

MUSEUMS AND GALLERIES ACT 1992

Accounts of the National Gallery prepared pursuant to Museums and Galleries Act 1992, c.44, section 9(7), for the year ended 31 March 2008, together with the Report of the Comptroller and Auditor General thereon.

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

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# The National Gallery Annual Report and Accounts for the year ended 31 March 2008

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# Annual Report

## 1 The structure and role of the National Gallery

Full details of the structure and membership of the Board and of the principal officer of the Gallery are published in the Foreword to the Financial Statements.

The National Gallery's collection of Western European paintings from the 13th century onwards is one of the richest and most comprehensive in the world.

The collection belongs to the nation and it serves a wide and diverse range of visitors from the UK and overseas. The Gallery's role is to engage the public in the experience of this great collection. It is open to all, 361 days a year, free of charge.

The entire National Gallery permanent collection and long-term loans are illustrated and described in the collection online:

[http://www.nationalgallery.org.uk/collection/default\\_online.htm](http://www.nationalgallery.org.uk/collection/default_online.htm)

## 2 Objectives

### **Care for the collection**

- The Gallery looks after the paintings in its care so that none is lost or damaged.

### **Enhance the collection**

- The Gallery aims to acquire great pictures for the collection to enhance it for future generations.

### **Access to the collection**

The Gallery aims to:

- maintain free admission to the collection;
- provide access to as much as possible of the collection;
- maintain the highest standards in display;
- find imaginative and illuminating ways to nurture interest in the pictures among a wide and diverse public;
- encourage high-quality research and publication through a variety of media; and
- offer high standards of visitor services to the public.

### **A national and international leader**

The Gallery aims to:

- be a national and international leader in all its activities; and
- work with regional museums and galleries in the UK.

## Review of Activities and Achievements

### Care for the collection

#### Objective<sup>1</sup>

The Gallery looks after the paintings in its care so that none is lost or damaged.

#### Activities during the year

The Gallery continued its policy of maintaining the highest standards of excellence in preventive and remedial conservation, supported by pre-eminent scientific research. The Gallery undertakes ongoing reviews of measures to ensure the safety of the Collection, and continues to implement improvements to the existing disaster planning methodology.

One of the Gallery's paintings, Domenico Beccafumi's *Marcia* (NG6369), was dropped and broken in two this year during the de-installation of the exhibition *Renaissance Siena*. Remedial conservation work was performed and the picture is now back on display. A full investigation into the circumstances surrounding this very serious accident was undertaken by Internal Audit and a report was issued. The Gallery is currently implementing the recommendations of this report.

A major part of the work of the Conservation, Framing and Art Handling departments work this year has been in connection with the Gallery's exhibition *Renaissance Siena*. The reuniting of the surviving parts of the Matteo di Giovanni Asciano altarpiece, *The Assumption of the Virgin*, the central part of which is in the Gallery's collection, needed some sophisticated and well researched work by the Framing department. Almost more difficult was the reuniting of the eight panels of *Virtuous Men and Women of Antiquity*. These panels, four by the Master of the Story of Griselda and one each by Francesco di Giorgio Martini, Matteo di Giovanni, Pietro Orioli and Neroccio di Bartolomeo de'Landi and from seven different museums, were displayed together for the first time since 1820. Paintings from the National Gallery's collection by Benvenuto di Giovanni, Pintoricchio and Orioli were conserved especially for this exhibition.

Two small panels were cleaned in preparation for the Gallery's Dutch Portraits exhibition. They were Frans Hals's *Portrait of Jean de la Chambre at the Age of 33* and Gerrit Dou's *Portrait of a Young Woman*.

During the year two new acquisitions were put on display following conservation work. Firstly, Panini's *The Lottery in Piazza di Montecitorio* required extensive consolidation, relining, and cleaning and restoration of the surface. There was great gain in legibility following this work, and the painting makes an interesting counterpoint to the works by Canaletto and Guardi amongst which it hangs. Bonington's *La Ferté* required less complex conservation work, and following treatment was put on display amongst paintings on loan from the Gere collection.

Paintings attributed to Titian, *A Boy with a Bird* and Van Dyck's *Carlo and Ubaldo see Rinaldo Conquered by Love for Armida* were returned to public exhibition following Conservation treatment. During the year work has continued on the Gallery's largest painting: Guido Reni's *The Adoration of the Shepherds*.

The technical examination of paintings has continued to be an important part of the work of the Conservation department. Study of underdrawings in infrared reflectography has continued following the recent introduction of a new infrared camera by members of the Gallery's Scientific department.

#### Future developments

It remains a fundamental responsibility of the Gallery to protect the collection for the very long term. To that end the Gallery maintains the highest standards of excellence in preventive and remedial conservation supported by pre-eminent scientific research.

### Enhance the collection

#### Objective<sup>2</sup>

The Gallery aims to acquire great pictures for the collection to enhance it for future generations.

<sup>1</sup> 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'

<sup>2</sup> 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'

### *Activities during the year*

The Gallery was delighted and grateful to be able to announce the extremely generous bequest of the late Simon Sainsbury, a former trustee and an outstanding benefactor to the National Gallery. Three superb paintings, two by Claude Monet and the third by Paul Gauguin, have been left to the Gallery outright, and two further works, by Edgar Degas and Henri Rousseau, both of great significance as well, will come to the National Gallery in time but are subject to a life interest granted to a beneficiary under the will. These five paintings will be shown with thirteen others bequeathed to Tate in an exhibition at Tate Britain opening in June 2008; the three paintings bequeathed outright to the Gallery will subsequently go on permanent display at Trafalgar Square.

Thanks to the Acquisition-in-Lieu scheme, the Gallery was also able to acquire an unusual painting by an unidentified 16th century Florentine artist, *The Charity of Saint Nicholas of Bari*. This acquisition gave the Gallery a rare opportunity to enlarge its sixteenth-century Italian holdings and in particular to extend its ability to tell the story of the development of Mannerism. It not only provides the Gallery with a version of a popular Florentine religious subject writ large for domestic purposes but will also enhance the interpretation of the Gallery's holdings of paintings made for a domestic function. Following conservation work it will be displayed in Gallery 7 alongside paintings by Pontormo and Bacchiacca made in 1515-18 for the Borgherini family's bedchamber.

### *Future developments*

The vitality of the collection depends on continuing acquisitions. Over recent years the Gallery has succeeded in many imaginative ways to enhance the collection through acquisitions and loans.

It is difficult to see how the Gallery will be able to continue to seize such opportunities in future unless substantial changes are made to the structure for helping institutions to fund acquisitions. Figures from *Art Market Report* suggest that inflation in the cost of Old Master paintings over the period since 1980 has been over 400 per cent. For the top two per cent of paintings, the rise was very much higher. In November 2006 the Art Fund published data comparing the purchasing power of the UK's major museums with some of their counterparts abroad, and concluded that there is evidence to suggest that expenditure by UK museums and galleries on acquisitions is significantly lower than that of their equivalent institutions in the US and elsewhere.

## **Access to the collection**

### *Objective<sup>3</sup>*

The Gallery aims to:

- maintain free admission to the collection;
- provide access to as much as possible of the collection;
- maintain the highest standards in display;
- find imaginative and illuminating ways to nurture interest in the pictures among a wide and diverse public;
- encourage high-quality research and publication through a variety of media; and
- offer high standards of visitor services to the public.

<sup>3</sup> 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'.

*Activities during the year*

The Gallery's educational activities have, as ever, been extremely successful and adventurous. Lunchtime talks, courses of all kinds, lectures, study mornings and conferences have been joined by workshops and special events designed to appeal to the widest possible range of audiences, while contemporary artists have come into the Gallery to teach, to take part in public discussions and work among the pictures.

In September, the Gallery doubled its provision for Family Learning. 'Every Sunday is Family Sunday' became the byword, enabling family groups to visit the Gallery on a Sunday and know that there would be a wide range of exciting activities tailor-made for them, ranging from 'Magic carpet' story-telling sessions for the very young, to practical workshops for older children. In addition, a new Family Audio-guide is in preparation entitled 'Teach your grown-Ups about Art'. This exciting new project will enable children to take their parents and carers around the Gallery themselves.

The regular provision of lunchtime lectures, courses and workshops continued throughout the year and the 'Talk and Draw' concept, whereby visitors make their own creative responses to works in the collection, was extended with the offer a 'Diversity of Drawing' day of drop-in workshop events in front of the paintings. Over 1200 visitors listened to talks on drawing and took part in the workshops led by tutors from the Ruskin School of Drawing and Fine Art.

The schools programme continues to provide pre-booked and tailor-made talks for over 80,000 schoolchildren each year. The **Articulate** scheme to develop literacy work with secondary schools and the **Take One Picture** project for primary schools have become core activities. During the past year the Gallery has hosted cultural placements for 160 trainee primary school teachers, who have learnt about the methods and importance of cultural learning for schoolchildren.

The Gallery seeks to encourage those unfamiliar with the collection to visit, to enjoy the experience and want to return. Various targeted outreach programmes have been initiated to achieve this. The 'Line of Vision' scheme, referred to in previous reports, that works with groups of disadvantaged teenagers has been continued to work with young people at risk of exclusion and young mothers. Over the past year this project has now been extended to provide events for groups of elderly people, linked to two temporary exhibitions, *Scratch the Surface* and *Work, Rest and Play*.

For younger visitors, drop-in 'Talk and Play' activities have been provided, both in the Gallery and at Westminster children's libraries, with the aid of good quality prints of paintings from the collection. The 'Take Art' scheme to visit hospital schools, also makes use of reproductions and during the past year, sixteen hospital schools in the Greater London area received a total of 80 visits that reached 400 patients. These are children who would not otherwise, of course, have had the opportunity to engage with great paintings.

The Gallery has also been putting much effort into extending its programme for people with disabilities. The **Art Through Words** programme for blind and partially sighted visitors and the British Sign Language programme for deaf and hard of hearing visitors are now well established as part of the Gallery's regular activities.

Finally, a memorable one-off event took place in October, with the Gallery being the launch venue for Youth Music Week. During the day, musical workshops were held in the Galleries, with the themes connected closely to the paintings. Different styles of music ranging from jazz to classical, both instrumental and vocal, reverberated through the Galleries and the day culminated with a concert in the Sainsbury Theatre. The performance of African drumming, devised to connect with the *Scratch the Surface* exhibition, was particularly memorable.

## Exhibitions

Twelve temporary exhibitions were open during the year, as set out below:

Venue	Exhibition	Attendance to 31 March 2008
East Wing	<i>Renoir Landscapes</i> (£)	129,094
Sainsbury Wing	<i>Dutch Portraits: The Age of Rembrandt &amp; Frans Hals</i> (£)	70,073
Sainsbury Wing	<i>Renaissance Siena: Art for a City</i> (£)	69,233
Sainsbury Wing	<i>Pompeo Batoni</i> (20 February – 18 May 2008) (£)	8,039 <sup>4</sup>
Sunley Room	<i>Leon Kossof</i>	100,354
Sunley Room	<i>Work, Rest and Play</i>	97,590
Sunley Room	<i>Art of Light: German Renaissance Stained Glass</i>	100,984
Sunley Room	<i>Alison Watt: Phantom</i> (12 March – 22 June 2008)	20,921
Room 1	<i>Tim Gardner: New Works</i>	68,219
Room 1	<i>Take One Picture</i>	45,729
Room 1	<i>Scratch the Surface</i>	109,131
Room 1	<i>The Landscape Oil Sketch</i> (15 December 2007 – 6 April 2008)	74,069

(£) = charging exhibition

Opening in June 2007, *Dutch Portraits: The Age of Rembrandt and Frans Hals* was jointly organised with the Royal Picture Gallery Mauritshuis (The Hague), and was the first international loan exhibition in 50 years to provide a survey of the unprecedented range and variety of painted portraiture in the Netherlands during the Dutch Republic's "Golden Age".

In the Autumn, *Renaissance Siena: Art for a City* offered the first opportunity in the UK to see Sieneese Renaissance works of art in the artistic, cultural and political context of the volatile last century of the Sieneese Republic. The exhibition showcased the bravura techniques and virtuoso inventiveness of two of the greatest Sieneese artists of this period, Francesco di Giorgio and Domenico Beccafumi, alongside many of their contemporaries.

The exhibitions in the Sunley Room and Room One continued to illuminate different aspects of and offer new approaches to the collection. The winter exhibition *German Renaissance Stained Glass* is an excellent example of this. Many of the 15th and early 16th century German paintings in the National Gallery have been removed from the ecclesiastical contexts for which they were designed. Frequently these settings also included brilliantly coloured, boldly designed and exquisitely made stained glass windows. The exhibition displayed a selection of Gallery paintings next to some of the finest examples of German stained glass from this period, currently preserved in the collection of the Victoria and Albert Museum. Other highlights from the year included the innovative exhibition 'Scratch the Surface', curated by the Gallery's Inspire Fellow to commemorate the abolition of slavery, which was staged in Room One with Yinka Shonibare's challenging installation in Room 36.

<sup>4</sup> *Pompeo Batoni* closed on 18 May 2008. Total final attendance for the exhibition was 21,829.

### *Future developments*

The presentation of the collection in Trafalgar Square remains the centrepiece of the Gallery's work.

**The Building:** The first phase of the Gallery's masterplan has now been successfully completed, with the opening of the Sir Paul Getty entrance, the Walter and Leonore Annenberg Court, and the new front entrance to the Wilkins building. In order to build on this transformation of the way in which the public are welcomed into the building and are able to appreciate paintings, we will continue investigating how best to respond to:

- the need to improve and enhance the display and exhibition space alongside an expanding programme of research, education and outreach activities financed by increased income generation to fund this growth in activity; and
- the challenges of receiving many more visitors than the building was designed to accommodate.

**The Gallery and Tourism:** The Gallery makes a significant contribution to tourism and the economy. Its collection and its exhibition programme help to make London a major tourist destination: indeed, Visit London's most recent visitor survey showed that 81% of overseas visitors are influenced by museums and galleries in making their decision to visit London. In recent years the Gallery has attracted approximately two million overseas visitors annually, and a significant proportion of overseas respondents in surveys cite specific exhibitions or the Gallery itself as the main reason for making a trip to London. This evidence is reinforced by *Museums and Galleries in Britain* (Tony Travers, December 2006), which highlights the importance of the museums and galleries sub-sector to the wider economy, estimating that £1 in every £1,000 in the UK economy can be directly related to the museums and galleries sector.

With the Gallery's status as a major international tourist attraction, however, comes greater vulnerability to the impact of increasing global uncertainty. The bombings in London in July 2005 had a significant and sustained detrimental impact on visitor numbers, similar to that experienced in the period following 11th September 2001. A high-profile exhibition programme in 2006/07 contributed to an upturn in visitor numbers, but this recovery has not been sustained over the last financial year. The Gallery is hopeful that its exhibition programme for the coming year will attract more visitors.

During 2008/9 the Gallery will mount a range of important international and national exhibitions. In June the Gallery presents *Radical Light: Italy's Divisionist Painters 1891 - 1910* in collaboration with the Kunsthau Zürich. The first of its kind organised outside Italy, the exhibition will explore the complex relationship between Italian Divisionism and the emerging Futurist movement in the early years of the 20th century.

In the Autumn, *Renaissance Faces: Van Eyck to Titian*, organised with the Prado Madrid, and featuring many of the great masters of the period, will, for the first time, trace the development of fifteenth and sixteenth-century portraiture in both Northern and Southern Europe, exploring a series of common themes. This is followed by a major Picasso exhibition in conjunction with the Réunion des Musées de France, examining Picasso's debt to Old Master painting.

The Gallery's exhibition of the work of Associate Artist Alison Watt begins this year's Sunley Room programme. The Gallery is very grateful for an extremely generous grant from the Rootstein Hopkins Foundation, providing support for this and other contemporary exhibitions. The autumn exhibition, *Sisley in England and Wales*, brings together for the first time two groups of paintings executed in this country, which reveal Sisley at two of the most creative moments of his life. It is organised with Amgueddfa Cymru, National Museum Wales, Cardiff.

**Diversity:** By presenting great works of art for all to enjoy, and providing a variety of means of interpretation, the Gallery encourages diverse audiences to understand the cultures of the past in greater depth, and thus to learn about themselves and about other people with insight and sympathy.

Amongst the key objectives of the Gallery are to make the collection accessible to the widest possible public, and to promote education and knowledge about the paintings. In particular, the Gallery seeks to encourage those unfamiliar with the collection to visit, enjoy the experience and want to return. The Gallery is committed to encouraging the widest diversity of visitor and recognizes the impact that cultural activities can have on building a sense of achievement and community.

The Gallery provides a creative environment for people of all backgrounds to engage with art from the past as a means of enriching the present and providing inspiration for the future. With a collection of paintings that represent universal themes relevant to all cultures and generations, the Gallery is uniquely placed to offer a range of provision to a wide and diverse public.

As well as providing a mainstream programme for a wide range of visitors, the Gallery now has a dedicated Outreach Officer who works alongside other members of the Education Department to develop projects focused on targeted audiences. The Outreach Officer is currently identifying and working with new outside partners for the ongoing Line of Vision project, an innovative approach to working with young people at risk of exclusion. Over an extended period, but particularly in the past six years, the Gallery has piloted and embedded this scheme with a wide variety of groups that have benefited from custom-designed projects.

Targeted groups include Looked After Children (young people living in foster care), teenage parents, and young people at risk of committing crime. The Line of Vision approach is now being adapted for use with groups of older visitors, including those from black and minority ethnic (BME) communities who were encouraged to visit the Gallery by the Scratch the Surface exhibition of 2007, that marked the bicentenary of the Parliamentary Act that abolished the slave trade. This exhibition was curated by the Inspire Fellow, a position part-funded by the Arts Council and designed to enable BME curators to gain valuable experience at working in a national collections. Discussions are currently under way with the Arts Council with a view to the National Gallery taking its second Inspire Fellow.

In February 2008, the Education Department appointed its first Access Officer. This new employee will work alongside the Outreach and Families Officers to ensure that the Gallery is fulfilling its obligations to visitors with a wide range of disabilities, including those whose sight, hearing or mobility is impaired.

Future demographic changes will affect the profile of our visitors and alter the services that we will need to provide. The Gallery is working actively to respond to the needs of our audience. We are, for example, currently in discussion with a number of partner organisations and potential funding bodies to try to establish a programme for isolated elderly people, who are excluded from visiting the National Gallery by age-related illnesses.

The Gallery will continue to attract, develop and retain the best talent available, in keeping with the principles of our commitment to diversity. We will build on recent initiatives such as the introduction of a flexible working policy, the provision of a non-denominational prayer room and participation in the *Inspire* scheme, which offers two-year fellowship placements for individuals from black and ethnic minority (BME) groups.

## A national and international leader

### Objective<sup>5</sup>

The Gallery aims to:

- be a national and international leader in all its activities; and
- work with regional museums and galleries in the UK in support of their standing and success.

### Activities during the year

The Gallery has continued to work in partnership with Glasgow University and Birkbeck, University of London to progress the National Inventory Research Project research and database, supported by the Getty Grant Program Arts and Humanities Research Council, and the Kress Foundation. A unique national initiative helping museums add value to their collections by offering specialist expertise to create authoritative records, the project has involved working with 200 small and regional museums across the UK to research and catalogue around 8,000 pre-1900 Continental European oil paintings for a searchable web database. The project entered its final phase in 2007-8 and for the launch of the database The National Gallery mounted a special exhibition 'Discoveries: New Research into British Collections', held from 21 November 2007 - 10 February 2008. The opening coincided with the public launch of the NIRP database, on the Visual Arts Data Service at <http://vads.ahds.ac.uk/collections/NIRP/index.php>.

Work has continued on the National Gallery catalogues, with the publication in the spring of the second volume of Nicholas Penny's catalogue *The Sixteenth Century Italian Paintings: Venice*. These catalogues are the product of collaboration between the Curatorial, Scientific and Conservation Departments. Such collaboration also bears fruit in the studies published in the National Gallery Technical Bulletins and elsewhere, which derive not only from the examinations of individual paintings carried out for the cataloguing programme, but also from research for exhibitions and other projects, as well as the close examination of new acquisitions. Volume 28 of the Technical Bulletin was published in September 2007, and will include articles on Bernardo Daddi's *Coronation of the Virgin*, Tintoretto's underdrawing for *Saint George and the Dragon* and a re-examination of *A Boy with a Bird*, attributed to Titian or his workshop. Further articles explore the technology of eighteenth- and nineteenth-century red lake pigments through scientific examination of paintings in the Gallery, and Monet's palette in two twentieth century works, *Irises* and *Water-Lilies*.

The Scientific Department has been very active in research during the year, both in collaborative projects within and outside the Gallery and in representing the Gallery's scientific work in the international museum and conservation communities. Core research on the collection involving analytical study of paintings is carried out in conjunction with curators for the programme of systematic catalogues, for exhibitions and other publications, and with conservators as a contribution to best practice in the treatment of paintings. There is also a long-term interest in the history and technology of traditional painting materials, their behaviour and the factors involved in the deterioration of these materials. Research and development work in digital imaging and colour science remains a continuing activity. Members of the Scientific Department publish regularly in outside peer-reviewed journals and conference proceedings and in the annual *National Gallery Technical Bulletin*.

The scientific work of the Gallery is reported each year to a panel of eminent scientists constituted as the National Gallery Scientific Consultative Group (NGSCG), chaired by a Trustee, Professor Julia Higgins. The purpose is to gain feedback from outside expert assessors, gather opinions on the quality and direction of science at the Gallery, and to provide input for the continued development of a research strategy. Scientific research work chosen for presentation each year attempts to represent the range of activities, although it cannot be comprehensive. Five subjects (here shortened abstracts) presented to the NGSCG (November 2007) were:

<sup>5</sup> Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(c) and (d) that the Board shall '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'.

**Informing conservation decisions: three case studies in organic analysis:** Describes scientific analysis of three paintings, all of which had undergone conservation work during the past year. Three cases were selected to illustrate conservation and analytical issues regarding the removal of surface layers and to show how investigation of the organic materials has informed treatment decisions.

**The Mellon digital documentation project: Raphael:** The Andrew W. Mellon Foundation (New York) awarded the Gallery funding for a 22-month project, for staff and equipment, to develop a 'pilot project' in digital documentation of paintings, with a particular emphasis on technical and conservation-based information. The Gallery offered Raphael as a subject for this experimental electronic database, since conventional documentation was very extensive for the artist, and potentially in demand by scholars around the world. It was agreed that the 'pilot project' would be aimed simultaneously at professional colleagues and the wider scholarly community, and, in a more simplified and interpreted form, at the general visitor who might consult the material on the Gallery's website and other information systems within the Gallery such as ArtStart. The project will make use of existing computer systems (some equipment also donated by Hewlett Packard) and expertise: a database schema, suggested by a member of the NGSCG will be designed to focus on 'Objects', the varied 'Events' within their life span, and the 'Actors' responsible for the events. This schema will be developed to function as a storage repository for the electronic content, with all primary or 'tombstone data' directly mapped from the Gallery's current digital collection management system. Large numbers of documents have been digitised for the project.

**Development of improved image-processing algorithms:** At the National Gallery the demands on image quality are very high. While most users of imaging devices are satisfied with aesthetically pleasing image reproduction, the requirement at the Gallery is that an image viewed on a computer screen, or in printed form, is as close a match as possible to the original work of art. This stringent demand on quality means that the captured images need to be optimised to close the gap between the original paintings and their reproductions. In research sponsored by Hewlett Packard, a number of algorithms have been created that were specifically designed to meet the Gallery's requirements for the quality of the captured and printed images. Specifically: improving the visibility of details in dark image regions, colour to black-and-white conversion, edge-preserving blurring and colour constant image sharpening. Several joint patents for this work will be applied for.

**Fragonard's *Fountain of Love*: A model of inter-museum cooperation:** The National Gallery possesses only one work, an important although unrepresentative early picture, by Jean Honoré Fragonard (NG6445, *Psyche showing her Sisters her Gifts from Cupid*, 1753). French 18th-century painting is the subject of current technical research in the Scientific Department in support of a new Schools Catalogue. The opportunity arose during the year to conduct a technical examination of two closely linked paintings by Fragonard dating from about 1785 on the allegorical theme of *The Fountain of Love*. One version is in the national collection (at the Wallace Collection, bequeathed 1897), the other is a more recent re-discovery of a second autograph work acquired in 1999 by the Getty Museum (Los Angeles). The pictures are almost identical in size and very similar in composition, although the manner of execution is radically different; they were brought together at the National Gallery in June 2007 for technical study. Since the Gallery possesses highly developed expertise in this field, the two paintings were examined using the full range of methods available, the primary purpose being to establish the relationship between the two paintings and to elucidate their similarities and differences. The results will appear in the forthcoming *National Gallery Technical Bulletin*, Vol.29.

Cooperative research in conservation science is also a feature of the Scientific Department's role in the **European EU-ARTECH project**, which involves a consortium of 13 conservation institutions in 8 European countries. Developing and communicating the Gallery's existing world class research programme, and planning its future development, has constituted an important part of our work in the past year.

**National programmes:** The touring exhibition partnership with Bristol's City Museum & Art Gallery and the Laing Art Gallery, Newcastle upon Tyne, has been extended thanks to the generous support of the Heritage Lottery Fund, the Esmée Fairbairn Foundation and Northern Rock.

The partnership will run until 2008 and includes a programme of education and outreach work and a new project, The People's Panel, which will enable members of the public to develop a long-term relationship with local galleries through involvement in the organisation of exhibitions.

The seventh exhibition, 'Love', explores how artists have represented this most powerful of emotions and demonstrates how artists including Raphael, Cranach, Vermeer, Holman Hunt and Marc Chagall have described or responded to love in all its complexities, across the centuries and in a variety of styles.

### *Future developments*

The Gallery will continue to develop links with other collections both internationally and throughout the UK, to reinforce its position as a leading institution in its field.

A number of recent publications have emphasised the importance of the creative industries for the future of the British economy in an increasingly globally competitive world. Not only do our museums and galleries offer a major internationally traded service, but they also “underpin the creativity upon which future high value added economic activity is likely to be based. The storehouses represented by these institutions will encourage people in this country to use their creativity and talent to develop new services, products and even manufactured goods.”<sup>6</sup>

Capitalising on the significance of our collection, and the expertise and experience of our staff is therefore of key importance, and maintaining links with other institutions within the UK and overseas is vital to ensure that we are able to show and develop our collection in ways that are attractive in an increasingly competitive environment.

As well as major international exhibition partnerships with the Prado Madrid, the Kunsthaus Zürich, the Réunion des Musées de France and the Statens Museum, Copenhagen, which will enrich our programmes this year and in the future, the Gallery will in 2008-9 continue to share its curatorial, conservation and scientific expertise with international organisations including the Frick Collection, New York, the Gemäldegalerie, Berlin and the Koninklijk Museum voor Schone Kunsten, Antwerp.

**Research:** Following the successful launch of the National Inventory Research Project’s database of nearly 8000 paintings in smaller UK collections, work is continuing to add images and the last remaining research data. We are continuing our partnership with Glasgow University and Birkbeck in order to explore how the database might be enhanced and to ensure that the information is used as widely as possible.

The Gallery is also involved in a number of significant collaborative research projects with other institutions. The Scientific Department, for example, is a member of the 6th Framework EU-funded EU-ARTECH consortium project devoted to promoting best practice in conservation science in Europe and fostering joint research in this area. Other current joint scientific research projects include collaborations with Nottingham Trent University, Imperial College (London), the Courtauld Institute of Art and the Hewlett Packard Company. Developing and communicating the Gallery’s existing world class research programme will continue to be an important part of our work in the coming years.

The main development for the Scientific Department in the coming year will be the replacement of the Department’s obsolete scanning electron microscope (SEM) with a new, digital instrument, to launch a new phase of cutting-edge research on the Collection.

**National programmes:** The Gallery’s touring exhibition partnership with Bristol’s City Museum & Art Gallery and the Laing Art Gallery, Newcastle upon Tyne (2006-8) reaches its final year in 2008. As the Gallery’s national research partnership, the National Inventory Research Project (see above) also ends in 2008, the Gallery will begin this year to explore how it can build on and extend its current national partnerships for the future, and remain an outstanding national resource.

<sup>6</sup> *Museums and Galleries in Britain* (Tony Travers, December 2006)

## Fund Raising and Resources

The largest source of funds for the Gallery remains government Grant in Aid. This year, Grant in Aid received from the Department for Culture, Media and Sport ("DCMS") totalled £25,597,000, and included a ring-fenced capital grant of £3,250,000.

Private income continues to be vital to the future well being of the Gallery. So many of the Gallery's programmes – from exhibitions to outreach work – are only possible as a result of the support of the corporate sector, trusts and foundations, and private individuals. Initiatives undertaken by the Gallery to increase income include a legacies campaign, as well as providing information on the different ways of giving and Gift Aid forms on the Gallery's website.

The Gallery's corporate membership programme began in 1991 with the opening of the Sainsbury Wing. Over 45 companies now regularly support the Gallery through the programme, providing invaluable unrestricted income. The funds generated by the programme enable the Gallery to achieve a wide range of activities and projects which would otherwise not be possible. The income also contributes towards temporary exhibitions, enabling the Gallery to stay open to the public longer and keeping the permanent collection free.

The success of the exhibitions programme was due in large part to the generous support received from across the private sector. The Gallery was delighted that Ernst and Young renewed their support with sponsorship of *Renoir Landscapes*, which ran until May 2008. The following exhibition, *Seventeenth Century Dutch Portraits* was generously sponsored by Shell, and sponsorship was also secured for the autumn exhibition *Renaissance Siena*, from Banca Monte dei Paschi di Siena.

In addition to the programme of major exhibitions in the Sainsbury Wing, a longstanding relationship with the Bernard Sunley Charitable Foundation enables the Gallery to organise a programme of free exhibitions every year in the Bernard and Mary Sunley Room. The annual grant offered by the Foundation is invaluable, allowing the Gallery to programme a varied selection of exhibitions that may not always be commercially viable. This year, the Gallery was able to find additional support for the exhibition *German Renaissance Stained Glass* in the Sunley Room from Freshfields Buchhaus Deringer.

Every two years, the Gallery appoints a contemporary Associate Artist to spend time working with the collection and producing work that will be shown in a Sunley Room exhibition at the end of the two year period. This year, the artist Alison Watt exhibited her work at the end of her two-year tenure. The exhibition, together with the costs associated with the Associate Artist programme this year, were funded by an invaluable long term grant from the Rootstein Hopkins Foundation, which has secured the future of this important programme and will also provide additional support for the contemporary art programme more generally.

The DCMS/Wolfson Museums and Galleries Improvement Fund is a vital source of funding for the museums sector. As a result of this funding, the Gallery was this year able to complete work installing new lighting systems in the 19th-century galleries, thereby greatly enhancing visitors' enjoyment of the paintings in these rooms.

#### 4 Review of Financial Transactions and Position

In accordance with the Government Financial Reporting Manual (FReM), additions to the collection since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine.

Works of art donated by third parties, either by gift of the asset or by way of funds for the asset, are capitalised at current value on receipt. Donated collection assets are not depreciated or revalued as a matter of routine.

As a result of the treatment of additions to the collection, in the current year donated works of art amounting to £7.9 million are accounted for through the donated works of art reserve.

The Gallery's Statement of Financial Activities ("SOFA") is set out on page 30 of this document. Incoming resources before transfers, notional costs and revaluations for 2007/08 amounted to £40.7 million (2006/07: £42.9 million); resources expended amounted to £29.1 million (2006/07: £30.4 million), resulting in net incoming resources (before transfers, notional costs and revaluations) of £11.6 million (2006/07: £12.5 million), of which £10.4 million (2006/07: £6.5 million) represents donations to the collection and restricted and designated funds received for future acquisitions.

Incoming resources from generated funds for the year totalled £38.3 million, in line with 2006/07 (£38.1m). The figure includes incoming resources relating to picture acquisitions of £10.4 million, as well as generous donations and income from the successful corporate membership scheme. Incoming resources from charitable activities fell from £4.8 million in 2006/7 to £2.4 million in 2007/8, because of the nature of the exhibitions programme in 2007/8, which was not planned to match the very popular and highly attended programme that ran in 2006/7.

The Gallery's total charitable expenditure for 2007/08 was £29 million, lower than the expenditure incurred in 2006/7 (£30.4m). Whilst the Gallery continued to experience pressure on costs in certain areas such as transport and utility prices, the high level of staff vacancies experienced during the year contributed significantly to the lower costs. Charitable expenditure has been incurred in specific areas identified in the 2007/08 Corporate Plan and in the delivery of the activities discussed above. Overall, expenditure was within budget and tight controls were maintained, with a continuing focus on delivering efficiency savings.

The net movement in funds for 2007/08 amounted to £23.6 million (2006/07: £21.4 million). 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 assets capitalised as collection acquisitions. This year the movement includes a gain on revaluation of £13.3 million and investment losses of £1.3 million. It also includes £10.3 million representing donations to the collection, picture acquisitions and restricted and designated funds for future acquisitions.

Full details of risk management at the National Gallery and the Gallery's investment and reserves policies are disclosed in the Foreword to the Financial Statements.

Details of the treatment of pension liabilities are disclosed in the Remuneration Report. As disclosed in note 8 to the accounts, the National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

## 5 The Gallery's contribution to DCMS' performance targets

Specific information relevant to the Gallery's contribution to DCMS' performance targets for 2007/08 as set out in the Funding Agreement agreed with DCMS:

	<b>Projection for 2007/08</b>	<b>Performance in 2007/08</b>	<b>Performance in 2006/07</b>
1. Total number of visits to the Gallery (excluding virtual visits)	4.8m	3.9m	4.7m
2. Number of unique users visiting the website <sup>7</sup>	4.5m	9.2m	9.2m
3. Number of UK adults aged 16 and over from NS-SEC groups 5-8 visiting the Gallery <sup>8</sup>	477,000	400,140	521,000
4. Number of children aged 15 and under visiting the Gallery	552,000	505,084	588,000
5. Number of children aged 15 and under in on and off-site organised educational sessions <sup>9</sup>	105,000	118,875	150,000
6. Average annual self-generated income <sup>10</sup>	£10.5m	£15m	£18.8m
7. Efficiency savings <sup>11</sup>	£2,122,000	£1,977,000	£1,852,000

<sup>7</sup> These figures are recorded by LiveStats and will be as accurate as possible given the widespread use of caching and proxy servers. The website continues to grow in popularity at a rate greater than we had anticipated, and we are confident that the new website being launched towards the end of this year will both enhance the service we provide to existing visitors and attract further visitors.

<sup>8</sup> The outturn figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2008.

<sup>9</sup> Part of the reason for the increase in the figures for children in educational sessions is that we have included, for the first time, the number of children participating in the very successful nationwide *Take One Picture* scheme.

<sup>10</sup> This figure represents income generated in 2007/08 and includes the value of donated pictures.

<sup>11</sup> Some of the estimates included in this total are, at this stage, provisional. The Gallery met all of its targets under the Gershon efficiency review.

## Foreword

### 1 Legal and Administrative

The Gallery is governed by the Museums and Galleries Act 1992, under which the Board of Trustees was given corporate status. The Charities Act 1993 confirmed the Gallery's charitable status and its exemption from the need to register with the Charity Commission. Both acts can be viewed at [www.opsi.gov.uk](http://www.opsi.gov.uk)

These accounts have been prepared in a form directed by the Secretary of State with the consent of Treasury in accordance with Sections 9(4) and 9(5) of the Museums and Galleries Act 1992 and the Statement of Recommended Practice "Accounting and Reporting by Charities" (2005).

The Gallery is governed by a Board of Trustees. The establishment, constitution, functions and property etc. of the Board of Trustees can be found in Section 1 to the Museums and Galleries Act 1992. The general functions of the Board of Trustees can be found in Section 2 to the Museums and Galleries Act 1992. A Register of Trustees' Interests is maintained and is available for review on application to the Director's Office.

The following is a list of the Trustees of the National Gallery during the year to 31 March 2008.

Mr Peter Scott (Chairman)  
Mr Jon Snow (retired 3 April 2008)  
Mr Mark Getty  
Mr Ranjit Sondhi  
Professor Julia Higgins  
Lord Kerr of Kinlochard  
Mr James Fenton  
Mr John Lessore  
Mr Simon Burke  
Lady Normanby  
Professor Mervyn King  
Ms Victoria Barnsley (retired 8 October 2007)  
Professor David Ekserdijan  
Mr Paul Myners (appointed for a fixed period 1 August 2007 – 30 September 2007)  
Ms Patricia Lankester (appointed 1 October 2007)  
Lady Heseltine (appointed 6 March 2008)

Mr Michael Hintze was appointed as a Trustee on 3 April 2008.

Trustees are appointed by the Prime Minister and are now normally appointed for a term of four years with the possibility of renewal. In addition, the Tate appoints a Trustee.

The Chairman 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, and includes detailed information about standards, accountability and governance;
- given copies of the latest Corporate Plan, Funding Agreement, Annual Review and Financial Statements; and
- given the equivalent of about 2 days' worth of induction, meeting members of Gallery staff in different departments to hear about their work.

The Trust Funds of the National Gallery are monitored by a sub-committee of the Board called the Trust Funds Investment Committee. This committee meets at least once a year to review fund performance in discussion with the fund managers. Its members are:

Mr Peter Scott (Chairman)  
Sir James Sassoon (appointed 8 February 2008)  
Mr Alastair Ross Goobey (independent member until February 2008)

The Finance Committee aims to meet at least three times a year to discuss the financial management of the Gallery and other matters arising. Its members are:

Professor Mervyn King (Chairman)  
Mr Peter Scott  
Sir Colin Southgate (independent member)  
Mr Nick Land (independent member)

The Audit Committee aims to meet at least three times a year to adopt the accounts; meet the auditors; set risk management standards and the degree of risk aversion for the Gallery; review the major risks to the Gallery; and discuss internal and external audit matters. Its members are:

Professor Mervyn King (Chairman)  
Mr Peter Scott  
Sir Colin Southgate (independent member)  
Mr Nick Land (independent member)

The Accounting Officer as at 31 March 2008 is Dr Nicholas Penny, Director of the National Gallery. He was appointed Accounting Officer on 4 February 2008.

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](http://www.nationalgallery.org.uk).

#### Advisers

Banking Services:	The Paymaster General Sutherland House Russell Way Crawley West Sussex RH10 1UH	Coutts & Co. 440 Strand London WC2R 0QS
Auditors:	The Comptroller and Auditor General National Audit Office 151 Buckingham Palace Road Victoria London SW1W 9SS	
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 33 King William Street London, EC4R 9AS	

## 2 History

The National Gallery was established in 1824 when Parliament voted £60,000 for the purchase, presentation and display of a group of 38 paintings, part of the collection of the late John Julius Angerstein.

## 3 Organisation

The Gallery is a Non-Departmental Public Body, whose sponsor department is the Department for Culture, Media and Sport.

The Director of the National Gallery is also the Accounting Officer appointed by the Department for Culture, Media and Sport.

Senior management take decisions through the mechanism of a Management Committee, whose members are responsible for the main departments in the Gallery. Management communicates with staff through meetings, internal memoranda, e-mail and staff notices. The three unions representing a number of members of staff meet regularly with senior management.

#### 4 Review of Activities, Achievements and Results

A detailed review of the Gallery's activities, achievements and results during the year, as well as information about its financial position at the year-end and planned future developments, is presented in the Annual Report.

#### 5 Changes in Fixed Assets

The movement in fixed assets during the year is set out in note 10 to the financial statements.

#### 6 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.

#### 7 Payment Policy

The Gallery follows the DTI's Better Payment Practice Code, and aims to settle all bills either within the period stated by the supplier or within 30 days. Sample testing indicates that approximately 87% (2006/07: 90%) of all bills are settled within 30 days and the bulk of the remainder are either disputed or have extended credit terms.

#### 8 Equal Opportunities

The Gallery is committed to equal opportunities for all job applicants and employees. The Gallery's policy is that no applicant or employee should receive less favourable treatment than another on grounds of gender, sexual orientation, age, marital or family status, civil partnership status, race, colour, nationality, ethnic or national origins or religion or similar belief, disability, trade union membership or any other condition or requirement which cannot be shown to be justifiable.

This principle applies both to direct discrimination and to indirect discrimination (i.e. the Gallery is committed not only to avoiding direct discrimination but also to avoiding practices which have the incidental or accidental effect of discriminating unfairly against particular groups).

The Gallery recognises that the principle of equal opportunity applies to all recruitment; to all terms and conditions of service, including pay, hours of work, leave, retirement and pensions; and to human resources management and development including staff performance reviews, training and promotion.

The Gallery aims, in this way, to provide a working environment which is free from unfair discrimination and from harassment.

The Gallery's equal opportunity policy is drawn to the attention of all employees and job-applicants through the application process, and is disclosed in the Staff Handbook.

#### 9 Health & Safety

The Trustees of the National Gallery, through the offices of the Director, acknowledge their responsibility for, and their commitment to, a management policy that ensures matters relating to health and safety for visitors, staff, those working on a self employed and agency contract basis and contractors will receive due priority for action at all times.

Responsibility also lies with individual members of staff, their representative unions and all contractors to give their full attention and co-operation to the implementation of this policy so that the Gallery can provide a safe and healthy environment at all times. The Gallery employs a Health and Safety Adviser.

The Gallery's employee assistance programme provides confidential counselling, practical support, advice and information, aimed at helping staff to come to terms with personal and family or work related problems. The service is available to all employees and their immediate dependents, 24 hours a day, 365 days a year; access is via a free telephone line.

## 10 Sustainability Policy

The National Gallery is committed to integrating environmental considerations into its activities and working towards the goals of sustainable development and pollution prevention through a programme of continuous environmental improvement.

We will adopt the best environmental practices, wherever practicable, in the development, use and management of our buildings and in purchasing services and supplies. Where we have no direct control of resources we will seek to influence those who have.

We will give full consideration to environmental matters when managing operations, altering the building and in reaching housekeeping decisions. Though much of the responsibility for these decisions will fall to senior management, all National Gallery staff are encouraged to play a role in protecting our environment by making the most efficient use of resources within their control.

## 11 Investment Policy

The Gallery receives private funds through a number of sources, many of which are not immediately expendable. These funds are administered by the Finance Department. Investments include equities, loan stock, cash investments (including money market deposits) and cash accounts other than current accounts.

All the Gallery's investments are held at institutions of the highest quality. Funds may only be placed with a new institution with the approval of the Finance or Trust Funds Investment Committees.

A balance equivalent to at least half of one month's normal running costs is held on a deposit account earning interest. Endowments over £500,000 are kept in separate bank/investment accounts. Funds approximating to the value of the remaining restricted funds are held in a separate account, normally a money market account.

Bequests are held within the Trust Funds. Funds in the Trust Funds are invested and monitored by a Committee ("the Trust Funds Investment Committee"). Investment managers are approved by the Trust Funds Investment Committee, and the contract is reviewed at least every five years. Investment strategy is also reviewed at least every five years and was last reviewed in 2004. Any investments held, other than cash/money market deposits, are subject to the same scrutiny as for the Trust Funds.

The Gallery seeks to earn the highest possible rates of interest on cash, subject to other constraints set out in this policy and the policy on reserves given below. Performance is measured regularly against the UK bank base rate and in 2007/08 the return earned exceeded the average base rate.

The Gallery does not hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument or where it is held as part of an investment strategy as determined by the Trust Funds Investment Committee.

The Trustees consider the return on investments to be satisfactory given the movement in international markets during the year.

## 12 Reserves Policy

The Trustees have reviewed the reserves of the Gallery and concluded that the Gallery should seek to maintain unrestricted general funds not committed or invested in tangible fixed assets at a level equivalent to between one and three months of normal running costs, 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 payment, the level of undesignated general reserves may fluctuate outside this range.

Grant in Aid should not be held in reserves and will therefore normally be expended in the month it is received.

The Trustees regularly review Gallery policies and the last review was performed in April 2006.

The Gallery's total funds at the end of the year amounted to £338 million. A breakdown of these is shown in the balance sheet and in the statement of funds (note 16). Most of the funds (£228.5 million) are represented by the Gallery's land and buildings, being the Trafalgar Square site, plant and machinery and equipment. These funds are therefore effectively inalienable. A further £76.6 million is represented by the value at the date of acquisition of donations to the collection and pictures acquired since 1 April 2001, and restricted funds for future acquisitions. Of the remaining £32.9 million, £5.3 million is in permanent endowments (where the capital cannot be touched) and £3.5 million represents other restricted funds.

A further £15.5 million is private income (mainly from bequests), which, because of the nature of the income, the Trustees have designated for picture purchases. The remaining balance represents undesignated general funds of private income.

## 13 Risk management

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

### Procedures

The Internal Controls Committee identifies, controls and monitors risk within the National Gallery and proposes the framework for its control. Risk is controlled through:

- **Elimination** – by not engaging or continuing with the risk-bearing activity;
- **Transference** – by sharing or passing the risk onto a third party either through partner/contract agreements or through insurance;
- **Mitigation** – by introducing appropriate and cost effective controls to manage the risk, apportioning responsibility for managing the risk to the relevant budget holder(s) and monitoring the controls;
- **Acceptance** – in remaining cases, by acknowledging and accepting that the risk is part of the Gallery's core activity but that it cannot be actively managed, or by accepting an unmanaged risk because the cost of managing the risk outweighs the benefits.

### Responsibilities

The Board of Trustees (via 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 that an effective system of internal control is maintained and operated within the Gallery.

The Internal Controls Committee is responsible for providing the Accounting Officer and the Audit Committee with assurance that an effective system of internal control has been maintained and is operated within the Gallery.

Budget Holders are responsible for complying with the Budget Holders' Assurance Statement and taking specific action to control the identified risks.

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. This assists the Internal Controls Committee in assessing and monitoring the effectiveness of the internal controls.

## **Assurance**

The Internal Controls Committee reports on the effectiveness of risk management and the National Gallery's system of internal controls to the Accounting Officer and the Audit Committee on an annual basis.

Internal Audit issues an *Annual Report to the Accounting Officer*, which is reviewed by the Accounting Officer and the Trustees, and which includes Internal Audit's opinion of risk management in the Gallery and a Statement of Assurance on Internal Control.

All Budget Holders provide the Accounting Officer with an annual Assurance Statement.

Further details of financial risk management are included in note 14 to the accounts.

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.

**Nicholas Penny**  
**Director and Accounting Officer**

**7th July 2008**

**Peter Scott**  
**Chairman**

**7th July 2008**

## Remuneration Report

*The figures in this report have been subject to audit.*

The remuneration report includes salary and pension details of the National Gallery Planning Group for the first time. The Planning Group meets regularly with the Director to discuss operational matters but each member of the group influences the decisions of individual directorates only. 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, Planning Group members are described as "senior managers".

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2006/07: £Nil).

### *Director's salary, performance award and benefits*

The salary and performance award details for the incoming, acting interim and outgoing Directors are as follows;

	2007/08		2006/07	
	Salary £	Performance related pay £	Salary £	Performance related pay £
Charles Saumarez Smith (until 31 August 2007)	57,269	7,673	129,660	12,610
Martin Wyld (acting Director) (1 September 2007 – 3 February 2008)	50,000	–	–	–
Nicholas Penny (from 4 February 2008)	22,126	–	–	–

Charles Saumarez Smith left the Gallery on 31 August 2007. The full year equivalent of his salary is £137,446. A consolidated performance award of £1,668 (2006/07: £3,783) and a non-consolidated award of £6,005 (2006/07: £8,827) were made in respect of this year.

The Director of Conservation, Martin Wyld, held the position of acting Director between 1 September 2007 and 3 February 2008. The full year equivalent of his salary for this role was £123,600. Martin Wyld was not eligible for a performance-related bonus.

Nicholas Penny joined the Gallery on 4 February 2008. The full year equivalent of his salary is £140,000. No performance-related bonus is due for 2007/08.

No provision is made within the Director's contract for non-cash benefits. The notice period of the Director is six months.

The Director's performance-related bonus is determined by the Remuneration Committee. The Remuneration Committee (comprising Peter Scott, Ranjit Sondhi and Patricia Lankester 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 Culture, Media and Sport and the National Gallery.

The Director's appointment is for an indefinite period. In accordance with the provisions of the PCSPS Gallery staff may retire at 65. 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.

*Planning Group salary, performance award and benefits*

	<b>2007/08</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>
Susan Foister <i>Director of Collections</i>	65 – 70	65 – 70
Clare Gough <i>Director of Communications and Media</i>	30 – 35 <sup>1</sup>	25 – 30 <sup>2</sup>
David Jaffe <i>Senior Curator of Flemish Paintings</i>	70 – 75	65 – 70
Ashok Roy <i>Director of Scientific Research</i>	65 – 70	65 – 70
Nigel Semmens <i>Director of Communications (from 14 June 2006)</i>	55 – 60	55 – 60 <sup>3</sup>
Martin Wyld <i>Director of Conservation (excl period as acting Director)</i>	40 – 45 <sup>4</sup>	70 – 75
Christopher Yates <i>Director of Resources (until 31 December 2007)</i>	55 – 60 <sup>5</sup>	70 – 75

<sup>1</sup> Full time, full year equivalent is £65,000 - £70,000.

<sup>2</sup> Full time, full year equivalent is £65,000 - £70,000.

<sup>3</sup> Full year equivalent is £55,000 – £60,000.

<sup>4</sup> Full year equivalent is £70,000 - £75,000.

<sup>5</sup> Full year equivalent is £70,000 - £75,000.

No provision is made within the contracts of the above individuals for non-cash benefits, and there is no entitlement to performance-related awards. 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.

An interim Director of Resources was engaged from January 2008 through an agency. Payments to the agency for the period to 31 March 2008 amounted to £36,524.

### 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 2008 for senior managers and the Director are as follows:

	<b>Accrued pension at age 60 as at 31 March 2008 and related lump sum £'000</b>	<b>Real increase in pension and related lump sum at age 60 £'000</b>	<b>CETV at 31/3/08 £'000</b>	<b>CETV at 31/3/07 £'000</b>	<b>Real increase in CETV £'000</b>
Charles Saumarez Smith	40–45 plus 120 – 125 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	766	765	0
Nicholas Penny	0 – 5	0 – 2.5	6	0	5
Martin Wyld	45 – 50 plus 145 – 150 lump sum	10 – 12.5 plus 35 – 37.5 lump sum	1,181	844	288
Susan Foister	20 – 25 plus 65 – 70 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	485	397	25
Clare Gough	5 – 10 plus 15 – 20 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	83	63	9
David Jaffe	5 – 10 plus 25 – 30 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	184	144	18
Ashok Roy	25 – 30 plus 65 – 70 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	691	581	32
Nigel Semmens	15 – 20 plus 45 – 50 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	331	266	20
Christopher Yates	5 – 10 plus 25 – 30 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	113	95	7

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).

The PCSPS is an unfunded multi-employer defined benefit scheme. The National Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007/08, employers' contributions of £1,872,244 were payable to the PCSPS (2006/07: £1,934,080) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay (2006/7: 17.1% – 25.5%) based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09 the salary bands will be revised, but rates will remain the same. (The rates will be changing with effect from April 2009.)

The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £22,551 (2006/07: £20,275) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,592 (2006/07: £1,611), 0.8 per cent 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 £657 (2006/07: £2,000). Contributions prepaid at that date were £4,550 (2006/07: £18,275).

*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, 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.

**Nicholas Penny**  
**Director and Accounting Officer**

**7th July 2008**

**Peter Scott**  
**Chairman**

**7th July 2008**

## Statement of Trustees' and Director's Responsibilities

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

In preparing the National Gallery's accounts the Trustees are required to:

- observe the accounts direction\* issued by the Secretary of State including the relevant accounting and disclosure requirements and apply them on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the National Gallery will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Director as the Accounting Officer for the National Gallery. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Managing Public Money.

**Nicholas Penny**  
**Director and Accounting Officer**

**7th July 2008**

**Peter Scott**  
**Chairman**

**7th July 2008**

\* a copy of which is available from The National Gallery, Trafalgar Square, London, WC2N 5DN.

## Statement on the System of Internal Control

### Scope of responsibility

As Accounting Officer and Chairman of the Board of Trustees of the National Gallery, we have responsibility for maintaining a sound system of internal control that supports the achievement of the Gallery's policies, aims and objectives, whilst safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned in Managing Public Money and ensuring compliance with the requirements of the Financial Memorandum.

### Purpose of system of internal control

The system is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Gallery's objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically. This process has been in place in the year ended 31st March 2008 and up to the date of approval of the annual report and financial statements, and it accords with Treasury guidance.

### Capacity to handle risk

The National Gallery has an Internal Controls Committee to monitor, maintain and improve the general control environment operating within the Gallery. This committee is made up of representatives of different Gallery departments, and has provided a forum for risk management workshops. During these workshops, the committee identified the Gallery's risks and determined a control strategy for each of the significant risks. The Internal Controls Committee has also worked on formulating the Gallery's policies, including the risk management policy, which sets out the responsibilities for managing risk as follows:

- the Board of Trustees (via 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 and Trustees are responsible for managing risk and ensuring that an effective system of internal control is maintained and operated within the Gallery;
- the Internal Controls Committee is responsible for providing the Accounting Officer and the Audit Committee with assurance that an effective system of internal control has been maintained and is operated within the Gallery;
- Budget Holders are responsible for complying with the requirements of the Budget Holders' Assurance Statement and taking specific action to control the identified risks;
- Internal audit's primary role is to give the Accounting Officer and Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. This assists the Internal Controls Committee in assessing and monitoring the effectiveness of the internal controls.

The National Gallery uses an externally provided internal audit unit, which operates to standards defined in the Government Internal Audit Standards. The work of the internal audit unit is informed by the analysis of risk to which the Gallery is exposed, and annual internal audit plans are based on this analysis. Internal audit provides the Audit Committee with an annual report on internal audit activity in the Gallery. The report includes Internal audit's independent opinion on the adequacy and effectiveness of the Gallery's system of internal financial control.

## The risk and control framework

The system of control is based on a framework of management processes including regular management information, administrative procedures, and a system of delegation and accountability. In particular it includes:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Management Committee, and incorporated in a corporate plan, reviewed and approved by Trustees;
- regular reviews by the Management Committee and Trustees of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- specific policies relating to the appropriate use, storage, dissemination, security and disposal of information, including personal data and other sensitive information; and
- a system of delegation and accountability.

The risk priorities identified and addressed during the year, reflecting potential weaknesses in the system of controls, included a special review of measures in place during the planning, design, assembly and disassembly of exhibitions to ensure the safety of the collection. Work was also done to reinforce and improve the controls in place to ensure all employees have adequate security clearance.

## Review of effectiveness

As Accounting Officer and Chairman of the Board of Trustees, we also have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditors, the executive managers within the Gallery who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In our view, the information we have received was sufficient to enable us to review the effectiveness of the Gallery's system of internal control in accordance with the relevant recommendations of the Treasury Guidance. We consider the overall framework of controls to be effective and will work together to address weaknesses and ensure continuous improvement of the system in place.

**Nicholas Penny**  
**Director and Accounting Officer**

**7th July 2008**

**Peter Scott**  
**Chairman**

**7th July 2008**

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

I certify that I have audited the financial statements of The National Gallery for the year ended 31 March 2008 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

## Respective responsibilities of the Board of Trustees, the Director and Auditor

The Board of Trustees and the Director as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture Media and Sport's directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Board of Trustees' and Director's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture Media and Sport's directions made thereunder. I report to you whether, in my opinion, the information which comprises the Foreword, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the incoming and outgoing resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if The National Gallery has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects The National Gallery's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of The National Gallery's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trustees Annual Report and consider whether it is consistent with the audited financial statements. This information comprises the section headed Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The National Gallery's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the incoming and outgoing resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture Media and Sport, of the state of The National Gallery's affairs as at 31 March 2008 and of its incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture Media and Sport's directions made thereunder; and
- information which comprises the Foreword, included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

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

## Report

I have no observations to make on these financial statements.

T.J. Burr  
**Comptroller and Auditor General**  
**National Audit Office**  
**151 Buckingham Palace Road**  
**Victoria**  
**London SW1W 9SS**  
**10th July 2008**



## Balance Sheet as at 31 March 2008

	Note	2008		2007	
		£'000	£'000	£'000	£'000
<b>Fixed Assets</b>					
Tangible Assets	10	<b>228,481</b>		216,770	
Heritage Assets	10	<b>73,258</b>		65,326	
Investments	11a	<b>22,946</b>		23,591	
			<b>324,685</b>		305,687
<b>Current Assets</b>					
Stock		<b>2</b>		1	
Debtors	12	<b>1,785</b>		1,776	
Investments	11b	<b>6,815</b>		1,542	
Cash at bank and in hand	19d	<b>11,595</b>		12,227	
		<b>20,197</b>		15,546	
<b>Creditors:</b>					
Amounts falling due within one year	13	<b>(3,332)</b>		(3,341)	
<b>Net current assets</b>			<b>16,865</b>		12,205
<b>Total assets less current liabilities</b>			<b>341,550</b>		317,892
<b>Creditors:</b>					
Amounts falling due after one year	13		<b>(3,584)</b>		(3,508)
<b>Net assets</b>			<b>337,966</b>		314,384
<b>Represented by:</b>					
Restricted funds:	16		<b>270,938</b>		251,149
Unrestricted funds:					
Designated		<b>47,673</b>		46,745	
Designated funds already expended on acquisitions		<b>5,524</b>		5,254	
General funds		<b>8,556</b>		5,658	
	16		<b>61,753</b>		57,657
<b>Total Income Funds</b>			<b>332,691</b>		308,806
<b>Capital funds - permanent endowments</b>	16		<b>5,275</b>		5,578
<b>Total Funds</b>			<b>337,966</b>		314,384

There are no debtors falling due after more than one year.

*The notes on pages 33 to 48 form part of these accounts.*

**Nicholas Penny**  
Director and Accounting Officer

**Peter Scott**  
Chairman

## Cash Flow Statement for the year ended 31 March 2008

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	19a		<b>5,358</b>		11,697
<b>Returns on investment and servicing of finance</b>					
Bank interest received		<b>785</b>		314	
Interest received on investment portfolio deposits		<b>75</b>		37	
Investment income		<b>718</b>		657	
			<b>1,578</b>		1,008
<b>Capital expenditure and financial investment</b>					
Receipts from sale of tangible fixed assets		-		21	
Payments to acquire tangible fixed and heritage assets		<b>(1,552)</b>		(3,090)	
Payments from donated funds for collection acquisitions		<b>(56)</b>		(1,270)	
Purchase of investments		<b>(489)</b>		(440)	
Proceeds from the sale of investments		<b>396</b>		209	
Decrease/(increase) in investment portfolio deposits		<b>(594)</b>		(366)	
			<b>(2,295)</b>		(4,936)
			<b>4,641</b>		7,769
<b>Management of liquid resources</b>	19b		<b>(5,273)</b>		(63)
<b>Increase/(decrease) in cash for the year</b>	19c		<b>(632)</b>		7,706

The notes on pages 33 to 48 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, the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities", published in October 2005, and applicable accounting standards.

Investments are stated at market value rather than at historic cost. Any unrealised gains or losses arising from this policy are disclosed in the statement of financial activities (SOFA).

### b. Incoming Resources

All incoming resources are included in the SOFA when the Gallery is legally entitled to the income and the amount can be quantified with reasonable accuracy.

The Grant in Aid from the Department for 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, there is certainty of receipt and the amount is quantifiable.

Gifts in kind intended for use by the Gallery are recognised in the SOFA as incoming resources at a reasonable estimate of their current value on receipt. Contractual income is recognised as incoming resources 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 16 for further details.

### c. Resources expended

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 8.

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. Costs incurred on educational activities include all costs associated with running the Gallery's extensive education programme. Care of the collection costs are those incurred in keeping the collection safe and the cost of restoration and conservation. Study of the collection costs are those incurred in scholarship, research and documentation of the collection. Access to the collection costs are those incurred in promoting understanding and enjoyment of the collection, publicising the Gallery and visitor services.

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 an apportionment of support 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 8.

### Collection Purchases

The historic value of the collection is considered to be incalculable and is inalienable and no amount has been included for it in the Balance Sheet.

In accordance with the Government Financial Reporting Manual (FRoM) – which follows UK GAAP – additions to the collection since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine.

Works of art donated by third parties, either by gift of the asset or by way of funds for the asset, are capitalised at current value on receipt. Such donations are accounted for through the donated asset reserve and are not included within the caption “incoming resources before transfers, notional costs, revaluations and donations relating to collection acquisitions”. Donated assets are not depreciated or revalued as a matter of routine.

The Trustees believe that the collection of the National Gallery is unusual as an asset in many ways. It is inalienable, unique, irreplaceable, ancient, fragile, and very valuable. It is truly “priceless” in that it cannot be valued meaningfully.

The treatment required under the FReM values the collection inconsistently in the Balance Sheet on the seemingly arbitrary basis of whether the picture was acquired pre or post March 2001. Moreover, given the volatility of the international art market and fluctuations in inflation, the historic cost of the picture will soon become an unrealistic carrying value – by way of illustration, the historic cost of the acquisition in 1861 of Piero della Francesca’s iconic *Baptism of Christ* is £241, which would now be a meaningless figure on the balance sheet.

Furthermore, the absence of depreciation means that the acquisition costs will not be recognised in the Statement of Financial Activities whereas the related funding, with the exception of restricted donations, will be. The mismatch between the treatment of funding and expenditure gives the misleading appearance both of a surplus in-year, and of a consequent unrestricted reserve carried forward into the future, when in reality the funding has already been used to acquire an inalienable asset.

Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this treatment, but remain very concerned that it will mislead readers of the accounts.

*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 16.

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 16.

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 £2,000 threshold to the capitalisation of fixed assets.

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
Collection acquisitions	N/A

As the useful economic life of the freehold buildings asset class exceeds 50 years, an impairment review is performed in accordance with FRS 11 at the end of each reporting period, to compare the carrying amount of the fixed asset with its depreciated replacement cost value.

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.

*f. 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 in deposits with a maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

*g. Stocks*

Tangible stocks are held by the Gallery for use in the staff canteen. Stocks for the gift shops situated within the Gallery premises are owned by the National Gallery Company Limited. The cafe and restaurant facilities are also franchised out. Stocks are stated at the lower of cost or net realisable value.

*h. 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.

*i. Foreign Currencies*

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

*j. 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 the Remuneration Report.

*k. 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.

*l. Notional Costs*

In accordance with Treasury guidance, notional cost of capital is charged in the SOFA in arriving at the net incoming/(outgoing) resources figure. This is reversed so that no provision is included on the balance sheet.

*m. Taxation*

The Gallery is eligible under s.505 of the Income and Corporation Taxes Act 1988 to seek from the Inland Revenue exemption from taxes on income arising from the pursuit of its charitable objectives. The Inland Revenue has granted this exemption.

## 2 Grant in Aid

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Department for Culture, Media and Sport	<b>25,597</b>	23,985

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £3.25m (2007: 2.25m) was ring-fenced for capital purposes.

## 3 Other Government Grants

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Strategic Commissioning grant from the Department for Culture, Media and Sport	<b>160</b>	143

## 4 Donations

	<b>2008</b>	2007
	<b>£'000</b>	£'000
General donations can be split as follows:		
Individuals	<b>175</b>	216
Trusts and Foundations	<b>539</b>	4,964
Corporate donors	<b>42</b>	120
Gifts in Kind	<b>57</b>	7
Other	<b>21</b>	73
	<b>834</b>	5,380

Donations relating to capitalised collection acquisitions can be split as follows:

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Individuals	<b>17</b>	37
Trusts and Foundations	<b>-</b>	3
Corporate donors	<b>5</b>	-
Gifts in kind, including pictures acquired under the acceptance-in-lieu scheme	<b>7,875</b>	4,916
Other	<b>3</b>	150
	<b>7,900</b>	5,106
Total donations	<b>8,734</b>	10,486

## 5. Activities for generating funds and other incoming resources

	<b>2008</b>	2007
	<b>£'000</b>	£'000
<i>Activities for generating funds</i>		
Trading	838	929
Concessions	845	956
Miscellaneous	307	348
	<b>1,990</b>	<b>2,233</b>
<i>Other incoming resources</i>		
Gain on sale of equipment	-	1

Trading income includes royalties, venue hire and the corporate membership programme.

## 6. Investment Income

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Bank interest receivable	821	353
Interest receivable on UK investment portfolio deposits	227	176
Other UK fixed interest stocks	176	166
UK equities	461	417
Foreign equities	80	77
	<b>1,765</b>	<b>1,189</b>

## 7. Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2006/07: £Nil). The total value of expenses reimbursed to Trustees amounted to £2,121 for the year (2006/07: £2,095), representing travel and catering expenses for three Trustees.

## 8. Total resources expended

	Direct Costs £'000	Support Costs £'000	Depre- ciation £'000	<b>Total 2008 £'000</b>	Total 2007 £'000
Fundraising costs	833	77	–	<b>910</b>	831
Investment management costs	91	–	–	<b>91</b>	87
	<u>924</u>	<u>77</u>	<u>–</u>	<b>1,001</b>	918
Exhibitions	2,022	102	–	<b>2,124</b>	2,471
Educational activities	1,244	110	–	<b>1,354</b>	1,461
Care of the collection	7,829	488	3,420	<b>11,737</b>	12,134
Study of the collection	1,665	200	–	<b>1,865</b>	2,305
Access to the collection	9,817	968	–	<b>10,785</b>	10,957
	<u>22,577</u>	<u>1,868</u>	<u>3,420</u>	<b>27,865</b>	29,328
Governance costs	200	9	–	<b>209</b>	150
	<u>23,701</u>	<u>1,954</u>	<u>3,420</u>	<b>29,075</b>	30,396

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	Educational activities	Care of the collection	Study of the collection	Access to the	collection	Governance	Total	Basis of allocation
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Finance	16	72	30	230	9	45	3	3	<b>405</b>	Direct expenditure of activity
Human Resources	16	8	21	68	50	532	2	2	<b>697</b>	Headcount
Information Services	38	19	50	163	121	335	3	3	<b>729</b>	Headcount of office-based staff
Office Services	7	3	9	27	20	56	1	1	<b>123</b>	Headcount of office-based staff
	<u>77</u>	<u>102</u>	<u>110</u>	<u>488</u>	<u>200</u>	<u>968</u>	<u>9</u>	<u>9</u>	<b>1,954</b>	

Analysis of governance costs:

	<b>2008 £'000</b>	2007 £'000
Staff costs	119	72
Auditor's remuneration	37	36
Internal audit fees	23	19
Cost of meetings	6	5
External consultants	15	9
Support costs	9	9
	<u>209</u>	<u>150</u>

Total resources expended include the following:

	<b>2008</b>	2007
	<b>£</b>	£
Auditor's remuneration:		
Audit Fees	<b>37,165</b>	35,500
Leased rental payments on equipment and office space	<b>507,419</b>	509,746

## 9 Staff Costs

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Wages and salaries	<b>11,503</b>	11,441
Social security costs	<b>830</b>	860
Pension costs	<b>1,978</b>	1,956
	<b>14,311</b>	14,257

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

	<b>2008</b>	2007
£60,000–£69,999	<b>5</b>	8
£70,000–£79,999	<b>3</b>	3
£140,000–£149,999	<b>1</b>	1

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

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

	<b>2008</b>	2007
Fund-raising	<b>10</b>	9
Exhibitions	<b>5</b>	5
Educational activities	<b>13</b>	14
Care of the collection	<b>42</b>	46
Study of the collection	<b>30</b>	31
Access to the collection	<b>328</b>	323
Support costs	<b>26</b>	24
Governance	<b>1</b>	1
	<b>455</b>	453

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

**10. Tangible assets and heritage assets**

	Freehold Land & Buildings £'000	Plant & Machinery £'000	Assets in the Course of Construction £'000	Equipment £'000	<b>Total £'000</b>	<b>Heritage Assets £'000</b>
<b>Cost or Valuation</b>						
As at 1 April 2007	155,814	61,458	22	2,970	<b>220,264</b>	<b>65,326</b>
Donated works of art	-	-	-	-	-	<b>7,932</b>
Additions	736	951	21	132	<b>1,840</b>	-
Disposals	-	-	-	(101)	<b>(101)</b>	-
Revaluation	12,250	(3,109)	-	-	<b>9,141</b>	-
Transfers	-	-	-	-	-	-
As at 31 March 2008	<u>168,800</u>	<u>59,300</u>	<u>43</u>	<u>3,001</u>	<b>231,144</b>	<b>73,258</b>
<b>Depreciation</b>						
As at 1 April 2007	1,031	-	-	2,463	<b>3,494</b>	-
Disposals	-	-	-	(99)	<b>(99)</b>	-
Charge for year	1,041	2,080	-	299	<b>3,420</b>	-
Revaluation	(2,072)	(2,080)	-	-	<b>(4,152)</b>	-
As at 31 March 2008	-	-	-	2,663	<b>2,663</b>	-
<b>Net Book Value</b>						
31 March 2008	<u>168,800</u>	<u>59,300</u>	<u>43</u>	<u>338</u>	<b>228,481</b>	<b>73,258</b>
31 March 2007	<u>154,783</u>	<u>61,458</u>	<u>22</u>	<u>507</u>	<b>216,770</b>	<b>65,326</b>

The collection is inalienable, and the historic value of those paintings acquired before 1 April 2001 is considered to be incalculable. No amount has been included for those paintings in the Balance Sheet.

In accordance with the FReM – which follows UK GAAP – additions to the collection and works of art donated to the collection since 1 April 2001 have been capitalised. The Trustees of the National Gallery consider that this capitalisation policy presents an inconsistent and inaccurate picture of the National Gallery's collection at any one point in time: the specific concerns are outlined in more detail in note 1 to the accounts. The entire National Gallery permanent collection and long-term loans are illustrated and described in the collection online: [http://www.nationalgallery.org.uk/collection/default\\_online.htm](http://www.nationalgallery.org.uk/collection/default_online.htm)

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. In accordance with Treasury requirements, land and buildings were valued on a depreciated replacement cost basis at 31 March 2004. The valuation was performed by Atis Real Weatheralls, an independent firm of Chartered Surveyors, in accordance with the RICS Appraisal and Valuation Manual (the Red Book).

The valuation was updated by Atis Real as at 31 March 2008 and the value of land and buildings, and plant and machinery was adjusted to reflect this. The financial effect of revaluing other assets was considered to be immaterial and therefore they have been disclosed at their historic cost value.

The Trustees consider the building to be effectively inalienable; it would not be possible to realise its value. The net book value at 31 March 2008 represents fixed assets held for charitable purposes only.

**11. a) Fixed asset investments**

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Market value as at 1 April	<b>23,591</b>	22,155
Increase/(decrease) in investment portfolio deposits	<b>594</b>	366
Listed investments:		
Disposal proceeds	<b>(396)</b>	(209)
Additions at cost	<b>489</b>	440
Realised and unrealised gains	<b>(1,332)</b>	839
Market value as at 31 March	<b><u>22,946</u></b>	<u>23,591</u>

All investments are listed on a recognised stock exchange and are analysed as follows:

*Listed Investments*

UK Fixed interest stocks	<b>2,773</b>	2,790
UK equities	<b>11,628</b>	12,553
Overseas equities	<b>4,300</b>	4,597
	<b><u>18,701</u></b>	<u>19,940</u>

*Cash held as part of the investment portfolio*

UK investment portfolio deposits	<b>4,245</b>	3,651
	<b><u>22,946</u></b>	<u>23,591</u>

The overall market value of investments decreased during the year, reflecting movements in both the UK and international markets.

**(b) Current asset investments**

	<b>£'000</b>	£'000
Current asset investments	<b>6,815</b>	1,542

Current asset investments comprise cash in deposits with a maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

**12. Debtors**

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Amounts falling due within one year:		
Trade debtors	<b>276</b>	221
Other debtors	<b>178</b>	304
Tax and social security	<b>484</b>	374
Prepayments & accrued income	<b>847</b>	877
	<b><u>1,785</u></b>	<u>1,776</u>

**13. Creditors**

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Amounts falling due within one year:		
Trade creditors	<b>938</b>	579
Other creditors	<b>964</b>	898
Accruals and deferred income	<b>1,430</b>	1,864
	<b><u>3,332</u></b>	<u>3,341</u>
	<b>2005</b>	2004
	<b>£'000</b>	£'000
Amounts falling due in over one year:		
Other creditors	<b>769</b>	954
Accruals and deferred income	<b>2,815</b>	2,554
	<b><u>3,584</u></b>	<u>3,508</u>
	<b>526</b>	458
In more than one year but not more than two years	<b>1,048</b>	1,036
In more than two years but not more than five years	<b>2,010</b>	2,014
In more than five years, payable by instalments	<b><u>3,584</u></b>	<u>3,508</u>
	<b>2008</b>	2007
Movement on the deferred income account	<b>£'000</b>	£'000
As at 1 April	<b>4,248</b>	394
Amounts released from previous years	<b>(1,248)</b>	(362)
Incoming resources deferred in the current year	<b>315</b>	4,216
As at 31 March	<b><u>3,315</u></b>	<u>4,248</u>

Amounts due to/ from related parties including those associated with the Whole of Government Accounts are disclosed in note 20.

Incoming resources deferred in the current and previous year include an estimate of the value of the donated element of a painting, *The Cumaean Sibyl with Putto* by Guercino, which is being acquired by the Gallery in instalments and the title of which passes to the Gallery at an uncertain point in the future. The carrying value of this picture in the balance sheet is £4.2m. Also included above is a creditor balance representing the likely future instalments due in relation to the picture. Given that the nature of the acquisition is likely to result in a substantial proportion of the value being donated to the Gallery, we do not consider it appropriate to classify this as a finance lease arrangement.

**14. Financial risk management**

FRS 13, Derivatives and other financial instruments, requires disclosure of the role financial instruments have had during the period in creating or changing the risks the Gallery faces in undertaking its activities. As permitted by FRS13, debtors and creditors maturing or becoming payable within 12 months from the balance sheet date have been omitted from this note.

**Liquidity and credit risk**

Approximately 63% of the Gallery's incoming resources before transfers, notional costs and revaluations is provided by Grant in Aid from the Department for Culture, Media and Sport. As a result the Gallery is not exposed to significant liquidity or credit risks.

**Interest rate risk**

The reserves and investment policies of the Gallery are outlined in the Trustees' Report of the accounts. Interest income is 2% of the Gallery's incoming resources before transfers, notional costs and revaluations, so the interest rate is not considered to be a significant risk for the Gallery.

### Price risk

The Gallery's comprehensive annual budget reflects anticipated levels of income for the year. It is reviewed and agreed by the Management Committee, and incorporated in a corporate plan which is reviewed and approved by Trustees.

Costs of supplies purchased are subject to contracts with suppliers, the structure of which vary; for example some are based on current market prices, others are at agreed fixed prices. The Gallery's exposure to equity securities price risk is monitored by the Trust Funds Committee, as described in the investment policy above. The Gallery does not hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument or where it is held as part of an investment strategy as determined by the Trust Funds Committee.

### Foreign currency risk

Foreign currency transactions are not material.

### Financial assets

The following table shows the interest rate profile of the Gallery's financial assets.

	Total £'000	Non- interest bearing assets held £'000	Floating- rate cash held £'000	Fixed rate short term cash deposits held £'000	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Days
At 31 March 2008 Sterling	40,910	18,745	14,216	7,949	5.65%	52
At 31 March 2007 Sterling	37,360	17,194	15,872	4,294	4.54%	58

The interest receivable on the floating rate deposits is at a variable rate as determined by the Gallery's bank, Coutts & Co.

### Financial liabilities

There were no financial liabilities requiring disclosure under FRS13.

## 15. Financial Commitments

### Capital Commitments

	2008 £'000	2007 £'000
Capital expenditure commitments were as follows:		
Contracted for, but not provided in the accounts	<u>174</u>	<u>49</u>

### Commitments under operating leases

As at 31 March 2008 the National Gallery had annual commitments under operating leases for office space, photocopiers and vending machines as set out below:

	2008 £'000	2007 £'000
Operating leases which expire:		
Within 1 year	246	1
In the second to fifth years	38	506
Over 5 years	<u>-</u>	<u>-</u>

**16. Statement of funds**

	At 1 April 2007 £'000	Income £'000	Expenditure £'000	Net movement on investments and revaluation £'000	Transfers between reserves £'000	At 31 March 2008 £'000
<b>Unrestricted funds</b>						
Designated funds:						
Capital assets reserve	30,749	–	(485)	1,885	–	32,149
Designated funds expended on acquisitions	5,254	–	–	–	270	5,524
Designated funds for purchase of heritage assets	2,554	–	–	–	(270)	2,284
Trust funds designated collection purchases	13,409	582	(56)	(728)	–	13,207
Designated for purchase of frames and furniture	33	–	–	–	–	33
<b>Total designated funds</b>	<b>51,999</b>	<b>582</b>	<b>(541)</b>	<b>1,157</b>	<b>–</b>	<b>53,197</b>
General funds	5,658	27,473	(24,588)	–	13	8,556
<b>Total unrestricted funds</b>	<b>57,657</b>	<b>28,055</b>	<b>(25,129)</b>	<b>1,157</b>	<b>13</b>	<b>61,753</b>
<b>Restricted income funds</b>						
Land & buildings reserve	135,292	–	(2,135)	8,297	–	141,454
Capital assets reserve	50,729	1,840	(800)	3,111	(2)	54,878
Donated works of art reserve	57,520	9,559	–	–	–	67,079
Exhibitions programme fund	104	152	(142)	–	–	114
Running cost fund	593	578	(802)	–	(11)	358
Curatorial fund	1,335	143	(33)	–	–	1,445
Collection purchases fund	38	2	–	–	–	40
Collection purchases trust fund	3,975	265	(25)	(216)	–	3,999
Art historical research	1,563	102	(9)	(85)	–	1,571
<b>Total restricted income funds</b>	<b>251,149</b>	<b>12,641</b>	<b>(3,946)</b>	<b>11,107</b>	<b>(13)</b>	<b>270,938</b>
<b>Capital funds</b>						
Collection purchase endowments	3,056	–	–	(166)	–	2,890
Art historical research endowment	1,037	–	–	(56)	–	981
General purpose endowments	1,485	–	–	(81)	–	1,404
<b>Total capital funds</b>	<b>5,578</b>	<b>–</b>	<b>–</b>	<b>(303)</b>	<b>–</b>	<b>5,275</b>
<b>Total funds</b>	<b>314,384</b>	<b>40,696</b>	<b>(29,075)</b>	<b>11,961</b>	<b>–</b>	<b>337,966</b>

Transfers between unrestricted and restricted funds reflect restricted income received during the year where the relevant expenditure had been incurred and allocated against unrestricted funds in earlier years.

The accounts comprise of a number of individual funds which divide into distinct categories as defined below:

**Unrestricted Funds**

- Capital assets reserve comprises funds applied towards the purchase of equipment and building works.
- Designated funds expended on acquisitions represents the value of collection acquisitions made since 1 April 2001 from unrestricted funds.
- Trust funds designated collection purchases comprises funds applied to the acquisition of works of art for the collection and held within the Trust Funds, while funds designated for purchase of frames and furniture represents Gallery funds to be applied for the acquisition of frames and furniture.
- General funds are funds applied for general use.

**Restricted funds**

- Land & buildings reserve comprises funds in respect of the Gallery's land and buildings.
- Capital assets reserve comprises funds raised specifically towards the purchase of equipment and building works.
- The donated works of art reserve represents the value of works of art donated to the collection either by gift or by way of funds for acquisition subsequent to 1 April 2001 and capitalised.
- Exhibitions programme reserve comprises funds raised specifically towards the financing of the Gallery's exhibition programme.
- Running cost funds are funds raised specifically for the financing of running costs projects, including educational projects.
- Curatorial funds are funds raised specifically for the financing of curatorial activities, including the funding of certain curatorial posts.
- Collection purchases funds comprise grants received specifically towards the acquisition of works of art for the collection.
- Collection purchases trust funds comprise grants received specifically towards the acquisition of works of art for the collection and held within the Trust Funds.
- Art historical research represents funds raised specifically towards the financing of curatorial research into the collection and held within the Trust Funds.

**Capital funds**

- Collection purchase endowments comprise funds donated where the income may be applied only to collection purchases, while any capital growth 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 any capital growth must be retained in the endowment.
- General purpose endowments comprise funds donated where the income may be applied to general expenditure, while any capital growth must be retained in the endowment.

**17. Notional cost of capital**

Notional cost of capital is calculated as 3.5% (2006/07: 3.5%) of the average capital employed by the Gallery in the year less the value of assets funded by donations.

	Unrestricted Funds £'000	Restricted Funds £'000	<b>Total Funds 2008 £'000</b>	Total Funds 2007 £'000
Notional cost of capital	(881)	(3,246)	<b>(4,127)</b>	(3,605)
Reversal of notional cost of capital	881	3,246	<b>4,127</b>	3,605
Net notional costs	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

**18. Analysis of net assets between funds**

	Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment £'000	<b>Total Funds 2008 £'000</b>	Total Funds 2007 £'000
Tangible assets	32,149	196,332	–	<b>228,481</b>	216,770
Heritage assets	7,808	65,450	–	<b>73,258</b>	65,326
Investments	12,101	5,570	5,275	<b>22,946</b>	23,591
Other net assets	9,695	3,586	–	<b>13,281</b>	8,697
Total net assets	<u>61,753</u>	<u>270,938</u>	<u>5,275</u>	<u><b>337,966</b></u>	<u>314,384</u>

**19. Notes to the cash flow statement**

	<b>2008 £'000</b>	2007 £'000
<b>a. Reconciliation of changes in resources to net inflow from operating activities</b>		
Net incoming resources before transfers, notional costs and other recognised gains and losses	<b>11,621</b>	12,534
Receipts from sale of tangible fixed assets	–	(1)
Investment income	<b>(1,765)</b>	(1,189)
Donated collection acquisitions	<b>(7,875)</b>	(7,470)
Depreciation charge	<b>3,420</b>	3,487
Decrease/(increase) in debtors	<b>179</b>	232
Increase/(decrease) in creditors	<b>(221)</b>	4,104
Decrease/(increase) stocks	<b>(1)</b>	–
Net cash inflow from operating activities	<u><b>5,358</b></u>	<u>11,697</u>
<b>b. Management of liquid resources</b>		
Increase/(decrease) in liquid investment portfolio deposits	<u><b>5,273</b></u>	<u>63</u>
Management of liquid resources	<u><b>5,273</b></u>	<u>63</u>

Liquid resources comprise cash in deposits with maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes.

**c. Reconciliation of net cash flow to movement in net funds**

Increase in cash in the year	<b>(632)</b>	7,706
Cash balance at beginning of year	<u><b>12,227</b></u>	<u>4,521</u>
Cash balance at end of year	<u><b>11,595</b></u>	<u>12,227</u>

**d. Composition of the cash balance at the end of the year**

Balance with the Paymaster General	<b>2,799</b>	1,898
Balances held with commercial banks	<b>8,783</b>	10,316
Cash in hand	<b>13</b>	13
	<u><b>11,595</b></u>	<u>12,227</u>

## 20. Related Party Transactions

The National Gallery is a Non-Departmental Public Body whose sponsor department is the Department for Culture, Media and Sport ("DCMS"). DCMS is regarded as a related party.

The National Gallery has had works of art on loan to the following related parties during the financial year 2007/8:

- British Museum
- Tate
- The Wallace Collection
- National Maritime Museum
- National Museums and Galleries of Wales
- National Galleries of Scotland

The National Gallery jointly owns a work of art with the National Museum of Wales, a related party. The National Gallery has had works of art on loan from the following related parties during the financial year 2007/8:

- The National Portrait Gallery
- Tate
- Victoria & Albert Museum
- British Museum
- National Galleries of Scotland
- National Museums Liverpool
- English Heritage
- Imperial War Museum

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 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 income received during the year £'000	Value of expenditure during the year £'000	Outstanding balances due from/ (due to) at year end £'000	Nature of transaction
American Friends of the National Gallery, London, Inc	Mr Peter Scott, a director of the related party, served as a trustee of the National Gallery during the year	128	–	–	Grants for Technical Bulletin, strengthening the curatorial department and a 16th century Italian catalogue.
Arts Council of England	Entity sponsored by DCMS	13	12	–	Grant towards <i>Scratch the Surface</i> exhibition, costs towards Cultural Diversity project.
Ashmolean Museum, Oxford	Mr James Fenton, a trustee of the National Gallery, is a Visitor	–	20	–	Reimbursement for costs they incurred in relation to the DCMS Strategic Commissioning Project.
British Museum	Entity sponsored by DCMS	–	18	(11)	Internal audit fee.
CQS	Mr Michael Hintze, a trustee of the National Gallery since 3 April 2008, is Chief Executive Officer of the related party	30	–	–	Membership fee for Corporate Contributors scheme.
DCMS	Sponsor department	25,879	–	85	Grant in aid and strategic commissioning project
Land Securities Group	Mr Paul Myners, non-executive chairman of the related party, served as a trustee during the year	17	–	–	Membership fee for Corporate Contributors scheme.
National Gallery Company Ltd	Mr Simon Burke, a director of the related party, served as a trustee of the National Gallery during the year	995	199	64	Rent for commercial space within the National Gallery and payment for publications.
National Gallery Trust	Mr Peter Scott and Mr Simon Burke, trustees of the related party served as trustees of the National Gallery during the year	82	–	–	Grants for specific projects and accounting fee
National Museums and Galleries on Merseyside	Entity sponsored by DCMS	–	9	–	Reimbursement for costs they incurred in relation to the DCMS Strategic Commissioning Project.
National Portrait Gallery	Entity sponsored by DCMS	177	–	19	Utility supply and electrical main upgrade recharges.
Oxford Brookes University	Mr Jonathan Snow, a trustee of the National Gallery, is chancellor of the related party	–	9	–	Reimbursement for costs incurred in relation to the DCMS Strategic Commissioning Project.
Royal Dutch Shell PLC	Lord John Kerr, a trustee of the National Gallery, is deputy chairman of the related party	403	–	–	Exhibition sponsorship and corporate contribution.
The NGT Foundation	Mr Ranjit Sondhi and Mr Peter Scott, trustees of the related party, served as trustees of the National Gallery during the year	30	745	–	Rental of office space, annual management and accounting fee recharge.
University College, London	Ms Victoria Barnsley, a trustee of the National Gallery, is an honorary fellow	–	7	–	Employee training.
Victoria and Albert Museum	Entity sponsored by DCMS	–	24	–	National Museum Directors' Conference subscription and loan for an exhibition.
		<u>27,754</u>	<u>1,043</u>	<u>157</u>	

## **21. Post Balance Sheet Events**

The financial statements were authorised for issue on 10th July 2008.

There were no post balance sheet events to report.

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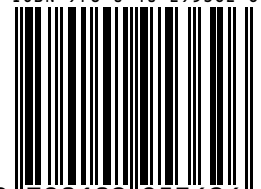
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