

National Galleries of Scotland

Report on the 2009/10 Audit to National Galleries of Scotland and
the Auditor General for Scotland

October 2010



 AUDIT SCOTLAND

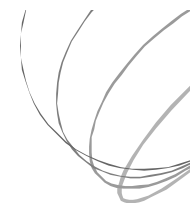


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Contents

Key messages	1	Governance and Accountability	11
Introduction	3	Performance	14
Financial Statements	5	Looking Forward	19
Use of Resources	7		



Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by National Galleries of Scotland (NGS). 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 NGS 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.

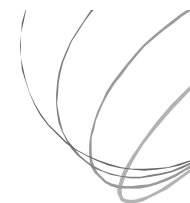
Financial position and use of resources

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.

NGS operated within the budget limits set by the Scottish Government for capital spending and operating expenditure. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income of £11.429 million (2008/09: £11.529 million). The grant-in-aid credited to reserves was £12.432 million (2008/09: £12.213 million). NGS' net asset position increased to £285.564 million (2008/09: £267.897 million) mainly due to payment of creditors for the purchase of Titian's *Diana and Actaeon*.

Scottish Ministers have agreed a financial allocation of £19.869 million for 2010/11. This comprises operating expenditure of £12.525 million, capital expenditure of £4.330 million and non-cash costs of £3.014 million.

In response to the challenging financial outlook for 2010/11 and 2011/12 NGS is striving to ensure that expenditure is prioritised in line with agreed strategic objectives. Continuous improvement reviews are in place and initiatives include zero-based budgeting, procurement efficiencies, a revised travel policy and planned energy savings through installation of a new building management system. Effective budget monitoring arrangements are therefore crucial if NGS is to achieve its financial targets and deliver its objectives within tight financial settlements.



In the current three year budget settlement NGS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. The actual savings achieved to 31 March 2010 were £1.641 million of cash releasing efficiencies.

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 NGS 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. Our overall conclusion is that arrangements within NGS are sound and have operated through 2009/10.

Performance

NGS' high level mission and objectives are published on their website. NGS' mission is to care for, develop, research and display the national collection of Scottish and international fine art and, with a lively and innovative programme of exhibitions, education and publications, aim to engage, inform and inspire the broadest possible public.

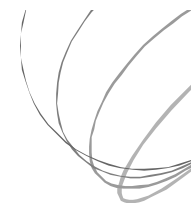
The NGS corporate plan for 2009 – 2011 will evolve into a 2011-2014 plan over the next year to bring it in line with the three year spending review. It will encompass departments' action plans which link to the overarching corporate priorities and objectives and input received from Scottish Government. NGS set various performance targets for 2009/10. Reported achievements include exceeding the target for visits to galleries by 71,000 and exceeding the target for visits to the NGS website by 34,000.

Looking forward

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

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

Audit Scotland
October 2010



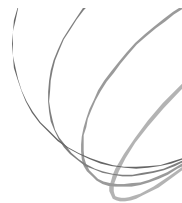
Introduction

1. This report summarises the findings from our 2009/10 audit of National Galleries of Scotland (NGS). 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 22 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 one report this year, and we briefly touch on the key issues we raised in this report. The report set out our detailed findings and recommendations and the Board'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

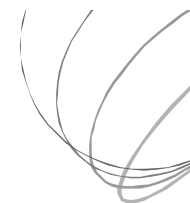


4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer



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 NGS' 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 NGS 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 staff and Board members of NGS 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 NGS' 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

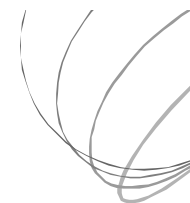
9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of NGS and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Report of the Trustees 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 Director General as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of NGS.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of NGS for 2009/10.
12. As agreed the unaudited accounts were provided to us on 5 July 2010, supported by a working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 24 August 2010 as timetabled.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 24 August 2010 the main issues arising from our audit of the financial statements. There are no significant issues that need to be highlighted.

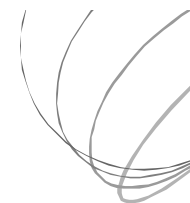


Regularity

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 his 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. However, this timetable does not apply to registered charities such as NGS, which will be required to follow a slower timetable for convergence agreed by the UK Accounting Standards Board. Notwithstanding the slower timetable applying to NGS, the convergence process may require significant resource to complete and it is important that NGS properly plans to manage the transition over the next few years.



Use of Resources

16. 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 NGS' financial position and use of resources.

Financial Position

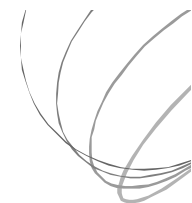
Outturn 2009/10

17. NGS is required to work within the budget limits set by the Scottish Government. The total financial allocation set by the Scottish Government for NGS for 2009/10 was £25.774 million. This figure comprises an operating budget of £12.432 million, capital budget of £8.536 million, and non-cash items of £4.806 million. NGS operated within the budget limits set by the Scottish Government for capital and operating expenditure and drew down its full cash grant in aid entitlement.
18. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income of £11.429 million (2008/09: £11.529 million). The grant-in-aid credited to reserves was £12.432 million (2008/09: £12.213 million).
19. NGS operated within the financial allocations set by the Scottish Government for cash expenditure and non-cash costs – see exhibit 2 below:

Exhibit 2 – Performance against resource budget 2009/10

Limits	Grant in aid offer £m	Actual Outturn £m	Difference £m
Cash items			
Running costs	12.432	12.432	Nil
Purchase grant	1.260	1.260	Nil
Major projects	7.276	7.276	Nil
Non-cash items			
Cost of capital	3.452	2.475	-0.977
Depreciation	1.354	1.788	0.434
Total	25.774	25.231	--0.543

20. NGS' net asset position increased to £285.564 million (2008/09: £267.897 million) mainly due to payment of creditors for the purchase of Titian's *Diana and Actaeon*.



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.

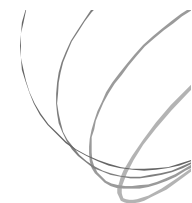
- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector 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 NGS is striving to ensure that expenditure is prioritised in line with agreed strategic objectives. Continuous improvement reviews are in place across NGS.

Financial sustainability and the 2010/11 budget

23. Scottish Ministers have agreed a financial allocation of £19.869 million for 2010/11. This comprises operating expenditure of £12.525 million, capital expenditure of £4.330 million and non-cash costs of £3.014 million.
24. This is to be funded as follows:

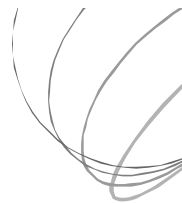
Exhibit 3 – 2010/11 Resource Plan

Limits	Budget £million
Cash items	
Operating costs	12.525
Purchase grant	1.260
Major projects	3.070
Non cash items	
Cost of capital	1.794
Depreciation	1.220
Total	19.869

25. In the current three year budget settlement NGS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. Grant in aid will not be uplifted for pay or general inflation as this is expected to be met from NGS' efficiency savings each year. NGS has forecast a balanced budget for 2010/11. Delivering efficiencies year on year while absorbing cost pressures such as the increase in VAT from January 2011 represents a significant challenge for the organisation. Effective budget monitoring arrangements are therefore crucial if NGS is to achieve its financial targets and deliver its objectives within tight financial settlements.
26. NGS receives specific funding for larger capital projects from the Scottish Government and from various other donors including the National Heritage Memorial Fund, the Art Fund and private individuals. Major projects funding from Scottish Government for 2010/11 is mainly phased payment for Titian's *Diana and Actaeon* and for the refurbishment of the Scottish National Portrait Gallery.

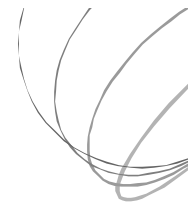
Future studies

27. 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). The NGS project completed in 2004 to refurbish the Royal Scottish Academy and provide a new underground link to the National Gallery of Scotland was included as a case study in the 2008 report which also contained wider findings and recommendations relevant to management of the Portrait Gallery refurbishment.

28. *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. NGS completed Audit Scotland's survey for that report. 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. NGS has an Environmental Management Plan, a performance target on carbon emissions in line with the National Performance Framework, a Building Management System which will provide energy savings and has developed a sustainable travel policy.



Governance and Accountability

29. 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 NGS' arrangements.
30. 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

31. This year we reviewed:
 - partnership working
 - key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
32. Our overall conclusion is that arrangements within NGS are sound and have operated through 2009/10.

Partnership working

33. In January 2008 the First Minister issued a statement on More Effective Government. It outlined his vision for simplifying the public sector and delivering a reduction in the number of public sector organisations. NGS has a joint working group at Chief Executive level with National Museums Scotland and National Library of Scotland. A joint programme manager has been investigating opportunities for shared services such as financial information systems. We will continue to monitor progress during 2010/11.

Systems of internal control

34. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10



Baker Tilly, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, NGS has an adequate framework of control over the systems examined.

35. As part of our audit we reviewed the high level controls in a number of NGS systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and that NGS has adequate systems of internal control in place. We did identify a number of minor areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2010/11 to confirm that improvements have been made.

Statement on Internal Control

36. The Statement on Internal Control provided by NGS 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 NGS' approach to this. The statement on internal control drew attention to the internal audit review of retail stock levels and the improvements that would arise from the establishment of the separate trading company, and the strategy in place to meet the financial commitment for the Portrait Galley Development.

Internal Audit

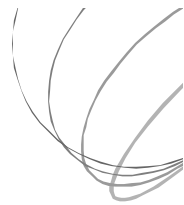
37. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NGS internal audit function. We concluded that Baker Tilly 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.
38. Baker Tilly's contract to provide internal audit services to NGS and National Library of Scotland has been extended. It is hoped that this will allow common areas of review to be identified and reviewed jointly to contribute to the ongoing shared services programme.

Prevention and detection of fraud and irregularities

39. NGS 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

40. In September 2010 Audit Scotland published a national study on *The Role of Boards* which is relevant to the governance of NGS. 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 assess how Board members are selected and whether the membership of Boards is appropriate. We also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members.

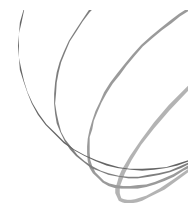


Performance

41. 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.
42. In this section we comment on:
- NGS' corporate plan
 - performance against targets
 - risk management
 - NGS' efficiency programme

Vision and strategic direction

43. NGS' high level mission and objectives are published on their website. NGS' mission is to care for, develop, research and display the national collection of Scottish and international fine art and, with a lively and innovative programme of exhibitions, education and publications, aim to engage, inform and inspire the broadest possible public.
44. NGS' artistic priorities are:
- To enhance our national and international reputation for the high quality of our collection, displays and exhibitions.
 - To develop our reputation for academic excellence and to make our research available to the widest possible public.
 - To place people – their enjoyment, inspiration and education - at the heart of what we do as an organisation.
 - To extend the range of our activities to embrace a truly national role.
45. NGS' business objectives are:
- To re-invent the Scottish National Portrait Gallery with a new vision, concept and facilities.



- To improve and upgrade the existing possibilities for presenting modern and contemporary art in Edinburgh and Scotland.
- To make the best use of the Galleries' estates.
- To continue to build on the financial stability, efficiency and sustainability of the Galleries.
- To ensure the best possible protection for our collection, public and staff.
- To ensure that our organisation is in keeping with our aims and values, and that we continue to develop a well-trained, expert, flexible staff who feel recognised, involved and motivated.

46. These priorities are aligned with the wider policies and strategies established by Scottish Government. NGS aims to contribute to the following Scottish Government National Outcomes:

- we are better educated, more skilled and more successful, renowned for our research and innovation
- our young people are successful learners, confident individuals, effective contributors and responsible citizens
- we take pride in a strong, fair and inclusive national identity
- we reduce the local and global environmental impact of our consumption and production
- our public services are high quality, continually improving, efficient and responsive to local people's needs.

47. The NGS corporate plan for 2009 – 2011 will evolve into a 2011-2014 plan over the next year to bring it in line with the three year spending review. It will encompass departments' action plans which link to the overarching corporate priorities and objectives and input received from Scottish Government.

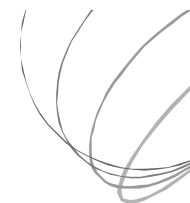
Performance overview

48. NGS set various performance targets for 2009/10. Reported achievements against targets include:

- Visits to Edinburgh galleries at more than 1,221,000 were 71,000 more than the target of 1,150,000 visitors.
- Visits to the NGS website at more than 926,000 were 34,000 more than the target of 892,000 visits.

Risk management

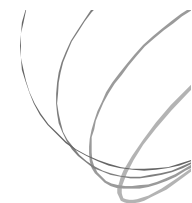
49. NGS operates a risk management policy. Business risks are monitored at operational and senior management/Board level. Key risks identified by NGS at senior management/Board level include:



- a change of policy by the Sutherland Trustees and other major lenders
 - not securing adequate revenue to cover deficits on the exhibitions programme
 - a change in the programme planning model, leading to a significant reduction in paying shows and therefore self-generated income
 - the security of the collection being compromised due to inadequate resources
 - a failure to provide adequate and sufficient storage
 - an inability to establish sufficient funding to manage the Portrait Gallery running costs, potentially resulting in delaying the re-opening
 - not responding to the need for change in the light of difficult economic circumstances
 - high commitments on three major projects, resulting in a potential liquidity crisis, loss of purchase grant in the immediate future and limited funding for other activities.
50. The NGS senior management team have put in place a series of control measures to manage these key business risks effectively. These include effective management of the relationship with the Sutherland Trust and other lenders, implementing strong financial control on exhibitions, continuing discussion on programme planning and strategy, continuing robust fundraising campaigns, reviews of organisation and financial structure, adequate cashflow planning and ensuring adequate staffing and security measures are in place. The challenge for the Board and senior management team will be to embed risk awareness throughout the organisation to support the effective management of risks.

Improving public sector efficiency

51. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided 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.
52. 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.
53. 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.



54. 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*

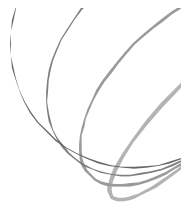
In order to improve the delivery of efficiency savings public bodies should:

- 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.

55. 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.
56. The Cultural Collections (NGS, National Museums Scotland, National Library of Scotland, Museums Galleries Scotland and Scottish Library and Information Council) are all working to meet Ministers' targets for Efficient Government. They will aim to achieve this through working more effectively together in terms of shared services and work practices but will also individually be looking at specific projects within each organisation. The Cultural Collections cash releasing target for 2009/10 was £3.25 million and for 2010/11 is £3.6 million.
57. In the current three year budget settlement NGS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. The actual savings achieved to 31 March 2010 were £1.641 million of cash releasing efficiencies. These include a recurring £1.26 million from acquisition of the Artist Rooms collection of modern and contemporary art at a significant saving over its valuation allowing the £1.26 million purchase grant to be used for other priorities. Efficiency savings were also achieved from zero-based budgeting to direct spend towards



corporate plan priorities and objectives, procurement efficiencies in publications and office supplies, and a revised travel policy. NGS plan to achieve energy savings through setting carbon emissions and water consumption targets and the installation of a new building management system which will provide better control of air conditioning. We will continue to monitor the financial position and the actions taken by NGS to manage the budget.



Looking Forward

58. NGS 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 NGS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **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 NGS achieving its financial targets within tighter funding settlements. We will consider NGS' financial management arrangements as part of our 2010/11 audit.
- **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 NGS will need to finish preparations for disclosure in the accounts.
- **Implementation of IFRS** - the timetable for IFRS implementation requires that central government accounts in Scotland become IFRS compliant with effect from the 2009/10 financial year. However implementation has been deferred for charities and, as yet, the date for shadow accounts has not been agreed. The processes to implement IFRS will require significant resource to complete and these issues should continue to be addressed in 2010/11.