

The movement on the deferred income account in the year was as follows:

	2018	2017
	£'000	£'000
As at 1 April	2,798	2,695
Amounts released from previous years	(1,430)	(1,882)
Income deferred in the current year	2,990	1,985
As at 31 March	<u>4,358</u>	<u>2,798</u>

Deferred income released during the year related to acquisitions where the transactions were completed during the year. Income deferred in the year includes grants restricted to future activities, as well as corporate membership, exhibition sponsorship and other membership income.

c. Provisions: amounts falling due within one year

There are no provisions at 31 March 2018 (2017: £nil).

17. Financial instruments

The Gallery's financial instruments, as defined in FRS 102 section 11, are set out by category below:

	Measured at cost £'000	Measured at fair value £'000	Total £'000
At 31 March 2018			
Cash	4,707	–	4,707
Current asset investments	3,550	–	3,550
Trade and other debtors	2,300	–	2,300
Fixed asset investments	–	15,969	15,969
Trade and other creditors	(5,434)	–	(5,434)
	<u>5,123</u>	<u>15,969</u>	<u>21,092</u>
At 31 March 2017			
Cash	3,340	–	3,340
Current asset investments	5,743	–	5,743
Trade and other debtors	1,735	–	1,735
Fixed asset investments	–	15,381	15,381
Trade and other creditors	(4,842)	–	(4,842)
	<u>5,976</u>	<u>15,381</u>	<u>21,357</u>

Information on the Gallery's overall approach to financial risk management may be found in the investment, reserves, and risk sections of the Annual Report. The significance of financial instruments to the risk profile is as follows:

Credit risk

The Gallery's credit risk arises from its investments, bank deposits, and trade and other debtors. Other than cash within the investment portfolio, term deposits and cash holdings are spread across regulated UK banks. The Gallery has not suffered any loss in relation to cash held by its bankers. Trade debtors of £1.4 million (2017: £0.6 million) are not considered a significant risk since major customers are familiar to the Gallery. The Gallery's debtor profile is reviewed regularly to ensure that prompt action is taken, and a provision is made at the end of the year against any debts considered doubtful. No provision was deemed necessary this year (2017: £nil). Write-offs in the year for bad debts amounted to £20,351 (2017: £1,000).

Liquidity risk

The Gallery's reserves policy, set out in the Annual Report, helps provide a safeguard against volatile and unpredictable income streams. Grant-in-aid from the Department for Digital, Culture, Media and Sport represents 42% (2017: 58%) of the Gallery's income before transfers and revaluations. Current asset investments of £3.6m (2017: £5.7m) and a further £16m (2017: £15.4m) of readily realisable fixed asset investments help mitigate exposure to liquidity risk. The Gallery's investments are monitored by a sub-committee of the Board which meets regularly to consider liquidity requirements over the medium term and review fund performance in discussion with the fund managers.

Market risk

a. Interest rate risk

The Gallery has no borrowings. Interest receivable is less than 0.1% of incoming resources before transfers and revaluations. The interest rate is not considered to be a significant risk for the Gallery.

b. Price risk

The Gallery is exposed to market fluctuations on its investments, mitigated through diversification. This risk is monitored by a sub-committee of the Board, as described in the investment policy above. For non-investment transactions, exposure is reduced by competitive tendering and the securing of multi-year fixed-price contracts where appropriate.

c. Foreign currency risk

At the end of the year £14.7 million (2017: £14.4 million) was invested in US dollar denominated funds. Given the value compared to overall net assets, exposure to currency fluctuations is not considered significant enough to require sensitivity analysis.

18. Financial commitments

Capital Commitments

The Gallery has no capital commitments (2017: £nil).

Commitments under operating leases

As at 31 March 2018 the National Gallery had commitments under operating leases for photocopiers and rent payable as set out below:

	2018	2017
	£'000	£'000
Operating leases which expire:		
Within 1 year	623	626
Between 2 and 5 years	1,258	1,881
Over 5 years	<u>–</u>	<u>–</u>

19. Contingent liability

As at 31 March 2018 the Gallery recognised a contingent liability in respect of three (2017: six) outstanding public liability claims that are currently being investigated by the Gallery's advisers. The claims are for injuries that are alleged to have occurred after slips or falls in Gallery spaces. For each of these claims the likelihood of the Gallery being found liable is not assessed as probable, but the insurer has placed reserves on the four claims (2017: three).

In addition, the Gallery continues to recognise an unquantifiable liability in respect of funds received from Ronald S. Lauder. These funds enabled the Gallery to purchase the painting 'Scenes from the Lives of the Virgin and other Saints' by Giovanni da Rimini, in July 2015. The Deed between the Gallery and the Donor states that a part of the consideration is in relation to the lease of the Painting to the Donor in the period from the acquisition of the Painting for the remainder of the Donor's lifetime. However, the Gallery is unable to measure the value of the obligation, so it has been recorded as an unquantifiable contingent liability at 31 March 2018 as it was in the prior year.

The National Gallery is involved in legal action in the United States concerning the rightful ownership of Portrait of Greta Moll by Henri Matisse. In September 2016 the descendants of Greta Moll filed a lawsuit against the National Gallery and Her Majesty's Government (HMG), claiming possession of the painting or at least \$30m as an alternative to the painting being returned. The National Gallery and HMG filed Motions to Dismiss the claim on the basis of absence of jurisdiction and any viable cause of action. In September 2017, the trial court granted the motion and dismissed the action on the basis that both the National Gallery and HMG are entitled to sovereign immunity, that the claims are barred by the applicable statute of limitations, and that the claims are barred by laches. The claimants filed an appeal with the appellate court with all pleadings in the appeal due to be filed by the end of May 2018. The National Gallery and HMG continue to defend the case. The National Gallery maintains that it has good title to the picture.

20. Statement of funds

	At 1 April 2017 £'000	Income £'000	Expendi- ture £'000	Net movement on invest- ments and revaluation £'000	Transfers between reserves £'000	At 1 April 2018 £'000
Unrestricted funds						
Designated funds:						
Designated funds for the purchase of heritage assets	1,544	5	–	5	–	1,554
Trust funds designated for the purchase of heritage assets	373	50	(1)	7	–	429
Total designated funds	1,917	55	(1)	12	–	1,983
General funds	2,033	30,328	(28,705)	–	(1,637)	2,019
Total unrestricted funds	3,950	30,383	(28,706)	12	(1,637)	4,002
Restricted income funds						
Capital assets reserve	188,248	4,610	(4,489)	–	1,426	189,795
Building revaluation reserve	54,325	–	–	19,289	–	73,614
Plant and machinery revaluation reserve	35,192	–	–	2,087	–	37,279
Donated works of art reserve	248,634	4,996	–	–	13,679	267,309
Heritage assets acquired	47,822	–	–	–	394	48,216
Exhibitions programme fund	559	1,389	(1,608)	–	15	355
Running cost fund	2,825	2,257	(2,761)	–	(98)	2,223
Curatorial fund	1,567	–	–	–	–	1,567
Collection purchases fund	237	12,899	–	–	(13,779)	(643)
Collection purchases trust fund	2,314	132	(3)	44	–	2,487
Art historical research	3,991	105	(5)	76	–	4,167
Total restricted income funds	585,714	26,388	(8,866)	21,496	1,637	626,369
Endowment funds						
Collection purchase endowments	4,652	–	(6)	90	–	4,736
Art historical research endowment	1,576	–	(2)	30	–	1,604
General purpose endowments	2,260	–	(4)	43	–	2,299
Total endowment funds	8,488	–	(12)	163	–	8,639
Total funds	598,152	56,771	(37,584)	21,671	–	639,010

Transfers between reserves relate to the matching to the relevant fund of expenditure incurred and allocated against unrestricted funds in earlier years as well as to the purchase of fixed and heritage assets.

The statement of funds at 31 March 2018 comprises a number of individual funds which divide into distinct categories as defined below:

Unrestricted funds

- Funds designated for the purchase of heritage assets are for the acquisition of works of art for the Collection.
- General funds may be applied to general use and are expendable at the discretion of the Trustees.

Restricted income funds

- Capital assets reserve comprises funds in respect of the Gallery's land, buildings and plant and machinery.
- Revaluation reserves reflect the effect of revaluations of tangible fixed assets over time.
- The donated works of art reserve represents the value of works of art donated to the Collection subsequent to 1 April 2001 and capitalised as well as donations for future acquisitions.
- Heritage assets acquired represents the cost at the date of acquisition of works of art acquired since 1 April 2001. These are treated as restricted because the Collection is inalienable.

- Exhibitions programme funds are those raised specifically to support the Gallery's exhibition programme.
- Running cost funds are those raised to support other Gallery projects, including educational initiatives.
- Curatorial funds are those raised specifically for the financing of curatorial activities, including the funding of certain curatorial posts.
- Collection purchases funds comprise bequests received specifically for the acquisition of works of art for the Collection. The deficit on this fund relates to a funded picture acquisition where pledges of funding will be received over the next four financial years.
- Art historical research represents funds raised specifically towards the financing of curatorial research into the Collection.

Endowment funds

- Collection purchase endowments comprise funds donated where the income may be applied only to collection purchases, while the capital must be retained in the endowment.
- Art historical research endowment represents funds donated where the income may be applied only towards the cost of research into the Collection, while the capital must be retained in the endowment.
- General purpose endowments comprise funds donated where the income may be applied to general expenditure, while the capital must be retained in the endowment.

21. Analysis of net assets between funds

	Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment £'000	Total Funds 2018 £'000	Total Funds 2017 £'000
Tangible assets	(2)	300,688	–	300,686	277,811
Heritage assets	–	315,191	–	315,191	296,433
Fixed asset investments	676	6,654	8,639	15,969	15,381
Other net assets/(liabilities)	3,328	3,836	–	7,164	8,527
Total net assets	<u>4,002</u>	<u>626,369</u>	<u>8,639</u>	<u>639,010</u>	<u>598,152</u>

22. Note to the cash flow statement

a. Reconciliation of net income to net cash flow from operating activities:

	2018 £'000	2017 £'000
Net income/(expenditure) for the reporting period (as per the SoFA)	19,482	6,633
Adjustments for:		
Donations to the collection	(4,890)	(435)
Depreciation charges	4,487	4,359
(Gains)/losses on investments	(295)	(3,265)
Dividends, interest and rents from investments	(309)	(305)
Loss/(profit) on the sale of fixed assets	2	–
(Increase)/decrease in stocks	(42)	25
(Increase)/decrease in debtors	(34)	(3,148)
Increase/(decrease) in creditors	(367)	233
Net cash provided by (used in) operating activities	<u>18,034</u>	<u>4,097</u>

b. Composition of the cash balance at the end of the year:

	2018	2017
	£'000	£'000
Balance with Government Banking Services	987	511
Balances held with commercial banks	3,698	2,813
Cash in hand	22	16
Cash balance at end of year	<u>4,707</u>	<u>3,340</u>

23. Related party transactions

The National Gallery is a Non-Departmental Public Body whose sponsor department is the Department for Digital, Culture, Media and Sport (DCMS). DCMS is regarded as a related party. During the year, the National Gallery has had various material transactions with DCMS and with other entities for which DCMS is regarded as the parent department.

The Gallery considers the National Gallery Trust, the NGT Foundation and the American Friends of the National Gallery, London, Inc to be related parties because in each case one or more Trustees of the National Gallery also sit on the Board of the related party. All three entities are entirely separate charities with independent Boards, the majority of whose members are unconnected with the National Gallery. None of the related parties, or their subsidiary undertakings, is consolidated into the accounts of the National Gallery.

All balances with related parties are settled in cash.

The Charity SORP 2015 also requires disclosure of donations received from Trustees and other related parties. During the year, £6,000 (2017: £nil) was received from Trustees and £nil (2017: £nil) from Executive Directors in respect of general donations.

The National Gallery also entered into material related party transactions with other related parties during the year, as set out below:

Related party	Nature of relationship	Value of	Value of	Outstanding	Nature of transaction
		income received during the year	expenditure during the year	balances due from/(to) related party at year end	
		£	£	£	
American Friends of the National Gallery, London, Inc	Hannah Rothschild and Lord King, Trustees, are Directors of the related party	6,855,682	–	–	Grant income and recharge for UK administrative work
Arts Council England	Entity sponsored by DCMS	958	–	556	Registrar service for Arts Council England Reviewing Committee
BBC	Entity sponsored by DCMS	200	–	–	Filming fees
British Film Institute	Entity sponsored by DCMS	2,200	619	–	Event income & licence fees
British Library	Entity sponsored by DCMS	–	42	–	Book loan costs
British Museum	Entity sponsored by DCMS	(100)	38,895	(36,255)	Internal audit fees – shared service
Courtauld Institute of Art	Gabriele Finaldi, Director, is a member of the Governing Board of the related party	2,838	–	2,737	Delivery of a module for an MA course

Related party	Nature of relationship	Value of income received during the year	Value of expenditure during the year	Outstanding balances due from/(to) related party at year end	Nature of transaction
		£	£	£	
Metropolitan Museum of Art	Katrin Henkel, Trustee, is a member of the Visiting Committees of Prints & Drawings and Sherman Fairchild Centre for Works On Paper and Photograph Conservation at the related party	412	54,291	(52,232)	Rechargeable expenditure and costs associated with exhibitions
	Hannah Rothschild, Trustee, is a member of the International Committee of the related party				
Museo Nacional del Prado	Gabriele Finaldi, Director, is a member of the Consultative Committee of the Boletín del Museo del Prado	–	462	219	Transport costs for loaned pictures
National Gallery Company Ltd	Lance Batchelor, Trustee, is Chair of the related party	1,545,369	354,956	418,097	Income for use of commercial space within the National Gallery, payment for publications and other transactional services
	Gabriele Finaldi and Chris Walker, Directors, are Non-Executive Directors of the related party				
National Gallery Trust	Hannah Rothschild and Lance Batchelor, Trustees, are also Trustees of the related party	7,827,854	–	3,446,345	Grant income and recharge of costs for administrative services provided
National Museums Liverpool	Entity sponsored by DCMS	–	80	–	Preparation of painting for display
National Portrait Gallery	Entity sponsored by DCMS	267,880	1,370	32,089	Charge for use of space and associated utilities
Royal Mail Group Ltd	Moya Greene, Trustee, is Chief Executive of the related party	–	662	–	Postage costs
Science Museum	Entity sponsored by DCMS	–	8,459	–	Subscription fee
State Hermitage Museum	Gabriele Finaldi, Director, is a member of the International Advisory Board	–	941	–	Loan fees for exhibition
Tate Gallery	Hannah Rothschild, Lisa Milroy, Dexter Dalwood and Moya Greene, Trustees, are Trustees of the related party	–	770	–	Royalties and image usage fees
	Entity also sponsored by DCMS				
Tavolozza Foundation	Katrin Henkel, Trustee, is joint CEO of the related party	20,000	–	–	Grants received
The Burlington Magazine	Gabriele Finaldi, Director, is a Trustee of the related party	150,000	2,216	–	Gift of the archive of the Burlington Magazine, subscription cost and advertising costs
The NGT Foundation	Hannah Rothschild and Katrin Henkel, Trustees, are Directors of the related party	32,100	758,139	225,270	Recharge of costs for administrative services provided, costs of renting office space.

Related party	Nature of relationship	Value of income received during the year	Value of expenditure during the year	Outstanding balances due from/(to) related party at year end	Nature of transaction
		£	£	£	
The Rothschild Foundation	Hannah Rothschild, Chair and Trustee, is a Director and Trustee of the related party	–	–	200,000	Grant recognised in 2016-17 being received over four years
The Royal Academy of Arts	Lisa Milroy, Trustee until 19 July 2017, is a Royal Academician at the related party	–	6,974	–	Transport costs relating to exhibition
Victoria & Albert Museum	Entity sponsored by DCMS	340	1,831	–	Training and preparation of paintings for exhibitions
Wallace Collection	Entity sponsored by DCMS	1,631	–	–	Royalties and image usage income
YouGov	Rosemary Leith, Trustee, is a Director of the related party	–	29,940	(31,138)	Audience market research

24. Post Balance Sheet events

The financial statements were authorised for issue by the Accounting Officer and Trustees on the date shown on the audit certificate. There were no post balance sheet events to report.

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