

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 2007, 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 2007

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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 was 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 National Gallery Collection contains many 15th and 16th century Italian panel paintings. Many are of the greatest importance and almost all of them have suffered from crude attempts at panel repair, most frequently in the 19th century, though there is evidence of much earlier work on some of them. During the past year conservation treatment has been completed on a group of Renaissance panels, all of which were suffering the effects of earlier mistreatment. Butterfly keys had been let into the backs of panels, blocks of wood glued over joins and splits, original cross battens removed and replaced with too solid substitutes, strips of wood fixed to the end grain and, most seriously, many of the panels had been thinned and cradled. All of these outdated methods have the effect of restricting the natural movement of the wood, especially the process of thinning and cradling. Panels were traditionally thinned by restorers to make them more flexible and therefore easier to flatten, but unfortunately thinning also makes them more sensitive to changes in the environment and more vulnerable to splitting. Paintings by Sodoma, Cima, Previtali, Raffaellino del Garbo, Mantegna, Girolamo da Treviso and Orsi required panel treatment during the year, and all except the Mantegna were also cleaned and restored. These panels are now in a more stable state than before and the precise documentation of the conservation work allows their future behaviour to be closely monitored.

A major part of the Conservation department's work this year has been in connection with the Gallery's main exhibition programme. The unfortunate history of Velázquez's *Boar Hunt* before it entered the collection in 1847 is documented in the Parliamentary Select Committee of 1853. Briefly, the paint was severely and unevenly worn away during lining and cleaning in the 1820s. The recent restoration was undertaken for aesthetic rather than conservation reasons (the painting, though damaged, is in sound condition having been lined in 1968) and was completed in time for the Velázquez exhibition in October 2006. Also cleaned was an important loan to the exhibition: the Apsley House Velázquez *Portrait of Innocent X*.

During the year the cleaning and relining of the Gallery's largest painting, Guido Reni's *Adoration of the Shepherds*, proceeded. Great gains in visibility and physical stability are anticipated from the lengthy treatment of this great work. On a smaller scale works by Massys, Lancret, Levens, Inness and Ribalta were returned to exhibition following cleaning and restoration.

The technical examination of paintings has continued to be an important part of the work of the Conservation department. Study of underdrawings with infrared reflectography has been transformed in the last year by the introduction of a new digital infrared camera. SIRIS (Scanning InfraRed Imaging System) was designed and developed at the National Gallery by members of the Scientific department and has now become the only method used for recording infrared reflectograms. One of the most interesting results this year has been the discovery of wonderfully detailed underdrawing in Tintoretto's *Saint George and the Dragon* (NG16) including a figure which was not included in the final painting.

During the year further improvements have been made to the Gallery's internal web-based resource for organising and displaying recorded environmental data. These are, principally, light levels, temperature, relative humidity and air absolute moisture content, which are monitored for the protection and preservation of the collection. New work has been undertaken to allow remote access to the data relating to external environmental conditions. A UV light-meter capable of logging data has been acquired to improve measurement of this potentially damaging factor, while a new portable spectroradiometer will be used in the assessment of the spectral output and efficiency of existing and experimental artificial light sources for the galleries.

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

This year the Gallery acquired Giovanni Paolo Panini's *The Lottery in Piazza di Montecitorio*, of about 1747, adding to the collection a well-preserved masterpiece by the most successful view painter in eighteenth-century Rome. The painting was allocated to the Gallery through the government's Acceptance in Lieu scheme, whereby works of art are acquired for the nation in lieu of inheritance tax; additional funding was required for the balance, and we are most grateful to The Art Fund for a generous grant.

Panini's painting adds variety and depth to the National Gallery's collection of Canaletto and Guardi, one of the best in the world. In his own lifetime, Panini's reputation rivalled that of Canaletto in Venice, but although he was also a popular artist with British tourists, present holdings of his work in British public collections are small. Two paintings by Panini and his workshop are already in the collection *Roman Ruins with Figures* and *The Interior of Saint Peter's*, but the Gallery has long aspired to own a major work by the artist. *The Lottery in Piazza di Montecitorio* was much admired by Sir Michael Levey, the Gallery's Director between 1973 and 1986 and an expert in eighteenth century Italian painting, and the Gallery is delighted to be able to add this outstanding example of his work to the collection.

Future developments

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

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

Access to the collection

Objective

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, with visitors staying away from the capital if they could and returning only slowly. Attendance at the Gallery began to recover during 2006/07 – in large part because of the very successful exhibitions programme – with final visitor figures for the year of over 4.7m.

Autumn 2006 saw the opening of the redisplay of the nineteenth-century collection downstairs in the Sainsbury Wing exhibition galleries under the title *Manet to Picasso*. Re-hanging some of the greatest works in the collection in a more focussed way in slightly smaller rooms proved to be extremely popular with visitors, such that nearly half a million people had seen the display by Christmas and over 800,000 people by the end of March 2007.

The success of the Gallery's recent East Wing building project received recognition during the year: in September it won the Royal Institute of British Architects 2006 Crown Estate Conservation Award and was short-listed for the RIBA Inclusive Design Award, while the National Gallery was short-listed for the RIBA Arts Council England Client of the Year Award. This year also saw the opening of the new National Café in the East Wing, designed by David Collins and run by Oliver Peyton.

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

Take One Picture, the National Gallery's countrywide scheme for primary schools, continues to go from strength to strength. It is estimated that approximately 43,000 adults and children were involved in preparing the submissions to the *Take One Picture* exhibition this year, and of course many more participated 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 National Gallery's practical workshops for adults have been expanding this year. *Talk and Draw*, or *Talk and Sculpt* workshops consisted of a lunchtime lecture on a particular painting, open to the public, followed by an artist-led workshop for participants who could then make their own creative responses to the work discussed. To this series was added a *Talk and Dance* workshop, led by Darren Royston of RADA. These audience participation events are becoming increasingly popular, as are the *Talking Books* discussion groups which, for the period of this report, enabled participants to share their ideas on Martin Gayford's *The Yellow House*, his account of the relationship between van Gogh and Gauguin, and Victoria Bennett's novel about Holbein, *Portrait of an Unknown Woman*.

The education programme continues to explore links with other media, for example through a study day in April, arranged with the English National Opera to coincide with their production of Monteverdi's *Orfeo*, which explored representations of the myth of Orpheus in art, music and literature. Film seasons complemented the year's major exhibitions, and a lecture in March by Ginette Vincendeau, Professor of Film Studies at King's College London, discussed the relationship between the painter Pierre-Auguste Renoir and his film director son, Jean. Also on a cinematic theme, in September, Oscar winning cinematographer Jack Cardiff discussed the influence of Old Master paintings on his craft with Ian Christie, Professor of Film and Media History at Birkbeck College.

In February, the Gallery welcomed Christopher Brown, Director of the Ashmolean Museum in Oxford to give the 2007 Francis Haskell Memorial lecture, *Rembrandt Regained*. To mark the 400th anniversary of the artist's birth, special displays in the Rembrandt rooms were highlighted in free lunchtime talks throughout July 2006. A gallery guide and website feature, *Encounters with Rembrandt*, invited visitors to share their responses to the paintings through creative writing.

Chinese New Year was celebrated on the Gallery's doorstep in February 2007, with processions and staged events in Trafalgar Square. The National Gallery joined in the festivities by launching a new Gallery trail, printed in English and Chinese. Comparing symbolism in western and eastern traditions, the trail highlights twelve paintings, each representing an animal of the Chinese zodiac. Three thousand visitors picked up one of these free trails on the first weekend.

On Friday 2 June 2006 the Gallery collaborated with the Festival of Youth Arts (FYA) to host a free youth arts party – an evening of dance, music, film and drawing directed specifically at young people aged 12 to 19, but open to visitors of all ages. During the May half-term week leading up to the FYA party practical dance workshops were run as part of the Gallery's mainstream programme and attended by 74 young people aged 12 to 17. The highlight of the party itself was a series of performances in the galleries by professional dancers who choreographed pieces inspired by paintings from the collection. The professional dancers were joined for some performances by Looked After Children from the Gallery's *Line of Vision* outreach programme and vulnerable young people from the National Children's Bureau's *Life Routes* scheme. Approximately 2,500 people attended and 130 people performed on the night, and the Gallery is grateful to the Arts Council England, Newby Trust Ltd, the Bagri Foundation and the John Lyon's Charity for their support of this highly successful event.

The Family programme of regular artist-led workshops has been extended to include *Talk and Play* sessions tailored to the under 5s. During holiday times our teenage workshops *Get into art!* have continued to grow in popularity with many sessions being fully booked. The free interactive guided tours for schools attracted over 84,000 pupils between the ages of 3 -18 years within the period of January to December 2006.

The Gallery's outreach programme continues to grow and is made possible in large part by support from the private sector. *Line of Vision*, a project working with Looked after Children and a central part of the Gallery's outreach programme, received further support from John Lyon's Charity this year. *Art Matters*, a joint arts initiative between the National Gallery, Ernst & Young – the sponsor of the *Renoir Landscapes* exhibition – and leading children's charity NCH, took place in November. Children and young people from 20 NCH venues experimented with techniques and colours used by Renoir and had their canvases displayed in the Gallery.

In addition to their support of the Youth Arts Party, Arts Council England continued to fund the Inspire Cultural Diversity Fellowship scheme this year, which aims to address the under-representation of curators of black and minority ethnic origin in the UK's major cultural institutions.

There have been a number of musical events in the Gallery over the past year. The Gallery continued to organise the popular Belle Shenkman Music Programme, which sees students from the Royal College of Music playing in the galleries on Wednesday evening late openings for the public. There was also a series of concerts supported by the Ernest Hecht Charitable Foundation devised as a tribute to Dame Myra Hess who gave free concerts to the public during World War II.

For the third year in a row, the D'Oyly Carte Charitable Foundation generously supported the Gallery with a grant towards the programme of events for British Sign Language users, an essential part of the Gallery's aim to improve access to the collection for all. The Idlewild Trust also supported practical art workshops for adults at the Gallery this year.

Exhibitions

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

Venue	Exhibition	Attendance to 31 March 2007
Sainsbury Wing	<i>Americans in Paris</i> (£)	92,000
Sainsbury Wing	<i>Rebels & Martyrs</i> (£)	38,000
East Wing	<i>Velázquez</i> (£)	303,000
East Wing	<i>Renoir Landscapes</i> (21 February – 20 May 2007) (£)	59,000 ¹
Sunley Room	<i>Bellini and the East</i>	88,000
Sunley Room	<i>Passion for Paint</i>	85,000
Sunley Room	<i>Cézanne in Britain</i>	226,000
Sunley Room	<i>Leon Kossoff</i> (14 March – 1 July 2007)	22,000
Room 1	<i>Mary Cassatt: Prints</i>	75,000
Room 1	<i>Ludwig Mond's Bequest</i>	99,000
Room 1	<i>Dutch Winter Scenes</i>	66,000
Room 1	<i>Tim Gardner</i> (17 January – 15 April 2007)	58,000

(£) = charging exhibition

The great event of the last year was the *Velázquez* exhibition, held upstairs in the day-lit, main galleries of the Wilkins Building. It involved close and friendly collaboration with the Prado Museum in Madrid and enabled visitors to interpret the evolution of Velázquez's career from the early still-life paintings painted in his youth in Seville through to the wonderful, late court portraits, lent by the Kunsthistorisches Museum in Vienna. The exhibition attracted over 300,000 visitors, more than any previous charging exhibition.

In summer 2006, the Gallery explored the potent idea of the heroic, tortured artist in *Rebels & Martyrs: The Image of the Artist in the Nineteenth Century*. This major exhibition was the first to focus on this important and fascinating subject. It traced the development of the 'myth of the artist' from the birth of Romanticism through to the early twentieth century and the avant-garde – examining how artists, and those around them, responded to and exploited Romantic ideas of the artist, and how artists deliberately cast themselves, as outsiders, dandies and visionaries. *Cézanne in Britain* offered the opportunity to see nearly all the works by Cézanne in British private collections in his centenary year, while *Renoir Landscapes* was an exhibition of Renoir's less well-known landscape paintings, organised jointly with the National Gallery of Art in Ottawa and the Philadelphia Art Museum. Two exhibitions during the year involved collaborations with contemporary artists: Leon Kossoff and Tim Gardner, a young and highly accomplished Canadian watercolour artist.

¹ *Renoir Landscapes* closed on 20 May 2007. Total final attendance for the exhibition was 129,000.

Future developments

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

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

- the need to improve and enhance the display and exhibition space alongside an expanding programme of research, education and outreach activities financed by increased income generation to fund this growth in activity; and
- the challenges of receiving up to 5 million visitors per annum in a building originally designed for a fraction of that number.

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. In recent years the Gallery has attracted approximately two million overseas visitors annually, and a significant proportion of overseas respondents in surveys cite specific exhibitions or the Gallery itself as the main reason for making a trip to London. This evidence is reinforced by *Museums and Galleries in Britain* (Tony Travers, December 2006), which highlights the importance of the museums and galleries sub-sector to the wider economy, estimating that £1 in every £1,000 in the UK economy can be directly related to the museums and galleries sector.

With the Gallery's status as a major international tourist attraction, however, comes greater vulnerability to the impact of increasing global uncertainty. The bombings in London in July 2005 had a significant and sustained detrimental impact on visitor numbers, similar to that experienced in the period following 11th September 2001. A high-profile exhibition programme in 2006/07 contributed to an upturn in visitor numbers, but any further shocks would inevitably set back recovery.

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

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

The exhibitions in the Sunley Room and Room One will continue to illuminate different aspects of and offer new approaches to the collection. The winter exhibition *German Renaissance Stained Glass* is an excellent example of this. Many of the 15th and early 16th century German paintings in the National Gallery have been removed from the ecclesiastical contexts for which they were designed. Frequently these settings also included brilliantly coloured, boldly designed and exquisitely made stained glass windows. The exhibition will display a selection of Gallery paintings next to some of the finest examples of German stained glass from this period, currently preserved in the collection of the Victoria and Albert Museum.

The Gallery is very grateful for an extremely generous grant from the Rootstein Hopkins Foundation, which will allow the continuation of the Gallery's highly successful Associate Artist programme and provide support for other contemporary exhibitions. In Spring 2008 the Gallery will mount an exhibition of the work of Alison Watt, the current Associate Artist.

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

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 the British Sign Language, *Art through Words* and *Special Eyes* programmes; 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.

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

A series of imaginative programmes will continue to draw out links between the collection and black and minority ethnic communities, for example through special events and website features to celebrate Black History month. As part of its contribution to a range of activities commemorating the bicentenary of the 1807 Act to abolish the British trade in African people, the Gallery will mount a special exhibition curated by the Gallery's *Inspire* fellow. The *Scratch the Surface* exhibition will examine the role that the slave trade played in the lives of two people featured in portraits in our collection: Zoffany's portrait of *Mrs Oswald* and Sir Joshua Reynolds's *Colonel Tarleton*. As part of the exhibition, 2004 Turner Prize nominee, Yinka Shonibare, has been invited to create a new installation in response to these two portraits. This dramatic new work will go on display in the Barry Rooms.

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

National Gallery Online: Autumn 2007 will see the launch of the first phase of the National Gallery's new website, the National Gallery Online, as part of our continuing commitment to increasing access to the collection and strengthening our international presence.

Building on the strengths of our current website, which has attracted nearly 31 million visitors since it was launched in 2001, the new website will be completely redesigned, both in response to visitor feedback and to reflect our new branding. Accessibility will be at the heart of its design, to ensure that all content is easy to find and well organised, and that the site is enjoyable and engaging to use for our broad audience. The site will benefit from a new database to manage the content, designed to provide a robust and flexible foundation from which to carry out a series of phased developments over the coming years. The aim, in the medium to long term, is to enhance the breadth and depth of material and facilities available online, providing a greater range of materials focusing on the collection. For visitors who are unfamiliar with the paintings or with art in general we will add new mechanisms, such as a newly designed zooming tool, to access and explore the collection, giving visitors a variety of opportunities to engage with and respond to the works.

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 continued this year with *Passion for Paint*, followed in early January 2007 by *Work, Rest and Play*. Bringing together exhibits dating from the 16th century to the present, this exhibition traces changing ideas about work and leisure, and looks at how artists have responded to major shifts in working patterns, from industrialisation to contemporary office culture. This exhibition includes major works from the National Gallery, together with important historical and contemporary loans from other collections. It features works by Moroni, Canaletto, Gainsborough, Manet, Monet, Gauguin and Lowry.

Major loan exhibitions help to forge links with art museums and institutions all over the world, and a summary of some of the highlights of the very comprehensive and well attended education programme associated with the Velázquez exhibition illustrates this. The 2006 Felicity Meshoulam Lecture, *Velázquez is in the details* was given by Svetlana Alpers, Professor Emeritus at the University of California, Berkeley. Other visiting guests included Gabriele Finaldi from the Prado in Madrid, Professor Richard Kagan from the Johns Hopkins University in Baltimore, Sir John Elliott, Regius Professor Emeritus at Oxford and David Davies, Emeritus Professor, London University. The final lecture on Velázquez was given by Suzanne Stratton-Pruitt, author of *Velázquez's Las Meninas* and editor of the *Cambridge Companion to Velázquez*.

A two-day conference, *Diego Velázquez*, was held in November, with the plenary lecture given by Professor Jonathan Brown of New York University. Also in November, in collaboration with the London Instituto Cervantes, the Gallery presented a rehearsed reading of Antonio Buero Vallejo's play, *Las Meninas*. A research symposium, *Soul of Empire, Visualising Religion in the Early Modern Hispanic World*, was organised in collaboration with ARTES (the Iberian and Latin American Culture group) and King's College, London.

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

A programme of technical examinations of Sieneese painting of the 15th and 16th centuries has been carried out as part of wider research for the forthcoming exhibition, *Renaissance Siena: Art for a City*, while the painting techniques of the period in Siena and Perugia are described in a special edition of the *National Gallery Technical Bulletin*, Volume 27, published in September 2006. In the course of these investigations, a material used in paintings, not previously identified, has been discovered by spectroscopic and chromatographic analysis. This is a substance known as 'gum ammoniac', a gum resin, used as a mordant – or adhesive – for gold leaf applied to the surface of paint, generally to form a decorative pattern. This unusual natural material, the exudate of a plant native to Iran and India, has now been detected on pictures by the Master of the Story of Griselda, Pietro Orioli, Giannicola di Paola, and on two slightly earlier works from Northern Italy, by Giambono and Vivarini.

Successful exhibitions continue to stimulate research even after they close, and technical studies of paintings by Velázquez and of Cézanne have been given prominence during the year; for Cézanne this has involved a collaborative project with the Courtauld Institute of Art. At the same time, conservation work on Guido Reni's exceptionally large canvas painting, *The Adoration of the Shepherds* (NG 6270), has provided the context for a systematic evaluation of Reni's painting practice, his materials and methods and the development of his art as represented in the National Gallery's substantial holding. The results of this technical survey are being recorded on a newly designed scientific database capable of recording flexibly a wide range of disparate primary data and images, of the kind produced in the course of current methods of examining paintings. This database is intended to improve the Gallery's internal research capabilities and responsibilities to document the collection more fully. In December 2006, the Mellon Foundation in New York very generously provided funding to the National Gallery for a two-year project to design and build a database of the extensive technical and conservation-related material on the Gallery's group of paintings by Raphael, with the intention of making these documents remotely accessible to scholars and a wider general public via the internet.

Hewlett Packard has continued to give generous external support of research, for both staff and equipment, and this has helped underpin work on digital imaging, image-processing, accurate colour recording of paintings, and the improvement of the results of printing directly from high-resolution digital images. Work on improving colour contrast and readability of the large-scale images available through the print-on-demand system, offered to the public in the Gallery's shops, has been the main task during the year, with considerable success.

It remains a policy for the Gallery's scientific work to keep abreast of new techniques of examining paintings and analysing the materials of painting. The chemical mechanism of the blackening of the traditional scarlet pigment, vermilion, widely used in paintings of all periods has been the subject of recent work at the Gallery. During the year, in conjunction with Dr A. Smith from the synchrotron facility at Daresbury (Central Laboratory of the Research Councils), samples of degraded vermilion from pictures were examined by the technique of extended X-ray absorption fine structure microspectroscopy (EXAFS). This study represented the beginning of work to understand the fundamental chemical nature of the discoloration process, and will continue when further synchrotron beam time becomes available. In another cooperative venture, with Nottingham Trent University, the technique of optical coherence tomography (OCT) is being developed as a new method of studying paintings by non-invasive means. The technique seems particularly promising in the evaluation of the internal structure of pictures and the detection of interfaces between layers such as surface varnish and the underlying paint, as well as more hidden structures. OCT may become of considerable use in monitoring the cleaning of paintings and as a result improving the reliability and safety of treatments.

Cooperative research in conservation science is also a feature of the Scientific Department's role in the European EU-ARTECH project, which involves a consortium of 13 conservation institutions in 8 European countries. The principle areas of joint research have involved devising the most effective protocols for the analysis of dyestuff-based pigments, the preparation of standards to test these procedures and the investigation of new spectroscopic methods applied to investigating the organic components of paint cross-sections and other samples from works of art.

Future developments

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

A number of recent publications have emphasised the importance of the creative industries for the future of the British economy in an increasingly globally competitive world. Not only do our museums and galleries offer a major internationally traded service, but they also “underpin the creativity upon which future high value added economic activity is likely to be based. The storehouses represented by these institutions will encourage people in this country to use their creativity and talent to develop new services, products and even manufactured goods.”²

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

Research: The Gallery continues to support the National Inventory Scheme’s research into paintings in regional collections, and the research will be the focus of a Room One exhibition in November 2007. The Gallery is also involved in a number of significant collaborative research projects with other institutions. The Scientific Department, for example, is a member of the EU-funded EU-ARTECH project devoted to promoting best practice in conservation science in Europe and fostering joint research in this area. Developing and communicating the Gallery’s existing world class research programme will be an important part of our work in the coming years.

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

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

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

Fund Raising and Resources

The largest source of funds for the Gallery remains government Grant in Aid. This year, Grant in Aid received from the Department for Culture, Media and Sport (“DCMS”) totalled £23,985,000, and included a ring-fenced capital grant of £2,250,000.

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

2 *Museums and Galleries in Britain* (Tony Travers, December 2006).

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.

The success of the exhibitions programme was due in large part to the generous support received from across the private sector. NM Rothschild sponsored their first exhibition at the Gallery, *Americans in Paris*, and at the same time Schlumberger sponsored a small and focused exhibition of Mary Cassatt prints in Room 1. The corporate members of the National Gallery supported *Rebels and Martyrs* in the summer and Abbey sponsored the hugely popular and critically acclaimed *Velázquez* exhibition in the autumn. The Gallery was delighted that Ernst and Young renewed their support with sponsorship of *Renoir Landscapes*, which opened in February 2007. Sponsorship was also secured for the *Manet to Picasso*, from Anglo American.

In addition to the programme of major exhibitions in the Sainsbury Wing, a longstanding relationship with the Bernard Sunley Charitable Foundation enables the Gallery to organise a programme of free exhibitions every year in the Bernard and Mary Sunley Room. The annual grant offered by the Foundation is invaluable, allowing the Gallery to programme a varied selection of exhibitions that may not always be commercially viable. This year, the Gallery was able to find additional support for two exhibitions in the Sunley Room, from the Altajir Trust for *Bellini and the East* and Gaz de France for *Cézanne in Britain*. Both were first time sponsors of the Gallery.

Every two years, the Gallery appoints a contemporary Associate Artist to spend time working with the collection and producing work that will be shown in a Sunley Room exhibition at the end of the two year period. This year, an invaluable endowment fund offered by the Rootstein Hopkins Foundation has secured the future of this important programme for the future and will also provide additional support for the contemporary art programme more generally.

The DCMS/Wolfson Museums and Galleries Improvement Fund is a vital source of funding for the museums sector. This year the Gallery was fortunate to receive funding towards installing new lighting systems in the 19th-century galleries, work which once complete will greatly improve visitors' enjoyment of the paintings in these rooms.

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, in the current year grants for collection acquisitions amounting to £0.19 million and donated works of art amounting to £4.916 million are accounted for through the donated works of art reserve. Collection acquisitions amounting to £10.3 million (£8.74 million representing purchases from restricted donations and the value of tax forgone, £0.4 million from unrestricted reserves, and a further £1.1 million of additions from unrestricted and designated funds) were capitalised rather than being disclosed as resources expended.

The Gallery's Statement of Financial Activities ("SOFA") is set out on page 29 of this document. Incoming resources before transfers, notional costs and revaluations for 2006/07 amounted to £42.9 million; resources expended amounted to £30.4 million, resulting in net incoming resources (before transfers, notional costs and revaluations) of £12.5 million, of which £6.5 million represents donations to the collection, picture acquisitions and restricted and designated funds for future acquisitions, and £4.4m million the surplus of donations received in support of the East Wing Project over depreciation charged during the year.

Incoming resources from generated funds for the year totalled £38.1m, higher than in 2005/06 (£31.5m). The figure includes donations of £4.8m in support of the East Wing Project and incoming resources relating to picture acquisitions of £5.1m, as well as generous legacies and income from the successful corporate membership scheme. A rise in incoming resources from charitable activities is attributable to the very successful exhibitions programme, which generated income of £4.5m, compared with £2.6m in 2005/06.

The Gallery's total charitable expenditure for 2007/08 was higher than but broadly comparable with that for the prior year. An important driver behind the increase was the unavoidable rise in utility prices and rates (£542k); these costs represent a significant proportion of total expenditure, and any future price increases of this magnitude would exert considerable pressure on the Gallery's finances. Charitable expenditure has been incurred in specific areas identified in the 2006/07 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 2006/07 amounted to £21.4 million (2005/06: £30.7 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 £8.1 million, investment gains of £0.8m, £6.5 million representing donations to the collection, picture acquisitions and restricted and designated funds for future acquisitions, and the £4.4m million surplus of donations received in support of the East Wing Project over depreciation charged during the year.

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.

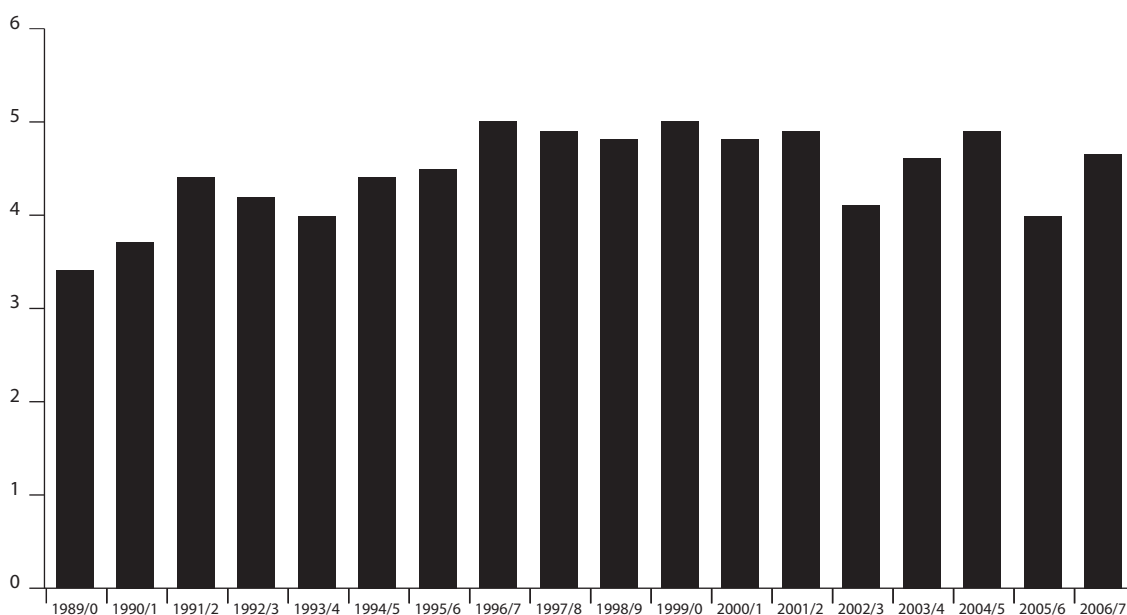
5 The Gallery's contribution to DCMS' performance targets

Specific information relevant to the Gallery's contribution to DCMS' performance targets for 2006/07 as set out in the Funding Agreement agreed with DCMS:

	Projection	Actual
1 Total number of visits to the Gallery (excluding virtual visits)	4.5m	4.7m
2 Number of unique users visiting the website ³	4.25m	9.2m
3 Number of UK adults aged 16 and over from NS-SEC groups 5-8 visiting the Gallery ⁴	443,000	521,000
4 Number of children aged 15 and under visiting the Gallery ³	517,500	588,000
5 Number of children aged 15 and under in on and off-site organised educational sessions ⁵	90,000	150,000
6 Average annual self-generated income ⁶	£10.25m	£18.8m
7 Efficiency savings ⁷	£1,854,000	£1,852,000

The bombings in London in July 2005 had a significant and sustained detrimental impact on visitor numbers, similar to that experienced in the period following 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. A high-profile exhibition programme in 2006/07 contributed to an upturn in visitor numbers, but any further shocks would inevitably set back recovery.

Visitor numbers (millions)



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

4 The outturn figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2007.

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

6 This figure represents income generated in 2006/07 and includes the value of donated pictures.

7 The figure for 2006/07 is stated in 2004/05 prices, and some of the estimates included in this total are, at this stage, provisional.

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 2007.

Mr Peter Scott (Chairman)
Mr Jon Snow
Mr Mark Getty
Mr Ranjit Sondhi
Professor Julia Higgins
Mr Donald Moore (retired 4 July 2006)
Lord Kerr of Kinlochard
Mr James Fenton
Mr John Lessor
Mr Simon Burke
Lady Normanby
Professor Mervyn King
Ms Victoria Barnsley
Professor David Ekserdijan

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

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

- given the Trustee Handbook, which sets out the structure, role and responsibilities of the Board, and includes detailed information about standards, accountability and governance;
- given copies of the latest Corporate Plan, Funding Agreement, Annual Review and Financial Statements; and
- given the equivalent of about 2 days' worth of induction, meeting members of Gallery staff in different departments to hear about their work.

The Trust Funds of the National Gallery are monitored by a sub-committee of the Board called the Trust Funds 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 (retired 4 July 2006)
Mr Alastair Ross Goobey (independent member)
Mr Peter Troughton (independent member, retired 8 March 2007)

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 2007 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:	BlackRock Investment Management (UK) Ltd 33 King William Street London EC4R 9AS	

2 History

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

3 Organisation

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

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

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

4 Review of Activities, Achievements and Results

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

5 Changes in Fixed Assets

The movement in fixed assets during the year is set out in note 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 90% (2005/06: 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 at least half of one month's normal running costs is held on a deposit account earning interest. Endowments over £500,000 are kept in separate bank/investment accounts. Funds approximating to the value of the remaining restricted funds are held in a separate account, normally a money market account.

Bequests are held within the Trust Funds. Funds in the Trust Funds are invested and monitored by a Committee ("the Trust Funds 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 the return on investments to be satisfactory given the movement in international markets during the year.

12 Reserves Policy

The Trustees have reviewed the reserves of the Gallery and concluded that the Gallery should seek to maintain unrestricted general funds not committed or invested in tangible fixed assets at a level equivalent to between one and three months of normal running costs, as a safeguard against volatile and unpredictable income streams. However, given that Grant in Aid is not drawn down in advance of need and that significant funds may be required for picture payment, the level of undesignated general reserves may fluctuate outside this range.

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

The Gallery's total funds at the end of the year amounted to £314.4 million. A breakdown of these is shown in the balance sheet and in the statement of funds (note 17). Most of the funds (£216.7 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 £66.8 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 £30.9 million, £5.6 million is in permanent endowments (where the capital cannot be touched) and £3.6 million represents other restricted funds.

A further £16 million is private income (mainly from bequests), which, because of the nature of the income, the Trustees have designated for picture purchases. The remaining balance represents undesignated general funds of private income.

13 Post Balance Sheet Events

The financial statements were authorised for issue on 20 July 2007.

Charles Saumarez Smith continues as Director until 31 August 2007. Martin Wyld CBE, Director of Conservation, will be Acting Director until his replacement starts. The Trustees of the National Gallery have appointed a selection committee to shortlist candidates for the appointment of a new director, and hope that the new Director will be taking up the appointment early in 2008.

14 Risk management

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

Procedures

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

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

Responsibilities

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

The Accounting Officer is responsible for managing risk and ensuring that an effective system of internal control is maintained and operated within the Gallery.

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

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

Internal Audit's primary role is to give the Accounting Officer and the Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. This assists the Internal Controls Committee in assessing and monitoring the effectiveness of the internal controls.

Assurance

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

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

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

Further details of financial risk management are included in note 15 to the accounts.

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 2 July 2007

Signed Peter Scott

Chairman

Dated 2 July 2007

Remuneration Report

The figures in this report have been subject to audit.

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2005/06: £Nil).

The remuneration payable to the Director of The National Gallery was £142,270 (2005/06: £133,225). This includes a consolidated performance award of £3,783 (2005/06: £3,561) and a non-consolidated performance related award of £8,827 (2005/06: £7,121). 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 payable on behalf of the Director amounted to £34,028 (2005/06: £31,022). 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 2007 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000
Charles Saumarez Smith	142	162	10	765	697	45

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 2006/07, employers' contributions of £1,934,080 were payable to the PCSPS (2005/06 £1,846,268) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates in 2005/06 were between 16.2% and 24.6%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08 the salary bands will be revised, but rates will remain the same.

The contribution rates are set to meet the cost of the benefits accruing during 2006/07 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 £20,275 (2005/06: £17,442) 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 £1,611 (2005/06: £1,389), 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 £2,000 (2005/06: £1,656). Contributions prepaid at that date were £18,275 (2005/06: £17,442).

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include an additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Signed Charles Saumarez Smith

Director and Accounting Officer

Dated 2 July 2007

Signed Peter Scott

Chairman

Dated 2 July 2007

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 2 July 2007

Signed Peter Scott

Chairman

Dated 2 July 2007

* 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 2007 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; and
- a system of delegation and accountability.

The risk priorities identified and addressed during the year, reflecting potential weaknesses in the system of controls, included a continuing review of measures to ensure the safety of the collection and further investment in additional security measures.

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 2 July 2007

Signed Peter Scott

Chairman

Dated 2 July 2007

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 2007 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture Media and Sport's directions made thereunder. I report to you whether, in my opinion, certain information given in the Trustees' Annual Report, which comprises the Annual Report, the Foreword and the Remuneration Report, is consistent with the financial statements. 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.

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

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

I read the other information contained in the Trustees Annual Report and consider whether it is consistent with the audited financial statements. 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.

Opinions

Audit 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 The National Gallery's affairs as at 31 March 2007 and of its incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture Media and Sport's directions made thereunder; and
- information given within the Trustees' Annual Report, which comprises the Annual Report, Foreword and Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
Date 5 July 2007

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

Statement of Financial Activities for the year ended 31 March 2007

	OPERATING INCOME AND EXPENDITURE			Funded capital projects and revaluations (a)			Acquisitions for the collection (b)			TOTAL 2007			TOTAL 2006						
	Unrestricted funds	Restricted funds operations	Total core operations	Unrestricted funds	Restricted funds projects and revaluations	Total capital projects and revaluations	Unrestricted funds	Restricted funds collection acquisition	Total funds	Unrestricted funds	Restricted funds endowment	Permanent	Total	Unrestricted funds	Restricted funds	Permanent	Total		
Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Incoming resources from generated funds																			
Voluntary income																			
Grant in Aid	21,735	–	21,735	–	1,569	1,569	–	681	681	21,735	2,250	–	23,985	–	–	–	21,986	–	
Other government grants	–	143	143	–	–	–	–	–	–	–	143	–	143	–	–	–	145	–	
Donations	43	452	495	–	4,885	4,885	–	5,106	5,106	43	10,443	–	10,486	–	–	–	5,426	–	
Lottery Funding	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	60	–	
Legacies	88	–	88	–	–	–	–	6	6	88	6	–	94	–	–	–	355	–	
Activities for generating funds	2,233	–	2,233	–	–	–	–	228	228	2,233	410	–	2,233	–	–	–	2,389	–	
Investment income	259	182	441	–	–	–	–	520	748	779	–	–	1,189	–	–	–	1,099	–	
Incoming resources from charitable activities	4,347	143	4,490	–	–	–	–	–	–	4,347	143	–	4,490	–	–	–	2,642	–	
Exhibitions	309	–	309	–	–	–	–	–	–	309	–	–	309	–	–	–	300	–	
Educational activities	1	–	1	–	–	–	–	–	–	1	–	–	1	–	–	–	20	–	
Other incoming resources	29,015	920	29,935	–	6,454	6,454	520	6,021	6,541	29,535	13,395	–	42,930	–	–	–	34,422	–	
Total incoming resources	(831)	–	(831)	–	–	–	(54)	(24)	(78)	(831)	(33)	–	(831)	–	–	–	(934)	–	
Costs of generating funds	–	(9)	(9)	–	–	–	(54)	(24)	(78)	(54)	(33)	–	(87)	–	–	–	(81)	–	
Fundraising costs	(831)	(9)	(840)	–	–	–	(54)	(24)	(78)	(885)	(33)	–	(918)	–	–	–	(1,015)	–	
Investment management costs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
Charitable activities	(2,321)	(150)	(2,471)	–	–	–	–	–	–	(2,321)	(150)	–	(2,471)	–	–	–	(2,038)	–	
Exhibitions	(1,290)	(171)	(1,461)	–	–	–	–	–	–	(1,290)	(171)	–	(1,461)	–	–	–	(1,251)	–	
Educational activities	(8,611)	(36)	(8,647)	–	–	–	–	–	–	(9,180)	(2,954)	–	(12,134)	–	–	–	(11,160)	–	
Care of the collection	(2,153)	(152)	(2,305)	–	–	–	–	–	–	(2,153)	(152)	–	(2,305)	–	–	–	(2,040)	–	
Study of the collection	(10,725)	(232)	(10,957)	–	–	–	–	–	–	(10,725)	(232)	–	(10,957)	–	–	–	(10,443)	–	
Access to the collection	(25,100)	(741)	(25,841)	–	–	–	–	–	–	(25,669)	(3,659)	–	(29,328)	–	–	–	(26,952)	–	
Governance costs	(150)	–	(150)	–	–	–	–	–	–	(150)	–	–	(150)	–	–	–	(143)	–	
Total resources expended	(26,081)	(750)	(26,831)	–	(569)	(569)	(54)	(24)	(78)	(26,704)	(3,692)	–	(30,396)	–	–	–	(28,090)	–	
Net incoming/(outgoing) resources before transfers, notional costs and other recognised gains and losses	2,934	170	3,104	(569)	3,536	2,967	466	5,997	6,463	2,831	9,703	–	12,534	–	–	–	6,332	–	
Transfers	90	–	90	(4,259)	–	(4,259)	4,171	(2)	4,169	2	(2)	–	–	–	–	–	–	–	
Net incoming/(outgoing) resources before notional costs and other recognised gains and losses	3,024	170	3,194	(4,828)	3,536	(1,292)	4,637	5,995	10,632	2,833	9,701	–	12,534	–	–	–	6,332	–	
Net notional costs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
Net incoming resources before other recognised gains and losses	3,024	170	3,194	(4,828)	3,536	(1,292)	4,637	5,995	10,632	2,833	9,701	–	12,534	–	–	–	6,332	–	
Gains on revaluation of fixed assets for charity's own use	–	53	53	1,314	6,744	8,058	–	–	–	1,314	6,744	–	8,058	–	–	–	20,946	–	
Realised and unrealised investment gains	3,024	223	3,247	(3,514)	10,280	6,766	5,108	6,128	11,236	4,618	16,631	182	21,431	–	–	–	30,654	–	
Net movement in funds	2,667	3,372	6,039	34,263	175,741	210,004	16,109	55,405	71,514	53,039	234,518	5,396	292,953	–	–	–	262,299	–	
Opening funds	5,691	3,595	9,286	30,749	186,021	216,770	21,217	61,533	82,750	57,657	251,149	5,578	314,384	–	–	–	292,953	–	

(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 32 to 47 form part of these accounts.

Balance Sheet as at 31 March 2007

	Note	2007		2006	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	11	216,770		210,004	
Heritage Assets	11	65,326		55,063	
Investments	12a	23,591		22,155	
			305,687		287,222
Current Assets					
Investments	12b	1,542		1,479	
Debtors	13	1,776		1,847	
Stock		1		1	
Cash at bank and in hand	20d	12,227		4,521	
		15,546		7,848	
Creditors:					
Amounts falling due within one year	14	(3,341)		(2,020)	
Net current assets			12,205		5,828
Total assets less current liabilities			317,892		293,050
Creditors:					
Amounts falling due after one year	14		(3,508)		(97)
Net assets			314,384		292,953
Represented by:					
Restricted funds:	17		251,149		234,518
Unrestricted funds:					
Designated		46,745		47,113	
Designated funds already expended on acquisitions		5,254		3,328	
General funds		5,658		2,598	
	17		57,657		53,039
Total Income Funds			308,806		287,557
Capital funds – permanent endowments	17		5,578		5,396
Total Funds			314,384		292,953

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

The notes on pages 32 to 47 form part of these accounts.

The financial statements were approved on 2 July 2007

Signed Charles Saumarez Smith
Director and Accounting Officer

Signed Peter Scott
Chairman

Cash Flow Statement for the year ended 31 March 2007

		2007		2006 (restated)	
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	20a		11,697		7,229
Returns on investment and servicing of finance					
Bank interest received		314		344	
Interest received on investment portfolio deposits		37		163	
Investment income		657		597	
			1,008		1,104
Capital expenditure and financial investment					
Receipts from sale of tangible fixed assets		21		–	
Payments to acquire tangible fixed and heritage assets		(3,090)		(4,293)	
Payments from donated funds for collection acquisitions		(1,270)		(3,206)	
Purchase of investments		(440)		–	
Proceeds from the sale of investments		209		–	
Decrease/(increase) in investment portfolio deposits		(366)		328	
			(4,936)		(7,171)
			7,769		1,162
Management of liquid resources	20b		(63)		(62)
Increase/(decrease) in cash for the year	20c		7,706		1,100

The notes on pages 32 to 47 form part of these accounts.

Notes to the Financial Statements

1 Accounting Policies

(a) Accounting Convention

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets and the inclusion of the investments at market value. The financial statements have been prepared in accordance with the accounts direction issued by the Secretary of State, the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities", published in October 2005, and applicable accounting standards.

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

(b) Incoming Resources

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

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

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

Income derived from endowments has been included within unrestricted funds in the SOFA, except where the application of the income is restricted to a particular purpose, in which case the income and expenditure has been appropriately identified in restricted funds. See note 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 support costs, including overheads, is analysed in note 9.

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

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

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

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

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

(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 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.

Overall the National Gallery is strongly in support of the recommendations of the Financial Reporting Exposure Draft 40 *Accounting for Heritage Assets* (FRED 40), issued in January 2007. They represent a very significant improvement on the existing treatment in terms of clarity, transparency, consistency and disclosure.

(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. The details of each designated fund are disclosed in note 17.

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

(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

	2007	2006
	£'000	£'000
Department for Culture, Media and Sport	23,985	21,986

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £2.25m (2006: £1m) was ring-fenced for capital purposes.

3 Other Government Grants

	2007	2006
	£'000	£'000
Strategic Commissioning grant from the Department for Culture, Media and Sport	143	145
	143	145

4 Donations

	2007	2006
	£'000	£'000
General donations can be split as follows:		
Individuals	216	532
Trusts and Foundations	4,964	2,318
Corporate donors	120	171
Gifts in Kind	7	107
Other	73	58
	5,380	3,186

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

	2007	2006
	£'000	£'000
Individuals	37	12
Trusts and Foundations	3	2,203
Gifts in kind, including pictures acquired under the acceptance-in-lieu scheme	4,916	25
Other	150	–
	5,106	2,240
Total donations	10,486	5,426

5 Lottery Funding

	2007	2006
	£'000	£'000
Heritage Lottery Fund	–	60

Grants in 2005/06 were received to support a touring exhibition held in partnership with the Bristol Museums and Art Gallery and the Laing Gallery, Newcastle. The Heritage Lottery Fund continues to support the touring exhibition partnership, but now makes grants directly to the Bristol Museums and Art Gallery.

6 Activities for generating funds and other incoming resources

	2007	2006
	£'000	£'000
<i>Activities for generating funds</i>		
Trading	929	1,189
Concessions	956	969
Miscellaneous	348	231
	2,233	2,389
<i>Other incoming resources</i>		
Gain on sale of equipment	1	20

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

7 Investment Income

	2007	2006
	£'000	£'000
Bank interest receivable	353	319
Interest receivable on UK investment portfolio deposits	176	176
Other UK Fixed Interest Stocks	166	150
UK Equities	417	376
Foreign Equities	77	78
	1,189	1,099

8 Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2005/06: £Nil). The total value of expenses reimbursed to Trustees amounted to £2,095 for the year (2005/06: £1,167), representing travel and catering expenses for three Trustees.

9 Total resources expended

	Direct costs £'000	Support costs £'000	Depreciation £'000	Total 2007 £'000	Total 2006 £'000
Fundraising costs	757	74	–	831	934
Investment management costs	87	–	–	87	81
	<u>844</u>	<u>74</u>	<u>–</u>	<u>918</u>	<u>1,015</u>
Exhibitions	2,350	121	–	2,471	2,038
Educational activities	1,337	124	–	1,461	1,251
Care of the collection	8,107	540	3,487	12,134	11,160
Study of the collection	2,083	222	–	2,305	2,040
Access to the collection	9,905	1,052	–	10,957	10,443
	<u>23,782</u>	<u>2,059</u>	<u>3,487</u>	<u>29,328</u>	<u>26,932</u>
Governance costs	141	9	–	150	143
	<u>24,767</u>	<u>2,142</u>	<u>3,487</u>	<u>30,396</u>	<u>28,090</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	Basis of allocation							Total £'000	Basis of allocation
	Fundraising costs £'000	Exhibitions £'000	Educational activities £'000	Care of the collection £'000	Study of the collection £'000	Access to the collection £'000	Governance £'000		
Finance	16	90	35	247	25	54	3	470	Direct expenditure of activity
Human Resources	17	9	26	87	59	610	2	810	Headcount
Information Services	35	19	54	176	118	332	3	737	Headcount of office-based staff
Office Services	6	3	9	30	20	56	1	125	Headcount of office-based staff
	<u>74</u>	<u>121</u>	<u>124</u>	<u>540</u>	<u>222</u>	<u>1,052</u>	<u>9</u>	<u>2,142</u>	

Analysis of governance costs:

	2007 £'000	2006 £'000
Staff costs	72	70
Auditor's remuneration	36	36
Internal audit fees	19	18
Cost of meetings	5	7
External consultants	9	2
Support costs	9	9
Other	–	1
	<u>150</u>	<u>143</u>

Total resources expended include the following:

	2007 £	2006 £
Auditor's remuneration:		
Audit Fees	35,500	35,570
Leased rental payments on equipment and office space	509,746	510,981

10 Staff Costs

	2007	2006
	£'000	£'000
Wages & salaries	11,441	11,210
Social security costs	860	852
Pension costs	1,956	1,864
	<u>14,257</u>	<u>13,926</u>

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:

	2007	2006
£60,000 – £69,999	8	11
£70,000 – £79,999	3	–
£130,000 – £139,999	–	1
£140,000 – £149,999	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:

	2007	2006
		<i>(restated)</i>
Fund-raising	9	9
Exhibitions	5	5
Educational activities	14	13
Care of the collection	46	48
Study of the collection	31	33
Access to the collection	323	316
Support Costs	24	24
Governance	1	1
	<u>453</u>	<u>449</u>

The figures for 2006 have been restated to reflect more accurately the contribution of employees on variable hour contracts. Further information relating to the Director's pay can be found in the Remuneration Report.

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 2006	145,400	64,000	–	3,376	212,776	55,063
Donated works of art	–	–	–	–	–	8,740
Additions	1,214	758	22	201	2,195	1,523
Disposals	–	–	–	(607)	(607)	–
Revaluation	9,200	(3,300)	–	–	5,900	–
Transfers	–	–	–	–	–	–
As at 31 March 2007	<u>155,814</u>	<u>61,458</u>	<u>22</u>	<u>2,970</u>	<u>220,264</u>	<u>65,326</u>
Depreciation						
As at 1 April 2006	–	–	–	2,772	2,772	–
Disposals	–	–	–	(607)	(607)	–
Charge for year	1,031	2,158	–	298	3,487	–
Revaluation	–	(2,158)	–	–	(2,158)	–
As at 31 March 2007	<u>1,031</u>	<u>–</u>	<u>–</u>	<u>2,463</u>	<u>3,494</u>	<u>–</u>
Net Book Value						
31 March 2007	<u>154,783</u>	<u>61,458</u>	<u>22</u>	<u>507</u>	<u>216,770</u>	<u>65,326</u>
31 March 2006	<u>145,400</u>	<u>64,000</u>	<u>–</u>	<u>604</u>	<u>210,004</u>	<u>55,063</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 2007 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 2007 represents fixed assets held for charitable purposes only.

12 a) Fixed asset investments

	2007	2006
	£'000	£'000
Market value as at 1 April	22,155	19,107
Increase/(decrease) in investment portfolio deposits	366	(328)
Listed investments:		
Disposal proceeds	(209)	–
Additions at cost	440	–
Realised and unrealised gains	839	3,376
Market value as at 31 March	23,591	22,155

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

<i>Listed Investments</i>		
UK fixed interest stocks	2,790	2,475
UK equities	12,553	11,891
Overseas equities	4,597	4,504
	19,940	18,870
<i>Cash held as part of the investment portfolio</i>		
UK investment portfolio deposits	3,651	3,285
	23,591	22,155

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

12 b) Current asset investments

	2007	2006
	£'000	£'000
Current asset investments	1,542	1,479

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

13 Debtors

	2007	2006
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	221	466
Other debtors	304	507
Tax and social security	374	347
Prepayments & accrued income	877	527
	<u>1,776</u>	<u>1,847</u>

14 Creditors

	2007	2006
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	579	411
Other creditors	898	720
Accruals and deferred income	1,864	889
	<u>3,341</u>	<u>2,020</u>

	2007	2006
	£'000	£'000
Amounts falling due over one year:		
Other creditors	954	97
Accruals and deferred income	2,554	–
	<u>3,508</u>	<u>97</u>
Amounts falling due in over one year:		
In more than one year but not more than two years	458	22
In more than two years but not more than five years	1,036	67
In more than five years, payable by instalments	2,014	8
	<u>3,508</u>	<u>97</u>

	2007
	£'000
Movement on the deferred income account:	
As at 1 April	394
Amounts released from previous years	(362)
Incoming resources deferred in the current year	4,216
As at 31 March	<u>4,248</u>

Amounts due to/from related parties are disclosed in note 21.

Incoming resources deferred in the current year includes an estimate of the value of the donated element of a picture which is being acquired by the Gallery in instalments and the title of which passes to the Gallery at an uncertain point in the future.

15 Financial risk management

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

Liquidity risk

Approximately 57% of the Gallery's incoming resources before transfers, notional costs and revaluations is provided by Grant in Aid from the Department for Culture, Media and Sport. As a result the Gallery is not exposed to significant liquidity or credit risks.

Interest rate risk

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

Price risk

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

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

Foreign currency risk

Foreign currency transactions are not material.

Financial assets

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

	Total £'000	Non-interest bearing assets held £'000	Floating-rate cash held £'000	Fixed rate short term cash deposits held £'000	Fixed rate weighted average interest rate	Weighted average period for which rate is fixed Days
At 31 March 2007 Sterling	37,360	19,984	15,289	2,087	4.54%	58
At 31 March 2006 Sterling	28,155	19,045	7,590	1,520	4.17%	28

Financial liabilities

There were no financial liabilities requiring disclosure under FRS13.

16 Financial Commitments

Capital Commitments

	2007 £'000	2006 £'000
Capital expenditure commitments were as follows:		
Contracted for, but not provided in the accounts	48	342

Commitments under operating leases

As at 31 March 2007 the National Gallery had annual commitments under operating leases for office space, photocopiers and vending machines as set out below:

	2007	2006
	£	£
Operating leases which expire:		
Within 1 year	1,398	8,990
In the second to fifth years	505,824	500,756
Over 5 years	–	–

17 Statement of funds

	At 1 April 2006	Income £'000	Expenditure £'000	Net movement on investments and indexation £'000	Transfers between reserves £'000	At 31 March 2007 £'000
Unrestricted funds						
Designated funds:						
Capital assets reserve	34,263	–	(569)	1,314	(4,259)	30,749
Designated funds expended on acquisitions	3,328	–	–	–	1,926	5,254
Designated funds for purchase of heritage assets	–	–	–	–	2,554	2,554
Trust funds designated collection purchases	12,781	520	(54)	471	(309)	13,409
Designated for purchase of frames and furniture	69	–	–	–	(36)	33
Total designated funds	50,441	520	(623)	1,785	(124)	51,999
General funds	2,598	29,015	(26,081)	–	126	5,658
Total unrestricted funds	53,039	29,535	(26,704)	1,785	2	57,657
Restricted income funds						
Land & buildings reserve	132,410	–	(2,199)	5,081	–	135,292
Capital assets reserve	43,331	6,454	(719)	1,663	–	50,729
Donated works of art reserve	51,733	5,787	–	–	–	57,520
Exhibitions programme fund	105	147	(150)	–	2	104
Running cost fund	549	603	(558)	–	(1)	593
Curatorial fund	1,288	80	(33)	–	–	1,335
Collection purchases fund	36	2	–	–	–	38
Collection purchases trust fund	3,636	232	(24)	133	(2)	3,975
Art historical research	1,430	90	(9)	53	(1)	1,563
Total restricted income funds	234,518	13,395	(3,692)	6,930	(2)	251,149
Capital funds						
Collection purchase endowments	2,956	–	–	100	–	3,056
Art historical research endowment	1,003	–	–	34	–	1,037
General purpose endowments	1,437	–	–	48	–	1,485
Total capital funds	5,396	–	–	182	–	5,578
Total funds	292,953	42,930	(30,396)	8,897	–	314,384

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

Transfers between individual unrestricted funds reflect unrestricted income used to fund capital projects and collection acquisitions; the designation of legacies for the purpose of collection purchases; and the release to the general reserve of unrestricted money used temporarily to fund the East Wing Project, following the receipt of restricted donations.

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% (2005/06: 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 2007 £'000	Total funds 2006 £'000
Notional cost of capital	(700)	(2,905)	(3,605)	(3,280)
Reversal of notional cost of capital	700	2,905	3,605	3,280
Net notional costs	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

19 Analysis of net assets between funds

	Unrestricted funds £'000	Restricted funds £'000	Permanent endowment £'000	Total funds 2007 £'000	Total funds 2006 £'000
Tangible assets	30,749	186,021	–	216,770	210,004
Heritage assets	7,806	57,520	–	65,326	55,063
Investments	12,475	5,538	5,578	23,591	22,155
Other net assets	6,627	2,070	–	8,697	5,731
Total net assets	<u>57,657</u>	<u>251,149</u>	<u>5,578</u>	<u>314,384</u>	<u>292,953</u>

20 Notes to the cash flow statement

	2007 £'000	2006 £'000 <i>(restated)</i>
a. Reconciliation of changes in incoming resources to net inflow from operating activities		
Net incoming resources before transfers, notional costs and other recognised gains and losses	12,534	6,332
Receipts from sale of tangible fixed assets	(1)	(20)
Investment income	(1,189)	(1,099)
Donated collection acquisitions	(7,470)	(25)
Depreciation charge	3,487	3,003
Decrease/(increase) in debtors	232	295
Increase/(decrease) in creditors and provisions	4,104	(1,258)
Decrease/(increase) in stocks	-	1
Net cash inflow from operating activities	11,697	7,229
b. Management of liquid resources		
Increase/(Decrease) in liquid investment portfolio deposits	63	62
Management of liquid resources	63	62
Liquid resources comprise of 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.		
c. Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	7,706	1,100
Cash balance at beginning of year	4,521	3,421
Cash balance at end of year	12,227	4,521
d. Composition of the cash balance at the end of the year		
Balance with the Paymaster General	1,898	2,038
Balances held with commercial banks	10,316	2,467
Cash in hand	13	16
	12,227	4,521

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 2006/07:

- 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 2006/07:

- The Government Art Collection
- The National Portrait Gallery
- Tate
- Victoria & Albert Museum
- British Museum

During the year, the National Gallery has had various material transactions with DCMS and with other entities for which DCMS is regarded as the parent department. The National Gallery also entered into material related party transactions with other related parties during the year, as set out below.

Related Party	Nature of relationship	Value of income received during the year £'000	Value of expenditure during the year £'000	Outstanding balances due from/ (to) at year end £'000	Nature of transaction
American Friends of the National Gallery, London, Inc	Mr Peter Scott and Mr Donald Moore, directors of the related party, served as trustees of the National Gallery during the year	95	–	6	Administration fees and grants in support of a technical bulletin, a catalogue and the curatorial department
Ashmolean Museum, Oxford	Mr James Fenton, a trustee of the National Gallery, is a Visitor	–	12	–	Reimbursement of costs in relation to the DCMS strategic commissioning project
British Museum	Entity sponsored by DCMS	1	22	(6)	Rechargeable costs and internal audit fee
DCMS	Sponsor department	24,129	–	13	Grant in aid and strategic commissioning project
Imperial War Museum	Entity sponsored by DCMS	–	11	–	Share of NMDC costs
Morgan Stanley & Co International Ltd	Mr Donald Moore, a director of the related party, served as a trustee of the National Gallery during the year	10	–	–	Contribution as part of the Corporate Members Scheme
National Gallery Company Ltd	Mr Simon Burke, a director of the related party, served as a trustee of the National Gallery during the year	1,130	164	267	Rent for commercial space within the National Gallery and payment for publications
National Gallery Trust	Mr Peter Scott and Mr Simon Burke, two trustees of the related party served as trustees of the National Gallery during the year	4,533	–	(89)	Specific grants and accounting and administration fee
National Portrait Gallery	Entity sponsored by DCMS	207	–	14	Utility supply recharges
The NGT Foundation	Mr Peter Scott and Mr Ranjit Sondhi, two trustees of the related party, served as trustees of the National Gallery during the year	30	598	(10)	Rental of office space, annual management and accounting fee recharge
Tate Gallery	Ms Victoria Barnsley, a trustee of the National Gallery, is also a trustee of the Tate Gallery	5	–	–	Rechargeable costs
University College, London	Ms Victoria Barnsley, a trustee of the National Gallery, is an honorary fellow	–	8	–	Employee training
		<u>30,140</u>	<u>815</u>	<u>195</u>	

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