

The National Gallery Annual Report and Accounts for the year ended 31 March 2011

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

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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 houses one of the finest collections of Western European paintings 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 involves engaging 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/paintings>

Objectives

Care for the collection

The chief priority of the Gallery is to protect the paintings for future generations.

Access to the collection

The Gallery seeks to attract visitors with little or no previous experience of looking at Old Master paintings and helps those who have difficulty visiting the Gallery. Many of its visitors come from abroad and it serves a larger public through publications and information services, including the website. The Gallery is concerned to foster an interest in Old Master paintings in regional centres.

Interpretation and study of the collection

The Gallery promotes understanding of the styles and techniques of painting and the historical study of pictorial imagery through education and academic programmes.

Enhancement of the collection

The Gallery seeks constantly to improve the ways in which its paintings are presented whilst respecting the needs of the buildings, which are of historic significance. The display is enriched by loans as well as acquisitions.

The Gallery aims to amplify the visitor's experience of the collection through special exhibitions, including some international loan exhibitions, and through special displays. Such displays and exhibitions might feature work in other media and often involve partnerships with other national and international institutions.

Additions to the collection

The Gallery is concerned to ensure that great Old Master paintings threatened with export do not leave the UK, and aims through acquisition to enhance both its own collection and those of other public galleries in the UK.

Review of activities and achievements

Care for the collection

Objective¹

The chief priority of the Gallery is to protect the paintings for future generations.

Activities during the year

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

The restoration of Leonardo's *Virgin of the Rocks* was completed, with the picture returned to display in the summer. Several members of the conservation department have been involved in research contributions to both the catalogue of the Gallery's upcoming Leonardo exhibition and an associated issue of the *Technical Bulletin*.

Several large restoration projects were begun, including Veronese's *Adoration of the Kings*, Guercino's *St Gregory*, and Rembrandt's *Frederick Rihel*.

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

Future developments

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

Additions to the collection*Objective²*

The Gallery aims through acquisition to enhance both its own collection and those of other public galleries in the UK.

Activities during the year

In May 2010 the Gallery was delighted to announce that one of the greatest works by the Italian Baroque master Domenichino (1581-1641) still in private hands had been saved for the nation with help from an anonymous private collector. *Saint John the Evangelist*, painted in the late 1620s in Rome, depicts the author of the fourth gospel in a moment of revelation. The painting had been destined for sale overseas. However, its export was deferred in the hope that funds could be found to keep the painting in the UK. Fortunately, a private collector came forward to buy the painting, making provision for its regular public display. The painting will be on loan to the National Gallery from May 2010 until November 2011.

Peder Balke's *Tempest* (c. 1862) is the first painting by a Norwegian artist to enter the Gallery's collection. Generously donated to the Gallery during the year, the picture, a monochromatic storm-tossed ocean scene, went on display in Room 44. Peder Balke (1804 -1887) is one of the most original painters of 19th century Scandinavia, and his work is recognised as being highly significant for the history of 19th century landscape painting.

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, and the partnership with National Galleries of Scotland to acquire Titian's *Diana and Actaeon* was one such example.

The Gallery would welcome changes to the existing structure for helping institutions to fund acquisitions, particularly in relation to incentives for individuals and corporations to encourage lifetime giving.

Access to the collection*Objective³*

The Gallery seeks to attract visitors with little or no previous experience of looking at Old Master paintings and helps those who have difficulty visiting the Gallery. It also serves a larger public through publications and information services, including the website. The Gallery is concerned to foster an interest in Old Master paintings in regional centres.

Activities during the year

The Gallery's education programme is one of the largest in Europe and in the last year over 80,000 school pupils visited the Gallery for facilitated sessions; 3,300 teachers attended courses; over 13,000 families participated in the family programme, and over 80,300 adults participated in talks and tours. Highlights of the year have included the Take One Picture schools display on Renoir's *The Umbrellas*, the development of the partnership with Feltham Young Offenders institution which led to the *Inside Art* displays and the inclusion of storytellers and poets in the talks programme.

The Gallery produced six films during the year which gave greater context to our work. We responded to hundreds of visitor enquiries in person and wrote responses to over 7,000 written enquiries. The Library and Archives continued to support research and learning about the collection and its history.

² Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) that the Board shall "care for, preserve and add to the works of art and documents in their collection".

³ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall "secure that the works of art are exhibited to the public" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

The website was also upgraded in the last year and achieved a record 4.5 million hits with over 20.5 million page views. Participation in the Google Art Project with its global reach generated considerable publicity across the world with a major impact on visits to the Gallery website. Over the year, the Gallery has also invested in new areas, particularly the digital presentation of new research, most notably on temporary exhibitions as well as the digitisation of its *Technical Bulletin*.

Enhancement of the collection

Objective⁴

A priority for the Gallery is to preserve, enhance and develop the potential of the collection for the benefit of the public. An aspect of this is to maintain a display of the collection that is complemented and illuminated by special exhibitions, loans and acquisitions and education programmes.

These activities take place in an historic building which must be sensitively maintained to best preserve the collection, present changing exhibitions and displays and accommodate a large number of visitors each year.

Capital projects

Capital projects during the year included the refurbishment of three of the galleries (nos. 6-8) in the Gallery's historic Wilkins building of 1838. These galleries house works by some of the most important artists of the Italian Renaissance and of the 16th century including Michelangelo, Raphael, Pontormo and Bronzino. The work comprised removing lowered ceilings installed in the 1950s, upgrading roofs over the spaces and replacing damaged or missing decorative plasterwork dating from the late 19th and early 20th centuries. Also, energy efficient LED lights were installed which reduce the Gallery's electricity use in illuminating these rooms by 85%. Similar refurbishments began on two other nearby galleries (nos. 5 and 10) which will open to the public shortly into the financial year 2011-12.

Exhibitions

Eleven temporary exhibitions were open during the year, "(£)" denotes a ticketed exhibition:

| Exhibition | Attendance to 31 March 2011 | Venue |
|--------------------------------------------------------------------------------------------------------|--------------------------------|----------------|
| <i>Painting History: Delaroche and Lady Jane Grey</i> (24 February 2010 to 23 May 2010) (£) | 24,344 | Sainsbury Wing |
| <i>A Masterpiece Recovered: Delaroche's Charles I Insulted</i> (24 February 2010 to 23 May 2010) | 89,382 | Room 1 |
| <i>Close Examination: Fakes, Mistakes and Discoveries</i> (30 June 2010 to 12 September 2010) | 119,811 | Sainsbury Wing |
| <i>Venice: Canaletto and His Rivals</i> (13 October 2010 to 16 January 2011) (£) | 122,731 | Sainsbury Wing |
| <i>Clive Head: Modern Perspectives</i> (13 October 2010 to 28 November 2010) | 73,952 | Room 1 |
| <i>Ben Johnson: Modern Perspectives</i> (8 December 2010 to 23 January 2011) | 73,138 | Room 1 |
| <i>Jan Gossaert's Renaissance</i> (23 February 2011 to 30 May 2011) (£) | 20,898 | Sainsbury Wing |
| <i>Christen Købke: Danish Master of Light</i> (17 March 2010 to 13 June 2010) | 115,049 | Sunley Room |
| <i>Frederick Cayley Robinson: Acts of Mercy</i> (14 July 2010 to 17 October 2010) | 133,931 | Sunley Room |
| <i>Bridget Riley: Paintings and Related Work</i> (24 November 2010 to 22 May 2011) | 115,089 | Sunley Room |
| <i>An American Experiment: George Bellows and the Ashcan Painters</i> (3 March 2011 to 30 May 2011) | 37,810 | Room 1 |

⁴ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall "secure that the works of art are exhibited to the public" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

Painting History: Delaroche and Lady Jane Grey was conceived as an in-focus exhibition around one of the National Gallery's best-loved pictures, Paul Delaroche's *Execution of Lady Jane Grey*. Profoundly original, the painting created a sensation when exhibited at the Paris Salon of 1834, as it still does now. The objective of the exhibition was to examine the reasons for this extraordinary popularity by looking at the painting in context and presenting the latest research on the artist along with prints and preliminary drawings.

A Masterpiece Recovered: Delaroche's Charles I Insulted was the exceptional display of a recently recovered painting by Paul Delaroche while in the process of restoration. This Room 1 show complemented the major exhibition, *Painting History: Delaroche and Lady Jane Grey*, concurrently on view in the Sainsbury Wing.

Close Examination: Fakes, Mistakes and Discoveries explored the contribution of scientific examination, conservation, and art historical research to the appreciation and better understanding of paintings in the Gallery's collection. Coinciding with the 350th anniversary of the founding of the Royal Society, the exhibition emphasized the importance of applied science in art historical research. Through well-chosen examples and the judicious introduction of comparative and didactic material, we presented the subject in a way that was both scholarly and accessible. Expert and casual museum-goers alike were drawn into the complex issues - not all of them fully resolved - confronted in the consideration of paintings as physical objects.

Venice: Canaletto and his Rivals presented the finest assembly of Venetian views by all the major - and a few of the less well known - practitioners of the genre to be held since the legendary show in Venice in 1967. It was also the first survey of the subject organised in the UK, despite the dominant role played by British patronage in the development of this art form. The exhibition showed the wide variety of Venetian view painting, and the heights which it attained at its best.

Clive Head's paintings explore ways of creating a credible space to express the sensations of being in the city. The paintings in *Clive Head: Modern Perspectives* showed all that is seen as we move around our environment. In Canaletto, Head finds an artist who, like himself, might have used optical devices to record the world and to bring information into the studio, but through drawing and painting he interprets this information to invent an alternative reality.

For *Ben Johnson: Modern Perspectives*, Johnson painted one of London's most iconic locations - Trafalgar Square, looking down Whitehall to the Houses of Parliament. Johnson based his *Looking Back to Richmond House* (2010) on the rigorous geometric composition of Canaletto's *Stonemason's Yard*, with the bell tower corresponding to Nelson's Column and the workmen's shed to the buildings around Trafalgar Square. Like his Venetian predecessor, he subtly manipulates the topography to create an 'ideal' view. The Trafalgar Square painting was unfinished when the display opened and was completed in public, giving visitors an insight into the artist's working methods.

The Ben Johnson and Clive Head exhibitions were presented as complements to, and during the run of, the exhibition *Venice: Canaletto and his Rivals*.

Jan Gossaert's Renaissance was the first exhibition dedicated to the artist for over 40 years, and presented the results of a complete re-examination of his work, including new technical discoveries. The exhibition featured over 50 works, including many of the artist's most important paintings, drawings and contemporaneous sculptures of the Northern Renaissance.

Christen Købke (c. 1810 – 1848) was arguably the greatest talent of Denmark's 'Golden Age', the period of the nation's supreme artistic achievement. *Christen Købke: Danish Master of Light* aimed to introduce a much wider British and international audience, largely unfamiliar with him, to Købke's pre-eminence in Danish visual culture. The project was a collaboration with the National Galleries of Scotland.

Frederick Cayley Robinson (1862 – 1927) is one of the most distinctive and yet elusive British painters of the early 20th century. Essentially a British Symbolist, the artist employed a rich variety of mood and atmosphere to evoke complex emotional responses. Executed between 1916 and 1920, Cayley Robinson's masterpiece, *Acts of Mercy*, comprises four large-scale allegorical works commissioned to adorn the new Middlesex Hospital, rebuilt 1928 – 1935. Combining modernity with tradition to remarkable effect, the artist emulated the spiritual integrity and methods of artists encountered in the National Gallery, such as Piero della Francesca, Botticelli, Giotto and Michelangelo. The project was a collaboration with Tate Britain, and was supported by the Wellcome Trust.

Bridget Riley (b. 1931) is one of the most significant and original painters of our time. *Bridget Riley: Paintings and Related Work* focuses on her most recent paintings and enables visitors to investigate how Riley's work relates to the National Gallery collection. Two of the artist's works were made directly on to the walls of the exhibition space. *Composition with Circles 7* is a wall-drawing that Riley and her studio created especially for the longest wall of the Sunley Room. A version of her wall-painting *Arcadia* is also on view, which was last seen at Riley's major retrospective exhibition of 2008 at the Musée d'Art moderne de la Ville de Paris.

International programmes

The *Venice* exhibition travelled to its partner venue, the National Gallery of Art, Washington, as a highlight of its Spring programme (20 February to 30 May 2011). *Jan Gossaert's Renaissance* is a collaboration with the Metropolitan Museum of Art, New York, and opened there (showing 5 October 2010 to 17 January 2011), where it was received to great acclaim, attracting 151,000 visitors.

Future developments

The Gallery will present a varied programme of exhibitions in the coming year, including *Leonardo da Vinci: Painter at the Court of Milan*, the most complete display of Leonardo's rare surviving paintings ever held. This unprecedented exhibition – the first of its kind anywhere in the world – will bring together sensational international loans never before seen in the UK.

The Bridget Riley exhibition continued in the Sunley Room until 22 May 2011, and will be followed by *Forests, Rocks, Torrents Norwegian and Swiss Landscapes from the Lunde Collection*, a landmark exhibition that will display what is arguably one of the most complete collections of 19th century Norwegian and Swiss landscape paintings outside their respective nations.

The Gallery will continue the work in upgrading historic rooms and installing new lighting systems. Work on two more galleries (nos. 2 and 4) will begin following the completion of the galleries referred to above, thereby refurbishing nearly the entire suite of galleries in the Wilkins building. The two that remain (nos. 12 and 33) will be completed by 2014-15. Restoring the historic appearance of the galleries while adding further roofing protection and allowing more daylight will significantly enhance the public's experience with the collection. With the success of the trial of new LED lights, the Gallery will undertake a major initiative to replace all lighting in its galleries with energy-efficient LED lights. This past year, the Gallery became the first institution to use these lights together with a system that automatically adjusts external roof light blinds according to the amount and angle of sunlight.

Interpretation and study of the collection

Objective⁵

The Gallery promotes understanding of the styles and techniques of painting and the historical study of pictorial imagery through education and academic programmes.

The Gallery provides expert advice to government agencies and to other galleries and cultural institutions in the regions and overseas.

Activities during the year

The Gallery has been engaged in the study of the collection for new catalogues. Work on 14th century Italian paintings, 16th century works from Bologna and Ferrara and French 19th century landscapes have been the dominant focus. More wide-ranging technical research on National Gallery paintings was presented to the public in a free Sainsbury Wing summer exhibition: *Close Examination: Fakes, Mistakes and Discoveries*, which received sponsorship in the form of equipment for analysis of paintings from the Engineering and Physical Sciences Research Council. Work for this exhibition produced four scholarly articles for the new *National Gallery Technical Bulletin* (Vol. 31): on Verrocchio, Giorgione, a panel after Perugino and a 19th century fake, once thought to be the work of Francesco Francia. Two articles in the *Burlington Magazine* also resulted. In addition to a conventional hard-copy publication, the *Technical Bulletin* was published with free access in the research area of the Gallery's website accompanied by links to interactive technical images. Two further articles, on Rembrandt and Reynolds, completed the issue.

Technical survey work was undertaken on a group of paintings from Leonardo's ambit in Milan in advance of the Gallery's Leonardo da Vinci exhibition for 2011. New examinations were also carried out on works by Niccolò di Pietro Gerini, Piero della Francesca, Filippino Lippi, Titian, Poussin and Zoffany.

A major technical and conservation collaboration with the Wallace Collection on 12 pictures by Sir Joshua Reynolds was begun. Under the Gallery's national programme, assistance was given to the Canterbury City Museum involving technical study of an early copy of a portrait by Raphael, and to the York City Art Gallery in support of the conservation of a portrait by Reynolds (*Captain Foote*).

⁵ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(c) and (d) that the Board shall "secure that the works of art and documents are available to persons seeking to inspect them in connection with study and research" and "generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate".

The Gallery continued to participate in the EU-sponsored CHARISMA project, the purpose of which is to promote research and best practice in conservation science throughout Europe. Supervision of a postdoctoral fellowship began during the year, and also collaborative work with several institutions for development of the technique of optical coherence tomography in relation to study and conservation of 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.

Capitalising on the significance of our collection, and the expertise and experience of our staff is 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.

Fundraising and resources

Grant-in-aid from the Department of Culture, Media and Sport (DCMS) amounted to £28,201,000 for the year ended 31 March 2011. The Gallery generated additional income as a result of its exhibitions, educational activities and fundraising programme.

Fundraising focused on raising charitable income from individuals, grant making trusts and companies and on generating trading income through corporate sponsorship and membership. Charitable support, largely from individuals and grant making trusts, made an important contribution to the Gallery's operational activity and capital development. Exhibitions such as *Close Examination: Fakes, Mistakes and Discoveries*, and *Christen Købke: Danish Master of Light* benefited from Research Council grants and our education work benefited significantly as a result of major donations and grants from individual donors and charitable trusts.

The Gallery attracted private support for curatorial assistant posts, academic colloquia and the publication of catalogues. Charitable income also supported the work of the framing, scientific and conservation departments as well as the weekly provision of flowers in the Gallery's main portico entrance. In addition to funding day-to-day activities and capital projects, charitable income continued to be received for Titian's *Diana and Actaeon* acquired in 2009. Legacy income was designated for future picture acquisitions.

On the commercial side, the Gallery's partnership with Credit Suisse continued to play a vital role in contributing to the Gallery's activities as a whole and in sponsoring *Venice: Canaletto and His Rivals* in particular. Corporate sponsorship of exhibitions such as *Bridget Riley: Paintings and Related Work* and *Jan Gossaert's Renaissance* provided an important stream of income as did the corporate membership scheme. Income from the latter was particularly robust, thanks to the commitment of our long-term corporate members and the attraction of the forthcoming exhibition programme.

Philanthropic support and corporate sponsorship continued to make an essential contribution to the Gallery's capacity to preserve, enhance and display its collection for public enjoyment. Raising funds from the private sector has never been more important than it is today, and the Gallery remains indebted to every individual, trust and company for their support during the course of this year.

Financial commentary

The Gallery's SOFA is set out on pages 30 – 31 of this document. Incoming resources before transfers and revaluations for 2011 amounted to £37.1 million (2010: £38.1 million); total resources expended amounted to £30.1 million (2010: £30.8 million), resulting in net incoming resources (before unrealised investment gains and revaluations) of £7.0 million (2010: £7.3 million), of which £3.1 million (2010: £4.5 million) represents donations to the collection and restricted and designated funds received for future acquisitions.

Incoming resources from generated funds for the year totalled £35.8 million (2010: £36.3m). The figure includes incoming resources relating to picture acquisitions of £3.2 million, as well as government grant-in-aid and other donations, legacies and income from corporate supporters. The level of donation income was £1.9 million lower than in the previous financial year, principally due to the acquisition of a painting under the Acceptance in Lieu scheme in 2010. Incoming resources from charitable activities for the year totalled £1.3 million, lower than the prior year result of £1.8 million, reflecting the changing nature of the exhibitions programme.

The Gallery's total expenditure for the year before exceptional items was £29.6 million, lower than expenditure incurred in 2010 of £30.8 million, largely as a result of efficiency measures implemented during the year to manage future reductions in government funding. An exceptional provision of £0.5 million for restructuring costs has been included to cover the costs of a voluntary exit scheme for staff, which will be paid during the coming financial year.

The net movement in funds for the year amounted to £15.7 million (2010: £4.9 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 works of art capitalised as collection acquisitions. This year the movement includes a gain on revaluation of £7.9 million and investment gains of £0.9 million.

In accordance with the Government Financial Reporting Manual (FReM) - which reflects the requirements of Financial Reporting Standard (FRS) 30 - works of art are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

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

The treatment required by FRS 30 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the collection will mislead readers of the accounts as to the nature and value of the collection as a whole. Further information on the nature and scale of the Gallery's collection can be found in note 11 and on the Gallery's website.

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 and the effect of the revaluation of land, buildings, and plant and machinery is disclosed in note 10. The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

The Gallery's contribution to DCMS's performance indicators

Specific information relevant to the Gallery's contribution to DCMS's performance indicators for 2011 as set out in the Funding Agreement agreed with DCMS:

| | Performance in 2011 | Performance in 2010 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| 1. Number of visits to the Gallery (excluding virtual visitors) | 5.1m | 4.7m |
| 2. Number of unique users visiting the website | 4.5m | 4.0m |
| 3. Number of visits by children under 16 | 0.3m | 0.4m |
| 4. Number of UK adults aged 16 and over from NS-SEC groups 5-8 visiting the Gallery ⁶ | 0.4m | 0.4m |
| 5. Number of visits by UK adult visitors aged 16 and over from an ethnic minority background ⁶ | 0.7m | 0.3m |
| 6. Number of visits by UK adult visitors aged 16 and over who consider themselves to have a limiting long-term illness, disability or infirmity ⁶ | 0.3m | 0.2m |
| 7. Number of overseas visits ⁶ | 2.5m | 1.6m |
| 8. Number of children involved in on and offsite educational programmes | 0.2m | 0.2m |
| 9. Number of adult learners involved in on and offsite educational programmes | 0.1m | 0.1m |
| 10. % of visitors who would recommend a visit ⁶ | 99% | 99% |
| 11. Number of UK loan venues | 17 | 16 |
| 12. Number of peer reviewed publications | 18 | 36 |
| 13. % of visitors who are satisfied or very satisfied with their visit ⁶ | 100% | 98% |
| 14. Number of new initiatives and services designed to improve access for elderly visitors (those aged 60 and above) | 6 | 1 |
| 15. Self-generated income (admissions, trading and fundraising) | £9m | £11m |

⁶ The outturn figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2011.

Foreword

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.legislation.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, the Government's Financial Reporting Manual and the Accounting and Reporting by Charities: Statement of Recommended Practice (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 2011:

Mr Mark Getty (Chairman)
Professor Julia Higgins (retired 5 April 2010)
Mr John Lessore (retired 9 February 2011)
Mr Simon Burke (retired 20 February 2011)
Lady Normanby
Professor David Ekserdijan
Ms Patricia Lankester
Lady Heseltine
Mr Michael Hintze
Ms Caroline Thomson
Ms Hannah Rothschild
Mr Gautam Dalal
Professor Anya Hurlbert
Mr John Nelson (appointed 11 October 2010)
Mr Lance Batchelor (appointed 10 January 2011)
Mr Dexter Dalwood (appointed 10 February 2011)

Trustees are appointed by the Prime Minister and are normally appointed for a term of four years with the possibility of renewal. In addition, the Tate appoints a Trustee. Appointment dates are detailed on the National Gallery's website.

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 learn about their work.

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

Mr Hughues Lepic (Chairman and independent member)
Mr Mark Getty
Dr David Landau (independent member)

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

Mr Gautam Dalal (Chairman)
 Mr Mark Getty
 Sir Colin Southgate (independent member)
 Mr Nick Land (independent member)

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

Mr Gautam Dalal (Chairman)
 Mr Mark Getty
 Sir Colin Southgate (independent member)
 Mr Nick Land (independent member)

The National Gallery's staff defined as directors of functional areas are considered senior managers for the purposes of the Remuneration Report. The individuals defined as senior managers are:

Nicholas Penny
 Jillian Barker
 Susan Foister
 Larry Keith
 Gregory Perry
 Ashok Roy
 Sarah Ward

The Accounting Officer as at 31 March 2011 is Dr Nicholas Penny, 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.

Advisors

| | | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|
| Banking Services | Government Banking Service (GBS) Southern House 7th Floor Wellesley Road Wellesley Croydon CR9 1WW | Coutts & Co. 440 Strand London WC2R 0QS |
| Auditors | The Comptroller and Auditor General National Audit Office 157-197 Buckingham Palace Road Victoria London SW1W 9SP | |
| Solicitors | Farrer & Co 66 Lincoln's Inn Fields London WC2A 3LH | Various other solicitors are used as required. |
| Investment Managers | BlackRock Investment Management (UK) Ltd 33 King William Street London EC4R 9AS | |

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.

Organisation

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

The Director of the National Gallery is also the Accounting Officer appointed by the DCMS.

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

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.

Payment policy

The Gallery aims to settle all bills either within the period stated by the supplier or within 30 days. Sample testing indicates that approximately 90% (2010: 89%) of all bills are settled within 30 days and the bulk of the remainder is either disputed or has extended credit terms.

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 (including gender reassignment), sexual orientation, marital or family status, civil partnership status, race, colour, nationality, ethnic or national origins, religion or similar belief, disability, age or 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.

Health and 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, those working on a self-employed and agency contract basis, and 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.

Sickness absence management

The average number of days of employee absence due to sickness was 7.4 days (2010: 8.4 days). Excluding long term sickness, the average number of days of absence was 4.7 days (2010: 4.6 days).

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. This commitment is reflected in the Gallery's participation in the Central Government Carbon Management Service's Carbon Trust Programme that resulted in the Gallery's production of a Carbon Management Plan which outlines measures that the Gallery will take to reduce its carbon dioxide emissions by over 40% by 2015.

The Gallery gives 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 the environment by making the most efficient use of resources within their control. To that end, the Gallery has created a cross-developmental team, the Sustainability Carbon Group, which is charged with bringing forward ideas on carbon reduction throughout the Gallery.

Investment policy

The Gallery has investments representing private funds, including donations and bequests, held for future expenditure in accordance with the Reserves Policy. All the Gallery's investments are held at institutions of the highest quality. Funds may only be placed with a new institution with the approval of the Finance or Trust Funds Investment Committees.

Bequests are held within the Trust Fund. Funds in the Trust Fund are invested and monitored by a Committee (the Trust Funds Investment Committee) and managed by external investment managers. Investment managers are appointed by the Trust Funds Investment Committee, and the contract is reviewed at least every five years. Investment strategy is also formally reviewed at least every five years and was formally reviewed in 2010. As a result of this review, members of the Investment Committee agreed to maintain the current long-term investment strategy as detailed below. Members of the Investment Committee have met several times informally to discuss investment policy over the last year and actively keep the management of investments under review.

Trust Funds are invested in a mixed portfolio, with a benchmark profile of 25% of the value to be retained in cash or cash equivalents; 45% in UK equities; 15% in overseas equities and the remaining 15% in corporate and government bonds and other fixed interest securities.

Investments, excluding cash, are held principally in three funds managed by BlackRock, the objectives of which are, respectively:

- to achieve long term capital growth by investment predominantly in UK equities while at the same time providing an increasing income over the medium to long term to combat the effects of inflation;
- to provide capital growth and limited income over the long-term by investing in listed international equity investments; and
- to provide a high level of income from fixed interest securities.

The overall investment objective is to maximize long-term total return.

Each fund is assessed against appropriate benchmarks, including the FTSE all-share index, the FTSE world (ex UK) index and the FTSE Government all stocks index. During 2011 the overall benchmark return for investments was 8.7% and the fund actually achieved a return of 8.8%. Committee members are satisfied that this represents a good performance given market conditions.

The Gallery holds other private funds in money market deposits and seeks to earn the highest possible rates of interest subject to other constraints set out in this policy and the policy on reserves given below.

Performance is measured regularly against the UK bank base rate and in 2011 the return earned was 0.53% compared with the average base rate of 0.50%.

The Gallery does not usually hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument or where it is held as part of an investment strategy as determined by the Trust Funds Investment Committee. The Gallery held no such instruments at 31 March 2011.

Details on the movement of investments during the year can be found in notes 12 and 15.

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 six months' worth of non-guaranteed income, as a safeguard against volatile and unpredictable income streams. However, given that grant-in-aid is not drawn down in advance of need and that significant funds may be required for picture payment, the level of undesignated general reserves may fluctuate outside this range. It is the trustees' aspiration to build the level of unrestricted general funds given the reduction in future levels of public funding.

The Trustees' Audit Committee reviews the policy on reserves annually. The last review took place in March 2011 at which the Committee agreed the wording of this policy including their stated aspiration to build general reserves. Grant-in-aid should not be held in reserves and will therefore normally be expended in the month it is received.

The aggregate value of the reserves is £369.6 million. A breakdown of these is shown in the Balance Sheet and in the Statement of Funds (note 17). A significant proportion of the funds (£209.3 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 £124.0 million is represented by the value at the date of acquisition of donations to the collection and pictures acquired since 1 April 2001, and £7.0 million relates to funds restricted for future acquisitions.

Of the remaining £29.3 million, £5.4 million is in permanent endowments (where the capital cannot be touched) and £3.9 million represents other restricted funds. A further £16.9 million is private income (mainly from bequests), which, because of the nature of the income, the Trustees have designated for picture purchases. The remaining balance of £3.1 million represents undesignated general funds of private income. Non-guaranteed income budgeted for 2012 is in the region of £6.4 million, and includes income from exhibition admissions, corporate sponsorship and donations. The level of undesignated general reserves at 31 March 2011 therefore represents 6 months' worth of that income and is in accordance with the stated policy.

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 on to 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 (monitored by the Audit Committee) sets risk management standards and the degree of risk aversion for the Gallery, and reviews the major risks to the Gallery.

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

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

Information risk management

The Gallery has suffered no protected personal data incident during 2011 and has made no report on such a loss to the Information Commissioner's office.

Signed:
Nicolas Penny
Director and Accounting Officer

Dated: 7 July 2011

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 7 July 2011

Remuneration report

The figures in this report have been subject to audit.

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

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2010: £nil).

Director's salary, performance award and benefits

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

| | 2011 | | 2010 | |
|----------------|---------|-------------------------|---------|-------------------------|
| | Salary | Performance related pay | Salary | Performance related pay |
| | £ | £ | £ | £ |
| Nicholas Penny | 140,000 | – | 140,000 | – |

Dr Penny is eligible for a performance-related bonus in the range of 0% to 20%. This bonus was not offered in 2011 (the Director chose not to take any payment in 2010) given the current economic climate.

No provision is made within the Director's contract for non-cash benefits and none were paid. The notice period of the Director is six months.

The Director's performance-related bonus is determined by the Remuneration Committee. The Remuneration Committee (comprising Mark Getty, Caroline Thomson and Patricia Lankester during the year) reviews the Director's performance annually, taking account of the achievement of the Gallery's objectives as set out in the funding agreement between the Department for Culture, Media and Sport and the National Gallery.

The Director's appointment is for an indefinite period. In accordance with the provisions of the nuvos scheme the Director may retire at 65. The Director's contract of employment determines the circumstances in which a compensation payment may be made. The compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

Senior managers' salary, performance award and benefits

| | 2011 £'000 | 2010 £'000 |
|------------------------------------------------------------------------------------------------|-----------------------------|----------------------|
| Jillian Barker <i>Director of Education, Information and Access (from 1 September 2009)</i> | 65 – 70 | 35 – 40 ⁷ |
| Susan Foister <i>Director of Collections</i> | 70 – 75 | 70 – 75 |
| Larry Keith <i>Director of Conservation (from 4 January 2010)</i> | 55 – 60 | 10 – 15 ⁸ |
| Gregory Perry <i>Director of Operations and Administration (from 1 October 2009)</i> | 70 – 75 | 35 – 40 ⁹ |
| Ashok Roy <i>Director of Scientific Research</i> | 70 – 75 | 70 – 75 |
| Sarah Ward <i>Director of Public Affairs and Development (from 1 September 2009)</i> | 75 – 80¹⁰ | 45 – 50 ⁹ |
| Martin Wyld <i>Director of Conservation (retired 31 December 2009)</i> | – | 50 – 55 |

No provision is made within the contracts of the above individuals for non-cash benefits, and there is no entitlement to performance-related awards. None of the individuals mentioned above received any benefits in kind, nor any bonus. The notice period for the above individuals is three months. The appointment of the above individuals is for an indefinite period and the compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

⁷ Full year equivalent is £65,000 – £70,000.

⁸ Full year equivalent is £55,000 – £60,000.

⁹ Full year equivalent is £70,000 – £75,000.

¹⁰ Worked part-time for part of the year; full year equivalent is £80,000 – £85,000.

Pensions

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

The accrued pension and lump sum payments as at 31 March 2011 for senior managers and the Director are as follows:

| Pension | Accrued pension at age 60 as at 31 March 2011 and related lump sum | Real increase in pension and related lump sum at age 60 | CETV at 31/3/11 | CETV at 31/3/10 ¹¹ | Real increase (decrease) in CETV |
|----------------|--------------------------------------------------------------------------|---------------------------------------------------------------|--------------------|----------------------------------|-------------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Nicholas Penny | 90 – 95 | 0 – 2.5 | 1,488 | 1,376 | 5 |
| Jillian Barker | 0 – 5 | 0 – 2.5 | 25 | 9 | 13 |
| Susan Foister | 25 – 30 | 0 – 2.5 | 559 | 509 | 2 |
| | plus 80 – 85 lump sum | plus 0 – 2.5 lump sum | | | |
| Larry Keith | 10 – 15 | 0 – 2.5 | 247 | 195 | 34 |
| | plus 40 – 45 lump sum | plus 5 – 7.5 lump sum | | | |
| Gregory Perry | 0 – 5 | 0 – 2.5 | 26 | 8 | 15 |
| Ashok Roy | 30 – 35 | 0 – 2.5 | 732 | 713 | (1) |
| | plus 65 – 70 lump sum | plus 0 – 2.5 lump sum | | | |
| Sarah Ward | 5 – 10 | 2.5 – 5.0 | 108 | 51 | 50 |

Cash Equivalent Transfer Value

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

Real increase in CETV

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

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 7 July 2011

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 7 July 2011

¹¹ The actuarial figures used to calculate CETVs were changed in 2011. The CETVs at 31 March 2010 and 31 March 2011 have both been calculated using the new factors, for consistency. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Statement of Trustees' and Director's responsibilities

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

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

- observe the Accounts Direction¹² issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Secretary of State for Culture, Olympics, Media and Sport has designated the Director as Accounting Officer of the National Gallery. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Gallery's assets, are set out in the *Government Financial Reporting Manual* published by HM Treasury.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 7 July 2011

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 7 July 2011

¹² a copy of which is available from the National Gallery, Trafalgar Square, London, WC2N 5DN.

Statement on the system of internal control

Scope of responsibility

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

Purpose of system of internal control

The system is designed to manage risk to a reasonable level rather than to eliminate all 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 and prioritise the principal risks to the achievement of the Gallery's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The system of internal control has been in place throughout the year ended 31 March 2011 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, through 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 internal audit in assessing and monitoring the effectiveness of the internal controls.

The Internal Controls Committee continued actively to review the Gallery's risk environment throughout the year. The Gallery's risk register was monitored and revised and the Gallery's key risks were considered in detail, and re-prioritised at each of the quarterly meetings. The Audit Committee are provided with a list of the Gallery's key risks following meetings of the Internal Controls Committee. Key risks monitored during the year included inherent risks relating to damage to the collection through fire, theft, vandalism and terrorism as well as topical risks such as those relating to significant reductions in government funding.

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 Executive Committee, and incorporated in a corporate plan, reviewed and approved by Trustees;

- regular reviews by the Executive 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 Gallery has in place specific policies relating to the appropriate use, storage, dissemination, security and disposal of information, including personal data and other sensitive information. The Gallery is compliant with relevant sections of the Cabinet Office's mandatory requirements on the management of information risk. The Gallery has suffered no significant losses or thefts of personal or other protected data during 2011 and has submitted no report to the Information Commissioner's office.

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 opinion on the adequacy and effectiveness of the Gallery's system of internal financial control. This report provided assurance limited only by the identification of a number of isolated and historic payroll processing errors which have since been corrected.

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 Internal Controls Committee, 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.

Signed:
Nicholas Penny
Director and Accounting Officer

Dated: 7 July 2011

Signed:
Gautam Dalal
On behalf of the Board of Trustees

Dated: 7 July 2011

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 2011 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of Trustees, Accounting Officer and auditor

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Board of Trustees and Director as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the incoming and outgoing resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Gallery's affairs as at 31 March 2011 and of its incoming resources and application of resources for the year then ended;
- the financial statements have been properly prepared in accordance with the Museums and Galleries Act 1992 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Museums and Galleries Act 1992; and
- the information given in the Review of Activities and Achievements; and the Foreword, included within the Annual Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Date: 13 July 2011

Statement of Financial Activities

for the year ended 31 March 2011

| | Note | OPERATING INCOME AND EXPENDITURE | | Funded capital projects and revaluations (a) | | | Acquisitions for the collection (b) | | | TOTAL 2011 | | TOTAL 2010 (Restated) |
|----------------------------------------------------------|------|----------------------------------|------------------|----------------------------------------------|------------------|-----------------------------------------|-------------------------------------|------------------|------------------------------------|--------------------|------------------|-----------------------|
| | | Unrestricted funds | Restricted funds | Unrestricted funds | Restricted funds | Total capital projects and revaluations | Unrestricted funds | Restricted funds | Total collection acquisition funds | Unrestricted funds | Restricted funds | |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Incoming resources | | | | | | | | | | | | |
| Incoming resources from generated funds | | | | | | | | | | | | |
| Voluntary income | | | | | | | | | | | | |
| Grant-in-aid | 2 | 23,701 | - | - | - | 4,500 | - | - | - | 23,701 | 4,500 | 27,287 |
| Other government grants | 3 | - | 162 | - | - | - | - | - | - | - | 162 | 160 |
| Donations | 4 | 52 | 635 | - | - | - | - | 2,227 | 2,227 | 52 | 2,862 | 4,820 |
| Legacies | | - | - | - | - | - | 36 | 241 | 277 | 36 | 241 | 180 |
| Activities for generating funds | 5 | 3,402 | - | - | - | - | - | - | - | 3,402 | - | 3,402 |
| Investment income | 6 | 17 | 88 | - | - | - | 481 | 226 | 707 | 498 | 314 | 2,852 |
| Incoming resources from charitable activities | | | | | | | | | | | | |
| Exhibitions | | 1,127 | - | - | - | - | - | - | - | 1,127 | - | 1,570 |
| Educational activities | | 203 | - | - | - | - | - | - | - | 203 | - | 273 |
| Total incoming resources | | 28,502 | 885 | 29,387 | 4,500 | 4,500 | 517 | 2,694 | 3,211 | 29,019 | 8,079 | 37,098 |
| Resources expended | | | | | | | | | | | | |
| Costs of generating funds | | | | | | | | | | | | |
| Fundraising costs | 8 | (1,252) | - | - | - | - | - | - | - | (1,252) | - | (1,252) |
| Unrealised foreign exchange gain/(loss) | 8 | - | - | - | - | - | - | - | - | - | - | 206 |
| Investment management costs | 8 | - | (11) | (11) | - | - | (68) | (29) | (97) | (68) | (40) | (108) |
| | | (1,252) | (11) | (1,263) | - | - | (68) | (29) | (97) | (1,320) | (40) | (1,168) |
| Charitable activities | | | | | | | | | | | | |
| Exhibitions | 8 | (1,447) | (262) | (1,709) | (242) | (242) | - | - | - | (1,447) | (504) | (1,951) |
| Educational activities | 8 | (1,205) | (312) | (1,517) | (215) | (215) | - | - | - | (1,205) | (527) | (1,732) |
| Care of the collection | 8 | (8,292) | (95) | (8,387) | (1,189) | (1,189) | - | - | - | (8,292) | (1,284) | (9,576) |
| Study and interpretation of the collection | 8 | (1,812) | (131) | (1,943) | (275) | (275) | - | - | - | (1,812) | (406) | (2,210) |
| Access to the collection | 8 | (10,922) | (50) | (10,972) | (1,554) | (1,554) | - | - | - | (10,922) | (1,604) | (12,526) |
| | | (23,678) | (850) | (24,528) | (3,475) | (3,475) | - | - | - | (23,678) | (4,325) | (28,003) |
| Governance costs | 8 | (197) | - | (197) | - | - | - | - | - | (197) | - | (181) |
| Total resources expended before exceptional items | 8 | (25,127) | (861) | (25,988) | (3,475) | (3,475) | (68) | (29) | (97) | (25,195) | (4,365) | (29,560) |
| Restructuring costs | | (546) | - | (546) | - | - | - | - | - | (546) | - | (546) |
| Total resources expended after exceptional items | | (25,673) | (861) | (26,534) | (3,475) | (3,475) | (68) | (29) | (97) | (25,741) | (4,365) | (30,765) |

Statement of Financial Activities
for the year ended 31 March 2011 (continued)

| | Note | OPERATING INCOME AND EXPENDITURE | | | Funded capital projects and revaluations (a) | | | Acquisitions for the collection (b) | | | TOTAL 2011 | | | TOTAL 2010 |
|-------------------------------------------------------------------------------------------------|------|----------------------------------|------------------|-----------------------|----------------------------------------------|------------------|-----------------------------------------|-------------------------------------|------------------|------------------------------------|--------------------|------------------|---------------------------|------------|
| | | Unrestricted funds | Restricted funds | Total core operations | Unrestricted funds | Restricted funds | Total capital projects and revaluations | Unrestricted funds | Restricted funds | Total collection acquisition funds | Unrestricted funds | Restricted funds | Permanent funds endowment | |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Net incoming/(outgoing) resources before transfers and other recognised gains and losses | | | | | | | | | | | | | | |
| Transfers | 17 | 2,829 (1,948) | 24 | 2,853 (1,948) | - | 1,025 (163) | 1,025 (163) | 449 (4,151) | 2,665 6,262 | 3,114 2,111 | 3,278 (6,099) | 3,714 6,099 | - | 7,347 |
| Net incoming/(outgoing) resources before other recognised gains and losses | | 881 | 24 | 905 | - | 862 | 862 | (3,702) | 8,927 | 5,225 | (2,821) | 9,813 | - | 7,347 |
| Gain/(loss) on revaluation of fixed assets for charity's own use | 10 | - | - | - | - | 7,850 | 7,850 | - | - | - | - | 7,850 | - | (7,190) |
| Realised and unrealised investment gains | 12 | - | 59 | 59 | - | - | - | 510 | 157 | 667 | 510 | 216 | 179 | 4,697 |
| Net movement in funds | | 881 | 83 | 964 | - | 8,712 | 8,712 | (3,192) | 9,084 | 5,892 | (2,311) | 17,879 | 179 | 4,854 |
| Opening funds | | 2,277 | 3,782 | 6,059 | - | 200,565 | 200,565 | 21,561 | 120,461 | 142,022 | 23,838 | 324,808 | 5,201 | 348,993 |
| Closing funds | 17 | 3,158 | 3,865 | 7,023 | - | 209,277 | 209,277 | 18,369 | 129,545 | 147,914 | 21,527 | 342,687 | 5,380 | 353,847 |
| Net incoming/(outgoing) resources before transfers and other recognised gains and losses | | 2,829 (1,948) | 24 | 2,853 (1,948) | - | 1,025 (163) | 1,025 (163) | 449 (4,151) | 2,665 6,262 | 3,114 2,111 | 3,278 (6,099) | 3,714 6,099 | - | 7,347 |
| Net incoming/(outgoing) resources before other recognised gains and losses | | 881 | 24 | 905 | - | 862 | 862 | (3,702) | 8,927 | 5,225 | (2,821) | 9,831 | - | 7,347 |
| Gain/(loss) on revaluation of fixed assets for charity's own use | 10 | - | - | - | - | 7,850 | 7,850 | - | - | - | - | 7,850 | - | (7,190) |
| Realised and unrealised investment gains | 12 | - | 59 | 59 | - | - | - | 510 | 157 | 667 | 510 | 216 | 179 | 4,697 |
| Net movement in funds | | 881 | 83 | 964 | - | 8,712 | 8,712 | (3,192) | 9,084 | 5,892 | (2,311) | 17,879 | 179 | 4,854 |
| Opening funds | | 2,277 | 3,782 | 6,059 | - | 200,565 | 200,565 | 21,561 | 120,461 | 142,022 | 23,838 | 324,808 | 5,201 | 348,993 |
| Closing funds | 17 | 3,158 | 3,865 | 7,023 | - | 209,277 | 209,277 | 18,369 | 129,545 | 147,914 | 21,527 | 342,687 | 5,380 | 353,847 |

(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.

Until 2010-11, HM Treasury required the Gallery to include in these financial statements a notional cost of capital charge. This requirement has been removed and this change of accounting policy has been reflected as a prior year adjustment to the SOFA. The Balance Sheet is unaffected by this amendment.

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

The notes on pages 28 to 48 form part of these accounts.

Balance Sheet as at 31 March 2011

| | | 2011 | | 2010 | |
|---------------------------------------------------|------|----------|---------|----------|----------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | | | | | |
| Tangible Assets | 10 | 209,277 | | 200,565 | |
| Heritage Assets | 11 | 132,749 | | 132,627 | |
| Investments | 12a | 25,775 | | 24,285 | |
| | | | 367,801 | | 357,477 |
| Current Assets | | | | | |
| Stock | | 3 | | 3 | |
| Debtors | 13 | 5,688 | | 16,068 | |
| Investments | 12b | 2,374 | | 2,363 | |
| Cash at bank and in hand | 19 | 18,134 | | 19,684 | |
| | | 26,199 | | 38,118 | |
| Creditors | | | | | |
| Amounts falling due within one year | 14a | (23,330) | | (21,114) | |
| Provisions | | | | | |
| Amounts falling due within one year | 14b | (546) | | – | |
| Net current assets | | | 2,323 | | 17,004 |
| Total assets less current liabilities | | | 370,124 | | 374,481 |
| Creditors: | | | | | |
| Amounts falling due in more than one year | 14a | | (530) | | (20,634) |
| Net assets | | | 369,594 | | 353,847 |
| Represented by: | | | | | |
| Restricted funds | | | | | |
| Restricted funds (excluding revaluation reserves) | | 314,856 | | 304,827 | |
| Revaluation reserves | | 27,831 | | 19,981 | |
| | 17 | | 342,687 | | 324,808 |
| Unrestricted funds | | | | | |
| Designated | | 18,369 | | 21,561 | |
| General funds | | 3,158 | | 2,277 | |
| | 17 | | 21,527 | | 23,838 |
| Total Income Funds | | | 364,214 | | 348,646 |
| Capital funds – permanent endowments | 17 | | 5,380 | | 5,201 |
| Total Funds | | | 369,594 | | 353,847 |

The notes on pages 28 to 48 form part of these accounts.

Signed:
Nicolas Penny
 Director and Accounting Officer

Dated: 7 July 2011

Signed:
Gautam Dalal
 On behalf of the Board of Trustees

Dated: 7 July 2011

Cash Flow Statement for the year ended 31 March 2011

| | | 2011 | | 2010 | |
|---------------------------------------------------------|------------|---------|----------------|---------|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Net cash inflow from operating activities | 19a | | 2,403 | | 5,910 |
| Returns on investment and servicing of finance | | | | | |
| Bank interest received | | 39 | | 99 | |
| Interest received on investment portfolio deposits | | – | | 3 | |
| Investment income | | 711 | | 774 | |
| | | | 750 | | 876 |
| Capital expenditure and financial investment | | | | | |
| Receipts from sale of tangible fixed assets | | – | | 14 | |
| Payments to acquire tangible fixed assets | | (4,107) | | (4,036) | |
| Payments from donated funds for collection acquisitions | | – | | (8) | |
| Purchase of investments | | (755) | | (655) | |
| Proceeds from sales of investments | | 170 | | – | |
| | | | (4,692) | | (4,685) |
| | | | (1,539) | | 2,101 |
| Management of liquid resources | 19b | | (11) | | 5,432 |
| (Decrease)/increase in cash for the year | 19c | | (1,550) | | 7,533 |

The notes on pages 28 to 48 form part of these accounts.

Notes to the Financial Statements

1. Accounting Policies

a. Accounting convention

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets and the inclusion of the investments at market value. The financial statements have been prepared in accordance with the accounts direction issued by the Secretary of State, the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP), published in October 2005, the Government's Financial Reporting Manual 2010-11 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 8.

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

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

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

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

Irrecoverable VAT is apportioned across the activity cost categories detailed in note 8.

d. Fund accounting

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

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

e. Tangible fixed assets

Tangible fixed assets, other than collection acquisitions, are accounted for using modified historic cost accounting. However, adjustments to the net book value are only made where material. The Gallery applies a £2,000 threshold to the capitalisation of all 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 | Not depreciated |

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.

Land and buildings and plant and machinery are revalued annually on a depreciated replacement cost basis. Movements are taken to the revaluation reserve.

f. Heritage assets

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

In accordance with the Government Financial Reporting Manual (FReM) – which reflects the requirements of Financial Reporting Standard (FRS) 30 – works of art acquired or donated are capitalised and recognised in the Balance Sheet at their cost or value at the date of acquisition, where such a cost or value is reasonably obtainable.

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

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

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

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

The treatment required by FRS 30 results in a partial capitalisation of heritage assets on the arbitrary basis of the date of acquisition. The distorting effect of this inconsistent treatment is exacerbated by the volatility of the international art market and fluctuations in inflation, which will render the value of those capitalised heritage assets less reliable over time. Trustees accept that under the terms of the Museums and Galleries Act 1992 they have no option but to comply with this accounting treatment, but remain very concerned that continuing to capitalise what will always be a very small portion of the collection will mislead readers of the accounts as to the nature and value of the collection as a whole.

Further information on the nature and scale of the Gallery's collection can be found in note 11.

Expenditure which is required to preserve or prevent further deterioration of individual collection items, as well as the costs of managing the collection, are recognised in the Statement of Financial Activities when incurred. More information about preservation and management of the collection can be found in note 11.

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, except 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 which is a separate legal entity and therefore not consolidated in these accounts. 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 note 9.

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. Taxation

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

2. Grant-in-aid

| | 2011 | 2010 |
|-----------------------------------------|----------------------|---------------|
| | £'000 | £'000 |
| Department for Culture, Media and Sport | <u>28,201</u> | <u>27,287</u> |

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £4.5m (2010: £3.8m) was ring-fenced for capital purposes.

3. Other government grants

| | 2011 | 2010 |
|--------------------------------------------------------------------------------|-------------------|------------|
| | £'000 | £'000 |
| Strategic Commissioning Grant from the Department for Culture, Media and Sport | 157 | 160 |
| Museums, Libraries and Archives Council | <u>5</u> | <u>–</u> |
| | <u>162</u> | <u>160</u> |

4. Donations

| | 2011 | 2010 |
|------------------------------------------------------------------|-------------------|--------------|
| | £'000 | £'000 |
| Donations relating to Gallery operation can be split as follows: | | |
| Individuals | 130 | 655 |
| Trusts and foundations | 499 | 638 |
| Corporate donors | 41 | 116 |
| Gifts in kind | 17 | 39 |
| EU income | – | 103 |
| Other | <u>–</u> | <u>45</u> |
| | <u>687</u> | <u>1,596</u> |

| | 2011 | 2010 |
|------------------------------------------------------------------------------------|---------------------|--------------|
| | £'000 | £'000 |
| Donations relating to capitalised collection acquisitions can be split as follows: | | |
| Individuals | 52 | 42 |
| Trusts and foundations | – | 20 |
| Gifts in kind | 35 | – |
| Pictures acquired under the acceptance-in-lieu scheme | – | 1,675 |
| Other | <u>2,140</u> | <u>1,487</u> |
| | <u>2,227</u> | <u>3,224</u> |
| Total donations | <u>2,914</u> | <u>4,820</u> |

Restricted donations included above total £635k (2010: £1,485k).

Other relates principally to the release of income deferred in 2010 to fund instalments for the acquisition of Titian's *Diana and Actaeon*.

5. Activities for generating funds and other incoming resources

| | 2011 | 2010 |
|----------------------------------------|---------------------|--------------|
| | £'000 | £'000 |
| <i>Activities for generating funds</i> | | |
| Trading | 2,238 | 1,643 |
| Concessions | 762 | 760 |
| Miscellaneous | <u>402</u> | <u>449</u> |
| | <u>3,402</u> | <u>2,852</u> |
| <i>Other incoming resources</i> | | |
| Gain on disposal of equipment | <u>10</u> | <u>–</u> |

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

6. Investment Income

| | 2011 | 2010 |
|---------------------------------------------------------|--------------|-------|
| | £'000 | £'000 |
| Bank interest receivable | 39 | 92 |
| Interest receivable on UK investment portfolio deposits | 62 | 136 |
| Other UK fixed interest stocks | 186 | 176 |
| UK equities | 451 | 465 |
| Foreign equities | 74 | 101 |
| | 812 | 970 |

7. Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2010: £nil). The total value of expenses reimbursed to Trustees amounted to £246 for the year (2010: £853), representing travel and catering expenses for 2 Trustees (2010: 3 Trustees).

8. Total resources expended

| | Direct costs | Support costs | Depreciation | Total 2011 | Total 2010 |
|--------------------------------------------|---------------|---------------|--------------|-------------------|------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fundraising costs | 1,135 | 117 | – | 1,252 | 1,274 |
| Unrealised foreign exchange loss | – | – | – | – | (206) |
| Investment management costs | 108 | – | – | 108 | 100 |
| | <u>1,243</u> | <u>117</u> | <u>–</u> | 1,360 | 1,168 |
| Exhibitions | 1,624 | 85 | 242 | 1,951 | 1,919 |
| Educational activities | 1,376 | 141 | 215 | 1,732 | 1,875 |
| Care of the collection | 7,884 | 503 | 1,189 | 9,576 | 10,556 |
| Study and interpretation of the collection | 1,757 | 186 | 275 | 2,218 | 2,210 |
| Access to the collection | 10,085 | 887 | 1,554 | 12,526 | 12,856 |
| | <u>22,726</u> | <u>1,802</u> | <u>3,475</u> | 28,003 | 29,416 |
| Governance costs | 188 | 9 | – | 197 | 181 |
| | <u>24,157</u> | <u>1,928</u> | <u>3,475</u> | 29,560 | 30,765 |

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

| Cost type | Fundraising costs | Exhibitions | Educational activities | Care of the collection | Study of the collection | Access to the collection | Governance | Total | |
|----------------------|-------------------|-------------|------------------------|------------------------|-------------------------|--------------------------|------------|--------------|---------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | Basis of allocation |
| Finance | 16 | 61 | 34 | 255 | 9 | 43 | 3 | 421 | Direct expenditure of activity |
| Human Resources | 23 | 5 | 24 | 55 | 40 | 425 | 1 | 573 | Headcount |
| Information Services | 63 | 15 | 67 | 156 | 111 | 339 | 4 | 755 | Headcount of office-based staff |
| Office Services | 15 | 4 | 16 | 37 | 26 | 80 | 1 | 179 | Headcount of office-based staff |
| | <u>117</u> | <u>85</u> | <u>141</u> | <u>503</u> | <u>186</u> | <u>887</u> | <u>9</u> | 1,928 | |

Analysis of governance costs:

| | 2011 | 2010 |
|------------------------|------------|------------|
| | £'000 | £'000 |
| Staff costs | 120 | 96 |
| Auditor's remuneration | 37 | 40 |
| Internal audit fees | 15 | 31 |
| Cost of meetings | 2 | 5 |
| Support costs | 9 | 9 |
| Other | 14 | – |
| | <u>197</u> | <u>181</u> |

Total resources expended include the following:

| | 2011 | 2010 |
|------------------------------------------------------|---------------|---------------|
| | £ | £ |
| Auditor's remuneration: | | |
| Statutory audit | 39,000 | 39,000 |
| Adjustment to prior year statutory audit | (2,000) | – |
| EU scientific department audit | – | 650 |
| | <u>37,000</u> | <u>39,650</u> |
| Leased rental payments on equipment and office space | 36,757 | 284,776 |
| Provision for voluntary exit costs | 545,846 | – |
| Bad debt write-off | <u>93,199</u> | <u>–</u> |

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

9. Staff costs

| | 2011 | 2010 |
|-----------------------|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 12,605 | 12,773 |
| Social security costs | 882 | 921 |
| Pension costs | 2,028 | 2,048 |
| Agency staff | 78 | 126 |
| | <u>15,593</u> | <u>15,868</u> |

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

| | 2011 | 2010 |
|---------------------|----------|----------|
| £60,000 – £69,999 | 3 | 3 |
| £70,000 – £79,999 | 5 | 4 |
| £140,000 – £149,999 | 1 | 1 |
| | <u>9</u> | <u>8</u> |

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:

| | 2011 Permanent contracts No. | 2011 Other contracts No. | 2011 Total No. | 2010 Total No. |
|--------------------------|-------------------------------------------------|---------------------------------------------|-------------------------------|-------------------------------|
| Fundraising | 14 | 3 | 17 | 19 |
| Exhibitions | 2 | 2 | 4 | 4 |
| Educational activities | 11 | 7 | 18 | 22 |
| Care of the collection | 38 | 4 | 42 | 42 |
| Study of the collection | 21 | 8 | 29 | 30 |
| Access to the collection | 262 | 60 | 322 | 327 |
| Support costs | 22 | 4 | 26 | 26 |
| Governance | 1 | – | 1 | 1 |
| | 371 | 88 | 459 | 471 |

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

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

All present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

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

For 2011, employer's contributions of £2,001,107 were payable to the PCSPS (2010: £2,022,884) at one of four rates in the range 16.7% to 24.3% of pensionable pay (2010: 16.7% to 24.3%) based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

From 2011/12, the rates will again be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £25,014 (2010: £23,244) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,999 (2010: £2,033), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £2,106 (2010: £381).

10. Tangible fixed assets

| | Freehold land and buildings £'000 | Plant and machinery £'000 | Assets in the course of construction £'000 | Equipment £'000 | Total £'000 |
|--------------------------|--------------------------------------------|---------------------------------|--------------------------------------------------------|--------------------|------------------------|
| Cost or Valuation | | | | | |
| As at 1 April 2010 | 144,794 | 61,175 | 26 | 3,886 | 209,881 |
| Additions | 2,879 | 1,298 | – | 160 | 4,337 |
| Disposals | – | – | – | (153) | (153) |
| Revaluation | 3,166 | 4,684 | – | – | 7,850 |
| As at 31 March 2011 | 150,839 | 67,157 | 26 | 3,893 | 221,915 |
| Depreciation | | | | | |
| As at 1 April 2010 | 2,094 | 4,075 | – | 3,147 | 9,316 |
| Disposals | – | – | – | (153) | (153) |
| Charge for year | 1,045 | 2,082 | – | 348 | 3,475 |
| As at 31 March 2011 | 3,139 | 6,157 | – | 3,342 | 12,638 |
| Net Book Value | | | | | |
| 31 March 2011 | 147,700 | 61,000 | 26 | 551 | 209,277 |
| 31 March 2010 | 142,700 | 57,100 | 26 | 739 | 200,565 |

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 and plant and machinery were valued on a depreciated replacement cost basis at 31 March 2011. The desktop valuation was performed by BNP Paribas Real Estate, an independent firm of Chartered Surveyors, in accordance with the RICS Appraisal and Valuation Manual (the Red Book).

The financial effect of revaluing other assets (excluding plant and machinery) was considered to be insignificant in terms of the overall net book value 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 2011 represents fixed assets held for charitable purposes only.

11. Heritage assets

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

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

Heritage assets capitalised in the Balance Sheet are shown below:

| | Cost £'000 | Valuation £'000 | Total £'000 |
|---------------------|-----------------------|----------------------------|------------------------|
| As at 1 April 2010 | 3,218 | 129,409 | 132,627 |
| Additions | 87 | 35 | 122 |
| As at 31 March 2011 | <u>3,305</u> | <u>129,444</u> | <u>132,749</u> |

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

Where heritage assets have been acquired under the Acceptance in Lieu Scheme, valuations are provided by the Museums, Libraries and Archives Council (MLA). Where pictures have been donated, bequeathed or acquired other than on the open market, valuations have been performed by the Gallery's curators, who are recognised experts in their fields. There is an inherent limitation to valuations of works acquired by the National Gallery, simply because by their nature they are usually unique and iconic works of art for which little or no comparable market data exists.

Additions in 2011 comprise:

- *Tempest* by Peder Balke, valued internally on acquisition in November 2010 at £35,000. The picture was generously donated to the National Gallery by Danny and Gry Katz. Balke was among the first artists to paint the far north of his native Norway. By the 1860s, lack of commercial success led him to give up painting professionally. The small scenes he then executed for his own pleasure are now recognised as highly original improvisations. Forgotten for a century, he is an important Scandinavian rediscovery and the picture has provided the Gallery with the opportunity to enhance and enliven our permanent collection in an area that we wish to expand.
- Seven frames for various pictures at an aggregate cost of £87,000.

Five year financial summary of acquisitions

| | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|-----------------------------------------------------|-----------------------|---------------|---------------|---------------|---------------|
| Donated assets and acquisitions funded by donations | (235) | 1,413 | 45,743 | 7,661 | 8,338 |
| Other acquisitions | 357 | 349 | 11,863 | 270 | 1,926 |
| Total cost/value of acquisitions | <u>122</u> | <u>1,762</u> | <u>57,606</u> | <u>7,931</u> | <u>10,264</u> |

The credit balance shown in 2011 for donated assets arises because a £270k transfer was made between categories to reflect payments made during the year for Guercino's *Cumaean Sibyl with a Putto*, which reduces the portion of that asset's value which is considered to be donated.

Significant additions over the last five years include:

- Panini's *The Lottery in the Piazza di Montecitorio*, acquired in 2006, a rare example of the artist portraying contemporary events in a painting of a large crowd of people assembled to witness the lottery draw taking place on the balcony of the Palazzo di Montecitorio in Rome.
- A generous bequest from Simon Sainsbury in 2007, comprising three paintings, two by Monet (*Rue Sous La Neige*, *Argenteuil* and *Nymphéas*, *Soleil Couchant*) and one by Gauguin (*Coupe de Fruits et Pichet Devant la Fenetre*). These paintings together have made a huge difference to the Impressionist and Post Impressionist galleries.
- Titian's *Diana and Actaeon*, which was acquired in 2009 jointly with the National Galleries of Scotland. The acquisition was a tremendous addition to the National Gallery's already large holding of eleven paintings by Titian and forms a marvellous counterpart to Titian's early and equally exquisite work *Bacchus and Ariadne*.
- *A Still Life of Flowers in a Wan-Li Vase* by Ambrosius Bosschaert the Elder, one of the first and finest Dutch flower painters, received through the Acceptance in Lieu scheme in 2010.

Heritage assets not capitalised on the Balance Sheet

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

| | Total number of items | Number capitalised | % capitalised | Number not capitalised | % not capitalised |
|----------|--------------------------|-----------------------|------------------|---------------------------|----------------------|
| Pictures | 2,314 | 26 | 1% | 2,288 | 99% |

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

Heritage asset management

Acquisitions

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

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

- to obtain masterpieces of outstanding quality;
- to develop the Gallery's uniquely coherent narrative of Western European painting beyond the canon established during the 19th century; and
- to build on the Gallery's strengths.

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

Preservation

Much of the Conservation Department's work is in the area of preventive conservation: housekeeping and minor treatment such as blister laying, surface cleaning and revarnishing. Except in an emergency, all proposals for major conservation work including cleaning are referred to the Board, both for permission to begin and, on completion, for approval of the work done and for the painting's return to exhibition. All minor work is discussed with and agreed by the relevant curator.

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

Management

The Gallery's collection comprises 2,314 paintings and approximately 2,380 frames. As at 31 March 2011 1,750 (76%) paintings were on public display at the Gallery, 85 (4%) on loan elsewhere and the remainder were in the conservation and photographic studios or in storage.

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

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

Disposals

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

12. Investments

a. Fixed asset investments

| | 2011 £'000 | 2010 £'000 |
|-------------------------------------------|---------------|---------------|
| Market value as at 1 April | 24,285 | 18,933 |
| Increase in investment portfolio deposits | 335 | 475 |
| <i>Listed investments</i> | | |
| Disposal proceeds | (170) | – |
| Additions at cost | 420 | 180 |
| Realised and unrealised gains | 905 | 4,697 |
| Market value as at 31 March | <u>25,775</u> | <u>24,285</u> |

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

| | 2011 £'000 | 2010 £'000 |
|------------------------------------------------------|---------------|---------------|
| <i>Listed investments</i> | | |
| UK fixed interest stocks | 2,970 | 2,824 |
| UK equities | 12,306 | 11,454 |
| Overseas equities | 4,736 | 4,579 |
| | <u>20,012</u> | <u>18,857</u> |
| <i>Cash held as part of the investment portfolio</i> | | |
| UK investment portfolio deposits | 5,763 | 5,428 |
| | <u>25,775</u> | <u>24,285</u> |

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

b. Current asset investments

| | 2011 | 2010 |
|---------------------------|--------------|-------|
| | £'000 | £'000 |
| Current asset investments | 2,374 | 2,363 |

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

13. Debtors

| | 2011 | 2010 |
|--------------------------------------------|--------------|-------|
| | £'000 | £'000 |
| Amounts falling due within one year | | |
| Trade debtors | 209 | 1,107 |
| Other debtors | 3,478 | 3,863 |
| Tax and social security | 711 | 583 |
| Prepayments and accrued income | 1,290 | 1,116 |
| | 5,688 | 6,669 |
| Amounts falling due in more than one year: | | |
| Other debtors | – | 9,399 |

Included in debtors is £3.3m (2010: £13.1m) relating to incoming resources for the acquisition of Titian's *Diana and Actaeon* from the National Heritage Memorial Fund.

Included in debtors are:

| | Amounts falling due within one year | | Amounts falling due in more than one year | |
|---------------------------------------------|--------------------------------------------|-------|--------------------------------------------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| | £'000 | £'000 | £'000 | £'000 |
| Balances with Central Government bodies | 4,135 | 3,987 | – | 9,024 |
| Balances with local authorities | 4 | – | – | – |
| Subtotal: intra-Government balances | 4,139 | 3,987 | – | 9,024 |
| Balances with bodies external to Government | 1,549 | 2,682 | – | 375 |
| Total debtors at 31 March | 5,688 | 6,669 | – | 9,399 |

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

| | 2011 | 2010 |
|------------------------------|---------------|--------|
| | £'000 | £'000 |
| Trade creditors | 1,746 | 1,688 |
| Other creditors | 16,840 | 17,137 |
| Accruals and deferred income | 4,744 | 2,289 |
| | 23,330 | 21,114 |

Other creditors include £16.3m (2010: £16.3m) due to be paid on 6 April 2011 for the acquisition of Titian's *Diana and Actaeon*.

| | 2011 | 2010 |
|-----------------------------------------------------|--------------|--------|
| | £'000 | £'000 |
| Amounts falling due in more than one year | | |
| Other creditors | – | 16,532 |
| Accruals and deferred income | 530 | 4,102 |
| | 530 | 20,634 |
| In more than one year but not more than two years | 530 | 18,140 |
| In more than two years but not more than five years | – | 990 |
| In more than five years, payable by instalments | – | 1,504 |
| | 530 | 20,634 |

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

| | 2011 | 2010 |
|-------------------------------------------------|----------------|---------|
| | £'000 | £'000 |
| As at 1 April | 6,208 | 8,367 |
| Amounts released from previous years | (1,477) | (2,342) |
| Incoming resources deferred in the current year | 333 | 183 |
| As at 31 March | 5,064 | 6,208 |

Income deferred in the year includes donations related to the future picture acquisitions as well as corporate membership and exhibition sponsorship income.

b. Provisions: amounts falling due within one year

The movement on the provisions account in the year was as follows:

| | 2011 | 2010 |
|---------------------|--------------|-------|
| | £'000 | £'000 |
| As at 1 April | – | – |
| Charged in the year | 546 | – |
| As at 31 March | 546 | – |

A provision of £546k (2010: £nil) has been made for voluntary exit costs to be paid within one year. The provision is based on a number of identified posts where postholders are expected to leave under the voluntary exit scheme in 2012. The provision has been calculated in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Included in creditors are:

| | Amounts falling due within one year | | Amounts falling due in more than one year | |
|---------------------------------------------|-------------------------------------|---------------|-------------------------------------------|---------------|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Balances with Central Government bodies | 339 | 2,170 | – | 1,631 |
| Balances with bodies external to Government | 22,991 | 18,944 | 530 | 19,003 |
| Total creditors at 31 March | 23,330 | 21,114 | 530 | 20,634 |

15. Financial risk management

FRS 29 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.

Credit risk

The Gallery's credit risk arises from investments, cash deposits with banks, trade and other debtors. Cash is held by the Gallery's bankers. The Gallery has not suffered any loss in relation to cash held by bankers.

The Gallery is exposed to credit risk of £0.2m (2010: £1.1m) of trade debtors. This risk is not considered significant as major customers are familiar to the Gallery. The Gallery's debtor profile is reviewed regularly to ensure that prompt action is taken, and a provision is made at the end of the year against any debts considered doubtful. Write offs in the year for bad debts amounted to £93,199 (2010: £nil). This write off was a single debt.

The Gallery is exposed to credit risk of £3.3m (2010: £13.1m) on the income receivable for the acquisition of Titian's *Diana and Actaeon*. The risk is not considered significant as the donors are well known to the Gallery and have an established record of making payments on time.

Liquidity risk

Approximately 76% of the Gallery's incoming resources before transfers and revaluations is provided by grant-in-aid from the Department for Culture, Media and Sport. As a result the Gallery is not exposed to significant liquidity risks.

Exposure to liquidity risk amounts to £17m of equity investments. The Gallery's investments are monitored by a sub-committee of the Board which meets regularly to consider liquidity requirements over the medium term and review fund performance in discussion with the fund managers.

Market risk

a. Interest rate risk

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

The Gallery is exposed to interest rate risk on its interest bearing deposits. The Gallery's interest rate policy seeks to minimise interest volatility by using fixed-rate deposits where possible.

The interest rate profile of the Gallery's financial assets is set out below:

| | 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 2011 Sterling | 46,283 | 20,025 | 23,815 | 2,443 | 0.53% | 108 |
| At 31 March 2010 Sterling | 46,332 | 18,870 | 25,065 | 2,397 | 0.65% | 100 |

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

b. Price risk

The Gallery's comprehensive annual budget reflects anticipated levels of income for the year. It is reviewed and agreed by the Executive 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, as outlined below, or where it is held as part of an investment strategy as determined by the Trust Funds Committee.

c. Foreign currency risk

Foreign currency transactions are not material. The Gallery does not consider the market risks listed to be significant enough to require a sensitivity analysis.

Financial assets and liabilities

The Gallery's financial assets and liabilities by category, as defined in FRS25, are set out below:

| | Loans and receivables £'000 | Available- for-sale £'000 | Other financial liabilities £'000 |
|---------------------------|--------------------------------------------|------------------------------------------|------------------------------------------------------|
| As at 31 March 2011 | | | |
| Cash | 18,134 | – | – |
| Current asset investments | 2,374 | – | – |
| Trade and other debtors | 4,598 | – | – |
| Investments | – | 25,775 | – |
| Trade and other creditors | – | – | (18,295) |
| | <u>25,106</u> | <u>25,775</u> | <u>(18,295)</u> |

16. Financial Commitments*Capital Commitments*

| | 2011 £'000 | 2010 £'000 |
|--------------------------------------------------|-----------------------|-----------------------|
| Capital expenditure commitments were as follows: | | |
| Contracted for, but not provided in the accounts | <u>814</u> | <u>174</u> |

Commitments under operating leases

As at 31 March 2011 the National Gallery had annual commitments under operating leases for photocopiers as set out below:

| | 2011 £'000 | 2010 £'000 |
|--------------------------------|-----------------------|-----------------------|
| Operating leases which expire: | | |
| Within 1 year | – | – |
| Between 2 and 5 years | <u>39</u> | <u>35</u> |

17. Statement of funds

| | At 1 April 2010 £'000 | Opening transfers between reserves £'000 | Restated balance at 1 April 2010 £'000 | Income £'000 | Expendi- ture £'000 | Net movement on invest- ments and re- valuation £'000 | Transfers between reserves £'000 | At 31 March 2011 £'000 |
|--------------------------------------------------------------------------------|--------------------------------|------------------------------------------------------|----------------------------------------------------|-----------------|---------------------------|-------------------------------------------------------------------------|-------------------------------------------|---------------------------------|
| Unrestricted funds | | | | | | | | |
| Designated funds: | | | | | | | | |
| Designated funds for the purchase of heritage assets | – | 2,313 | 2,313 | – | – | – | (1,227) | 1,086 |
| Designated funds for the purchase of Guercino's <i>Cumaen Sybil with Putto</i> | 4,136 | (2,313) | 1,823 | – | – | – | (349) | 1,474 |
| Designated funds for the purchase of Titian's <i>Diana and Actaeon</i> | 2,575 | – | 2,575 | – | – | – | (2,575) | – |
| Trust funds designated for the purchase of heritage assets | 14,850 | – | 14,850 | 517 | (68) | 510 | – | 15,809 |
| Total designated funds | 21,561 | – | 21,561 | 517 | (68) | 510 | (4,151) | 18,369 |
| General funds | 2,277 | – | 2,277 | 28,502 | (25,673) | – | (1,948) | 3,158 |
| Total unrestricted funds | 23,838 | – | 23,838 | 29,019 | (25,741) | 510 | (6,099) | 21,527 |
| Restricted income funds | | | | | | | | |
| Capital assets reserve | 180,584 | – | 180,584 | 4,500 | (3,475) | – | (163) | 181,446 |
| Building revaluation reserve | – | – | – | – | – | 3,166 | – | 3,166 |
| Plant and machinery revaluation reserve | 19,981 | – | 19,981 | – | – | 4,684 | – | 24,665 |
| Donated works of art reserve | 115,850 | (11,068) | 104,782 | 2,242 | – | – | (2,588) | 104,436 |
| Heritage assets acquired | – | 11,068 | 11,068 | – | – | – | 7,026 | 18,094 |
| Exhibitions programme fund | 121 | – | 121 | 262 | (262) | – | – | 121 |
| Running cost fund | 420 | – | 420 | 509 | (554) | – | – | 375 |
| Curatorial fund | 1,503 | – | 1,503 | 33 | (34) | – | – | 1,502 |
| Collection purchases fund | 41 | – | 41 | – | – | – | 1,824 | 1,865 |
| Collection purchases trust fund | 1,395 | – | 1,395 | 452 | (29) | 157 | 3,175 | 5,150 |
| Trust funds for the purchase of Titian's <i>Diana and Actaeon</i> | 3,175 | – | 3,175 | – | – | – | (3,175) | – |
| Art historical research | 1,738 | – | 1,738 | 81 | (11) | 59 | – | 1,867 |
| Total restricted income funds | 324,808 | – | 324,808 | 8,079 | (4,365) | 8,066 | 6,099 | 342,687 |
| Capital funds | | | | | | | | |
| Collection purchase endowments | 2,849 | – | 2,849 | – | – | 98 | – | 2,947 |
| Art historical research endowment | 968 | – | 968 | – | – | 33 | – | 1,001 |
| General purpose endowments | 1,384 | – | 1,384 | – | – | 48 | – | 1,432 |
| Total capital funds | 5,201 | – | 5,201 | – | – | 179 | – | 5,380 |
| Total funds | 353,847 | – | 353,847 | 37,098 | (30,106) | 8,755 | – | 369,594 |

Opening transfers between funds

Opening transfers between reserves have been made to clarify the presentation of reserves relating to heritage assets; in particular to separately disclose the value of donated heritage assets and those acquired from unrestricted funds.

Transfers between reserves in the year

In year transfers between unrestricted and restricted funds principally reflect restricted income received or recognised during the year where the relevant expenditure had been incurred and allocated against unrestricted funds in earlier years. In particular, unrestricted income of £5.8m was transferred from unrestricted to restricted funds, representing the utilisation of unrestricted income for the acquisition of Titian's *Diana and Actaeon*. In addition, a transfer of £1.7m was made to correctly classify restricted income received but not yet expended on pictures as part of the collection purchases fund rather than showing this within the donated works of art reserve.

Fair Value Reserve (Investments)

| | As at 1 April 2010 £'000 | Unrealised gains under fair value £'000 | As at 31 March 2011 £'000 | Reserve/ Fund net of fair value as at 31 March 2011 £'000 | Reserve/ Fund (inc fair value) as at 31 March 2011 £'000 |
|---------------------------------------------|-----------------------------------|-----------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Unrestricted | | | | | |
| Trust funds designated collection purchases | 1,335 | 510 | 1,845 | 13,965 | 15,810 |
| Restricted | | | | | |
| Collection purchases trust fund | 382 | 157 | 539 | 1,326 | 1,865 |
| Art historical research | 150 | 59 | 209 | 1,658 | 1,867 |
| | <u>532</u> | <u>216</u> | <u>748</u> | <u>2,984</u> | <u>3,732</u> |
| Capital funds | | | | | |
| Collection purchase endowments | 239 | 98 | 337 | 2,610 | 2,947 |
| Art historical research endowment | 82 | 33 | 115 | 886 | 1,001 |
| General purpose endowments | 116 | 48 | 164 | 1,268 | 1,432 |
| | <u>437</u> | <u>179</u> | <u>616</u> | <u>4,764</u> | <u>5,380</u> |
| | <u>2,304</u> | <u>905</u> | <u>3,209</u> | <u>21,713</u> | <u>24,922</u> |

Analysis of funds

The Statement of Funds comprises a number of individual funds which divide into distinct categories as defined below:

Unrestricted Funds

- Designated funds for the purchase of heritage assets represent unrestricted income designated for future acquisitions.
- Designated funds for the purchase of Guercino's *The Cumaean Sibyl with Putto* represents a deferred gift in kind.
- Funds designated for the purchase of Titian's *Diana and Actaeon* were allocated by the Trustees in 2009. The transfer to restricted funds represents the value of designated funds expended on the acquisition during the year.
- Trust funds designated for the purchase of heritage assets comprise funds, mainly bequests, designated for the acquisition of works of art for the collection and held within the Trust Funds.
- General funds are funds applied for general use.

Restricted funds

- Capital assets reserve comprises funds in respect of the Gallery's land, buildings and plant and machinery.
- Revaluation reserves reflect the effect of revaluations of tangible fixed assets over time.
- The donated works of art reserve represents the value of works of art donated to the collection either by gift or by way of funds for acquisition subsequent to 1 April 2001 and capitalised.
- Heritage assets acquired represents the value of works of art acquired from unrestricted or designated funds. These are treated as restricted on acquisition because the collection is inalienable.
- 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 other Gallery projects, including educational projects.
- Curatorial funds are funds raised specifically for the financing of curatorial activities, including the funding of certain curatorial posts.
- The collection purchases fund comprises donations received specifically towards the acquisition of works of art for the collection.
- The collection purchases trust fund comprises donations, mostly bequests, received specifically towards the acquisition of works of art for the collection and held within the Trust Funds.

- Trust funds for the purchase of Titian's *Diana and Actaeon* represent those funds set aside for the acquisition.
- 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. Analysis of net assets between funds

| | Unrestricted Funds £'000 | Restricted Funds £'000 | Permanent Endowment £'000 | Total Funds 2011 £'000 | Total Funds 2010 £'000 |
|--------------------------------|--------------------------------|------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Tangible assets | – | 209,277 | – | 209,277 | 200,565 |
| Heritage assets | 10,219 | 122,530 | – | 132,749 | 132,627 |
| Investments | 13,378 | 7,017 | 5,380 | 25,775 | 24,285 |
| Other net assets/(liabilities) | (2,070) | 3,863 | – | 1,793 | (3,630) |
| Total net assets | <u>21,527</u> | <u>342,687</u> | <u>5,380</u> | <u>369,594</u> | <u>353,847</u> |

19. Notes to the cash flow statement

a. Net cash inflow from operating activities

| | 2011 £'000 | 2010 £'000 |
|-------------------------------------------------------------------------------|---------------------|---------------|
| Net incoming resources before transfers and other recognised gains and losses | 6,992 | 7,347 |
| Receipts from sale of tangible fixed assets | – | (14) |
| Investment income | (812) | (970) |
| Unrealised foreign exchange loss/(gain) | – | (206) |
| Donated collection acquisitions | (35) | (1,675) |
| Depreciation charge | 3,475 | 3,477 |
| Profit on sale of fixed assets | (10) | – |
| Decrease in debtors | 10,441 | 15,942 |
| (Decrease) in creditors | (17,648) | (17,990) |
| Decrease/(increase) in stocks | – | (1) |
| Net cash inflow from operating activities | <u>2,403</u> | <u>5,910</u> |

b. Management of liquid resources

| | 2011 £'000 | 2010 £'000 |
|-------------------------------------------------------------|--------------------|---------------|
| (Increase)/decrease in liquid investment portfolio deposits | <u>(11)</u> | <u>5,432</u> |

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

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

| | 2011 | 2010 |
|-----------------------------------------|----------------|--------|
| | £'000 | £'000 |
| (Decrease)/increase in cash in the year | (1,550) | 7,533 |
| Cash balance at beginning of year | 19,684 | 12,151 |
| Cash balance at end of year | 18,134 | 19,684 |

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

| | 2011 | 2010 |
|------------------------------------------|---------------|--------|
| | £'000 | £'000 |
| Balance with Government Banking Services | 2,132 | 2,203 |
| Balances held with commercial banks | 15,999 | 17,478 |
| Cash in hand | 3 | 3 |
| Cash balance at end of year | 18,134 | 19,684 |

20. Related Party Transactions

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

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

| Related party | Nature of relationship | Value of income received during the year £'000 | Value of expenditure during the year £'000 | Outstanding balances due from/(due to) at year end £'000 | Nature of transaction |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| American Friends of the National Gallery, London, Inc | Mr Mark Getty, director of the related party, served as trustee of the National Gallery during the year | 22 | – | – | Grants for Technical Bulletin, strengthening the curatorial department and development of the website. |
| British Museum | Entity sponsored by DCMS | – | 27 | – | Internal audit fee. |
| John S Cohen Foundation | The Chairman of the John S Cohen Foundation is married to a member of the National Gallery's Executive Committee | 20 | – | – | Donation towards an Education Department project. |
| National Gallery Company Ltd | Mr Simon Burke and Mr Lance Batchelor, directors of the related party, served as trustees of the National Gallery during the year | 810 | 320 | 198 | Rent for commercial space within the National Gallery and payment for publications. |
| National Gallery Trust | Mr Simon Burke, Mr Mark Getty and Mr Lance Batchelor, trustees of the related party served as trustees of the National Gallery during the year | 13 | – | – | Grants for specific projects and accounting fee. |
| National Museums Liverpool | Entity sponsored by DCMS | – | 11 | – | Reimbursement for costs they incurred in relation to the DCMS Strategic Commissioning Project. |
| National Portrait Gallery | Entity sponsored by DCMS | 176 | 2 | – | Utility supply and electrical main upgrade recharges. |
| Natural History Museum | Entity sponsored by DCMS | – | 10 | – | Fee for Museum Directors' Conference. |
| The NGT Foundation | Mr Mark Getty and Lady Heseltine, trustees of the related party, served as trustees of the National Gallery during the year | 30 | 760 | – | Rental of office space, annual management and accounting fee recharge. |
| The National Heritage Memorial Fund | Entity sponsored by DCMS | 1,667 | – | 3,332 | Donation towards the acquisition of Titian's <i>Diana and Actaeon</i> . |
| The Victoria and Albert Museum | Entity sponsored by DCMS. Mr Michael Hintze, a trustee of the Gallery served on the International Council of the V&A during the year | – | 6 | – | Contribution towards the National Museums Online Learning Project. |
| The Wallace Collection | Entity sponsored by DCMS | 5 | – | – | Supply of photography services. |
| | | 2,743 | 1,136 | 3,530 | |

The Gallery considers the National Gallery Trust to be a related party because three Trustees of the National Gallery also sit on the board of the National Gallery Trust. The National Gallery Trust is an entirely separate charity with an independent board of Trustees, the majority of whom are unconnected with the National Gallery. Neither the National Gallery Trust, nor its wholly-owned subsidiary the National Gallery Company, is consolidated into the accounts of the National Gallery.

21. Post Balance Sheet events

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



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