

MUSEUMS AND GALLERIES ACT 1992

Accounts of the National Gallery prepared pursuant to Museums and Galleries Act 1992, c.44, para 9(7), for the year ended 31 March 2006, together with the Report of the Comptroller and Auditor General thereon.

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

The National Gallery Annual Report and Accounts for the year ended 31 March 2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 20 July 2006

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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

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 in support of their standing and success.

3 Review of Activities and Achievements

Care for the collection

Objective

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. None of the paintings in its care were lost or damaged during the year. 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.

The space in the Conservation studios has been dominated this year by two large paintings from the collection: Guido Reni's *Adoration of the Shepherds* and Velázquez's *Boar Hunt*. Other pictures cleaned and restored in the Conservation Department include Snijers' *A Still Life with Fruit, Vegetables, Dead Chickens and a Lobster*, Bega's *An Astrologer*, Roos' *Still Life with Fruit and Vegetables with two Monkeys*, Zanobi Strozzi's *The Adoration of the Magi*, and Corot's *Souvenir of a Journey to Coubron*.

Technical examination of paintings by the Scientific department continued on a range of projects, some connected directly with conservation treatments, others involving the acquisition of technical results for catalogues, conference presentations and other publications. Paintings studied included works by Bernardo Daddi, Girolamo da Treviso, Leonardo, Velázquez, Previtali, Raffaellino del Garbo (attributed), the Master of the Story of Griselda, Sebastiano del Piombo, Gioacchino Assereto and Meléndez.

In environmental science the most significant advance during the year has been the development of new internal web-based software designed to display, in graphical form, key environmental data in the Galleries and other monitored areas – specifically light levels, temperature and relative humidity – both for current conditions and historic archived data going back to 2000.

Studies of traditional painting materials undertaken this year included work on the stability and behaviour of the blue cobalt glass pigment smalt, the mechanism of the discoloration of vermilion and the origin and geographical distribution of malachite pigment of spherulitic particle form, which occurs in a wide range of early paintings.

The National Gallery 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: these 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 26 of the Technical Bulletin was published during the year.

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

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

Activities during the year

There were a number of new acquisitions and loans during the year. Among the paintings acquired during the year were:

- *Trees in the Park at Saint-Cloud* by Paul Huet, presented to the National Gallery by the Lishawa Family in memory of Kate.
- *An Afternoon in the Tuileries Gardens* by Adolph Menzel, acquired with the support of the American Friends of the National Gallery, London, and the George Beaumont Group.

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. The Gallery has made a number of suggestions including the Treasury's revival of the system of direct exchequer grants from contingency, changes to Grant-in-Aid, the establishment of a National Acquisitions Fund and the creation of tax incentives to encourage life-time gifts of works of art, as recommended by the Art Fund and the Goodison report. The full text of the Goodison report can be accessed via the Treasury website: www.hm-treasury.gov.uk.

Access to the collection

Objective

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.

Activities during the year

The July 2005 bombings cast a long shadow over the second half of the year, making it a sad and difficult time for Londoners. As might be expected, visitors stayed away from the capital if they could and were slow to return. Recovery was particularly slow at the National Gallery, perhaps because of its position in Trafalgar Square. This had a significant effect on visitor figures for the year, affecting both general attendance and, in particular, attendance at educational events.

The East Wing project was completed last autumn with the main portico reopening in September. For the first time in its history, the building's identity was made public on the fabric of the building itself when *'The National Gallery'* was engraved and gilded on the frieze below the pediment. The restoration of the original schemes by Sir John Taylor and John D. Crace for the dome and the staircase hall, further adorned by a constant supply of fresh flowers thanks to an anonymous benefactor, has proved popular and the portico entrance quickly became again the first choice for visitors. Also welcome has been the new espresso bar and ArtStart multimedia centre in the Lower Hall where visitors can refresh, educate and entertain themselves both before and after their visit with a cup of coffee and touch-screens on which to browse through the collection and related information.

The Gallery's educational activities have continued apace and cast their net wider than ever. 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. The links with other arts have been thoroughly explored through film seasons, drawing sessions, sculpture and poetry workshops. Contemporary artists have come into the Gallery to teach, to take part in public discussions and work among the pictures. Take One Picture, the National Gallery's countrywide scheme for primary schools, continues to go from strength to strength. It is estimated that approximately 32,000 adults and children were involved in preparing the 180 submissions to the Take One Picture exhibition this year, and of course many more were involved in schools that chose not to submit. Positive feedback highlighted the way the scheme inspires whole schools to work together, gives teachers the confidence to talk about paintings in class, and encourages valuable cross-curricular teaching.

The Gallery's outreach programme continues to grow and is made possible in large part by support from the private sector. The John S Cohen Foundation has continued its longstanding and generous support of the Gallery with a further grant towards Take Art, a project which enables young people in hospital schools to enjoy and learn about great paintings from the National Gallery's collection. Bullwood Hall, a project which sees artists and Gallery staff hold workshops with young female offenders in Southend, has also received a second year of support from the Lankelly Chase Foundation. John Lyon's Charity funded Line of Vision, a project working with young people in care, for a third year and Newby Trust Ltd. has generously supported the Gallery with a grant towards its holiday activities for teenagers.

Arts Council, England has been a key supporter over the last year funding an architecture trail, created to mark Architecture Week in the summer of 2005 and the very successful INSPIRE Cultural Diversity Fellowship scheme which involves curators from minority ethnic backgrounds holding two year placements in some of the UK's major national cultural institutions. Arts Council, England has also agreed to support an exciting collaboration with Festival of Youth Arts (FYA) to take place in the summer of 2006 which has also been generously supported by the Bagri Foundation, National Children's Bureau and John Lyon's Charity through their involvement with the Line of Vision project.

The Gallery is dedicated to improving access to its great collection and many private supporters have helped the Gallery this year in achieving this aim. The D'Oyly Carte Charitable Trust continued their support of the programme of events for British Sign Language users, and the Lynn Foundation generously donated towards Art Through Words, a series of events for visitors with a visual impairment.

The relevance of the collection to contemporary art and artists was vividly illustrated by John Virtue's *London Paintings*, one of which remained hanging in the Walter and Leonore Annenberg Court after his exhibition closed. Other reminders remain permanently in the Gallery such as *Crivelli's Garden* by Paula Rego hanging in the refurbished Sainsbury Wing restaurant, now called 'The National Dining Rooms' and under new management; and the sketches by Frank Auerbach, based on works in the Gallery's collection, which can be found in the recently opened Lower Hall. More, and more varied, information on the collection has been made more easily accessible not only within the building in the two ArtStart centres but also on the Gallery website, which was host to over 6 million visits during the year.

Exhibitions

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

Venue	Exhibition	Attendance to 31 March 2006
Sainsbury Wing	Caravaggio: The Final Years (£)	244,955
Sainsbury Wing	Stubbs and the Horse (£)	68,361
Sainsbury Wing	Rubens: A Master in the Making (£)	78,936
Sainsbury Wing	Americans in Paris (22 February – 21 May 2006) (£)	41,111
Sunley Room	John Virtue: London Paintings	123,436
Sunley Room	The Stuff of Life	107,427
Sunley Room	Tom Hunter: Living in Hell and Other Stories	136,791
Room 1	National Heritage Memorial Fund Celebration	26,797
Room 1	Reunions: Bringing Early Italian Paintings Back Together	49,112
Room 1	Mary Cassatt: Prints	38,073

£ = charging exhibition

The most successful exhibition of the year was *Caravaggio: The Final Years*. It was a daring enterprise with only sixteen works on display but was rewarded with enthusiastic reviews from the critics and unexpectedly high attendance. *Stubbs and the Horse* had a very different appeal, enjoying a Royal Opening by Her Majesty The Queen, attracting sponsorship from Juddmonte Farms and unusual press coverage in such publications as *Country Life*, *The Racing Post*, *Horse and Hound*, *The Field* and *Equestrio Arabia*. The autumn exhibition in the Sainsbury Wing, *Rubens: A Master in the Making*, was a return to the Gallery's more traditional territory, to the other side of the Channel, to the enduring effect of Italian influence on western European artistic life in the 16th and 17th centuries and to many of the same biblical themes that had inspired Caravaggio. By the end of the 19th century, the centre of artistic life had, of course, moved to France and the final exhibition opening during the year, *Americans in Paris*, was devoted to the effect of Paris on American artists 'in the making' during the last four decades of that century.

The smaller exhibitions in the Sunley Room and Room One were varied and, as usual, illuminated different aspects of and approaches to the collection. The most innovative was *Tom Hunter: Living in Hell and Other Stories*, the first exhibition of photographs in the National Gallery. *The Stuff of Life* explored the significance of objects in pictures and spanned the centuries from 16th and 17th-century Dutch and Spanish still life to the most up-to-the-minute contemporary work, the *vanitas* 'A Little Death', DVD on plasma screen by Sam Taylor-Wood. *Reunions* brought back together pictures on panel that had been divided for centuries.

The National Heritage Memorial Fund has given crucial support to the Gallery since it was set up in 1980 as a memorial to those who gave their lives for this country in war, and the Gallery was delighted to celebrate its quarter century with a small display of pictures acquired with their help. Many more such masterpieces would find their way into British public collections if more money were available to the NHMF for acquisition funding.

A loan from the V & A of fourteen masterpieces of sculptural relief with direct links to early Renaissance paintings in the Sainsbury Wing has enabled visitors to explore the often close relationship between painting and sculpture and their practitioners in the 15th and 16th centuries. The Gallery is most grateful for these loans and for all the others from generous lenders everywhere which have enlivened the display in the past year and have cast new light on the artists and their development.

Future developments

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

A Masterplan for the Gallery: Last year saw the completion of the Gallery's East Wing Project, the first step in a masterplan for the Gallery as a whole. The Gallery will continue to develop this masterplan during 2006, 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.
- the challenges of receiving up to 5 million visitors per annum in a building originally designed for a fraction of that number.
- the pedestrianisation of the north side of Trafalgar Square.

Thus we hope to transform the way in which the public are welcomed into the building and are able to appreciate paintings.

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. For example, a survey on the Raphael exhibition held in 2004/5 conducted by MEW Research concluded that the impact of the exhibition excluding admission charges was to increase spending in London by £30m. Over 20% of the overseas visitors surveyed cited the Raphael exhibition as their main reason for making their trip to London. In recent years the Gallery had attracted approximately two million overseas visitors annually.

The bombings in London in July 2005 have had a significant and sustained detrimental impact on visitor numbers, similar to that experienced in the period following September 11th 2001. The past five years have demonstrated that the biggest determinant of travel to London is the external environment, and the National Gallery, at the very heart of London in Trafalgar Square is especially vulnerable. The Gallery has high expectations for a recovery in visitor numbers in the year ahead, particularly given a high-profile exhibition programme scheduled for 2006/7, but any further shocks will set back recovery.

Learning for All: 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.

Our education programme continues to expand and to explore new ways to interest visitors. Over the years the strategy has shifted from the traditional rather passive approach to a more engaged and interactive method, adapting the methodologies that have been successfully employed with schools over many years to work with adult audiences. Workshops have become a feature of the programme, giving a taste of life drawing, drawing in the galleries, discussing books, or working with groups like Complicite on movement-based activities.

Funds permitting, the Gallery will also continue to develop the range of programmes targeted at specific groups. A wide variety of activities will be aimed at disabled visitors, for example building on the success of the British Sign Language programme; a series of imaginative programmes will continue to draw out links between the collection and black and ethnic minority communities, for example Black History month and the bicentenary of the abolition of the slave trade in 2007; and the Gallery will extend its intensive outreach programmes for those most at risk of exclusion, building on the success of projects such as Line of Vision which works with looked after children.

A national and international leader

Objective

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 been actively pursuing its national and international role this year. The partnership with Bristol City Museum and Art Gallery and the Laing Art Gallery in Newcastle is flourishing; the touring partnership exhibition programme continuing with *Stuff of Life*, followed by the first in a new series, *Passion for Paint*. This exhibition explored how artists have manipulated paint to represent the world around them, the potential for paint to communicate sensation and emotion and how for some artists the medium itself has become the subject. The exhibition included works by Rubens, Van Dyck, Turner and Van Gogh as well as contemporary works by Bacon and Kossoff. Two new works by Suling Wang and Raqib Shaw were painted specially for this exhibition.

Major loan exhibitions help to forge links with art museums and institutions all over the world. This year, the Gallery has welcomed speakers and lecturers from the University of Malta, the Metropolitan Museum in New York, the Kimbell Art Museum, the National Gallery of Art in Washington DC, and the Rubens House in Antwerp to name but a few. We have maintained our special relationship with the Prado and the Van Gogh Museum and in the case of the latter feel confident that this friendship will continue as for the second time one of the Gallery's curators, this time of Dutch paintings, leaves us to become its new Director. The full benefits of our partnership with the Prado should become evident towards the end of 2006 with the opening of the Velázquez exhibition.

The Gallery continues to support the National Inventory scheme and the Neil MacGregor Scholars as they carry on their research into paintings in regional collections, and is also involved in a number of collaborative projects with other institutions. The Scientific Department, for example, is a member of the EU-funded EU-ARTECH project devoted to promoting best practice in conservation science in Europe and fostering joint research in this area. As part of this project a Romanian scientist, Irina Petroviciu, of the National Research Laboratory for Conservation and Restoration of Movable National Cultural Heritage, Bucharest, spent time in the Department. Also within the EU-ARTECH framework an international workshop on seventeenth-century northern European painting techniques was organised at the National Gallery in December 2005 and a research paper on sixteenth-century German painting techniques was delivered at a colloquium in Colmar dedicated to the painting methods of Matthias Grünewald.

Future developments

The Gallery will continue to develop links with other collections both internationally and throughout the UK.

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 for a further two years 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 National Inventory Research Project (NIRP), instituted by the Gallery, is a partnership with the History of Art Departments of the University of Glasgow and Birkbeck, University of London, in liaison with colleagues in other national and regional institutions. Supported by the Arts and Humanities Research Board (AHRC) Resource Enhancement Scheme, the Getty Grant Program and the Samuel H. Kress Foundation, the project involves carrying out new research on over 7,000 post-1300 and pre-1900 non-British oil paintings in UK public collections. This research will add to the work already funded through the Pilgrim Trust grants to UK museums and the Neil MacGregor Scholarships. The ultimate aim is to establish a high-quality online inventory accessible to all.

The Strategic Commissioning Programme 2005–2006 combines two separate projects. Take One Picture: North, East, South, West encourages new audiences within the Bristol, Newcastle and London areas to enjoy and benefit from museum and gallery collections, as well as providing a forum for sharing expertise between the regional partners, ensuring that the Take One Picture methodology, developed at the Gallery, continues to be disseminated across the UK, reaching thousands of school children and hundreds of teaching staff. The project will culminate in a combined travelling exhibition of work by pupils participating in the regional schemes. For visitors unable to attend the individual galleries, a comprehensive display of the work produced will also be published.

Fund Raising and Resources

The largest source of funds for the Gallery remains government Grant in Aid. This year, total Grant in Aid was £21,986,000, and included a ring-fenced capital grant of £1,000,000.

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 40 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.

In March the National Gallery held its first fundraising gala. The intention was to raise significant unrestricted income for the Gallery, at the same time as bringing in a group of individuals that at present we do not attract to our events. The evening was a white tie event for just over 250 guests, on the theme of the Belle Epoque. After dinner an auction was held of works of art donated by some of the UK's leading contemporary artists.

4 Review of Financial Transactions and Position

In accordance with the Government Financial Reporting Manual (FRM), 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, grants for collection acquisitions, amounting to £2.215 million in the current year, and donated works of art amounting to £25k are accounted for through the donated works of art reserve. Collection acquisitions amounting to £3.262 million (being £2.225 million of donated assets and restricted donations, £1 million from restricted reserves, £6k relating to acquisitions funded from designated funds and £31k of additions from unrestricted funds) in the current year were capitalised rather than being disclosed as resources expended.

The Gallery's Statement of Financial Activities ("SOFA") is set out on page 26 of this document. Incoming resources before transfers, notional costs and revaluations for 2005/06 amounted to £34.4 million; resources expended amounted to £28.1 million, resulting in net incoming resources (before transfers, notional costs and revaluations) of £6.3 million, of which £3.3 million represents donations to the collection, picture acquisitions and restricted and designated funds for future acquisitions, and £1.4 million the surplus of donations in support of the East Wing Project over depreciation.

Core incoming resources from generated funds for the year totalled £4.1m, and exceeded that for 2004/05 (£3.3m). The figure includes significant income from the gala dinner and auction held in March, generous legacies and income from the successful corporate membership scheme. While substantial commercial and individual support was secured for all Sainsbury Wing exhibitions, the impact of the decline in visitor figures was reflected in a fall in income from exhibitions admissions and education events, leading to an overall fall in incoming resources from charitable activities.

This year the Gallery has maintained a level of total charitable expenditure comparable with, but slightly higher than, the prior year. The two most significant drivers behind the increase are higher contributions to the pension scheme (£468k) and rising utility costs and rates (£365k), both unavoidable increases that will continue to put pressure on the Gallery's finances in the coming years. Charitable expenditure has been incurred in specific areas identified in the 2005/06 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 2005/06 amounted to £30.7 million (2004/05: £25.2 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 £20.9 million, unrealised investment gains of £3.4m, and £3.3 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 below. As disclosed in note 9 to the accounts, the National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

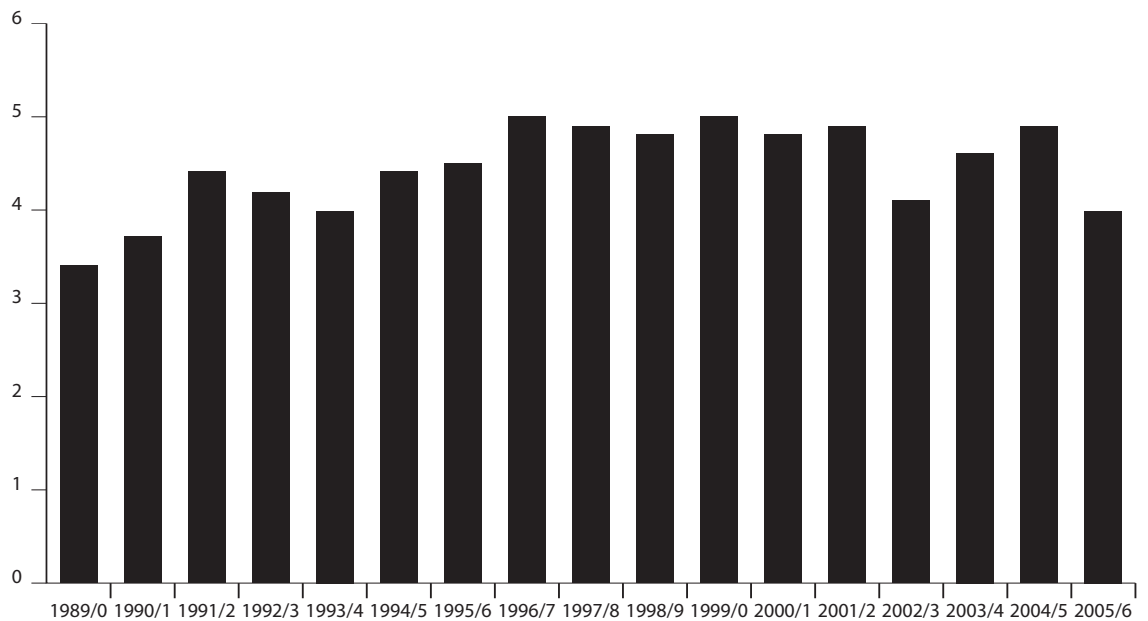
5 The Gallery's contribution to DCMS' performance targets

Specific information relevant to the Gallery's contribution to DCMS' performance targets for 2005/06 as set out in the Funding Agreement agreed with DCMS:

	Projection	Actual
1 Total number of visits to the Gallery (excluding virtual visits)	4.2m	4m
2 Number of unique users visiting the website ¹	4m	6.8m
3 Number of C2,D,E visitors aged 16 and over attending the Gallery ²	409,000	385,000
4 Number of children aged 15 and under visiting the Gallery ³	483,000	467,000
5 Number of children aged 15 and under in on and off-site organised educational sessions	88,000	100,000
6 Average annual self-generated income	£10m	£12.3m ⁴
7 Efficiency savings	£1,399,000	£1,417,500

As discussed above, the bombings in London in July 2005 have had a significant and sustained detrimental impact on visitor numbers, similar to that experienced in the period following September 11th 2001. The past five years have demonstrated that the biggest determinant of travel to London is the external environment, and the National Gallery, at the very heart of London in Trafalgar Square is especially vulnerable. The Gallery has high expectations for a recovery in visitor numbers in the year ahead, particularly given a high-profile exhibition programme scheduled for 2006/07, but any further shocks will set back recovery.

Visitor numbers (millions)



1 These figures are recorded by LiveStats and will be as accurate as possible given the widespread use of caching and proxy servers.

2 The turnout figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2004. From 2006/07 onwards this performance indicator will be adjusted to reflect NS-SEC socio-economic groups 5-8.

3 The turnout figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2004. Excludes children participating in on-site organised educational sessions – see target below.

4 This figure represents income generated in 2005/06 and includes the value of donated pictures.

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.

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 2006.

Mr Peter Scott (Chairman)
Lady Hopkins (retired 29th September 2005)
Professor Dawn Ades (Tate Liaison Trustee, retired 12th April 2005)
Mr Jon Snow
Mr Mark Getty
Mr Ranjit Sondhi
Professor Julia Higgins DBE
Mr Donald Moore
Lord Kerr of Kinlochard
Mr James Fenton
Mr John Lessor
Mr Simon Burke
Lady Normanby
Professor Mervyn King
Ms Victoria Barnsley (Tate Liaison Trustee, appointed 13th April 2005)
Professor David Ekserdijan (appointed 30th September 2005)

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;
- 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 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)
Mr Donald Moore
Mr Alastair Ross Goobey (independent member)
Mr Peter Troughton (independent member, appointed 9th February 2006)

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

Professor Mervyn King (Chairman)
 Mr Peter Scott
 Ms Victoria Barnsley
 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 audit matters. Its members are:

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

The principal officer as at 31 March 2006 is Dr Charles Saumarez Smith, Director of the National Gallery.

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.

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 The National Audit Office 157 – 197 Buckingham Palace Road London SW1W 9SP	
Solicitors:	Farrer & Co 66 Lincoln's Inn Fields London WC2A 3LH	Various other solicitors are used as required
Investment Managers:	Merrill Lynch Fund Managers Limited 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 11 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 86% (2004/05: 86%) 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, 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 Committees.

A balance equivalent to 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 Committee"). Investment managers are approved by the Trust Funds Committee, and the contract is reviewed at least every five years. Investment strategy is also reviewed at least every five years. 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.

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.

The trustees consider return on investments to be satisfactory given the movement in international markets during the year. During the year, the Board approved a set of ethical fundraising and investment guidelines.

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 Gallery's total funds at the end of the year amounted to £293 million. A breakdown of these is shown in the balance sheet and in the statement of funds (note 17). Most of the funds (£210 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 £58.7 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 £24.3 million, £5.4 million is in permanent endowments (where the capital cannot be touched) and £3.4 million represents other restricted funds.

A further £12.9 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 £2.6 million of private income, equivalent to just over 4 weeks' normal running costs.

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.

So far as the Accounting Officer is 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.

Signed Charles Saumarez Smith

Director and Accounting Officer

Dated 12 July 2006

Signed Peter Scott

Chairman

Dated 12 July 2006

Remuneration Report

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2004/05: £Nil).

The Director of The National Gallery received remuneration of £133,225 (2004/05: £125,406). This includes a consolidated performance increase of £3,561 (2004/05: £3,335) and a non-consolidated performance related award of £7,121 (2004/05: £6,720). No provision is made within the Director's contract for non-cash benefits.

The performance related bonus is determined by the Remuneration Committee. The Remuneration Committee (comprising Peter Scott, Ranjit Sondhi and Victoria Barnsley 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 60. The Gallery's normal retirement age is 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 that set out in the Civil Service Compensation Scheme.

Pension contributions paid on behalf of the Director amounted to £31,022 (2004/05: £21,957). 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.

Director's Pension

	Salary paid during the year	Accrued pension at age 60 as at 31 March 2006 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000
Charles Saumarez Smith	133	147	11	697	508	50

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. 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 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005/06, employers' contributions of £1,846,268 were payable to the PCSPS (2004/05 £1,370,770) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004/05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006/07 the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%.

The contribution rates are set to meet the cost of the benefits accruing during 2005/06 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 £17,442 (2004/05: £16,159) 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 £1,389 (2004/05: £1,112), 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 £1,656 (2004/05: £1,621). Contributions prepaid at that date were £17,442 (2004/05: £16,159).

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 CS 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.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

The real increase in CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in any 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.

Signed Charles Saumarez Smith

Director and Accounting Officer

Dated 12 July 2006

Signed Peter Scott

Chairman

Dated 12 July 2006

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 Government Accounting.

Signed Charles Saumarez Smith

Director and Accounting Officer

Dated 12 July 2006

Signed Peter Scott

Chairman

Dated 12 July 2006

* 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 Government Accounting 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 2006 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 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 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;
- a system of delegation and accountability.

The risk priorities identified and addressed during the year, reflecting potential weaknesses in the system of controls included:

- continuing review of measures to ensure the safety of the collection and further investment in additional security measures;
- maintenance of a comprehensive control framework to monitor the risks inherent in a major project to develop the East Wing, which was completed during the year; and
- establishment of a programme to develop and enhance the system of control over picture acquisitions, taking into account the DCMS due diligence report published in October 2005.

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.

Signed Charles Saumarez Smith

Director and Accounting Officer

Dated 12 July 2006

Signed Peter Scott

Chairman

Dated 12 July 2006

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 2006 under the Museums and Galleries Act 1992. These comprise the Summary Operating Income and Expenditure Account, 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.

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, the Remuneration Report and the financial statements in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). These responsibilities are set out in the Statement of Trustees' and Director's Responsibilities.

My responsibility is to audit the financial statements 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 directions made thereunder by the Secretary of State for Culture, Media, and Sport. I also report whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 21 to 22 reflects The National Gallery's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Director's statements on internal control cover 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 Annual Report and Foreword and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report and Foreword, 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 opinion

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 expenditure, income and resources funded by Grant in Aid 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.

Opinion

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 affairs of The National Gallery as at 31 March 2006 and of the 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 directions made thereunder by the Secretary of State for Culture, Media, and Sport; and
- in all material respects the expenditure, income and resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no other observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
Date 18 July 2006

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

Summary Operating Income and Expenditure Account for the year ended 31 March 2006

	Unrestricted funds £'000	Restricted funds £'000	Total core operations 2006 £'000	Total core operations 2005 (restated) £'000
Incoming Resources				
Grant in Aid	20,986	–	20,986	20,257
Other government grants	–	145	145	145
Incoming resources from generated funds				
Donations	168	711	879	598
Lottery Funding	–	60	60	51
Legacies	354	–	354	286
Activities for generating funds	2,389	–	2,389	1,893
Investment income	171	227	398	482
Incoming resources from charitable activities				
Exhibitions	2,251	391	2,642	3,756
Educational activities	300	–	300	361
Other incoming resources	20	–	20	2
Total incoming resources	26,639	1,534	28,173	27,831
Resources Expended				
Cost of generating funds				
Fundraising costs	(848)	(86)	(934)	(687)
Investment management costs	–	(9)	(9)	(7)
	(848)	(95)	(943)	(694)
Charitable expenditure				
Costs of activities in furtherance of the charity's objects				
Exhibitions	(1,635)	(403)	(2,038)	(2,018)
Educational activities	(1,126)	(125)	(1,251)	(1,255)
Care of the collection	(8,116)	(41)	(8,157)	(7,526)
Study of the collection	(1,851)	(189)	(2,040)	(2,191)
Access to the collection	(10,229)	(214)	(10,443)	(9,941)
	(22,957)	(972)	(23,929)	(22,931)
Governance costs	(143)	–	(143)	(160)
Total resources expended	(23,948)	(1,067)	(25,015)	(23,785)
Net incoming resources before transfers	2,691	467	3,158	4,046
Transfers	(1,220)	(241)	(1,461)	(7,433)
Net incoming/(outgoing) resources before notional costs and revaluations	1,471	226	1,697	(3,387)

For details of transactions on funded capital projects and acquisitions for the collection, and references to the notes of the accounts please refer to the Statement of Financial Activities.

The notes on pages 29 to 43 form part of these accounts.

Statement of Financial Activities for the year ended 31 March 2006

	OPERATING INCOME AND EXPENDITURE			Funded capital projects and revaluations (a)			Acquisitions for the collection (b)			TOTAL 2006			TOTAL 2005 restated
	Unrestricted funds	Restricted funds operations	Total core operations	Unrestricted funds	Restricted funds projects and revaluations	Total capital and revaluations	Unrestricted funds	Restricted funds collection	Total Funds acquisition	Unrestricted funds	Restricted funds endowment	Permanent endowment	Total
Opening funds as previously stated	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Prior year adjustment	1,483	2,948	4,431	29,657	158,021	187,678	13,593	52,274	65,867	44,733	213,243	4,610	262,586
Opening funds as restated	(287)	-	(287)	-	-	-	-	-	-	(287)	-	-	(287)
	1,196	2,948	4,144	29,657	158,021	187,678	13,593	52,274	65,867	44,446	213,243	4,610	262,299
Incoming Resources													
Grant in Aid	20,986	-	20,986	-	1,000	1,000	-	-	-	20,986	1,000	-	21,986
Other government grants	-	145	145	-	-	-	-	-	-	-	145	-	145
Incoming resources from generated funds													
Donations	168	711	879	-	2,307	2,307	-	2,240	2,240	168	5,258	-	5,426
Lottery Funding	-	60	60	-	-	-	-	-	-	-	60	-	60
Legacies	354	-	354	-	-	-	-	1	1	354	1	-	355
Activities for generating funds	2,389	-	2,389	-	-	-	456	245	701	2,389	472	-	2,889
Investment income	171	227	398	-	-	-	-	-	-	627	472	-	1,099
Incoming resources from charitable activities													
Exhibitions	2,251	391	2,642	-	-	-	-	-	-	2,251	391	-	2,642
Educational activities	300	-	300	-	-	-	-	-	-	300	-	-	300
Other incoming resources	20	-	20	-	-	-	-	-	-	20	-	-	20
Total incoming resources	26,639	1,534	28,173	-	3,307	3,307	456	2,486	2,942	27,095	7,327	-	34,422
Resources Expended													
Cost of generating funds													
Fundraising costs	(848)	(86)	(934)	-	-	-	-	(47)	(47)	(848)	(86)	-	(934)
Investment management costs	-	(9)	(9)	-	-	-	-	(25)	(25)	(47)	(34)	-	(81)
	(848)	(95)	(943)	-	-	-	(47)	(25)	(72)	(895)	(120)	-	(1,015)
Charitable expenditure													
Costs of activities in furtherance of the charity's objects													
Exhibitions	(1,635)	(403)	(2,038)	-	-	-	-	-	-	(1,635)	(403)	-	(2,038)
Educational activities	(1,126)	(125)	(1,251)	-	-	-	-	-	-	(1,126)	(125)	-	(1,251)
Care of the collection	(8,116)	(41)	(8,157)	(474)	(2,529)	(3,003)	-	-	-	(8,590)	(2,570)	-	(11,160)
Study of the collection	(1,851)	(189)	(2,040)	-	-	-	-	-	-	(1,851)	(189)	-	(2,040)
Access to the collection	(10,229)	(214)	(10,443)	-	-	-	-	-	-	(10,229)	(214)	-	(10,443)
	(22,957)	(972)	(23,929)	(474)	(2,529)	(3,003)	-	-	-	(23,431)	(3,501)	-	(26,932)
Governance costs	(143)	-	(143)	-	-	-	-	-	-	(143)	-	-	(143)
Total resources expended	(23,948)	(1,067)	(25,015)	(474)	(2,529)	(3,003)	(47)	(25)	(72)	(24,469)	(3,621)	-	(28,090)
Net incoming/(outgoing) resources before transfers, notional costs and revaluations	2,691	467	3,158	(474)	778	304	409	2,461	2,870	2,696	3,706	-	6,332
Transfers	(1,220)	(241)	(1,461)	932	144	1,076	358	27	385	70	(70)	-	-
Net incoming/(outgoing) resources before notional costs and revaluations	1,471	226	1,697	458	922	1,380	767	2,488	3,255	2,696	3,636	-	6,332
Net notional costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Net incoming resources before revaluations	1,471	226	1,697	458	922	1,380	767	2,488	3,255	2,696	3,636	-	6,332
Gains on revaluation of fixed assets for charity's own use	-	-	-	4,148	16,798	20,946	-	-	-	4,148	16,798	-	20,946
Realised and unrealised investment gains	1,471	198	1,985	4,606	17,720	22,326	1,749	643	2,392	1,749	841	786	3,376
Net movement in funds	2,667	3,372	6,039	34,263	175,741	210,004	16,109	55,405	71,514	8,593	21,275	786	30,654
	17									53,039	234,518	5,396	292,953
													262,299

(a) Representing the value of capital assets, excluding the collection.
 (b) Representing the value, at the date of acquisition, of donations to the collection and picture acquisitions since 1 April 2001, and restricted and designated funds for future acquisitions.
 All operations continued throughout the period. There are no recognised gains and losses other than those shown above.
 For an explanation of transfers please see note 17.
 The notes on pages 29 to 43 form part of these accounts.

Balance Sheet as at 31 March 2006

		2006		2005 (restated)	
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	11	210,004		187,678	
Heritage Assets	11	55,063		51,801	
Investments	12a	22,155		19,107	
			287,222		258,586
Current Assets					
Investments	12b	1,479		1,417	
Debtors	13	1,847		2,127	
Stock		1		2	
Cash at bank and in hand	20d	4,521		3,421	
		7,848		6,967	
Creditors:					
amounts falling due within one year	14	(2,020)		(3,135)	
Net current assets			5,828		3,832
Total assets less current liabilities			293,050		262,418
Creditors:					
amounts falling due after one year	14		(97)		(119)
Net assets			292,953		262,299
Represented by:					
Restricted funds:	17		234,518		213,243
Unrestricted funds:					
Designated		47,113		40,026	
Designated funds already expended on acquisitions		3,328		3,324	
General funds		2,598		1,096	
	17		53,039		44,446
Total Income Funds			287,557		257,689
Capital funds – permanent endowments	17		5,396		4,610
Total Funds			292,953		262,299

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

The notes on pages 29 to 43 form part of these accounts.

The financial statements were approved on 12 July 2006

Signed Charles Saumarez Smith
Director and Accounting Officer

Signed Peter Scott
Chairman

Cash Flow Statement for the year ended 31 March 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	20a		7,214		11,718
Returns on investment and servicing of finance					
Bank interest received		319		416	
Interest received on investment portfolio deposits		176		158	
Investment income		604		558	
			1,099		1,132
Capital expenditure and financial investment					
Receipts from sale of tangible fixed assets		20		3	
Payments to acquire tangible fixed and heritage assets		(4,293)		(9,520)	
Payments from donated funds for collection acquisitions		(3,206)		(6,317)	
Purchase of investments		–		(835)	
Decrease in investment portfolio deposits		328		992	
			(7,151)		(15,677)
			1,162		(2,827)
Management of liquid resources	20b		(62)		(59)
Increase/(decrease) in cash for the year	20c		1,100		(2,886)

The notes on pages 29 to 43 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. Where appropriate, prior year figures have been restated so that they comply with the Charities SORP 2005. The most significant changes have been the allocation of support costs against activities as outlined in note 9 and the separate disclosure of governance costs (previously disclosed as a component of management and administration costs).

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.

(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.

Legacies are credited to income when the Gallery becomes entitled to the income and 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. Income from the corporate membership programme is now recognised over the period of membership rather than as invoiced, and the figures for 2004/05 have been restated to reflect this change.

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 17 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 overhead and support costs is analysed in note 9.

Fundraising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities.

Exhibitions costs represent the costs of mounting exhibitions. 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 overhead and 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.

(d) 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 (FRM) – 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 FRM 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 or in the Income and Expenditure Account 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.

The National Gallery is strongly in favour of the proposals outlined in the recent ASB Discussion Paper *Heritage Assets: Can accounting do better?* It recommends an approach which in terms of the practicalities of disclosure will address almost all of our concerns about the existing accounting treatment. It will result in clear, consistent, transparent disclosure, which will be significantly enhanced by information that will enable a reader of the accounts to assess the nature and significance of the collection in our care and the quality of our stewardship.

(e). *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.

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 17.

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

(f). *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 from the month 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.

(g). Investments

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

Cash 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.

(h). 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.

(i). 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.

(j). 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.

(k). 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 above.

(l). 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.

(m). 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.

(n). 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

	2006 £'000	2005 £'000
Department for Culture, Media and Sport	21,986	21,257

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £1m (2005: £1m) was ring-fenced for capital purposes.

3 Other Government Grants

	2006 £'000	2005 £'000
Strategic Commissioning grant from the Department for Culture, Media and Sport	145	145
	145	145

4 Donations

	2006 £'000	2005 £'000
General donations can be split as follows:		
Individuals	532	813
Trusts and Foundations	2,318	2,091
Corporate donors	171	185
Gifts in Kind	107	120
Other	58	100
	3,186	3,309

Included within donations from Trusts and Foundations is £296k from the DCMS/ Wolfson Foundation in support of the East Wing Project.

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

	2006 £'000	2005 £'000
Individuals	12	13
Trusts and Foundations	2,203	5,605
Gifts in kind, including pictures acquired under the acceptance-in-lieu scheme	25	1,050
	2,240	6,668
Total donations	5,426	9,977

5 Lottery Funding

	2006 £'000	2005 £'000
Heritage Lottery Fund	60	966

Grants in 2005/06 were made to support a touring exhibition held in partnership with the Bristol Museums and Art Gallery and the Laing Gallery, Newcastle (2005: £40k). Last year's figure also included grants from the "Young Roots" fund for educational programmes (£11k); and in support of Stage 2a of the East Wing Project (£915k).

6 Activities for generating funds and other incoming resources

	2006	2005 <i>(restated)</i>
	£'000	£'000
<i>Activities for generating funds</i>		
Trading	1,189	822
Concessions	969	856
Miscellaneous	231	215
	2,389	1,893
<i>Other incoming resources</i>		
Gain on sale of furniture	20	2

Trading income includes income from the gala dinner and auction held in March 2006, royalties, venue hire and the corporate membership programme. Income from the corporate membership programme is now recognised over the period of membership rather than as invoiced, and the figures for 2004/05 have been restated to reflect this change. Opening reserves as at 1 April 2004 have been reduced by £215k and 2004/05 income by £72k. The impact on the current year is a reduction in income of £66k.

7 Investment Income

	2006	2005 <i>(restated)</i>
	£'000	£'000
Bank interest receivable	319	416
Interest receivable on UK investment portfolio deposits	176	158
Other UK Fixed Interest Stocks	150	128
UK Equities	376	366
Foreign Equities	78	64
	1,099	1,132

The figures for 2004/05 have been restated to reflect investment income before the deduction of investment management costs.

8 Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2004/05: £Nil). The total value of expenses reimbursed to Trustees amounted to £1,167 for the year (2004/05: £562), representing travel expenses for two Trustees.

9 Total resources expended

	Direct costs	Support costs	Depreciation	Total 2006	Total 2005 (restated)
	£'000	£'000	£'000	£'000	£'000
Fundraising costs	856	78	–	934	687
Investment management costs	81	–	–	81	71
	<u>937</u>	<u>78</u>	<u>–</u>	<u>1,015</u>	<u>758</u>
Exhibitions	1,933	105	–	2,038	2,018
Educational activities	1,136	115	–	1,251	1,255
Care of the collection	7,643	514	3,003	11,160	10,175
Study of the collection	1,829	211	–	2,040	2,191
Access to the collection	9,567	876	–	10,443	9,941
	<u>22,108</u>	<u>1,821</u>	<u>3,003</u>	<u>26,932</u>	<u>25,580</u>
Governance costs	134	9	–	143	160
	<u>23,179</u>	<u>1,908</u>	<u>3,003</u>	<u>28,090</u>	<u>26,498</u>

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

Cost type								Total	Basis of allocation
	Fundraising costs	Exhibitions	Educational activities	Care of the collection	Study of the collection	Access to the collection	Governance		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Finance	21	73	27	229	14	54	3	421	Direct expenditure of activity
Human Resources	15	8	21	72	50	473	2	641	Headcount
Information Services	36	21	57	182	125	299	4	724	Headcount of office-based staff
Office Services	6	3	10	31	22	50	–	122	Headcount of office-based staff
	<u>78</u>	<u>105</u>	<u>115</u>	<u>514</u>	<u>211</u>	<u>876</u>	<u>9</u>	<u>1,908</u>	

Analysis of governance costs:

	£'000
Staff costs	70
Auditor's remuneration	36
Internal audit fees	18
Cost of meetings	7
External consultants	2
Support costs	9
Other	1
	<u>143</u>

Total resources expended include the following:

	2006	2005
	£	£
Auditor's remuneration:		
Audit Fees	35,570	31,720
Non-audit Fees	–	–
Leased rental payments on equipment and office space	510,981	506,450

10 Staff Costs

	2006	2005
	£'000	£'000
Wages & salaries	11,210	11,046
Social security costs	852	851
Pension costs	1,864	1,371
	13,926	13,268

Staff costs for 2004/05 have been restated to include the costs of seconded and agency staff previously included in other direct costs.

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:

	2006	2005
£60,000 – £70,000	11	9
£120,001 – £130,000	–	1
£130,001 – £140,000	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:

	2006	2005
		<i>(restated)</i>
Fund-raising	9	9
Exhibitions	5	4
Educational activities	14	12
Care of the collection	45	46
Study of the collection	31	31
Access to the collection	295	306
Support Costs	24	25
Governance	1	1
	424	434

The 2004/2005 figures have been restated to include the equivalent of three full time seconded and agency staff members.

11 Tangible assets and heritage assets

	Freehold Land and Buildings £'000	Plant and Machinery £'000	Assets in the course of Construction £'000	Equipment £'000	Total £'000	Heritage Assets £'000
Cost or Valuation						
As at 1 April 2005	136,285	46,702	6,435	3,347	192,769	51,801
Indexation	-	-	-	-	-	-
Donated works of art	-	-	-	-	-	3,231
Additions	577	732	2,886	188	4,383	31
Disposals	-	-	-	(159)	(159)	-
Revaluation	2,852	12,931	-	-	15,783	-
Transfers	5,686	3,635	(9,321)	-	-	-
As at 31 March 2006	<u>145,400</u>	<u>64,000</u>	<u>-</u>	<u>3,376</u>	<u>212,776</u>	<u>55,063</u>
Depreciation						
As at 1 April 2005	974	1,478	-	2,639	5,091	-
Disposals	-	-	-	(159)	(159)	-
Charge for year	1,069	1,642	-	292	3,003	-
Revaluation	(2,043)	(3,120)	-	-	(5,163)	-
As at 31 March 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,772</u>	<u>2,772</u>	<u>-</u>
Net Book Value						
31 March 2006	<u>145,400</u>	<u>64,000</u>	<u>-</u>	<u>604</u>	<u>210,004</u>	<u>55,063</u>
31 March 2005	<u>135,311</u>	<u>45,224</u>	<u>6,435</u>	<u>708</u>	<u>187,678</u>	<u>51,801</u>

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

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). For the first time, plant and machinery were identified as a separate asset class by the valuers, and this has been reflected in the accounts.

The valuation was updated by Atis Real as at 31 March 2006 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 2006 represents fixed assets held for charitable purposes only.

12 a) Fixed asset investments

	2006	2005
	£'000	£'000
Market value as at 1 April	19,107	17,799
Increase/(decrease) in investment portfolio deposits	(328)	(295)
Listed investments:		
Disposal proceeds	–	(992)
Additions at cost	–	1,130
Realised and unrealised gains	3,376	1,465
Market value as at 31 March	22,155	19,107

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

Listed Investments

Fixed interest stocks	2,475	2,473
UK equities	11,891	9,682
Overseas fixed interest	–	–
Overseas equities	4,504	3,339
	18,870	15,494
<i>Cash held as part of the investment portfolio</i>		
Investment portfolio deposits	3,285	3,613
	22,155	19,107

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

12 b) Current asset investments

	2006	2005
	£'000	£'000
Current asset investments	1,479	1,417

Current asset investments represent amounts on money market deposit at the year-end.

13 Debtors

	2006	2005
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	466	488
Other debtors	507	372
Tax and social security	347	511
Prepayments & accrued income	527	756
	1,847	2,127

14 Creditors

	2006	2005
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	411	617
Other creditors	720	262
Accruals and deferred income	889	2,256
	2,020	3,135

	2006	2005
	£'000	£'000
Amounts falling due in over one year:		
In more than one year but not more than two years	22	22
In more than two years but not more than five years	67	67
In more than five years, payable by instalments	8	30
	97	119

15 Financial instruments

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 risk

Approximately 64% 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 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.

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 2006 Sterling	28,155	21,811	4,824	1,520	4.17%	28
At 31 March 2005 Sterling	23,945	16,886	2,411	4,648	4.26%	26

Financial liabilities

There were no financial liabilities requiring disclosure under FRS13.

Foreign currency risk

Foreign currency transactions are not material.

16 Financial Commitments**Capital Commitments**

	2006 £'000	2005 £'000
Capital expenditure commitments were as follows:		
Contracted for, but not provided in the accounts	342	2,906

The majority of this figure represents capital commitments related to the East Wing Project.

Commitments under operating leases

As at 31 March 2006 the National Gallery had annual commitments under operating leases for office space, photocopiers and vending machines as set out below:

	2006 £	2005 £
Operating leases which expire:		
Within 1 year	8,990	–
In the second to fifth years	500,756	505,490
Over 5 years	–	–

17 Statement of funds

	At 1 April 2005 (restated) £'000	Income £'000	Expenditure £'000	Net movement on investments and indexation £'000	Transfers between reserves £'000	At 31 March 2006 £'000
Unrestricted funds						
Designated funds:						
Capital assets reserve	29,657	–	(474)	4,148	932	34,263
Designated funds expended on acquisitions	3,324	–	–	–	4	3,328
Trust funds designated collection purchases	10,269	456	(47)	1,749	354	12,781
Designated for purchase of frames and furniture	100	–	–	–	(31)	69
Total designated funds	43,350	456	(521)	5,897	1,259	50,441
General funds	1,096	26,639	(23,948)	–	(1,189)	2,598
Total unrestricted funds	44,446	27,095	(24,469)	5,897	70	53,039
Restricted income funds						
Land & buildings reserve	120,856	–	(1,934)	13,488	–	132,410
Capital assets reserve	37,165	3,307	(595)	3,310	144	43,331
Donated works of art reserve	48,466	2,240	–	–	1,027	51,733
Exhibitions programme fund	13	560	(403)	–	(65)	105
Running cost fund	563	785	(623)	–	(176)	549
Curatorial fund	1,212	108	(32)	–	–	1,288
Collection purchases fund	34	2	–	–	–	36
Collection purchases trust fund	3,774	244	(25)	643	(1,000)	3,636
Art historical research	1,160	81	(9)	198	–	1,430
Total restricted income funds	213,243	7,327	(3,621)	17,639	(70)	234,518
Capital funds						
Collection purchase endowments	2,525	–	–	431	–	2,956
Art historical research endowment	857	–	–	146	–	1,003
General purpose endowments	1,228	–	–	209	–	1,437
Total capital funds	4,610	–	–	786	–	5,396
Total funds	262,299	34,422	(28,090)	24,322	–	292,953

Transfers between funds reflect unrestricted income used to fund capital projects and collection acquisitions, the designation of legacies for the purpose of collection purchases, and 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.

18 Notional cost of capital

Notional cost of capital is calculated as 3.5% (2004/05: 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	Total funds 2006 £'000	Total funds 2005 £'000
Notional cost of capital	(515)	(2,765)	(3,280)	(3,145)
Reversal of notional cost of capital	515	2,765	3,280	3,145
Net notional costs	—	—	—	—

19 Analysis of net assets between funds

	Unrestricted funds £'000	Restricted funds £'000	Permanent endowment £'000	Total funds 2006 £'000	Total funds 2005 £'000
Tangible assets	34,263	175,741	—	210,004	187,678
Heritage assets	3,330	51,733	—	55,063	51,801
Investments	11,693	5,066	5,396	22,155	19,107
Other net assets	3,753	1,978	—	5,731	3,713
Total net assets	53,039	234,518	5,396	292,953	262,299

20 Notes to the cash flow statement

	2006	2005
	£'000	£'000
a. Reconciliation of changes in incoming resources to net inflow from operating activities		
Net incoming resources before transfers, notional costs and revaluations	6,332	13,287
Gain on sale of tangible fixed assets	(20)	(4)
Investment income	(1,099)	(1,132)
Donated collection acquisitions	(25)	(1,050)
Depreciation charge	3,003	2,649
Decrease/(increase) in debtors	280	192
Increase/(decrease) in creditors and provisions	(1,258)	(2,224)
Decrease/(increase) in stocks	1	–
Net cash inflow from operating activities	7,214	11,718
b. Management of liquid resources		
Increase/(Decrease) in liquid investment portfolio deposits	62	59
Management of liquid resources	62	59
c. Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	1,100	(2,886)
Cash balance at beginning of year	3,421	6,307
Cash balance at end of year	4,521	3,421
d. Composition of the cash balance at the end of the year		
Balance with the Paymaster General	2,038	899
Balances held with commercial banks	2,467	2,510
Cash in hand	16	12
	4,521	3,421

21 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 2005/06:

- British Museum
- Tate
- Victoria and Albert Museum

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 2005/06:

- The Government Art Collection
- The National Portrait Gallery
- Tate
- Victoria & Albert Museum
- The Fitzwilliam Museum, Cambridge
- Mr Mark Getty

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/ (to) at year end £'000	Nature of transaction
American Friends of the National Gallery, London, Inc	Two trustees of the National Gallery are directors of the related party	3,346	–	6	Grants in support of a picture purchase, an exhibition, and the East Wing Project
British Museum	Entity sponsored by DCMS	3	22	(1)	Rechargeable costs and internal audit fee
DCMS	Sponsor department	22,131	–	84	Grant in aid and strategic commissioning project. The National Gallery also received £296k from DCMS/Wolfson Foundation towards the East Wing Project
Heritage Lottery Fund	Related to sponsor department	60	–	13	Funding for touring exhibition
Imperial War Museum	Related to sponsor department	–	7	–	Share of NMDC costs
John Lessoré	Trustee	3	–	–	Picture donated for auction at the gala
Morgan Stanley & Co International Ltd	A director of the related party served as a trustee of the National Gallery	12	–	–	Contribution as part of the Corporate Members Scheme
National Gallery Company Ltd	A director of the related party served as a trustee of the National Gallery during the year	1,189	135	250	Rent for shop space within the National Gallery and payment for publications
National Gallery Trust	Two trustees of the related party served as trustees of the National Gallery during the year	545	–	(89)	Specific grants and accounting and administration fee
National Portrait Gallery	Entity sponsored by DCMS	117	–	18	Utility supply recharges
The NGT Foundation	Two trustees of the related party served as trustees of the National Gallery during the year	30	597	(10)	Rental of office space, annual management and accounting fee recharge
Rio Tinto	A non-executive director of the related party was a trustee of the National Gallery during the year	10	–	–	Contribution as part of the Corporate Members Scheme
Shell International Ltd	A trustee of the National Gallery is the deputy Chairman of an associated company	250	–	–	Exhibition sponsorship
		<u>27,696</u>	<u>761</u>	<u>271</u>	

