

Historic Scotland

Report on the 2009/10 Audit to Historic Scotland and the Auditor General for Scotland

September 2010

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

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General for Scotland

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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by Historic Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of Historic Scotland for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

During 2009/10 Historic Scotland recorded an operating deficit of £47.579 million (2008/09 £47.240 million). The increase of £0.339 million was due mainly to an increase in expenditure on the Stirling Palace project. This was partly offset by an increase in commercial income. Historic Scotland's balance sheet at 31 March 2010 shows net assets of £25.947 million (2008/09 £25.206 million).

In 2009/10 Historic Scotland overspent by £0.394 million the resource budget limits set by Scottish Government due mainly to pressure on grants and additional costs associated with emergency maintenance and higher than usual utility costs during the exceptionally cold winter.

Scottish Ministers have agreed a resource budget for Historic Scotland of £49.785 million for 2010/11. The internal budget has been set at £78.361 million reflecting £28.576 million of income. This comprises operating expenditure of £77.361 million and capital expenditure of £1 million.

In response to the challenging financial outlook for 2010/11 and 2011/12 the Agency is prioritising its expenditure in line with strategic objectives. The Chief Executive has initiated a Programme for Change covering the agency's purpose, aims and operation. Staff groups have produced suggestions for improvements across the range of Historic Scotland's activities. Initiatives underway to reduce expenditure include further restructuring, procurement efficiencies, a recruitment freeze, vacancy management, and improvements in income generation.



Historic Scotland's targets for the Efficient Government Plan for each of the years 2008/09 to 2010/11 for achieving cash-releasing savings are two per cent of non-grant expenditure. In 2009/10 Historic Scotland also had an efficiency target to contribute £2 million towards the overall efficient government saving within the First Minister's portfolio. Actual savings achieved to 31 March 2010 were £2.37 million of cash releasing efficiencies which exceeded both targets. Historic Scotland expects that the £3 million target for 2010/11 will be a challenging target to achieve. We will continue to monitor the financial position and the actions taken by Historic Scotland.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for Historic Scotland operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them. Historic Scotland has made good progress on information risk management including business continuity but has identified areas requiring more work.

Performance

Eleven key performance targets were set for Historic Scotland by the Minister for the 2009/10 financial year. Targets covered a range of measures including performance ratings from visitors, time taken to reach consent decisions on statutory planning applications, amount of earned income and efficiency savings on non-grant expenditure.

Historic Scotland met or exceeded nine of the eleven targets it had been set but failed by one per cent to meet the target of 96 per cent of visitors giving a good or excellent rating for visits to the three largest sites. The other target not met was the number of short term bursary scheme students placed.

The corporate plan for 2008/11 focuses on activities designed to meet the aims of the National Performance Framework. Each business group has a number of objectives and activities designed to achieve the objectives within the available resources. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints. As part of the Programme for Change, work has been undertaken to improve financial management, priority setting and decision making and on performance management reporting linked to the delivery of Scottish Government National Outcomes.

Looking forward

The final part of our report notes some key risk areas and issues for Historic Scotland going forward. We highlighted a number of national issues which affect all public sector bodies including Historic Scotland: efficiencies and future funding, financial management and affordability and best value developments. We will continue to monitor financial planning arrangements and Historic Scotland's financial position.



The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
September 2010

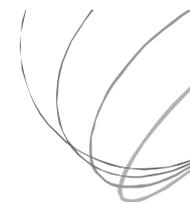


Introduction

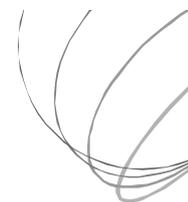
1. This report summarises the findings from our 2009/10 audit of Historic Scotland. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 1 April 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued two reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and Historic Scotland's agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of Historic Scotland's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of Historic Scotland, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Board members and staff of Historic Scotland during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of Historic Scotland financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

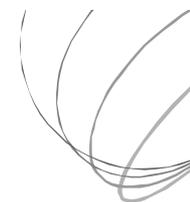
9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of Historic Scotland and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Directors Report, and the sections of the Management Commentary, Performance against Key Performance Targets and Position at End of Year, included in the Annual Report within the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of Historic Scotland.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of Historic Scotland for 2009/10.
12. As agreed the unaudited accounts were provided to us on 10 May 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 21 June 2010 as timetabled.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 21 June 2010 the main issues arising from our audit of the financial statements. The only issue we reported related to the



disclosure of the flexible retirement terms of the former Chief Executive. The former Chief Executive had left the Agency on 30 September 2009, and on departure was paid £21,992 in lieu of notice, to which he was entitled. Prior to taking up employment at Historic Scotland in 2004, the former Chief Executive had been employed directly by the Scottish Government. As agreed with the Scottish Government and Civil Service Pensions at the time of his appointment his pension and associated lump sum were based on his 2004 salary with year on year inflation increases - this was more than his final Historic Scotland salary. The early retirement costs are being met by the Scottish Government. Historic Scotland has made appropriate disclosures in the Remuneration Report.

Regularity

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to Historic Scotland by 30 November 2009. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by Historic Scotland for audit for review by the deadline date of 30 September 2009. Based on the review work carried out, the figures in the shadow accounts appeared to be appropriate for use as comparative amounts for the 2009/10 IFRS based accounts. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts.



Use of Resources

18. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of Historic Scotland's:

- financial position
- financial management.

Financial Position

Outturn 2009/10

19. Historic Scotland is required to work within its resource budget set by the Scottish Government. In 2009/10 Historic Scotland overspent the resource budget limits set by the Scottish Government – see exhibit 2 below. The overspend of £0.394 million on the resource budget resulted mainly from pressure on grants and additional costs associated with emergency maintenance and higher than usual utility costs during the exceptionally cold winter.

Exhibit 2 – Performance against resource budget 2009/10 (£ million)

Limits	Budget	Actual Outturn	Difference
Non Cash Expenditure	2.417	2.218	0.199
Scottish Government funding	46.636	47.229	(0.593)
Total	49.053	49.447	(0.394)

20. Within its published accounts for 2009/10 Historic Scotland recorded an operating deficit of £47.579 million (2008/09 £47.240 million). The increase of £0.339 million was due mainly to an increase in expenditure on the Stirling Palace project. This was partly offset by an increase in commercial income. Historic Scotland's balance sheet at 31 March 2010 shows net assets of £25.947 million (2008/09 £25.206 million), mainly due to purchases of IT and other equipment.

Scotland's public finances

21. The Auditor General's report on *Scotland's public finances*, published in November 2009, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:



Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

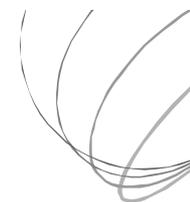
The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

22. In response to the challenging financial outlook for 2010/11 and 2011/12 the Agency is prioritising expenditure in line with agreed strategic objectives. The Chief Executive has initiated a Programme for Change covering the agency's purpose, aims and operation.



Financial sustainability and the 2010/11 budget

23. Scottish Ministers have agreed a resource budget for Historic Scotland of £49.785 million for 2010/11 which when augmented by income Historic Scotland plans to generate leaves an internal budget totalling £78.361 million, see Exhibit 3 below.

Exhibit 3 – 2010/11 Proposed Budget (£ million)

Limits	Budget
Scottish Government financing	49.785
Generated Income	28.576
Total	78.361
Expenditure profile	
Revenue	77.361
Capital	1.000
Total	78.361

24. There is no increase in funding for 2010/11 apart from one-off capital funding for the Stirling Palace Royal Apartments Project and inflation and other cost pressures are to be managed within current budgets. Income from visitors to historic buildings has been assumed to continue at the level achieved in 2009/10. However recent travel disruption has affected anticipated visitor numbers at the beginning of the financial year. Initiatives are underway to reduce expenditure such as further restructuring, procurement efficiencies, a recruitment freeze, vacancy management, and improvements in income generation.
25. Pressure on budgets will continue in 2011/12 and beyond. There are constraints on Historic Scotland's ability to reduce costs or achieve savings due to grants commitments which span a number of years and the fixed nature of many other costs. Historic Scotland is expected to achieve efficiency savings each year. Delivering efficiencies year on year while absorbing cost pressures such as the increase in VAT from January 2011 represents a significant challenge for Historic Scotland. We will continue to monitor the financial position and the actions taken by Historic Scotland.

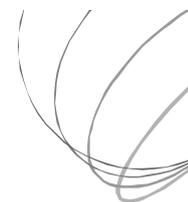
Future studies

26. Audit Scotland has started fieldwork for the performance audit *Management of the Scottish Government's capital investment programme* which is due to be published in autumn 2010. Overall, the project aims to provide independent assurance about how well the Scottish Government is managing its capital investment programme and associated risks. It will also assess and report on the outlook for investment spending and what improvements have been made in major project management since our previous report *Review of major capital projects in Scotland* (June 2008). An



appendix to that report identified the Stirling Castle Palace Project as one of the Scottish Government projects then in progress and the report was discussed by the Historic Scotland major projects group. In a recent review Scottish Government Internal Audit Division provided substantial assurance on the arrangements for governance and risk management of major projects undertaken by the Major Projects team within Historic Scotland, Properties in Care.

27. *Improving energy efficiency: a follow-up report* will re-evaluate the performance of the public sector in improving its energy efficiency. It will assess progress made against the recommendations in the *Improving energy efficiency report 2008*. Historic Scotland completed Audit Scotland's survey for that report and prepared a climate change action plan aimed at reducing the emissions from its own activities and reviewed energy management at Properties in Care and offices and workshops. Staff travel policies have also been reviewed as part of wider efficiency measures. The follow up report will look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010.



Governance and Accountability

28. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of Historic Scotland's arrangements.
29. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

30. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
31. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Systems of internal control

32. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a strong internal control environment and the effective production of financial statements. In their annual report for 2009/10 Scottish Government Audit Division, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year including the results of work carried out on Scottish Government corporate systems and the action taken in response to their findings, they were able to provide substantial assurance in respect of Historic Scotland's risk management, control and governance arrangements.
33. As part of our audit we reviewed the high level controls in a number of Historic Scotland systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and that Historic Scotland has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of



improvements with management. This will be followed up in 2010 to confirm that improvements have been made.

Statement on Internal Control

34. The Statement on Internal Control provided by Historic Scotland Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out Historic Scotland's approach to this. The Statement on Internal Control highlighted progress on information risk management including business continuity planning. The Agency has:

- put in place a draft information risk policy and established controls to manage the loss of any sensitive data
- implemented technologies in partnership with the Scottish Government which will deliver a major element of the disaster recovery strategy; and arranged to test business continuity response plans during 2010-11
- followed the recommended prioritised approach to The Payment Card Industry Data Security Standard compliance.
- progressed the work on data handling. Those systems identified as high risk have been prioritised and system security policies developed to address identified risks. Work is continuing to ensure that appropriate security policies are established for the remaining systems
- rolled out a programme of training to ensure that all members of staff understand the importance of protecting the information that they deal with in the course of their work.

35. Historic Scotland has made good progress on information risk management including business continuity but has identified areas requiring more work. We will continue to monitor the actions taken by Historic Scotland in these areas.

Internal Audit

36. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on Historic Scotland's internal audit function. We concluded that Scottish Government Audit Division operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.



Prevention and detection of fraud and irregularities

37. Historic Scotland has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

National Studies

38. In August 2010, Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of Historic Scotland. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We will assess how Board members are selected and whether the membership of Boards is appropriate. We will also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members. The review includes the Historic Scotland Board as a case study. Feedback relating to Historic Scotland will be provided in due course where appropriate.



Performance

39. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
40. In this section we comment on:
- Historic Scotland's corporate plan
 - performance against targets
 - risk management
 - Historic Scotland's efficiency programme

Vision and strategic direction

41. The Minister for Europe, External Affairs and Culture set the broad direction for Historic Scotland and its governance arrangements. In the light of the National Performance Framework the Minister set the following aims for Historic Scotland:
- To care for, protect and enhance the historic environment
 - To secure greater economic benefits from the historic environment
 - To help people value, understand and enjoy the historic environment.
42. Historic Scotland published its corporate plan for 2008/11 in September 2008. The plan describes how Historic Scotland activities contribute to its aims. Activities include systematic monitoring and carefully prioritised investment in conservation at properties in care, major investment in the Palace at Stirling Castle to enhance it for future generations, and investment in new facilities to enhance the visitor experience. Each business group has a number of objectives and activities designed to achieve the objectives within the available resources. Historic Scotland is assessing its contribution towards delivery of the Scottish Government National Outcomes.
43. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints. This is an area we will continue to keep under review.



Performance overview

44. Eleven key performance targets were set for Historic Scotland by the Minister for the 2009/10 financial year. Targets covered a range of measures including performance ratings from visitors, time taken to reach consent decisions on statutory planning applications, amount of earned income and efficiency savings on non-grant expenditure.
45. The Scottish Government's Internal Auditors reported that Historic Scotland met or exceeded nine of the eleven targets (2008/09: eight out of the nine targets). Historic Scotland failed by one per cent to meet the target of 96 per cent of visitors giving a good or excellent rating for visits to the three largest sites, and the number of short term bursary scheme students placed was 24 per cent less than the target, though the number of long term bursary scheme students placed was 75 per cent more than the target.
46. As part of the Programme for Change the Agency has been assessing its strengths and weaknesses, its organisational structure and how staff could be developed. Staff groups have produced suggestions for improvements across the range of Historic Scotland's activities. Work has been undertaken to improve financial management, priority setting and decision making, development of a Corporate Balanced Scorecard and on performance management reporting linked to the delivery of Scottish Government National Outcomes.

Risk management

47. An Agency risk register which details the most significant risks for the Agency as a whole has been compiled and is reviewed quarterly. Each business group has compiled a register of risks specific to their area which is regularly reviewed by the group. Results are presented to the Historic Scotland Board.
48. The main risks identified by Historic Scotland for 2009/10 and the outcomes were:
 - **Budgetary constraints adversely affecting delivery of planned activities and the risk of overspend across the Agency** - there is continued pressure on the grants programme due to the commitments from earlier years, the numbers of eligible buildings and cost of repair. Historic sites continue to be maintained and effectively presented to visitors. Historic Scotland has a number of systems improvements and initiatives planned for 2010/11 and beyond.
 - **Failure to meet the key performance target on efficiency** - the Agency exceeded the 2009/10 target of two per cent efficiency savings for non-grant expenditure.
 - **Inadequate information security** – a draft information risk policy and controls to manage the loss of any sensitive data have been put in place. The Cabinet Office on-line training package



is being rolled out to staff. The Agency's Information Asset Owners will be given more detailed training.

49. Historic Scotland intends to review the risk management strategy in 2010/11 to improve ownership and compliance. The challenge for the Board will be to embed risk awareness throughout the organisation to support the effective management of risks.

Improving public sector efficiency

50. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
51. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
52. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
53. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).



Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

54. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
55. Historic Scotland's targets for the Efficient Government Plan for each of the years 2008/09 to 2010/11 for achieving cash-releasing savings are two per cent of non-grant expenditure. Also in 2009/10 Historic Scotland had an efficiency target to contribute £2 million towards the overall Efficient Government saving within the First Minister portfolio. Actual savings achieved to 31 March 2010 were £2.37 million of cash releasing efficiencies which exceeded both targets. Historic Scotland expects that the £3 million target for 2010/11 will be a challenging target to achieve. Activities designed to achieve efficiencies include procurement efficiencies through e-procurement and contract tendering and increased income generation in commercial areas. We will continue to monitor the financial position and the actions taken by Historic Scotland.



Looking Forward

56. Historic Scotland faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - the announcement of future budget cuts by the new UK government indicates that there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for Historic Scotland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. Activities designed to achieve efficiencies include procurement efficiencies through e-procurement and contract tendering and increased income generation in commercial areas.
- **Financial management and affordability** - Scottish Government spending is set to decline significantly in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to Historic Scotland achieving its financial targets within tighter funding settlements. We will consider Historic Scotland's financial management arrangements as part of our 2010/11 audit.
- **Information risk management including business continuity** – further training will be required for staff and Information Asset Owners. The data handling project identified business critical systems and some have been tested and risk treatment plans developed. Progress against risk treatment plans should be monitored and work continue on the remaining business critical systems. Business continuity arrangements are progressing and should be finalised.
- **Heritage Assets** - the Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value of heritage assets. The new standard is mandatory for 2010/11 and Historic Scotland will need to finish preparations for disclosure in the accounts.
- **Best Value** - the concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. Historic Scotland should continue to respond to this important initiative as it develops.