

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2003/04 AUDIT OF THE NATIONAL GALLERIES OF SCOTLAND

1. I have received the audited accounts of the National Galleries of Scotland (NGS) for the year ended 31 March 2004. The auditor's report on the accounts is not qualified but I have decided to issue this report to bring to the Parliament's attention the NGS's financial position.
2. I submit these accounts and the auditor's report in terms of sub-section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under sub-section 22(3) of the Act.
3. The NGS is a non-departmental public body sponsored by the Scottish Executive Education Department (SEED). During 2003/04, SEED provided the NGS with grant-in-aid of £8.625 million to assist with running costs. SEED also provided the NGS with a Purchase Grant of £1.260 million for the purchase of works of art for its collections. The NGS generated a further £7.904 million, mainly from donations and lottery funding associated with the refurbishment of the Royal Scottish Academy building and the expansion of facilities at the National Gallery on the Mound, Edinburgh (the Playfair Project).
4. The NGS reported a surplus of income over expenditure of £124,000 in 2002/03. This was achieved through the transfer of £400,000 from the £3.760 million Purchase Grant provided in that year to fund running costs. If the transfer from the Purchase Grant had not been made, the NGS would have recorded a deficit of £276,000. The auditor attributed most of the deficit to a loss on exhibitions and retail activities. The NGS indicated in its 2002/03 accounts that, in order to meet additional revenue costs likely to arise in 2003/04, it anticipated that most of the Purchase Grant for that year would also have to be used to fund running costs. The NGS intended, however, to carry out a Best Value Review to help identify the future funding requirements of the organisation.
5. During 2003/04, the NGS reported a surplus of income over expenditure of £372,000. The surplus was again achieved through the transfer of funds from the Purchase Grant to cover running costs. In 2003/04 the sum transferred was £1.155 million out of a total Purchase Grant of £1.260 million. If the Purchase Grant had not been used, the NGS would have recorded a deficit of £783,000. The NGS indicated in its 2003/04 accounts that, for the first time in its history, nearly all of the grant-in-aid provided for the acquisition of new objects had to be used to fund running costs. Although the major exhibition of Monet paintings held during summer 2003 generated increased income from sponsorship, admissions and publications, the other expenses associated with the exhibition, along with increased costs associated with the opening of the newly refurbished Royal Scottish Academy building, accounted for a significant proportion of increased running costs.
6. The latest Scottish Executive Spending Proposals 2005-2008 indicate that the annual grant-in-aid which the NGS can expect to receive to assist with running costs will increase in each of the next four years to £11.465 million in 2007/08 (a 33% increase on 2003/04 levels). The Scottish Ministers will also provide around £7.7 million in 2006/7 to assist acquisition of the Scottish National Gallery of Modern Art which will release the NGS from annual rental payments of £550,000. NGS has updated its financial projections to take account of the Spending Proposals. These projections show a continued reliance on the Purchase Grant to fund running costs in the three year period 2004/05 to 2006/07. Without the use of the Purchase Grant NGS expects to have an accumulated deficit of £1.411 million at 31 March 2007. There is, therefore, still a need for the SEED and NGS to consider how best to manage the gap between its income and expenditure over this period. Given the importance of this issue to the NGS, the NGS and SEED should seek an early resolution to this matter. I shall expect the appointed auditor to monitor developments in NGS's financial position and to report to me as necessary.



ROBERT W BLACK
Auditor General for Scotland
12 November 2004