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PREM 19/958

Policy towards the Arts.
 Private Sponsorship of the Arts.

ARTS and AMENITIES

March 1980

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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| 13.6.80 | | 4.2.83 | | | | | |
| 13.6.80. | | March 1983 | | | | | |
| 25.6.80 | | 8.3.83 | | | | | |
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| 20.1.83 | | | | | | | |
| 22.8.83 | | | | | | | |

PREM 19/958

● PART 1 ends:-

s/s welsh office to m/s PCO

PART 2 begins:-

Minister for the Arts to LPC
5/12

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 22 February 1982, columns 604-643 "The Arts"

House of Commons Paper 239: Third Report from the Education, Science and Arts Committee, Session 1981-82
HMSO, 3 March 1982

Museum and Galleries Commission: Report by Working Party on Museum Travelling Exhibitions 1983
HMSO (ISBN 0 11 290420 3)

Signed AWayland Date 28 January 2013

PREM Records Team

ce NO

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01-233 6106 (Linell Union)



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GWYDYR HOUSE
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01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

Davis
24/11

23rd November 1983

De Argy

THE PRIESTLEY REPORT

I have seen George Younger's letter of 14 November. I also strongly support your bid for £5 million, anything less would, in my view, be an inadequate response to the Priestley Report.

Whatever solution we adopt in relation to the Royal Opera and RSC we need to ensure that other companies whose work has won international recognition are not adversely affected as a consequence. I entirely agree with George that it will not do to look at the RO/RSC in isolation. I was therefore very pleased that in your letter of 17 November to Peter Rees you recognise the contribution and the financial need of the regional companies. I very much hope that Peter can agree to your proposal.

I am copying this letter to the Prime Minister, ✓ the Chief Secretary, Secretary of State for Scotland and Sir Robert Armstrong.

*If the Royal Opera is not going to
lose, then support for the first
rank touring companies is even more
important*

The Earl of Gowrie
Minister of State
Privy Council Office

[Signature]
Nci

ARTS
P819
March 88

1/2



24 NOV 1983

Would you please substitute this
copy for version sent to you
yesterday - there is an amendment -
with apologies.

J. Auld
15/11/83

*With the Compliments,
of the
Private Secretary*

*Scottish Office,
Dover House,
Whitehall,
London SW1A 2AU.*



Je N.U.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Lord Gowrie
Minister of State
Privy Council Office
Whitehall
LONDON

abpm
Dms
15/11

14 November 1983

Dear Grey,

THE PRIESTLEY REPORT

At Cabinet last week we had a brief discussion of the Priestley Report and you are to discuss further with the Chief Secretary the resource implications of that and reported matters.

My purpose in writing is to record that I strongly support your bid for £5m, which I agree is the minimum required next year to put our major arts companies on a more satisfactory financial footing. You know about the representations I have had from Scottish Opera, and the Scottish Arts Council have also made strong representations about the needs of Scottish Ballet: just to deal with the deficits of these two companies alone over £500,000 would be required. The problems of the Scottish National Opera are very real though possibly not so serious; and there are several other "national" bodies in difficulties in Scotland. But it is the position of Scottish Opera which is critical. I therefore agree entirely that to provide no more than £3m, as the Chief Secretary has suggested, would be seen as a wholly inadequate response to the Priestley Report and its implications for all the major companies.

Whatever sum we finally decide can be made available, it is however clear that we cannot reasonably contemplate devoting all of it to the two London-based companies alone while denying any help at all to the other major companies in the rest of the country. I am in no doubt that to treat the Royal Opera House and the Royal Shakespeare Company preferentially and in isolation is not a realistic option.

I am copying this letter to the Prime Minister, the Chief Secretary, Treasury, the Secretary of State for Wales and Sir Robert Armstrong.

Yours sincerely,
George

AKS: Policy 3/80

10/10/80

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15 NOV 1980

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JEVC

10 DOWNING STREET

From the Private Secretary

14 November 1983

Thank you for your letter of 11 November.

I agree that the revised wording you suggest better reflects Lord Gowrie's remarks and I have placed a copy of your letter and this letter on our file by way of confirmation.

DB

Mrs M.E. Brown,
Office of the Minister for the Arts.

da



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

11 November 1983

David Barclay Esq
Private Secretary
10 Downing Street
London SW1

Dear David,

PRIESTLEY REPORT

Thank you for your letter of 4 November recording the Prime Minister's discussion with Lord Gowrie about the Priestley Report. As I mentioned to you earlier this week, Lord Gowrie wondered whether paragraph 3 of your letter might be amended slightly to reflect fully what he said. He has suggested that it should read:

"Lord Gowrie argued that he would find it difficult to defend the position whereby the Royal Opera House received additional funding but the other national opera companies received no increase at all. He believed he could hold the position in terms of the RSC in relation to other theatre bodies. Hence his proposal to bid for a £5m addition to the PES baseline, starting in 1984-85, in order to implement the Priestley recommendations for the ROH and the RSC, with quite a small increase for the other opera companies".

I promised to let you have a note of this in writing.

Yours sincerely,

Mary Brown

MRS M E BROWN
Private Secretary

GR

Thank you for your letter
of 11 November.

I agree that the revised wording
you suggest better reflects
Lord Gowrie's remarks, and I
have placed a copy of your
letter and this letter in ^{my} file
by way of confirmation.

Arts et Aménités,
Mar 80
Bluz



1983



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref.A083/3220

11 November 1983

My dear Andrew,

2.11.83 I attach a copy of a letter which I have just received from Richard Wright at the Royal Opera House, proposing that the Secretariat for the Development Sub Committee should now be established on the same basis as the other sub committees.

The Development Sub Committee now meets on the third Monday before the Board Meeting each month: in other words, one week before the Finance Sub Committee, at 5.00 pm.

As you know, the Board has not accepted Clive Priestley's recommendation that the Secretariat for the Board should in future be provided from within the staff of the Royal Opera House, but has said that it would like to continue with the existing arrangements. Nonetheless, I am not very anxious at this particular moment to add to the numbers of the Secretariat as now constituted. Do you think that between us we can undertake this additional commitment? If you or John Wiggins felt able to regard yourselves as first call for this I shall myself be going to the Development Sub Committee whenever I can, and when I go would be perfectly happy to act as a substitute minute taker.

I am sending copies of this letter to Robin Butler and John Wiggins.

*Yours ever
Robert*

A J C Edwards Esq



10 DOWNING STREET

Prime Minister

The Chief Secretary is
proposing

- (i) that Cabinet should endorse the totals for the cuts agreed with MISC99
- (ii) that to £5 million additional bid should not be agreed for the line being
 - (a) claim on the contingency reserve while CST examines
 - (b) scope for offsetting savings
 - (c) case for extending help to other opera companies.

AT

10/11



FROM: CHIEF SECRETARY
DATE: 9 NOVEMBER 1983

PRIME MINISTER

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND
ROYAL SHAKESPEARE COMPANY

You have already commented on Grey Gowrie's letter to the Chancellor of 4 November.

2. I have seen the summary report by Mr Priestly and I agree that he makes a strong case for increased funding for the Royal Opera House and Royal Shakespeare Company. However, I would like to have a chance to consider in rather more detail the exact figures that are necessary. Moreover the Report recommended not only extra funding but also economies within the companies and a radical overhaul of their financial management. I do not think we should agree to the former without securing a clear commitment to immediate action on the latter.

3. The Priestly Report, of course, related only to the Royal Opera House and the Royal Shakespeare Company. I cannot accept Grey's suggestion that we should assume without further examination that other opera companies face the same difficulties and that we should simply grant them an additional £1.9 million a year. The circumstances, for example, of the Scottish Opera may differ markedly from the Royal Opera. Besides, an immediate extension of special treatment to other opera companies would precipitate demands for further help to other performing Arts companies.

4. For these reasons I would like to discuss a little more fully with Grey what increases are required for the ROH and



RSC and other companies before final decisions are taken. But you will not be surprised to hear that my main concern is with his proposal that any increases should be matched by an increase in the overall arts budget. In my view, those claims must be weighed against other claims on the Budget and, painful though it may be, offsetting savings should be found. I do not think it reasonable to ask colleagues to address themselves to this issue at Cabinet tomorrow. I suggest that we should seek colleagues' endorsement to the programme totals I agreed with Grey on 24 October and that his new bid should be treated as a potential claim on the Contingency Reserve. He will appreciate that, to my eyes at least, there is a strong presumption against accepting such a claim at any time, let alone within two weeks of a decision on programme totals.

5. Finally I don't think I can let pass Grey's comment that the Priestly Report came too late to be taken into account in our Public Expenditure bilaterals. The Report was delivered on 30 September but it was already known at the time of our bilateral meeting on 12 September that it would recommend increased funding for the ROH and RSC. It was not until 24 October that we reached agreement on the Arts Programme - an agreement to increases of £6 million in 1984-85, £10 million on 1985-86 and £13 million in 1986-87 on the basis that the detailed allocation of the programme was for Grey to determine. By that time, it should have been possible for him to reach at least a provisional view of the Priestly recommendations, though his consultations were not complete. Yet at no stage during those exchanges did he suggest either that a further increase in his programme was required in order to accommodate necessary action on Priestley or that when the recommendations had been further studied he might need to seek additional resources. Had he done so, I



would certainly have sought to reach an agreement which took account of these impending claims and, if necessary, put the matter to MISC 99 so that the proposals could be weighed against the many painful options they were considering in other fields.

I am copying this minute to the Minister for the Arts and, with copies of the earlier correspondence, to the Lord President and Sir Robert Armstrong.

J. G. Grieve

J. G. P. R.

[Approved by the Chief Secretary]

LONDON

Arts: Pol. towards 3/26



CONQUEROR
LONDON



Royal Opera House

Royal Opera House
Covent Garden London WC2E 7QA
Telephone: 01-240 1200
Cables: Amidst London WC2 Telex: 27988 Covgar G

Sir Robert Armstrong GCB CVO
Secretary to the Cabinet
Cabinet Office
70 Whitehall
London SW1A 2AS

8 November 1983

Dear Robert,

You will know that a new Development Sub Committee is being formed to cover Phase II of the Development. This Phase is of very great moment to us and it is appropriate that we put this Sub Committee on as sound a base as we can. I have suggested to Claus Moser that the Secretariat should be established on the same basis as the other sub committees. Both he and John Tooley concur with this idea and I am wondering whether it is something you feel we can pursue at this moment.

For the first meeting of the Sub Committee scheduled for Monday next week, we shall provide an in-house Secretariat as before as a stop-gap measure and hopefully we can have a permanent solution adopted for our December meeting.

*Yours
Richard*

Richard Wright
Director of Administration

Arts and Amusements : Palace; March 80

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FILE

10 DOWNING STREET

From the Private Secretary

4 November, 1983

PRIESTLEY REPORT

The Prime Minister discussed handling of the Priestley Report on the Royal Opera House and the Royal Shakespeare Company with Lord Gowrie this morning, against the background set out in the OAL noted dated 2 November.

The Prime Minister said that she agreed with the central proposition of the Priestley Report, that the Royal Opera House should be funded in a way which enabled it to retain its international reputation as a centre of excellence. She accepted that opera as an art form was unlikely to be viable without subsidy. It was particularly important in her view to get the backstage facilities at Covent Garden up to the proper standard.

Amended by subsequent correspondence with Lord Gowrie's office.

Lord Gowrie argued that he would find it difficult to defend the position whereby the Royal Opera House received additional funding but the other national companies (he mentioned specifically the English National Opera Company and the Royal Shakespeare Company) received no increase at all. Hence his proposal to bid for a £5 million addition to the PES baseline, starting in 1984/85, in order to implement the Priestley recommendations

The Prime Minister expressed concern about the effects of increased subsidy on competition. It was not, for example, self-evidently sensible to have two opera houses in the capital both of which were subsidised. Her main worry, however, related to the position of the unsubsidised West End theatres in relation to competition from the RSC and the National Theatre. Lord Gowrie said that competition was a problem only with the National Theatre, which he considered could quite possibly be squeezed harder. The ENO and RSC were tighter run, and neither company really operated in the same sector of the market as the West End theatres.

[Handwritten signature]

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- 2 -

In the light of this discussion the Prime Minister said that she accepted the need for additional arts funding of the order of £5 million in 1984/85 as a result of Priestley's recommendations, which had not been available when Lord Gowrie had agreed future PES provision with the Chief Secretary earlier in the year. She would prefer to see this sum included in the financial PES line for expenditure on the arts. The Prime Minister also expressed a preference for a one-off payment rather than a permanent addition to the level of subsidy if this could be achieved without sacrificing Priestley's objectives. But she accepted that a continuing addition might well be necessary at least in the case of the Royal Opera House.

There was then a brief discussion of local authority funding for the arts, in the course of which Lord Gowrie explained the steps he was taking to secure a sensible outcome from the current debate. He said that he would like to put forward firm proposals in the New Year. The Prime Minister said that she would like to arrange a weekend discussion of the arts at Chequers early in the New Year, so that these proposals could be considered in a wider context.

I should be grateful if in due course you could put forward proposals for the timing, agenda and guest list for such a discussion, which might conveniently take place over a Sunday lunch at Chequers.

(David Barclay)

Mrs Mary Brown
Office of the Minister for the Arts

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10 DOWNING STREET

From the Private Secretary

4 November 1983

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE & THE ROYAL SHAKESPEARE
COMPANY

Lord Gowrie wrote to the Chancellor on 4 November about the financial scrutiny of the Royal Opera House and the Royal Shakespeare Company, and sent a copy of his letter to the Prime Minister.

The Prime Minister considers it unavoidable, in the light of the findings of the Priestley Report, to provide the funds proposed by Lord Gowrie for the Royal Opera House, the Royal Shakespeare Company and the other opera houses.

I am sending a copy of this letter to Mary Brown (Lord Gowrie's Office).

MR. D. BARCLAY

John Kerr, Esq.,
H.M. Treasury.



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

4 November 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Dear Nigel,

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

I think it right to put to you immediately the consequences of the report on the financial affairs of the Royal Opera House and the Royal Shakespeare Company by Clive Priestley, which I received at the beginning of October. The report came too late to be taken into account in my PES exchanges with Peter Rees. I had also undertaken to consult on its conclusions with the Arts Council as the funding body, and with the companies themselves.

The report concludes that the extensive and complex operations of both the ROH and the RSC have been historically underfunded, and that their baseline needs to be raised, and guaranteed in future, if they are to continue at their present international standard. Priestley sets out the inexorable deficits that are again mounting up and recommends that in 1984/85 the basic grant for the ROH should be increased by £1.8m and that for the RSC by £1.3m. These conclusions have been reached in spite of the expectation, at the time when Paul Channon commissioned the report, that Priestley might be able to find significant savings; they are in fact in line with the long expressed view of the Arts Council and the companies themselves that they have been underfunded not overfunded.

I am afraid I can see no possibility of meeting the extra needs identified by Priestley within my existing Arts budget, as settled in the present PES round. As Peter Rees will know from the extensive discussions we have had, I have no room to manoeuvre: in order to help him as much as possible, and avoid causing more problems to colleagues, I have settled for only half of the additional bids I needed to make for

next year. The consequences of having to ask the Arts Council to find another £3m for the ROH and RSC within their own allocation (£92m in 1982/83) would be disastrous. The Arts Council would either have to perform drastic surgery at both the ROH and RSC (the latter probably pulling out of the Barbican), or meet the bill at the expense of the other national companies and the regions. The damage both politically and in terms of publicity of such action would in my judgement be out of all proportion to the sum of money required.

Priestley involves us in a wider but no less acute problem. The report investigated only two companies but its conclusions about underfunding apply to the other opera companies as well.

George Younger has already approached me about current Scottish Opera deficits; there are also problems in respect of the English National Opera, Welsh National Opera and Opera North. I would not be able to ask the Arts Council to rescue the ROH and the RSC without some regard to the problems of the other opera companies at least; I believe that I can hold the position in respect of the RSC in relation to the other theatre companies. A minimum package of £5m a year is therefore required to establish a new baseline for the ROH and other national opera companies, as well as the RSC, from 1984/85 onwards. I am afraid it is not open to us simply to repeat last year's bale-out operation, when a £5m supplementary was voted to write off existing deficits. The need is for a new baseline enabling these major companies to operate as centres of excellence without running into regular annual deficits.

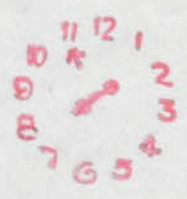
The implications of the Priestley report, therefore, are that I must approach you for an additional £5m a year, so as to enable the RSC and the ROH and the other major opera companies in this country to put their affairs on a sounder financial footing in 1984/85 and later years. For my part, I can assure you that I will use the opportunity given to me by additional funding to secure the managerial improvements also recommended by Priestley. As to timing, I need to be able to announce the Government's intentions on Priestley at the time of my statement on the Arts budget as a whole for 1984/85, which I hope can be made in the usual way at the beginning of December.

I am sending a copy of this letter to the Prime Minister.

Yours,
P/Gray

LORD GOWRIE

4 NOV 1983



PRIME MINISTER

I attach a rather long background note by the Office of Arts and Libraries for your meeting tomorrow with Lord Gowrie to discuss Clive Priestley's report on the Royal Opera House and the Royal Shakespeare Company.

There are two main issues:

- (i) Priestley's recommendation that the level of funding for the ROH and the RSC, and for the English National Opera and the National Theatre, should be decided by Ministers and not by the Arts Council. Grant would be paid either direct or by "earmarking" a proportion of Arts Council funds. Sir William Rees-Mogg is bitterly opposed to direct grant, but would apparently be prepared (just) to live with an earmarked grant.
- (ii) Priestley's view that, whatever the grant mechanism, additional funding for the ROH and the RSC is required. Lord Gowrie is contemplating a bid for an extra £5 million in 1984/5.

Priestley's recommendations have not been taken into account in the current public expenditure round, in which Lord Gowrie has settled for an additional £6 million in 1984/5, £10 million in 1985/6, and £13 million in 1986/7. Any attempt by Lord Gowrie to reopen this by seeking a further increase for the ROH and the RSC is likely to meet considerable resistance from the Treasury.

DMB

3 November 1983



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

2 November 1983

Robin Butler Esq
10 Downing Street
London SW1

Dear Robin,

LORD GOWRIE'S MEETING WITH THE PRIME MINISTER,
10.30 AM, FRIDAY 4 NOVEMBER

As you know, Lord Gowrie is coming to see the Prime Minister to talk about the financial implications of Mr Priestley's scrutiny of the Royal Opera House and Royal Shakespeare Company. Lord Gowrie has asked me to send ... you the enclosed background note which the Prime Minister may find helpful in advance of the meeting.

Yours sincerely,

Mary Brown.

MRS M E BROWN
Private Secretary

PRIESTLEY REPORT:

BACKGROUND NOTE FOR THE PRIME MINISTER'S MEETING WITH LORD GOWRIE

Lord Gowrie has asked to come and see the Prime Minister, to seek her guidance about the political handling of the Priestley Report on The Financial Scrutiny of the Royal Opera House (ROH) and the Royal Shakespeare Company (RSC). This note is designed to provide a background brief to the matters which Lord Gowrie wishes to discuss with the Prime Minister but does not offer advice on the policy of the issues; Lord Gowrie would like to explain his thoughts on the policy when he sees her.

2. Clive Priestley's main report was submitted to the Minister and published at the end of September. The two detailed annexes on the two houses are still awaited, but the two houses know in some detail what they will contain, and there are not expected to be any surprises.

3. Clive Priestley has done an immensely thorough, professional and comprehensive job in a very short space of time. His findings and conclusions cover not just broad issues but also many matters of considerable detail; but his main conclusions are as follows:

1. The job which the two houses do - the functions they seek to fulfil and the way they set about fulfilling them - is worth doing and ought to go on being done.

2. The two managements are doing the job to high standards of artistic achievement and without significant extravagance or waste.

3. There is scope for improvements to be made in management, particularly at the ROH, and there is scope over time to make some small but worthwhile savings.

4. But both houses have been and continue to be underfunded for what they are expected and trying to do, and the gap is much bigger than can be met by improvements in management or detailed savings.

5. If it is willed that the ROH and the RSC should continue to provide the level and standard of activities they have been providing - and Clive Priestley makes it clear that his view is that they should - the accumulated debts of both houses should be cleared and the level of funding increased for future years by something of the order of 17 per cent.

6. A greater degree of stability for the future should be provided by means of a system of "targeted funding" which would give the two houses a solid basis for future planning.

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7. The two houses and the other two national companies (the National Theatre and English National Opera) should in future be funded either direct from the Office of Arts and Libraries (OAL), not via the Arts Council; or by means of a grant to the Arts Council which is earmarked for the national companies (in other words, the Minister for the Arts, not the Arts Council, should be responsible for deciding on the allocation of grant as between the national companies and the regions).

4. Lord Gowrie invited comments from the Arts Council and from the two houses, and has just received their replies. They disagree about the funding route - the RSC favours direct funding from the OAL, cutting out the Arts Council; the ROH favours a grant earmarked for the national companies but routed via the Arts Council; and the Arts Council are passionately against direct funding and not thrilled with (but prepared to settle for) earmarking. But all three agree with Clive Priestley that the two houses are both underfunded. Indeed, the Arts Council have publicly said that the ROH needs even more than Clive Priestley has recommended, and not surprisingly the Opera House endorse this. The Arts Council have also said that the funding crisis of the ROH and the RSC is not unique but reflects the degree of underfunding of their clients up and down the country.

5. Lord Gowrie judges that an additional grant of £5 million in 1984-85 would be sufficient to deal with Priestley's recommendations for the ROH and the RSC, and with the most pressing problems of other Arts Council clients: he feels that it would be very damaging to the Government to do what Priestley recommends for the ROH in particular and do absolutely nothing for English National Opera and the regional opera companies.

6. The arts lobbies and pressure groups are now mobilising for the defence of arts institutions that are thought to be under threat as a result of the decision to abolish the Greater London Council and the metropolitan county councils. Apart from the arguments on merit for implementing the Priestley recommendations on funding for the national companies, there would be political advantage in limiting the length of the front along which the Government is or will be under pressure.

7. The Priestley recommendations were not available in time to be taken into account in the current public expenditure round. Lord Gowrie put in an additional bid for £12 million in 1984-85, which included provision for the new British Library on which there was a commitment in the Election Manifesto; there was nothing in this bid for the Priestley recommendations. He has settled with the Chief Secretary for an addition of £6 million in 1984-85 (£10 million in 1985-86 and £13 million in 1986-87): again, there is nothing in these figures for the Priestley recommendations.

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8. Lord Gowrie would like to take the Prime Minister's mind on the idea of an additional £5 million in 1984-85 (and corresponding figures in later years) on account of the Priestley recommendations. If she agreed in principle that this sum should be found, he would also like to consult her on the mechanics and timing of an approach to the Treasury.

9. Though the figure is of great significance for the bodies concerned, it is relatively very small in a public expenditure programme measured in hundreds of billions of pounds. The issues are tactical and political rather than economic. Hence Lord Gowrie's desire to go over them with the Prime Minister.

2 November 1983

CONFIDENTIAL

ARTS AND AMENITIES: Policy:

March 83



MUSEUMS AND GALLERIES COMMISSION

2 Carlton Gardens London SW1Y 5AA

Telephone 01-930 0995

(Enquiries; Peter Arnold)

Dms
10/10

PRESS NOTICE

6 October 1983

TRAVELLING EXHIBITIONS - STOPPING THE GAP

A Report, Museum Travelling Exhibitions (HMSO £3.35) is published today.

The travelling exhibition service of the Victoria and Albert Museum was closed down six years ago because of staff reductions. Since then some attempts have been made by national museums, the Arts Council and others to mitigate the effect on regional museums. Conscious that museum travelling exhibitions as a whole might need further assistance, the Museums and Galleries Commission formed a working party under the chairmanship of Mr. Terence Hodgkinson, CBE, to assess the demand for them and how it can be met, 'taking into account present arrangements and intentions and the restraints on resources'. More than 110 museum institutions and associated organisations were consulted.

The report now published, covering both art and science exhibitions, reviews the lively demand for them and points to a general decline in standards, which the efforts so far made have failed to arrest.

The Report does not disguise the fact that the long-term development of this important service to the public would call for additional effort and increased expenditure by the national museums.

At the same time the Report contains some suggestions for improving the present situation by coordinating existing initiatives and encouraging others. It recommends that one suitably qualified person be added to the Commission's staff to do this job, having the administration of a new £100,000 p.a. grant fund.

In his introductory remarks the Commission's Chairman, Sir Arthur Drew, says:

"Disaster is perhaps too strong a word for the disbandment of the Victoria and Albert Museum's service of travelling exhibitions. But it was certainly a very serious loss to the many visitors to these exhibitions in museums and galleries outside London. Some people kidded themselves at the time and argued that no one much minded. They didn't listen to those affected.

It is easier to disband a service than to restart it. But the present enquiry suggests ways of doing just this. That is, ways of getting better travelling exhibitions on the road again. The Victoria and Albert Museum was never the sole source of such exhibitions and in recent years other leading museums have stepped up their contributions. But these efforts need bringing together and stimulating. This report shows how this can be done and at very modest cost, an annual expenditure of one tenth the cost of a tank."

The Commission asks the Earl of Gowrie, Minister for the Arts, for the money to make a start in 1984.

NOTES FOR EDITORS

The Commission was first established in February 1931 as the Standing Commission on Museums and Galleries and was re-named and took up new functions in September 1981. It is financed through the Office of Arts and Libraries but is responsible for advising the United Kingdom Government, including the Department of Education for Northern Ireland, the Scottish Education Department and the Welsh Office, on museum affairs. There are 14 Commissioners, who are appointed by the Prime Minister - 7 in consultation with museum institutions and 7 independently.

The Commission's formal mandate is: (i) to advise generally on the most effective development of museums and galleries and to advise, and take action as appropriate, on any specific matters which may be referred to them from time to time; (ii) to promote co-operation between museums and galleries and particularly between the national and provincial institutions; and (iii) to stimulate the generosity and direct the efforts of those who aspire to become public benefactors.

The Commission's earlier publications (also through HMSO) include reports on Countywide Consultative Committees (1982); Museums in Wales (1981); Conservation (1980); and a Framework for a System of Museums (1979).

Besides Sir Arthur Drew as Chairman, the Commission's members are: the Marchioness of Anglesey; Timothy Clifford; Professor John Hale; Terence Hodgkinson; Lord Howard of Henderskelfe; Tom Hume; Hugh Leggatt; Admiral of the Fleet Lord Lewin; Professor Hamish Miles; Professor Brian Morris; Professor Geoffrey Sims; Douglas Tattersall and Professor Basil Yamey. Terence Hodgkinson (formerly Director of the Wallace Collection) chaired the Working Party that prepared the report. He was assisted by Admiral Sir David Williams, prior to his resignation from the Commission to become Governor of Gibraltar, and by Simon Ridley, the Commission's Secretary. Mr. Terence Suthers acted as Secretary to the Working Party.

PERSONAL



10 DOWNING STREET

From the Principal Private Secretary

5 October 1983

The Prime Minister has seen your letter of 30 September and is very grateful to you for renewing your invitation to lunch or the theatre.

I would not advise that we aim for an evening at the theatre. It took four cancellations before she was eventually able to join Sir Ronnie Millar to see his play 'Heartbreak House'. I know that she would like in principle to reinstate the lunch but we have put to her the only two dates she has for lunch before December and she ruled out both, one on the grounds that it was the first day of Parliament and the second on the grounds that she would be working on her speech for the Lord Mayor's Banquet.

I have the feeling that, what would have been apt and timely at the moment of your departure, especially in what should have been the quiet days of the first week of the Recess, is going to be difficult to fit in and vulnerable to cancellation now that we are back in the press of business. So I suggest that we leave it over for the time being. You will not fade in her affections!

FPB

Clive Priestley, Esq., CB.

Return
with pleasure
T.

PRIME MINISTER

Attached is a letter from Clive Priestley renewing his invitation to lunch or alternatively an evening at the theatre. I would have thought that the former was preferable especially since you have scarcely a free evening between now and Christmas. If you wish to take up the invitation to lunch, 24 October is just about the only free day between now and December, although this will make a very crowded week. Do you wish to agree ~~for~~ ^{to} 24 October or delay until December?

- Delay - the
week in the first day
of Parliament
mb

You have also mentioned the delayed lunch for John Sparrow. We are trying to fit this in for Friday 11 November.

I think we should be
working on the Lord Mayor's
speech that day

and I have already referred
a luncheon elsewhere
on that ground
mb

3 October 1983

Tim

Clive Priestley CB
Director of Special Projects

The Rt Hon Margaret Thatcher MP
Prime Minister and First Lord of the Treasury
10 Downing Street
LONDON SW1

CP/257

30 September 1983

Dear Mrs. Thatcher,

May I now renew my invitation to lunch or, if you would prefer something less "on parade", instead suggest the theatre one evening?

The lunch on 1 August was to have been for yourself, Derek Rayner, Robert Armstrong, George Jefferson, Robin Butler and Ian Beesley and, if this is agreeable to you, could be re-arranged. But if you would like a play instead, that could be easily arranged too, for a smaller party, perhaps.

I enclose a brief aide-memoire on my report on the Royal Opera House and the Royal Shakespeare Company, which will be published on Monday. The press and others will no doubt say that it is very embarrassing for the Government to have to consider giving Covent Garden and the RSC more at a time when, for example, there is so much trouble over the NHS. It may be a bit specious to argue that the ROH and RSC need more support as part of the "leisure industry" but I am quite clear, on that account and others, that they do deserve to have their finances put on a sound footing. Both companies would be expected to play their part through savings and, particularly in the Covent Garden case, measures of re-organisation.

I hope that you are now completely recovered and send you warm good wishes for the new Session.

Yours sincerely,

Clive Priestley

Enc: As indicated.

PERSONAL AND CONFIDENTIAL

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND
ROYAL SHAKESPEARE COMPANY: SUMMARY FOR PRIME MINISTER

Background

1 The Prime Minister agreed in December 1982 that the Government should make a supplementary grant of £5,000,000 to the Arts Council. Part of this was allotted to clearing deficits accumulated by the ROH and RSC. (In fact, the sums made over by the Arts Council were not enough to wipe out the whole deficit.) As a condition of her agreement, the Prime Minister asked for a scrutiny to establish where the companies' money went, particularly in the case of Covent Garden.

Method of Work

2 The companies have been scrutinised simultaneously by three consultants (two of whom were on secondment to the Efficiency Unit, and one of whom is a chartered accountant), six assignment officers from the MPO and me. The consultants and I dealt with the quality of financial management and control, "top-down". The assignment officers dealt with such examples of expenditure as costumes, sets and stage crew, "bottom-up".

3 The Prime Minister wanted a financial expert associated with the scrutiny. I used Mr Michael Haines of Thomson McLintock, who happens to be a distinguished amateur musician, has known the ROH for 30 years and proved to be very helpful. Other advisers appointed by Mr Paul Channon were Mr Peter Diamand, formerly Director of the Edinburgh International Festival and now with the Orchestre de Paris; and Monsieur Hugues Gall, formerly with the French National Opera and now Director of the Geneva Opera.

Savings and Reforms achievable by the Companies

4 I am proposing that the ROH should achieve an annual saving of £0.6m by end-1986/87, roughly equivalent to 3% of current expenditure, and the RSC £0.15m (2%). Some ROH savings will require much resolution (eg reforming stage crew practices); others propose the staging of fewer operas which do not do well at the box office.

5 The RSC saving is due to improvements and economies in the planning of the season, management of productions into performance and stage operating costs.

6 I propose too that both companies should make certain internal changes to organisation and systems. These are in line with existing developments. On the whole, the quality of management is good in the ROH, and getting better, and very good in the RSC.

Public Funding required

7 At present, 55% of ROH expenditure and 43.5% of RSC expenditure is met by grant. Both companies are underfunded, if the price of seats is to be kept at a reasonable level.

8 I am recommending the Government to endorse the range of products offered by the companies namely:

Royal Opera House

(1) Royal Opera Company, but relieving it of the obligation to tour in the United Kingdom.

(2) Royal Ballet, retaining the obligation to tour.

(3) Sadler's Wells Royal Ballet, which is Covent Garden's touring arm.

Royal Shakespeare Company

- (4) Royal Shakespeare Theatre and The Other Place, Stratford.
- (5) The Barbican Theatre and The Pit, Barbican Centre.
- (6) Annual 6-7 week visit to Newcastle-upon-Tyne.
- (7) Small-scale tour (in which a company of 15 visits 20 plus places throughout the UK, October-January).

9 The cost of getting things right is broadly:

- (1) A deficit write-off of £0.41m in respect of 1982-83 (ROH £0.22m, RSC £0.19m).
- (2) An increase of funding in 1983-84 of £1.686m (ROH £0.94m, RSC £0.746m).
- (3) An increase of funding in 1984-85 of £3m, and subsequently in proportion (ROH £1.8m, RSC £1.2m).

Alternatives to funding at the level proposed

10 The ROH could save £1.7m by disbanding the Sadler's Wells Royal Ballet, roughly the ROH's present annual deficit after funding. It might save £1m by moving the Royal Opera on to a "Festival" basis of working, giving about half the present number of performances. Each course has a capital cost (mainly redundancies). Dissolving the SWRB - the touring ballet - would be a grievous loss to the provinces. "Festival" opera would be a radical departure from what has been built up over the last 35 years with the help of Government subsidy.

11 The RSC could save £1.2m by ceasing the Barbican operation. This, too, has a capital cost. It would be a blow to the prospects of the Barbican Centre, and therefore to the City of London, as well as - also - a waste of earlier Government investment.

Future funding regime

12 I am recommending the Government to establish both a discipline for the companies and conditions of financial stability.

13 The aim is to provide for stability for three years ahead each year, subject always to circumstances. The means include the "targeting" of expenditures for subsidy; a detailed review of financial affairs and prospects by independent assessors every three years; and either a specific grant for the companies, earmarked in the Government's general grant-in-aid to the Arts Council, or a direct grant straight from Government.

Possible embarrassments for the Government

14 These include recommendations (R), suggestions (S), or observations (O) that:

(1) More money should be given to the ROH and RSC (R).

(2) It is just and wise to invest in the performing arts because of the amusement, inspiration and sustenance they can give the nation (S).

(3) The national status of the companies should be recognised by ceasing to put the Government's money for them in the general Arts Council grant (R).

(4) The ROH Board of Directors' Civil Service secretariat (whose senior members are Sir Robert Armstrong and Mr Butler) should be replaced by one found from among the ROH's own staff (R). (In a personal note to Lord Gowrie I have

made suggestions which would enable Sir R Armstrong, if invited and willing, to serve as a Director of the ROH in his personal capacity.)

(5) The high salaries paid to the Joint Artistic Directors of the RSC (Mr Nunn £47,000, Mr Hands £35,000) are unobjectionable, indeed deserved (0).

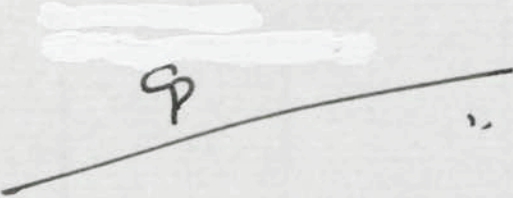
Next steps

15 The report goes to the Minister, the companies and the Arts Council today. Lord Gowrie has invited comments from the companies and the Council by 28 October. Publication will be on 3 October and press comment will start that day. There may be considerable controversy, both within the subsidised arts community and between it and others.

Tailpiece

16 The companies are doing excellent work. They are creators, and it irks me to see them in the Arts Council net. They bring us credit abroad. They are in the vanguard of their sector of the leisure industry. Subject to giving the assurances as to savings etc, I believe they deserve to be funded at a level which, while it is by no means excessive, secures their future.

17 More generally, despite the public expenditure implications, I think that the Government would do well to invest more in the performing arts. Generally, they seem to be doing excellent work, important to the morale of the nation. And there is the consideration that a touch of generosity here might well save the Government the sort of trouble caused by the "satire" movement of 20 years ago.


C PRIESTLEY
30 September 1983

cc BI plus page 1-7 of report



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From the Minister for the Arts

30 September 1983

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Michael,

SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE
COMPANY

Clive Priestley has this morning delivered advance copies of his covering report to Lord Gowrie and the Chairmen of the Arts Council and the two Companies. The report will be published on Monday, with the statement attached to Lord Gowrie's minute to the Prime Minister of 28 September.

... I enclose a copy of the report.

I am sending a copy of this letter and enclosure to John Gieve, Chief Secretary's Office.

Yours sincerely,

Mary Brown.

MRS M E BROWN
Private Secretary

FINANCIAL SCRUTINY
of the
ROYAL OPERA HOUSE
COVENT GARDEN LTD
and the
ROYAL SHAKESPEARE COMPANY

CABINET OFFICE
MANAGEMENT AND PERSONNEL OFFICE

September 1983

THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS
of the
ROYAL OPERA HOUSE
COVENT GARDEN LTD
and the
ROYAL SHAKESPEARE COMPANY

Report to the Earl of Gowrie
Minister for the Arts
by
Clive Priestley C B

COMPOSITION OF THE REPORT ON THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS OF THE ROYAL OPERA HOUSE, COVENT GARDEN LTD, AND THE ROYAL SHAKESPEARE COMPANY

| | | |
|---------------------------------------|---|-------------------|
| COVERING REPORT | : | Chapters 1 to 5 |
| ROYAL OPERA HOUSE VOLUME 1 | : | Sections 1 to 12 |
| ROYAL OPERA HOUSE VOLUME 2 | : | Sections 13 to 19 |
| ROYAL SHAKESPEARE COMPANY VOLUME 1 | : | Sections 1 to 8 |
| ROYAL SHAKESPEARE COMPANY VOLUME 2 | : | Sections 9 to 15 |

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THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS OF THE ROYAL OPERA HOUSE, COVENT GARDEN LTD, AND THE ROYAL SHAKESPEARE COMPANY

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Preface

1. The Rt Hon Paul Channon, MP, then Minister for the Arts, invited me in February 1983 to make a special financial scrutiny of the financial affairs and financial prospects of the ROH and RSC. Being then Head of the Rayner Unit (now the Efficiency Unit), I undertook these exercises with the consent of the Prime Minister.

2. I now submit my report. After this introduction I provide summaries of my main findings, conclusions and recommendations. Attached to this summary is a separate report on each company, each report consisting of two volumes. Volume 1 contains the reports of my central team of consultants and myself on the management of the company and its financial affairs and prospects; Volume 2 contains the reports of my assignment officers on selected areas of expenditure. Although the scrutinies were commissioned by, and I am reporting to, the Minister for the Arts my recommendations are in part addressed to him for consideration by the Government and in part to the Companies in respect of certain features of their management of their own affairs.

3. I was assisted in the conduct of the scrutiny by nine people. The team included three consultants, Mr David Allen, formerly an Economic Adviser in HM Treasury and the Rayner Unit, now an independent consultant; Mr John Ashworth, of Coopers & Lybrand Associates on exchange for an official of the Management and Personnel Office working for his company; and Mr Ian Trumper, FCA, already on secondment to the Rayner Unit from Deloitte Haskins & Sells. The remaining members of the scrutiny team were six assignment officers from one of my divisions in the Management and Personnel Office. Time being at a premium, we all covered both companies during the same period of examination. The cost of consultancy fees and travel expenses totalled £32,100. The cost of the MPO staff and the consultants on secondment, including an allocation for overheads, amounted to £100,100.

4. My main aim in deploying a team of this size was to provide in the reports a "top-down" assessment by the consultants and myself of overall organisation for and conduct of financial management in each company; and a "bottom-up" assessment of selected blocks of fixed and variable costs by the assignment officers (see the reports in each Volume 2 by Mrs Giorgina Soane, on costumes, Miss Pearl Iley on sets, Mr Peter Standley on the stage crew, Mr Stephen Penfold on storage and related matters, Mr David Clegg on transport, travel and the extra costs of touring in the UK and Mrs Bridget Howard on press, publicity, marketing, merchandising, and sponsorship). The method of working is more fully explained in the prefatory note which begins each of the separate reports.

5. I am grateful to my colleagues for their hard work. I am grateful also for the counsel which I received from the specialist advisers appointed by Mr Channon. These were Mr Peter Diamand, CBE, a former Director of the Edinburgh International Festival and now with the Orchestre de Paris; M Hugues Gall, formerly with the French National Opera in Paris and now Director of the Geneva Opera; and Mr Michael Haines, of Thomson McLintock and Co., a practising accountant who is also keenly interested in the performing arts. While the advice of Messrs Diamand and Gall appears the more obvious in the report (see their observations on the question of the level of the ROH's artistic achievement in Section 12, Annex 1 of

the ROH report) Mr Haines gave me unstinting help and advice, both in writing and face to face which I found very valuable. I am also indebted to Mrs Daphne Loasby, of the University of Reading, for advice on certain matters considered in this covering report and in each of the Company reports.

6. Finally my colleagues and I are grateful to all those consulted and interviewed in the course of the scrutiny for their generous and patient assistance. We had full access to the Companies. Discussion at all levels within them was open and frank. We were well received by the Arts Council; selected local authorities; selected performing companies at home and overseas; and representatives of Equity, the Musicians' Union and NATTKE. And we received helpful comments from specialist journalists and from others who have been associated with the world of the performing arts. Although it is usually considered invidious to single out individuals, I am bound to say that the exercise owed much to the help of Sir Claus Moser, Sir Denis Forman, Sir John Tooley, Mr Richard Wright, Mr Adrian Doran, Mr David Pilcher, Mr Norman Morrice, Mr Anthony Russell-Roberts, Mr Peter Wright and Mr Christopher Nourse (Royal Opera House); and to that of Sir Kenneth Cork, Mr Geoffrey Cass, Mr Trevor Nunn, Mr Terry Hands, Mr David Brierley and Mr William Wilkinson (Royal Shakespeare Company).

7. I am grateful for the assistance my colleagues and I received in connection with our foreign visits to the senior staff of La Scala, Milan, and the Italian Embassy; to the Intendant of the Deutsche Oper, in Berlin, and the West German Embassy; to the Director of the Staatsoper, Vienna, and the Austrian Embassy; to the senior staff of the National Opera and the Comedie Francaise, Paris, the Ministry of Culture, and the French Embassy; to the General Manager of the New York Metropolitan Opera; to the Cultural Relations Department of the Foreign and Commonwealth office; and the British Council.

I am greatly indebted to the Chairman of British Telecommunications for letting me complete this exercise after I left Whitehall; and to the secretarial and typing services of the Management and Personnel Office, in particular to my former secretary, Miss Jean Sullivan, and the Word Processing Unit; and to Miss Jenny Gore and Miss Pauline Long of British Telecommunications who also helped with the secretarial work.

C Priestley
28 September 1983

A (pages 3-7)

CHAPTER 1

THE MAIN CONCLUSIONS AND RECOMMENDATIONS

1. This chapter summarises my conclusions and recommendations. Chapters 2 and 3 summarise the main findings, conclusions and recommendations in respect of the Royal Opera House and the Royal Shakespeare Company respectively. Chapter 4 deals with some wider issues, such as funding through the Arts Council.

THE ROYAL OPERA HOUSE

2. The overall conclusion of my examination of the financial affairs of the Royal Opera House (ROH) is as follows:

(1) In 1982-83 the ROH and its three performing companies incurred a deficit after funding (including £0.45 million of supplementary grant) of £0.22m. This is projected to accumulate to £1.16 million by the end of 1983-84 and approaching £3 million by end 1984-85, with the annual deficit after funding in 1984-85 being £1.8 million.

(2) The problem of the deficit is not temporary nor is it new, the seeds having been sown in 1981-82. There has been a ratchet increase in the ROH's funding requirement which is the consequence of expenditure rising faster than the general level of price and wage inflation (particularly in the two ballet companies and in the overtime working throughout the ROH); a drop in attendances at opera and ballet performances at Covent Garden; and an annual Arts Council (ACGB) grant which although broadly keeping pace with movements in the Retail Price Index over the past four years has not kept pace with the more appropriate Average Earnings Index, to reflect the labour intensive nature of the ROH's activities*.

(3) There is nothing which the Royal Opera House can do this year significantly to reduce the forecast end-year deficit of £1.16 million; and even over the next two years, whilst the financial situation can and must be stabilised, only limited economies can be achieved to reduce the funding requirement unless the House is required to lower substantially its artistic sights, to try and withdraw from commitments necessarily entered into in planning ahead and to change its nature. I recommend that the Government should provide additional funds to write-off the forecast accumulated deficit at 31 March 1984 of £1.16 million; and in 1984-85 should raise the base level of grant to the budgeted funding requirement of £12.35 million (an increase of £1.8 million on present projections) although the precise level of funding in 1984-85 will need to be decided in the light of a detailed assessment of the budget for that year.

(4) Whilst the currently projected levels of expenditure and funding requirement are primarily a reflection of the ROH's artistic objectives and programmes the scrutiny has identified some areas where savings can be found over the next two to three years and which, once achieved, would reduce the annual funding requirement of the House by £0.6 million at 1983-84 prices. A large part of the savings will flow from the reform of work practices of stage staff and changes in the balance of opera programmes to increase their net contribution to the revenue of the House. Lesser savings will flow from certain changes in staffing levels; reducing the cost of Royal Ballet Touring; and reducing the Royal Ballet budget for guest artists. A summary of the savings is at Chapter 2, Appendix 1. Although in some cases

*The Arts Council assessed the full needs of the Royal Opera House at £12.9 million in 1983-84.

they may necessarily involve changes in artistic directions they should not seriously detract from the general excellence and international standing of the House and its constituent performing companies.

(5) Not all of the savings will be easy to achieve and all will take time, given in particular the long lead time in the planning of artistic programmes and, where they involve the reform of working practices, the need for careful union negotiations. I **recommend** accordingly that the ROH should be required to achieve the targeted annual savings of £0.6 million by the end of 1986-87, although a start should be made now.

(6) In order to enable the ROH effectively to plan future programmes of work within available resources and to control in-year expenditures, I **recommend** that the ROH and its performing companies should strengthen their financial management organisation and systems. There must be clear lines of authority, responsibility and delegation for incurring costs and achieving results. Responsibility must lie with those managers whose decisions or actions absorb resources. Artistic endeavour must be maintained in equilibrium with financial resources. These strengthened financial arrangements should provide the basis for the funding authority (whether Government direct or the Arts Council) to be able to "target" future levels of grant. I make recommendations on "targeted" funding below (paragraph 4) which will provide a more stable financial framework within which both the ROH and the Government can better plan and control the use of resources and the calls upon public funds.

(7) I **recommend** also that in the present financial climate the Royal Opera should no longer tour in the UK, believing that such tours are not an effective use of the public funds currently available to the arts. The Royal Ballet, on the other hand, should continue to be enabled to tour in the UK and undertake Tent seasons in Battersea Park (London) and elsewhere. Recognising the relatively high extra cost of ballet performances outside the House, I recommend that their costs should be separately identified and specifically negotiated and funded.

(8) Alternatives to increasing the level of funding, if retrenchment proved necessary, have been considered. The annual funding requirement might be reduced by £0.5 million through changes at the margin involving reducing the number of dancers in the Royal Ballet; reducing the size of the chorus; abandoning all Royal Ballet touring; reducing the Sadler's Wells Royal Ballet to a smaller experimental group; and abandoning all operas which are unable to cover their variable costs. Such changes would however involve a diminution in standards which, apart from anything else, could jeopardise box office revenue and at the end of the day be financially self-defeating. I do not recommend such changes.

(9) Two further alternatives, which would also change the nature of the Royal Opera House, are to move the Royal Opera onto a "Festival" basis with around half the present number of opera performances and gear ROH's fixed support services to meet the requirements of ballet; and to disband the Sadler's Wells Royal Ballet. The most certain reduction of funding requirement, of around £1.7 million, would flow from disbanding the Sadler's Wells Royal Ballet, which is broadly equivalent to the present annual deficit of the ROH after funding. The Festival opera is more uncertain but could produce savings of around £1 million. I do not recommend either course. They would write off the substantial investment of public funds that have been made over the past 37 years; would reduce the value for money to be

had from the very substantial grant that would still remain to be paid to the truncated ROH; and, in the case of the SWRB option, would deprive the provinces of the benefits of ROH companies.

THE ROYAL SHAKESPEARE COMPANY

3. The overall conclusion of my examination of the financial affairs of the Royal Shakespeare Company (RSC) is as follows:

(1) In 1982-83 the RSC incurred a deficit after funding of £0.655 million. This was reduced by supplementary funding to £0.190 million, which was carried through into 1983-84. It is projected to grow to £0.7 million by the end of 1983-84 and to £1.7 million by the end of 1984-85.

(2) As in the case of the ROH, the RSC's financial problem is not temporary. The gap between what the RSC earns at the box office and by other means and what the Government provides through the ACGB is too wide, if the RSC is desired to provide its present range of products at their current quality and to remain accessible at the box office. Moreover, price increases are double-edged. They may bring in more income; equally, they may keep people away.

(3) There was a damaging drop in attendance in 1981-82 at Stratford. The RSC's response to this was to invest more money in 1982-83 productions, a decision which paid particular attention to the need to restore Stratford, which has a larger earning capacity than London, to prosperity and to open the first season at the Barbican Centre with attractive productions. This decision by the RSC is applauded by the ACGB as exemplary.

(4) There was a substantial recovery at the box office in 1982-83, at the price of cost surges in the production and stage operating departments. Stage operating costs were already at risk owing to expensive working practices carried over from the Aldwych Theatre and by the requirements of the first Barbican Season.

(5) There was also a surge in the cost of theatre operations, in the Barbican Centre which, regardless of economy measures, will be more expensive to run than the Aldwych, but which also has a greater earning capacity than the Aldwych.

(6) Certain improvements and economies can be made in the planning of the season, the management of productions into performance and stage operating costs. These might amount to some £0.15 million by 1986-87 at 1983/84 prices.

(7) There are no minor savings to be had which equate with the difference between the funding requirement as I assess it and the provisional grant offer of £3.6 million for 1983-84*. A number of measures could be contemplated in the direst of straits but they are vexatious rather than effective, namely dispensing with the bands (about £0.25 million a year), and closing the two small theatres (about £75,000 a year).

(8) The only way of bridging the present financial gap is to close the RSC's Barbican operation. The capital cost of doing this would be some £0.235 million; the saving achieved would be some £1.2 million in 1984-85. I do not recommend implementation of this option.

*The Arts Council assessed the full needs of the RSC in the current year (1983-84) at £4.5 million.

(9) Generally speaking, I regard the RSC as palpably underfunded. I **recommend** that the accumulated deficit at 31 March 1984, budgeted to be £0.7 million, should be written off and that public funding in the current year (1983-84) should be set at £4.5 million. Funding for 1984-85 should be £4.9 million subject to an examination of the detailed budgets. Funding for 1985-86 and after should be consistent with the formula outlined below.

FUNDING POLICY

4. The policy for the national companies should take into consideration the pressing need to establish conditions of financial stability for the foreseeable future (meaning for three years ahead each year) and the general public interest in value for money as much as for high quality. My strong recommendation is that the companies should be funded on the basis of criteria which are clearly understood and at a level which is fair to the company and to the taxpayer. To this end I **recommend** that:

- (1) The provision of grant should take into account the composition and relative malleability of fixed and variable costs.
- (2) In Year One the base level of grants for the three years ahead should be targeted at particular expenditures by the Government and set on the basis of an assessment of the companies' levels of activity and financial forecasts. Thereafter, at the end of each year the Government should target the base level of grant to take effect three years hence.
- (3) Targeting should differentiate between, for example, the fixed costs of the "performing" element of the Company i.e. the chorus, dancers, orchestra, directors and producers etc; a proportion of new production costs, taking account of agreed goals for sponsorship from private funds; touring costs; and those costs which it is decided should be funded by reference to the Company's own ability to generate box office income. Targeted funding should be further limited by linking payroll and certain other costs by reference to the Average Earning Index and the Retail Price Index as appropriate.
- (4) The targeted grants will provide the framework within which both the Company and Government can plan their future expenditures. They are not fixed commitments. Each year the forward targets should be reviewed and refined but, subject to special circumstances, any alterations should be capable of being absorbed by the contingencies built into the financial plan.
- (5) Every three years there should be a detailed review of the future financial needs of the Company which should reassess levels of activity and the base fixed costs. For example, the review should consider the size of the chorus and orchestra, the number of dancers, front of house staff, administrative support staff, and minimum and maximum touring commitments.
- (6) For the reasons I discuss more fully in Chapter 4, either a specific grant for the Companies should be earmarked in the Government's general grant-in-aid to the ACGB or the Companies should be directly funded by the Government.

5. The Appendix to this chapter contains an example of how a funding arrangement along these lines would operate in practice, calculated on the basis of the 1983-84 budget figures for the ROH.

6. When the Government approaches the end of the three-year period it should obtain the advice of independent persons on the level at which funding should be set during the following period. This will ensure there would be no suggestion, however insulting it may be to the Minister and officials concerned, that the assessment had been made on any but fair and objective grounds.

7. My advice is that the Minister for the Arts should, having taken counsel with the Chairman of the Arts Council, appoint no more than two or three people of suitable artistic, financial and business experience and standing to make an assessment for him. The review might be led by the Chairman or Secretary-General of the Arts Council. The assessment should be based on such factors as those my colleagues and I have used in this scrutiny, namely consistency of activity with articles of association or charter, policy and objectives; quality of artistic achievement; quality of financial management and control; and one or more selected functions or activities.

CHAPTER 1, APPENDIX

Targeted funding

1. I have recommended in Chapter 1 (paragraph 4) that the funding of the Royal Opera House and the Royal Shakespeare Company should be targeted on particular revenues and expenditures and be formulated in such a way as to provide financial stability over a three year period. In this Appendix, I offer an example of this recommended approach for the Royal Opera House.

2. I recommend that in setting the targeted funding of the Royal Opera House it should be recognised that in the short term the permanent cadres of the Royal Opera, the Royal Ballet and the Royal Opera House orchestra are immutable; there is a need for the Sadler's Wells Royal Ballet to tour and to perform in London for the maximum number of weeks consistent with their physical capacity; the Royal Ballet and Royal Opera touring and new productions costs are expenditures which can vary substantially from year to year; there is a financial necessity for a contingency fund to cover adverse variances in box office revenue and variable expenditures; and the box office is unable wholly to support the balance of costs if seat prices are not to exceed what the market will bear. A possible formula for 1983/84 would be as follows:

A Targeted Budget 1983/84

| | Notes | Grant £m | Targeted Subsidy % |
|---|-------|--------------|-----------------------|
| SWRB (net cost) | (1) | 1.47 | 100 |
| Touring (opera) | (2) | 0.40 | 90 |
| New Productions | (3) | 0.19 | 30 |
| Theatre overheads (heat, light, etc) | (4) | 1.30 | 100 |
| Royal Ballet (fixed) | (5) | 1.58 | 100 |
| Royal Opera (fixed) | (6) | 1.30 | 100 |
| ROH Orchestra (fixed) | (7) | 1.48 | 100 |
| Contingency Fund | (8) | 0.68 | 100 |
| % of Box Office | (9) | 3.16 | 48% of box office |
| Targeted funding | | <u>11.56</u> | |

Notes:

(1) The whole of the net cost of the SWRB should be funded, excluding new production costs which are included in (3) below. In 1983-84 the funding requirement was equivalent to the £1.34 million basic fixed costs of dancers, staff and orchestra plus £0.13 million of variable costs. In appraising the bid in future years, account should be taken of projected movements in the Average Earnings Index, given the dominant influence of the wage-related fixed costs, and the minimum number of touring weeks and Tent performances.

(2) Opera touring is included in the example but the report has recommended that this should cease in future years. In years when the Royal Ballet tours, it would be separately identified and funded as for the Royal Opera in the example. A target of 10% of the net costs of touring is fixed for private sponsorship.

- (3) New production costs exclude in-house labour; and a target is fixed for the ROH to cover 70% of these expenditures through private sponsorship.
- (4) The whole of the **non-payroll** fixed expenses associated with the running of the theatre complex (rent, rates, heat and light) should be funded.
- (5) The whole of the **basic fixed costs** of Royal Ballet dancers, staff and expenses should be funded. Once the base level is agreed, future funding is linked to the Average Earnings Index, but subject to the recommended special triennial review of costs.
- (6) The whole of the **basic fixed costs** of chorus, resident singers, music staff, producers and opera management should be funded. This excludes overtime and extra sessions. As with the Royal Ballet, once the base level has been agreed it should be linked to the Average Earnings Index, but subject to the special triennial review.
- (7) The whole of the **basic fixed costs** of the ROH orchestra (which excludes overtime and extra sessions) should be funded. As with the Royal Ballet and Royal Opera, this expenditure should be linked to the Average Earnings Index in subsequent years, but subject to the recommended triennial review.
- (8) The whole of a contingency fund equivalent to 5% of total forecast box office receipts (including SWRB touring) and total forecast variable expenditure should be funded.
- (9) All other expenditures, which include the cost of the production departments, stage staffs and general administration should be met by house receipts (excluding touring) and a grant support of £0.48p for every £1 of house box office revenue. Increases in these costs will be limited in future years by reference to the Average Earnings Index., and the Retail Prices Index as appropriate.

3. In working up the above example, the starting point was, of necessity, the projected funding requirement of the Royal Opera House in 1983-84. The 48% support of box office is therefore calculated as a residual. The assumption is that the 1983-84 base level of funding should be as bid, taking into account my conclusion that significant reductions could not be achieved in the short run. But the important point is that there should be an agreed formula whereby the Royal Opera House is clear as to the amount of grant support which it can expect to receive to combine with its self-generated income to cover the non-targeted costs of the House.

4. The targeting of funding on the expenditures at (1) to (8) in the table provides for financial stability. The linkage to House receipts at (9) provides for stability but at the same time offers an incentive for the House to maximise receipts and to minimise those costs incurred in support of the heartland of the performing companies which are not the subject of specific targeting. The Government on the other hand is protected against increases in payroll costs over and above the Average Earnings Index; and has the additional protection of a cut-off on that proportion of the grant which is box office-related.

5. The formula set out above should be applied to the 1984-85 budget, again treating the grant support of box office as a residual. This will be the base on which future funding is calculated and against which the recommended £0.60 million target saving is made in subsequent years.

6. The intention would be that in subsequent years elements (1) to (4) would be renegotiated annually against the bids received from the Royal Opera House, with an eye to movements in general wage and price inflation. Elements (5) to (7) would be linked to the Average Earnings Index, with a final decision to be made on the precise link (eg prospective or retrospective), although I prefer the "prospective" linkage with if necessary some mechanism for adjustment. Element (8) would be a calculation to be worked out in the light of projected total box office (including Royal Ballet and SWRB touring) receipts and projected variable expenditure, although one would be looking for this to increase at somewhere between the Retail Price Index and the Average Earnings Index. Element (9) would be fixed at 48% (or whatever the ratio decided for 1984/85) with the amount of grant deriving from this element having an upper limit on the increase of no more than the Average Earnings Index.

7. I would expect this formula approach to take a couple of years to work up into a fully operational system of fixing the grant. Once this is achieved, however, the Companies should be expected to provide a three year forecast of their budget. The maximum grant provision in years two and three would be that flowing from the target formula and considered by the Government in the light of its public expenditure plans. Although the grant would be negotiated annually, the rolling three year forward projection would provide a framework within which both Government and the Companies can better plan the use of resources and likely demands upon public funds.

8. I have recommended that there should be a special triennial review of the Companies' activities and financing. This would provide the opportunity for a regular independent and critical reassessment of the Companies' base level of funding.

9. The annual grant should be paid in two parts: a "fixed" amount and a rolling guarantee. The purpose of the guarantee element is to withhold a proportion of the grant until approval of the final accounts as the targeted grant is based upon estimates. The size of the guarantee needs to be carefully assessed; it needs to be large enough to be effective and impose some spending restrictions but not to lead the Companies into serious cash flow difficulties. It will be necessary to set up contingency arrangements to release guarantees should this be the case. I believe that in the case of the ROH the guarantee element could be the same as the contingency fund and for the RSC 5% of the annual grant. This is similar to the system currently operated by the ACGB. Any unspent element should be permitted to be carried forward to the subsequent year, thus discouraging end-year spending. There should however be restrictions imposed on the use of these reserves. In particular they should be used to support variances in income and/or such annually variable expenditures as additional touring and additional new production costs. Any action which needs to be taken on the accumulated reserves or deficiencies should be considered and reported upon at the triennial review.

CHAPTER 2

ROYAL OPERA HOUSE

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

1. The Royal Opera House at Covent Garden dates back to the 18th century. It was only in 1946 however that it became a House with a resident opera company and ballet company; and in 1956 that it took under its wing a second ballet company whose primary function was to tour the provinces.

2. The three performing companies - the Royal Opera, the Royal Ballet and the touring Sadler's Wells Royal Ballet - have, in their relatively short lives, achieved great national and international standing. They are categorised as "national companies" and "centres of excellence" by the Arts Council; and the maintenance of the highest standards in the production and presentation of opera and ballet is an essential policy of the Royal Opera House.

3. An assessment of the artistic achievements of the three companies is at Volume 1, Section 12. This is based upon consultations with Arts Council representatives and others at home and abroad. Whilst some consulted were sharply critical, views were generally favourable. The Royal Opera and Royal Ballet are held to be amongst the world's handful of great companies in their respective fields; and the reputation of the Sadler's Wells Royal Ballet is high, with the Company playing consistently to good houses in the provinces. The Chairman of the Arts Council viewed Covent Garden as a great opera house which deserved support. The Music Director and Chairman of the Music Advisory Panel of the Arts Council felt that there was no question of an endemic failure with the Royal Opera, although there may have been in recent months too little "inspirational electricity". The Dance Director and Chairman of the Dance Advisory Panel believed the Royal Ballet companies to be generally excellent and doing marvellous work of a high and creative standard.

FINANCIAL AFFAIRS AND PROSPECTS

4. I believe it is a great credit to all those associated with the Royal Opera House and its constituent companies, over the years, to have achieved such levels of excellence. But these standards of achievement have also required significant and increasing levels of public subsidy. Over the last ten years the Arts Council grant to the Royal Opera House has risen from £1.75 million in 1972/73 to £10.45 million in 1982/83 - a 500% increase compared with a 270% increase in prices generally. Mr Anthony Bliss (General Director of the Metropolitan Opera House, New York) described an international opera company - in cost terms - as "a dinosaur living in the twentieth century". The Arts Council Report on Opera and Dance noted how the standard classical ballets required large casts, elaborate sets and substantial orchestral accompaniment - all of which make for big costs. And when the opera and ballet companies are expected to tour, the costs multiply.

5. In the early years of the Royal Opera House, overseas tours by what is now the Royal Ballet made sufficient profit substantially to balance the company's books. In fact, such was the dollar earning capacity of the ballet company that on its return from the highly successful visit to New York in 1949 it was welcomed home by the Chancellor of the Exchequer. Economic circumstances have so changed however that there are no longer profits of any significance to be had from overseas

tours; around 55% of the Royal Opera House expenditures are now met from the public purse; and in 1982/83 there was a deficit **after** funding of £0.22 million, which is projected to accumulate to over £1 million by the end of 1983/84 and approaching £3 million by the end of 1984/85.

6. In 1982/83, the Royal Opera House, its three performing companies and the support departments of stage, orchestra, production etc spent £18.97 million, of which 75% was on salaries and fees. It earned through the box office and private sponsorship £8.37 million. The funding requirement therefore was £10.6 million of which £10.38 million was met by Arts Council grants, with the remainder being carried forward to 1983/84. A summary of the expenditures and income of the Royal Opera House in 1982/83 is as follows:

| | 1982/83 £ million | % of Total Expenditure |
|--------------------------------|----------------------|---------------------------|
| EXPENDITURE | | |
| 1. Royal Opera | | |
| Fixed | 1.27 | |
| Variable | <u>2.65</u> | |
| Sub-total | 3.92 | 20.7 |
| 2. Royal Ballet | | |
| Fixed | 1.46 | |
| Variable | <u>1.17</u> | |
| Sub-total | 2.63 | 13.8 |
| 3. Sadler's Wells Royal Ballet | | |
| Fixed | 1.36 | |
| Variable | <u>1.03</u> | |
| Sub-total | 2.39 | 12.6 |
| 4. ROH Orchestra | 1.59 | 8.4 |
| 5. Production Departments | 1.63 | 8.6 |
| 6. Stage | 2.39 | 12.6 |
| 7. Marketing | 0.54 | 2.8 |
| 8. General and Theatre Admin | 3.59 | 18.9 |
| 9. Other | 0.31 | 1.6 |
| TOTAL EXPENDITURE | <u>18.99</u> | <u>100.0</u> |
| INCOME | | |
| 1. Box Office (incl touring) | 6.67 | 35.1 |
| 2. Private Funding | 0.69 | 3.6 |
| 3. Sundry | 1.03 | 5.5 |
| TOTAL INCOME | <u>8.37</u> | <u>44.1</u> |
| FUNDING REQUIREMENT | 10.6 | <u>55.9</u> |
| | | <u>100.0</u> |

7. The level of public subsidy is not high compared with European Houses who have up to 85% of their expenditures supported by Government grants; and in the USA, the tens of millions of dollars of private sponsorship are encouraged by means of generous tax concessions. The Director of the Grand Theatre in Geneva (M Hugues Gall) who is also General Secretary of the International Association of Opera Directors commented to the scrutiny team that the Royal Opera House is viewed by European Houses as a model in terms of its organisation and management - "with lower subsidy and fewer people, how can they do it?" Volume 1, Section 11 describes the team's findings in respect of selected Opera Houses overseas.

8. The cost of the Royal Opera House may appear small in international terms but nationally it is the largest single recipient of Arts Council grants. In 1982/83 it accounted for around 11% of the Arts Council's total grant-in-aid. Some outside observers have asked "If the English National Opera can manage on a grant of £6.37 million⁺, why can't the Royal Opera House?" It is important to recognise however that the Royal Opera House is unique amongst grant recipients in having to support an opera and two ballet companies.

9. The **Sadler's Wells Royal Ballet** accounted for around £1.73 million* (16%) of the Royal Opera House's £10.6 million total funding requirement in 1982/83. The net costs of the **Royal Ballet** on the other hand are difficult to disentangle because of the various support services which it shares with the Royal Opera (eg orchestra, stage staffs, production departments and marketing) and whose costs are not allocated out to the Companies. A **preliminary** estimate of the Royal Ballet's demands upon these shared resources suggests that £2.65 million[†] (25%) of the Royal Opera House grant goes to finance the direct and indirect costs of the Royal Ballet's activities.

10. When the approximate costs of the two ballet companies are netted out, around £3.78 million of the Royal Opera House funding requirement goes to support the Royal Opera (including its demands on shared resources) and £2.45 million to support theatre and administrative overheads (eg front of house, box office, accommodation, finance and personnel departments).

11. A summary assessment of the financial results of the Royal Opera House is at Volume 1, Section 3. Detailed analyses of the expenditures and incomes of the Sadler's Wells Royal Ballet, Royal Ballet and Royal Opera are at Volume 1, Sections 4, 5 and 6 respectively. The results of a "bottom-up" look at selected departments are reported in Volume 2, with the main conclusions summarised at Volume 1, Section 7.

12. The analysis of financial results at Volume 1, Section 3 addresses itself in particular to the question of how the House has moved from a situation in 1979/80 where, after a substantial uplift in grant, it was able to carry forward a surplus, to one in 1983/84 where it is forecasting a deficit.

13. The first outward signs of a deterioration in the financial situation occurred in 1981/82 when the Company's funding requirement exceeded the annual grant by £0.32 million. In 1982/83 the differential between the rates of growth of expenditure and income (including annual grant) although small at 2.8 percentage points was sufficient, given also the underlying deficit position from 1981/82, to cause the funding requirement to exceed the annual grant by £1.05 million. In 1983/84, whilst expenditure is increasing at a lower rate and self-generated income (including

+Including GLC subvention

*This includes £0.3 million of overheads borne centrally by the Royal Opera House.

† This excludes Royal Opera House expenditure on theatre and central administrative overheads.

sponsorship) is projected to increase at a faster rate than expenditure, the funding requirement is projected to exceed the annual grant by £0.94 million* (excluding deficits carried forward from 1982/83). Although this is a revised forecast on the basis of the first few months activities, even this could be optimistic bearing in mind, in particular, that no contingency reserve is provided for in the 1983/84 budget.

14. The adverse situation in 1983/84 is a mirror image of that prevailing in 1982/83, which in turn reflected the beginnings of a deterioration in 1981/82. A problem for 1983/84 is that the Arts Council in computing the grant allocation make no allowance for the 1982/83 £1.05 million shortfall of grant against funding requirement. As will be described below, there has been a ratchet increase in the House's basic funding requirement not so far recognised in the level of annual grant; and the situation can only be recovered **substantially**, in the absence of additional subsidy, by a drastic reduction of activities and a realignment of artistic objectives. Even then the financial improvement could take a number of years to achieve.

15. The present financial situation can be summarised as the consequence of expenditures rising faster than the general level of price and wage inflation; a drop-off in attendances at opera and ballet performances at Covent Garden; and an annual Arts Council grant which although broadly keeping pace with movements in the Retail Price Index has not been linked to the more appropriate Average Earnings Index.

16. One of the causes of expenditures rising faster than inflation in recent years is the additional touring activity of both the Royal Opera and Royal Ballet. In 1981/82 the Royal Opera undertook its first UK tour for 17 years when it visited the refurbished Palace Theatre in Manchester. This added £216,000 to the Royal Opera House basic funding requirement (after allowing for the supplementary grant from the Arts Council to cover part of the costs of the tour). Although the Royal Opera did not tour in 1982/83 a similar order of magnitude of additional net costs was incurred through a relatively heavy touring and Tent season (six weeks) by the Royal Ballet. In 1983/84 the Royal Ballet will not tour, but the Royal Opera will once again visit Manchester at a forecast net cost (after supplementary Arts Council funding and private sponsorship) of around £200,000.

17. Even after allowing for the costs of touring, however, expenditures of the Royal Opera House have been growing at a faster rate than can be accounted for by the effects of inflation generally. Between 1979/80 and 1982/83, expenditure (net of Royal Ballet and Royal Opera touring) increased by 50% compared with a 37% increase in the Retail Price Index and 45% increase in the Average Earnings Index. If expenditure increases had been held in line with movements in the Average Earnings Index (which is the more appropriate comparator given the labour intensive nature of the Royal Opera House's activities) total expenditure would have been around £575,000 lower in 1982/83 than was actually incurred.

18. The 50% increase in **aggregate** expenditure over the period conceals an even greater underlying rate of increase in basic costs and of particular items of expenditure. The reports on each of the performing companies (at Volume 1, Sections 4, 5 and 6) and on selected Departments in the House (at Volume 2) identify some of the major cost increases over the period 1979/80 to 1982/83 as follows:

- (1) The wages bill of dancers in both the **Royal Ballet** and **Sadler's Wells Royal Ballet** has increased by the order of 80%. This reflects in particular a 60% increase in basic pay, which includes a once-for-all increase of 17% to bring hourly rates of dancers into line with choristers in line with the Albery report; a change in the grade mix of dancers (SWRB only); and an increase

*This figure allows for the 1% reduction in grant announced by the Government in July 1983.

in the **number** of and **differentials** paid to dancers on individually negotiated salaries.

(2) The weekly touring costs of the **Sadler's Wells Royal Ballet** have increased by 70%, with the biggest increases occurring in 1980/81 and 1981/82. This has reflected in particular the introduction of bigger ballets into the repertory, affecting wardrobe and stage staff costs; and a 73% increase in the nationally negotiated basic subsistence allowance plus the introduction of a 25% supplementary subsistence payment in certain cities.

(3) The **Royal Ballet's** expenditure on guests has increased by £173,000 (270%). This reflects an increase in the number of guests as the Director's "no guest" policy has eased; more performances by dancers who are paid on a performance fee basis although to all intents and purposes they are a part of the permanent company; and, to a lesser extent, increased fees.

(4) The basic fixed costs of the Royal Opera (chorus, resident singers, music staff, producers and administrators) have risen by 51% although savings on variable costs (in particular, new productions) have meant that the total cost of the Royal Opera has increased by only 38% over the period.

(5) The basic payroll cost of the Royal Opera House orchestra has increased by 45% (in line with earnings in the economy generally) but the cost of extra sessions/overtime has increased by 138%, the greater part of which occurred in 1980/81 and 1982/83.

(6) The basic payroll costs of stage staffs and electricians increased by 45% over the period but overtime costs rose by 84%. This substantial increase in overtime costs is explained by management as reflecting an increased intensity in the rehearsal/performance schedule; and the straight jacket on work planning imposed by NATTKE agreements.

(7) In the production wardrobe department, basic costs have risen by 69% whilst overtime has barely changed; in the running wardrobe department basic costs have risen by 58% and overtime by 64%. A similar picture emerges in those parts of the production departments responsible for scenery-building, props, wigs and armoury, with basic costs having risen by 55% and overtime by 69%.

19. An interesting feature of the above is that of the three performing companies it is the two ballet companies who have increased their expenditure over the past four years by substantially more than the rate of inflation. It is notable also how expenditure on overtime has increased over the period, with the budget for overtime by stage staffs also having been seriously exceeded in the past four years.

20. These increases in expenditure are not easily reversible. They bear partly on the basic wage costs of the Royal Opera House and thus can only be directly off-set by reductions in the numbers of dancers, production staff, wardrobe staff etc. And even where the increases occurred in the "variable" costs (eg touring costs, overtime) they can only be substantially off-set by reduced levels of activity or fundamental changes in trades union agreements.

21. The adverse financial effects of an increase in the base operating costs have been compounded by the fact that it has not been possible to finance that growth through the box office and other self-generated income. The income of The Royal Opera House (House receipts, touring receipts, private funding and sundry other income) has increased by 40% over the period 1979/80 to 1982/83 as against the

50% increase in aggregate expenditure. Comparisons between the years are however complicated by, for example, the fact that in 1979/80 there were 24 more performances (by visiting companies) in the House than 1982/83; and in 1982/83 a visit by the Ballet de L'Opera de Paris only managed to average £9850 income per performance compared to £17500 for the Royal Ballet.

22. A major problem has been the level of attendances for Royal Opera and Royal Ballet performances at Covent Garden. The down-turn began in 1981/82, continued into 1982/83 and whilst expected to improve somewhat in 1983/84 will still be down on the levels enjoyed in the late 1970s. Between 1980/81 and 1982/83 attendances at **opera** performances fell from 94% of capacity to 84%; and at **ballet** performances from 90% to 87%. There was an even higher rate of decline in receipts as a percentage of capacity revenue, through increases in party discounts on ticket prices. If attendances at opera and ballet in 1982/83 (financial year) had been maintained at around the 90% mark, the income of the Royal Opera House would have been some £500,000 higher.

23. There is no hard explanation of the decline in box office attendances. But, with seat prices up by over 50% over the period (compared with a 37% increase in the Retail Price Index and a 45% increase in average earnings) and the recession in the economy generally, some fall-off in attendances is to be expected. The Royal Opera House have responded in 1983/84 by holding seat prices at their 1982/83 levels for many of the seats. An upturn in attendances is projected, especially for opera, and House receipts per performance for opera and ballet are currently forecast to rise by 12%.

24. The substantial real increase in seat prices over the past four years is damaging not only to the Royal Opera House income but also to its accessibility. With an **average** ticket price in the range £10.50 to £25.30 (depending on the price schedule) and a top price of around £20 to £50 (depending on the price schedule), the cost of a family visit to an opera or ballet performance is out of the reach of many people; or even if within their reach is difficult to make a regular event. It is notable that when the Royal Ballet performed in the Tent (a 1200-seat Big Top) in Battersea Park for three weeks in 1982/83 (top seat price of £9.00 compared with £16.50 at the Royal Opera House) the Company played to 93% capacity on average compared with 87% in the House. It has to be added however that the Tent also has a family atmosphere about it.

25. At the same time that Royal Opera House expenditure has been growing faster than it could generate income through the box office and private sponsorship, the Arts Council annual grant (excluding supplementary grants to cover tours or losses) has since 1979/80 merely kept pace with **price** inflation. The Royal Opera House is however labour intensive with 75% of its expenditure going on wages for the permanent cadre of performers and support staff and on fees for visiting performers. If, instead, the annual grant had kept pace with the Average Earnings Index, the basic grant in 1982/83 would have been £450,000 higher at £10 million; and there would have been around £800,000 of unused "guarantees" from previous years to more than finance the deficit after annual funding.

26. This does not alter the fact that there is a fundamental deficit in the Royal Opera House's financial affairs. But around one third of the underlying deficit after allowing for the **annual** grant can be said to be associated with the fact that the Arts Council grant does not reflect the labour intensive nature of the House's activities. The remainder derives from a mixture of falling attendances, a ratchet increase in basic wage costs and a higher level of touring activity of the Royal Opera and Royal Ballet than was previously the norm.

27. I have considered what can be done to reverse the adverse financial situation. By the end of 1983/84, the task will be to eliminate an accumulated deficit of £1.16 million and to reduce the projected 1984/85 funding requirement by £1.8 million*. If the Royal Opera House were set the target of achieving this by the end of 1984/85 it would mean finding total savings of £2.96 million which represents around 13% of total expenditure and 30% of self-generated income. As will be described below, I have concluded that this is impossible to achieve either over so short a period as 12 months or over a longer time-scale without seriously undermining the purpose, objectives and levels of activity of the performing companies.

The Scope for Economies

28. Before describing the conclusions of the Reports at Volume 1 on the individual performing companies and at Volume 2 on the selected support services, I shall consider two areas which outside observers tend to look to as offering scope for substantial economies: guest artists and new productions.

29. In 1983/84 expenditure on **opera guest artists** is budgeted at £1.97 million which represents 36% of the Royal Opera's direct expenditure and 10% of the total expenditure of the Royal Opera House. This seemingly large level of spend can be explained as follows:

(1) A proportion of these expenditures are incurred in lieu of having a permanent cadre of resident singers. The difficulty in building up a resident company is one of persuading a sufficient number of artists of international talent to restrict themselves to a contract with a single company. There is in addition greater flexibility in casting in response to artistic requirements provided by the use of guests.

(2) International artists who have established eminence in the world of opera ("star guests") appear in only one third of all opera performances; and when they do, the seat price schedules are adjusted upwards to reflect the quality of the performance. The Director of Finance (Royal Opera House) has demonstrated that the higher fees paid to these artists are nearly always covered by additional box office revenue.

(3) The scope for reducing the level of fees paid to international artists is limited by the fact that the Royal Opera is operating in an international market; previous attempts at operating a cartel with other Houses have invariably failed although there is in any case a reasonable measure of agreement between the Houses; and the Royal Opera already pay lower fees than many other Houses.

30. With regard to **new productions and major revivals**, expenditure by the three performing companies in 1982/83 was £732,000 (including in-house labour costs). This expenditure was incurred in staging 11 new productions and five major revivals; represents 3.9% of the Royal Opera House's total expenditure; and was reduced to £542,000 after private sponsorship. Behind the aggregate expenditures however will be a whole range of costs for particular new productions. Some one-act ballets will cost just a few thousand pounds; others involving more spectacle and people will cost tens of thousands (eg VALLEY OF THE SHADOWS - £36,000; TEMPEST - £79,000); and a full length ballet will cost up to £200,000 (eg ISADORA - £193,000; SWAN LAKE (SWRB) - £150,000). New productions of opera, being full-length and big cast works will tend to cost in the order of £150-200,000. There will however be exceptions to this with modern opera works tending to have a budget of around £100,000. There will also be the occasional "economy production" (eg SONNAMBULA

* The 1984/85 budget includes a £620,000 contingency reserve; and the level of grant is projected to rise by 3% as against forecast fixed cost increases of 5.4%

- £28,000); and some productions will be hired in or shared with other companies. Moreover, the Royal Opera House policy is to try and cover the costs of new productions net of in-house labour by private sponsorship.

31. The reports at Volume 2, Sections 13 and 14 have considered how these costs arise. They do not identify any wilful extravagance although the absence of agreed criteria for designs could, it is said, be leading to unnecessarily high standards in some areas. For example, an average cost per opera costume of £600 appears high and some costumes can cost up to £1000. Similarly an underskirt top layer costing £140 (Donna Anna in DON GIOVANNI) appears excessive both to the lay outsider and to those in the commercial theatre who might spend less than that on a complete costume. But it is not just a question of standards which determine these seemingly high costs. The costumes have to be built to last for a number of years before refurbishment; and sets may have to be manhandled and stored for 20 years or more.

32. Recommendations are made in Sections 13 and 14 to ensure tighter budgetary controls; greater management controls over designers, their designs and the timing of their submission; and for easing the peaking of work-loads and therefore overtime working. A potential level of savings is not identified but these recommendations are important in terms of achieving even the smallest savings in the present financial climate. The contribution which such savings on new productions can make towards eliminating the annual deficit after funding of approaching £2 million must however be seen in perspective.

33. If a significant dent is to be made in the deficit of the Royal Opera House it is necessary to look for savings in the heartland of the performing companies themselves. In 1982/83 the Royal Opera, Royal Ballet and Sadler's Wells Royal Ballet Companies and the Royal Opera House orchestra spent on their budgets £10.53 million, which represents 55% of the total expenditure of the Royal Opera House. The reports at Volume 1, Sections 4, 5 and 6 have identified some scope for savings but the opportunity for making a substantial contribution to the elimination of both the accumulated deficit and the annual deficit after funding is limited in the face of the artistic objectives and levels of activity aimed for.

34. Each of the Company reports has a summary of recommendations and conclusions. The main points bearing upon the scope for economies can be identified as follows:

A. Sadler's Wells Royal Ballet (Section 4)

(1) The SWRB is the most active of the ROH companies in terms of the number of performances; has an essential function in touring the Royal Ballet heritage and its own unique identity in the provinces; reaches the biggest regional audience of all touring companies; and has the greatest breadth of repertory of touring companies.

(2) The expenditure of the SWRB (£2.69 million), its capacity to generate income through the box office (£0.96 million) and its funding requirement (£1.73 million) are broadly comparable to those of other touring ballet companies taking into account differences in nature and size.

(3) The exceptional expenditure compared with other companies is in the basic rates of pay of dancers (eg 50% greater than the London Festival Ballet). The report concludes that this reflects under-payment of dancers in other companies rather than over-payment in the SWRB. It is recommended however that, for the future, increases in basic pay must reflect more

closely what the Government is prepared to finance or the box office is able to support. In addition there needs to be tight budgetary control over the salaries of dancers on individually negotiated salaries.

(4) The complement of dancers, staff and orchestra is irreducible (save for perhaps £10-20,000) given the repertory, orchestral requirements, level of activity and standards aimed for. In fact a good case can be made, if sufficient finance were available, for five extra dancers (extra wage cost: £70,000). Moreover, staff costs are currently being held down (by around £50,000) as a result of dancers doubling up as ballet staff.

(5) Reduction in the number of weeks touring (as this year) to effect economies of £15,000 per week (net of box office revenue) is unacceptable. It undermines the *raison d'etre* of the Company; deprives regional audiences of a valuable ballet company; and leads to the fixed resources of the company (dancers, staff and orchestra) being under-utilised and, as a consequence, reductions in the value for money from the main body of grant. It is **recommended** that the Company returns to its traditionally higher level of touring. It is argued however that the additional costs should be found from within the existing budget through, **for example**, less publicity expenditure; occasional abandonment of Monday evening performances; and greater moves, where possible, from the present three-programme to a two-programme week.

B. The Royal Ballet (Section 5)

(1) The Royal Ballet is a national asset which has made and continues to make an essential contribution to ballet in this country and world-wide; has an immense heritage of ballets to preserve whilst at the same time actively creating new works for the future; and is the main single source of ballet in London in terms of the number of performances and the audience reached.

(2) A reduction in the size of the permanent company of dancers would, amongst other things, undermine the qualities of the Company and could only really be achieved at Principal/Soloist level, given the repertory. A reduction cannot be recommended but in the present financial climate may have to be considered - 10% less dancers could produce savings of around £100,000.

(3) As with the SWRB a tighter budgetary control must now be established over the basic pay of dancers (which has risen by 60% over the past four years) and over individually negotiated salaries (the cost of which to the Company has risen by 179% over the past four years).

(4) Staffing levels are not excessive but should be reviewed with a view to possible savings of £20,000 (7%).

(5) The budget for guest artists has grown dramatically (270%) over the past four years and around half the present budget of £318,000 is consumed by just two dancers. Reductions in this budget would be extremely difficult to achieve before the 1984/85 season but recommendations are made which should ensure greater control and ultimately lead to savings.

(6) The costs of touring the Royal Ballet are felt to be excessive compared with the SWRB, even taking into account differences between the two companies. Recommendations are made to bring the relative costs more closely into line with a view to a target saving of 10% (£10,000 per week) of expenditure. In a normal year of, say, two weeks touring this would mean £20,000 less expenditure.

C. The Royal Opera (Section 6)

(1) The Royal Opera is an international company, and one of the handful of the world's leading opera companies; has achieved an acknowledged excellence in musical performance and stage presentation and is said to be more consistent in maintaining the highest standards than any of the world's leading companies; and is unique in this country in its overall original language policy and in consistently attracting guest artists of international eminence.

(2) Total expenditure of the opera company has increased by 38% over the past four years compared with a 60% increase in earned income with a consequent 57% reduction in net operating costs.

(3) There is no real scope for reducing the basic fixed costs of the opera company (38% of the Company's total direct expenditure) without damaging standards although the present level of use of resident singers, as covers, should be reviewed with a view to possible savings.

(4) The basic cost of the orchestra is irreducible given the standards expected of it and the demands made upon it save for possible marginal savings from equating the workload of each player more closely to the 14 session fortnight.

(5) The cost of overtime and extra sessions by the chorus is projected to increase to 27% of basic costs in 1983/84. It is recommended that the target should be the 12% level that has prevailed in previous years at a possible saving of £80,000.

(6) There is no scope for reducing the cost of guest artists without losing revenue at the box office and damaging standards, but the cost of 'supers' (at £518,000 in 1983/84, an increase of £177,000 on 1982/83) should be reviewed with a view to reductions through changes in the balance of repertory. The cost of supers in 1984/85 is currently forecast to reduce to the lower levels of 1982/83.

(7) The cost of Royal Opera tours in the UK is excessive relative to the benefit that can reasonably be derived. Such full-scale touring should no longer be undertaken saving £445,000 in net costs, after box office revenue but before supplementary grant.

35. It should be recorded that whilst the reports point up areas of activity where economies might be sought and achieved, more generally the examining officers have described performers and staff as having immense dedication to the achievement of the highest standards; devoting long hours to the Companies for very often relatively low financial reward; and showing no wilful extravagance. Staffing levels are on the whole tight and the levels of expenditures are determined in the main by the artistic objectives and programmes.

36. On the basis of the above, the conclusion to be drawn is that there are few readily identifiable savings in the heartland of the performing companies, which in total approach the magnitude of the Royal Opera House deficit. Leaving aside Royal Opera touring, the most optimistic circumstances might provide for savings in the performing companies of around £200,000. This would require the targets for reducing Royal Ballet touring costs to be feasible saving £20,000 in two weeks touring; opera programmes to be more commercially balanced to reduce the cost of chorus overtime by say £80,000; a reduction in Royal Ballet guest artist payments by, say, £50,000; a favourable outcome to reviews in staffing levels saving up to

£40,000; and a favourable outcome to the review of resident singers as covers saving, say, £10,000. I believe however that it should be a target to be aimed for over the next three years, with the base for comparison being 1984/85. In addition savings of £25,000 are identified in the report on storage policy. Savings on the variable costs of touring the Sadler's Wells Royal Ballet should be used to finance additional touring activity of that Company, rather than go towards reducing the Royal Opera House deficit.

37. There are no Royal Opera tours planned for 1984/85 in the UK and the Royal Ballet has only two weeks UK touring. For the future, however, the Royal Opera should not be expected to tour out of its main grant; and any Royal Ballet touring should be separately funded. The report on the Royal Ballet endorses touring by that Company and the Royal Opera House's plans for an annual Tent season for ballet in Battersea Park. The costs of such activities are not capable of being absorbed by the Royal Opera House however and should only be engaged in if special funding is made available.

Management structure and systems

38. Although the scope for direct and relatively early savings in the three performing companies is limited and uncertain, the scrutiny team, in their various reports, make recommendations for changes in planning/budgeting procedures. These are aimed at securing a greater degree of healthy tension between artistic objectives and financial reality.

39. The main recommended change in the management accounting system is to convert the three performing companies into separate cost centres, each under a Chief Executive, and to create a fourth cost centre for the theatre/central administration overheads under the present Director of Administration. The objective is to ensure that those who are responsible for determining costs, through artistic decision-making, are fully aware of and accountable for these costs. At the moment the management accounts are geared more to the needs of those who have day to day management responsibility for the various parts of the House. This means, for example, that whilst the activities of the Royal Opera and Royal Ballet determine the costs of the production departments or the extra sessions of the orchestra or the overtime of the stage staffs these costs are neither borne by the Companies nor identified to them.

40. The Board of the Royal Opera House have for a number of years been discussing ways in which artistic and financial responsibilities can be brought more closely together. A number of innovations were made under the previous Chairman of the Board's Finance Sub-Committee (Sir John Sainsbury), including improved financial reporting; and the recently appointed Chairman of that Committee (Sir Denis Forman) has recommended a shift to the cost centre system of management accounting - although his preferred solution is that all costs (including the overheads of the theatre itself) should be borne by the three performing companies ie three cost centres as opposed to the four which I recommend.

41. Volume 1, Section 9 of the report considers the detail of the recommendation for four cost centres. In the case of the performing companies, the main change will be to transfer the costs of the orchestra, production departments, stage staffs and marketing department to the Companies' budgets and to make them accountable for those parts of the expenditures which are determined by their activities.

42. These changes will have the greatest bearing on the forward planning of the Companies' activities. The Chief Executives of the Companies will be responsible for

the budgetary bids; and the Finance Department will monitor and control the overall forward budget, requiring the Chief Executives to make adjustments as necessary. The heads of departments (orchestra, technical, marketing etc) in association with the Finance Department will be responsible for advising the Chief Executives of the likely cost of their demands on the departmental resources; and for monitoring and controlling the costs in-year. In the case of the Royal Opera it is recommended also that budgets should be attached to each production, covering the full costs (direct and indirect) of that production; and that a Production Controller should be appointed with the responsibility of containing costs within the available resources. The General Director of the Royal Opera House will hold ultimate responsibility within the Administration, with clearly specified lines of responsibility down to his Chief Executives and the Finance Department.

43. The recommended cost centre approach will impact mainly on the management of the affairs of the Royal Opera and Royal Ballet as the greater part of the costs of the Sadler's Wells Royal Ballet are already allocated out to it. The report on the Sadler's Wells Royal Ballet (Volume 1, Section 4) contains recommendations for relatively minor changes to the system of accounting. The main budgetary/planning recommendation however is that the timing of the planning of tour venues and programmes should be sufficiently advanced to tie in with the budgetary timetable for the year ahead. At present, programme planning is usually only completed at around the beginning of the financial year by which time it is too late to undertake analyses of ways of reducing costs other than through the rather crude process of cutting back on the number of touring weeks. In addition the present budgetary arrangements tend to place the management of the SWRB in a responsive rather than active role with the main budgetary planning responsibility seeming to rest with the Finance Department.

44. The move to establish the Royal Opera and Royal Ballet as cost centres will better enable the companies to plan and operate more effectively within their budgets. It will not solve the immediate financial problem and will, in fact, cost money to implement (perhaps £100,000). As Sir Denis Forman has expressed it, "No amount of planning or control can reverse the fact that the Opera House is currently on a course that demands more resources than are available to it".

Opera and ballet planning

45. The reports on the Royal Opera (Section 6) and Royal Ballet (Section 5) contain a number of recommendations of a planning nature which should effect savings within the next two years or so. It is recommended in particular that the two companies should adopt a pattern of longer runs of performances of fewer productions. This will have the benefit of:

- (1) Reducing stage time currently taken up in rehearsals and so providing the opportunity for more matinees.
- (2) Reducing rehearsal sessions for the orchestra and chorus and as a consequence extra sessions/overtime.
- (3) Reducing the pressure on stage and production departments and therefore overtime.

46. Extending the runs of performances has been considered by the Royal Opera House as a means of achieving savings and is reported in Volume 1, Section 8. A preliminary estimate by the Finance Department of potential annual savings is £125,000. I recommend that this should be a target to aim for.

Repertory selection

47. Another area where forward artistic planning with an eye to budgetary requirements can have a financial effect is in repertory selection, though this probably bears more upon the Royal Opera than the Royal Ballet. The Finance Department have estimated that if the repertory were planned within some overall constraints on how many operas with a low rate of net contribution to revenue can be accepted in a season, extra net revenue of £200,000 to £400,000 might be generated (see Volume 1, Section 8). The range reflects assumptions as to the proportion of low net contribution operas that are removed from the repertoire in the season. There is also uncertainty about the extent to which they can be substituted for by high net contribution operas. I **recommend** that £200,000 should be the target to aim for, at least initially.

Corporate planning

48. Any repertory-type changes of this nature need to recognise the length of the planning process. The Royal Opera begins to plan its seasons three to four years ahead and to contract guest artists two to three years ahead. The Royal Ballet is beginning to look several years ahead but more in terms of performance/rehearsal slots rather than specific ballets. It only needs to firm up its ballet programmes one year before the beginning of the season to fit in with the annual budgetary process. The Royal Ballet could therefore begin to plan for longer runs of performances from the 1984/85 season. The Royal Opera on the other hand whilst it could make some sort of a start then could more realistically only be expected to make significant planning changes from 1986/87 season onwards.

49. This long lead time in the artistic planning process affects also the scope for achieving economies through the juxtaposition of heavy opera and ballet performances. A forward look at the financial effects of say two major choral operas close together or a heavy opera followed by a heavy ballet within the constraints of a corporate financial plan could enable artistic changes to be made which will reduce chorus, orchestral, stage department etc overtime.

50. The report at Volume 1, Section 9 recommends that in the light of the move towards the creation of four cost centres and taking into consideration the long lead time on artistic planning a five year corporate plan should be prepared. The projected forecasts of income and expenditure would be used to control more tightly the financial effects of artistic planning and so help to achieve savings in expenditure and increases in income of the magnitude referred to in paragraphs 36, 46 and 47 above.

Management responsibilities

51. The above changes in the artistic planning and budgetary arrangements will take a number of years to introduce and perfect. It will require **simultaneously** changes in management responsibilities. The Chief Executives of the four cost centres will need to be identified and appointed; and a clarification of the responsibilities of senior management currently at the centre of the Royal Opera House will be required. In addition the Board, who have ultimate responsibility for the financial affairs of the Royal Opera House, will need to reflect the changes in the organisation of the Administration. The reports at Volume 1, Sections 4 and 5 recommend that a member of the Board should be given special responsibility for each of the two ballet companies. The report at Volume 1, Section 2 recommends that the Chairman of the Board's Finance Sub-Committee should hold the position of Deputy Chairman of the Board.

Financial targets

52. Whilst the above changes will not impact upon the immediate deficit problem, it will provide the opportunity for financial targets to be set for the future. The Royal Opera House Administration should as a priority examine in detail the cost implications of more financially orientated repertory planning and longer runs of productions. Meanwhile, and recognising the preliminary nature of the estimates, a tentative target should be set for the Royal Opera House to reduce its funding requirement by £325,000 during the period 1984/85 to 1986/87. This will be over and above the target of annual savings of £225,000 referred to in paragraph 36 above; and the base for comparison will be 1984/85.

Stage staff

53. An additional area where savings should be sought, but which the scrutiny has not quantified, is in the work practices and overtime arrangements of stage staffs. This is a most complicated area in which certain costly work practices have accumulated over time, often in the process of buying out an even more costly practice. Many of the overtime payments in this area derive from a technically over-ambitious opera and ballet programme for the stage facilities available. Earlier recommendations will have some effect here. At the same time however some of the NATTKE restrictions on, for example, minimum length of overtime call, fixed team sizes, automatic replacement of absentees, and "one-job, one-call" are, to the outsider, excessive. They can involve eight hours at double time being paid to staff for a job lasting just a couple of hours; a team of seven electricians having to be called in for an overtime call of eight hours at double time when only one is needed on stand-by; and a Saturday night "get out" prior to a Bank Holiday having to be paid at double time when the team working on the Monday could have managed the task if they were not restricted to working only on that days performance.

54. Volume 2, Section 15 details the costs and work practices of stage staffs and electricians. It is recommended there that the House agreement and working arrangements be renegotiated with NATTKE. The senior management of the Royal Opera House are very much aware of this need and have over the years negotiated cost saving changes. The management are looking to Phase 2 of the redevelopment programme (see Volume 1, Section 10) as the spring board for such changes.

55. I recommend that this is a nettle to be grasped now and that work practices should be renegotiated before the commencement of the redevelopment programme in 1986. This should include a look at whether the present two shift system of working is the most effective either cost-wise or in terms of the physical burden which it places on staff. How much of the present £631,000 overtime costs for stage staffs and electricians can be saved through such changes is not known (although, for example, reducing the minimum night call from eight hours to four hours, as at the Royal Shakespeare Company, could save £44,000 a year). There will always be an overtime need given the operations of the House. Moreover the staff have grown accustomed to high levels of overtime, regarding the payments as part of their basic wage. I recommend however that the Royal Opera House management should aim to reduce costs by around £150,000.

Redevelopment programme, phase 2

56. The need for economies in the use of stage staffs in advance of the redevelopment programme is all the more important if the redevelopment programme is not going to add to the running costs of the House and therefore the funding requirement at the end of this decade. Volume 1, Section 10 reports on the second phase of the redevelopment programme. The capital cost of that programme will not be a charge against the annual funding requirement of the Royal Opera House and is the subject of a separate financial report to the Ministers. There will be an impact ---

on the running costs of the House, however, guestimated at around £300,000. A working assumption of the redevelopment proposals is that such additional expenditures will be off-set by economies elsewhere, including around the stage area. No detailed analyses of the costs and likely economies have been undertaken although studies are now planned. It is **recommended** that such analyses should be regarded as a priority; that the results be reported to the Government; and that the Government and the Royal Opera House agree on funding implications, if off-setting economies cannot be found.

Theatre and general administrative overheads

57. A broad area of Royal Opera House expenditure not considered in detail by the scrutiny team is theatre and general administrative overheads. This comprises general administration and finance, front of house (eg catering staff, ushers, firemen, box office), House management and maintenance (eg cleaners, maintenance engineers) personnel department, and House running costs (eg rent, heating, telephones). A general overview of these expenditures is at Volume 1, Section 3. In 1982/83 the budget amounted to £3.6 million, of which 50% were payroll costs. In the period 1979/80 to 1982/83 the total expenditure on theatre and administrative overheads increased by 42% overall, but the payroll element increased by 53%. It is **recommended** in Volume 1, Section 9 that these expenditures should be brought within the cost centre controlled by the Director of Administration, Mr Richard Wright. It is further **recommended** that a "scrutiny" of these costs should be undertaken, with the greatest emphasis being on the payroll costs of £1.8 million.

Earned and sponsorship income

58. The preceding paragraphs have concentrated primarily on the scope for reducing expenditure in order to bring the funding requirement more into line with the grant available. The scrutiny has considered also whether there is greater scope for raising more income either at the box office or through private sponsorship.

59. As mentioned previously, there has been a fall-off in attendances at Covent Garden which has probably added in the region of £500,000 to the funding requirement of the Royal Opera House. The Finance Department are projecting an upturn in attendances for 1983/84 but this will not be sufficient to bring them back to the levels of the late seventies. This is an area which is potentially volatile and not easily under the control of management although earlier references to a change in the balance of repertory is one tool at the Board's disposal.

60. The reports on the performing companies (Volume 1) have considered the scope for more performances at Covent Garden as have the Finance Department in the "options paper" at Volume 1, Section 8. There is little or no scope for improvements here except through more matinees, already discussed. The only alternative is for more ballet performances outside the House ie on tour or in the Tent in Battersea Park. These would involve expenditures which far exceed the revenues generated. The report on the Royal Ballet (Volume 1, Section 5) endorses the plans for such outside performances partly to enhance accessibility and partly to increase the cost effectiveness with which the resources of the Royal Ballet are utilised. They are not however a means of raising net additional income and, as recommended previously, should only be undertaken if special funding arrangements are agreed.

61. I believe that the scope for raising more revenue requires a positive marketing drive. The Royal Opera House Board have recently decided to set up a Public Affairs Committee. The report at Volume 1, Section 7 recommends that the Committee should have the role of determining a marketing plan for the Royal

Opera House and its constituent companies. The plan would address such questions as "Which are the priority market segments to pursue and what price structure and discount schemes should be adopted?" It should also set targets for, eg ticket sales, sponsorship revenue and income from sales of merchandise; and take a positive lead in giving the Company a stronger market orientation. The Committee should co-opt a non-Board member with professional marketing experience.

62. Any turn-around in the revenue side of the House's financial equation can be achieved neither quickly nor with certainty. In considering the future financial prospects of the House and its funding requirement additional income cannot be relied upon. It can only be seriously considered in the light of forward plans for the repertory (already discussed) and of experience with the proposed positive marketing drive. The Chairman of the Board believes that there might be some scope for increasing sponsorship income although the Finance Department already look to covering the cost of new productions (net of in-house labour costs) through sponsors.

The Retrenchment Alternative

63. Bringing together what has been said above:

(1) On present projections, if the Royal Opera House is to be expected to live within its annual grant and write off its accumulated deficit in 1984/85 it would need to find economies in expenditure or revenue increases of £2.96 million.

(2) The scrutiny has pointed up some areas where economies might be found but those which can be achieved quickly would merely scratch the surface of the deficit.

(3) Looking ahead two to three years, it would be reasonable to set a target reduction of £600,000 in the annual funding requirement; and for further reductions in the years beyond if, for example, a positive marketing drive can be made to pay dividends.

(4) Savings over and above those in (3) would require a lowering of the present international standards and a change in artistic direction.

64. I have concluded that the pursuit of the present artistic policies, standards and levels of activity will require an increase in the base level of grant for 1984/85 and future years, and the accumulated deficit to be written off. If, in the present economic climate, and given the competing claims on public expenditure, the Government is unable to agree to such increased commitments, then the only route open to the Royal Opera House is dramatically to lower its artistic sights.

65. The lowering of artistic sights might include, for example, reducing the size of the Royal Ballet by 10% (saving up to £100,000 on wage costs); reducing the chorus by 10% (saving up to £80,000 on wage costs); abandoning all operas which fail to recoup their variable costs (saving £100,000, or more, taking into account the repertory changes implicit in paragraph 63(3) above); reducing the Sadler's Wells Royal Ballet complement of dancers by 30% to become as in the early 1970s an Experimental Group (saving £200,000 on wage costs alone but not allowing for lost box office revenue); and abandoning all UK touring by the Royal Ballet (saving £60,000, assuming the normal level of two weeks and that economies already suggested are achieved). This package alone could save around £540,000 a year in addition to the £600,000 referred to paragraph 63(3). It would mean however a diminution in standards. Moreover around half the savings would flow from depriving regional audiences of the two Royal Ballet companies. In the face of falling standards, the box office would eventually suffer and eat into the potential savings.

It would require only an 8% reduction in box office receipts to eradicate the benefits of the expenditure savings.

66. I have also considered, with the assistance of the Royal Opera House Finance Department, two yet more draconian measures (Volume 1, Section 8). These are:

(1) The Royal Opera Company should move onto a "Festival" basis giving just two short seasons of opera a year, reducing the number of performances to 70 and taking full advantage of commercially oriented repertory planning. The stage and orchestra would be geared to meet the requirements of ballet, supplemented during the opera seasons; and the chorus engaged only for the opera seasons. A very preliminary estimate of the savings to be had from such a change is £1.0 million per year, although included in this would be a part of the savings identified in paragraphs 46 and 47 above. No allowance is made for redundancy payments etc. Apart from the preliminary nature of the estimate there are uncertainties surrounding, for example, the box office supporting a higher number of Royal Ballet performances and different style Royal Opera Company; and a satisfactory outcome to union negotiations. If the Government felt this to be an avenue to proceed along it would be necessary for a detailed financial analysis to be carried out and the Government might wish this to include a consideration of the need for two separate opera companies in London (the Royal Opera and the English National Opera).

(2) Disband the Sadler's Wells Royal Ballet at a direct saving of £1.43 million per year and possibly £0.3 million per year of the Royal Opera House overheads. These savings assume that the Royal Ballet will not be required to undertake more than its present two weeks touring by way of substitution; and make no allowance for redundancy payments and other dislocation costs such as trying to keep the Company together during a period of run-down.

67. I do not recommend either of these two options or the slightly less draconian measures in paragraph 65 above. They would represent a complete reversal of artistic policy; write off the substantial investment of public funds that has been made over the past 37 years to establish the national and international standing of the opera and ballet companies; and, whilst it cannot be measured, there would be a reduction in the value for money from the very substantial grant that would remain to be paid to the truncated Royal Opera House. Moreover, the option to disband the Sadler's Wells Royal Ballet would mean that the tax payer in the provinces will be deprived of a company which brings to him the qualities of the Royal Ballet - a quality which he is helping to finance.

CONCLUSION

68. I recommend that:

(1) The Government should write off the accumulated deficit at end - 1983/84. At the time of writing this report, the deficit was forecast to be £1.16 million, but might in the event reach £1.25 million.

(2) The forecast base level of the grant for 1984/85 should be increased by £1.8 million from £10.55 million to £12.35 million to match the projected funding requirement. The precise level of the funding requirement in 1984/85 will need to be assessed in the light of a detailed knowledge of the ROH budget for that year and consistently with the formula outlined in Chapter One.

(3) Over the period 1984/85 to end -1986/87 the Royal Opera House should be required to achieve a target reduction of £0.6 million on the new base level of annual funding, or more if an early return to the traditionally high level of attendances can be achieved. This target allows for £100,000 of extra costs which are likely to have to be incurred in the early years to implement the recommendations to improve management and financial accounting. The details of the savings are at Appendix 1. In subsequent years, further savings should be possible.

(4) The Royal Opera House should reform its management and accounting systems along the lines described in this report to improve forward financial planning and to create a yet tauter tension between artistic objectives and financial realities. These reforms will assist the Royal Opera House Management in achieving the savings identified at (3) above as well as ensuring greater control over budgets in the future.

(5) Whilst automatic increases in grant can never be guaranteed, the criteria for determining the annual grant should be as described in Chapter 1 of this Covering Report (including a targeting of grant on particular expenditures and, as a general rule, linkage of certain elements of expenditure to the Average Earnings Index). This will establish a more stable financial environment and provide the financial framework within which the Royal Opera House can better plan their programme of work and use of resources.

(6) The touring of the Royal Opera should be abandoned; and the Royal Ballet's touring should be separately identified and specifically funded taking into account the need to plan such tours, say, two years ahead. The report on the Royal Ballet (Volume 1, Chapter 5) recommends that the Company should be enabled to tour and undertake Tent seasons in Battersea Park, London, seeing them as a valuable means of improving public accessibility to the Company.

CHAPTER 2, APPENDIX

POSSIBLE ROH SAVINGS

| | | Savings (1983/84 prices) £ |
|--|--|--------------------------------------|
| SWRB: | | |
| (1) | Less publicity expenditure) | [<u>30,000</u>] - to finance extra |
| (2) | Occasional abandonment of Monday) evening performances) | touring |
| (3) | 2-programme week) | |
| (4) | Staffing) | 20,000 |
| Royal Ballet: | | |
| (5) | Reduced staffing levels | 20,000 |
| (6) | Reduce costs on use of guest artists | 50,000 |
| (7) | Reduce touring costs | 20,000 |
| (8) | Longer runs of fewer productions | 25,000 |
| Royal Opera: | | |
| (9) | Reduce use of resident and guest singers as covers | 10,000 |
| (10) | Reduce chorus overtime and extra sessions | 80,000 |
| (11) | Longer runs of fewer productions | 100,000 |
| (12) | More commercially based season/ higher net contributions | 200,000 |
| ROH: | | |
| (13) | Outside gang and storemen | 25,000 |
| (14) | Production departments | not quantified |
| (15) | Stage/NATTKE work practices | 150,000 |
| (16) | Review theatre & administrative overheads | not quantified |
| (17) | Tighter budgetary control | not quantified |
| GRAND TOTAL | | <u>700,000</u> |
| LESS: cost of implementing management and financial accounting recommendations | | <u>100,000</u> |
| NET TARGET SAVINGS | | <u>£600,000</u> |

Notes: It is further recommended that the RO should no longer tour in the UK. Based on the 1983/84 budget for the tour to Manchester this will save £455,000 of funding in those years when the RO would otherwise have been expected to tour.

CHAPTER 3

ROYAL SHAKESPEARE COMPANY

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

1. The Royal Shakespeare Company (RSC) operates under a Royal Charter first granted in 1925. The purposes which the Charter specifies include promoting the dramatic heritage of William Shakespeare by presenting his works to the highest artistic standards at the Royal Shakespeare Theatre (RST) in Stratford, in London and elsewhere; promoting Shakespearean drama, literature and knowledge at home and abroad; and promoting dramatic art at home and abroad by developing the skills and experience of the RSC's employees, by means which include the production of dramatic performances of all kinds.

2. The current RSC operation is, apart from the originating genius of Shakespeare himself, the product of the generosity of the Flower family in Stratford, begun in the last and continued into this century. Sir Fordham Flower and Mr (now Sir) Peter Hall decided in 1959 to extend the range of the RSC's work in and from Stratford; to obtain for it a second home in London; and to convert it from an operation wholly funded by box office revenue and having a substantial reserve into an institution partly funded by public money through the Arts Council. More recently the RSC has been deeply influenced by the artistic direction provided by Mr Hall from 1960-1968 and in succession to him by Mr Trevor Nunn. Performers of good and often outstanding quality have played and continue to play their part. Now, in terms of overall managerial and financial policy, the RSC is under the control of an effective combination of six people - two laymen, Sir Kenneth Cork, Chairman of the Council, and Mr Geoffrey Cass, Chairman of the Finance and General Purposes Committee; the two Joint Artistic Directors, Mr Nunn and Mr Terry Hands; and two administrators, Mr David Brierley, General Manager, and Mr William Wilkinson, Financial Controller.

3. The RSC is working this season on a six-point pattern of activity:

(1) and (2) A group of actors and actresses is formed in Stratford as the "first-year" company in a company that will stay together for two years. They work both in the main house, the RST (332 performances), and in the second house, The Other Place (TOP) (155 performances), for ten months, from April to the following January. The Stratford season generally includes five new Shakespeare productions in the RST and in TOP smaller, more intimate productions of Shakespeare, other classics and contemporary and experimental work.

(3) At the end of the Stratford season, the first-year company makes a seven-week visit to Newcastle-upon-Tyne, repeating its main and second house work in the Theatre Royal and the Gulbenkian Studio (University of Newcastle) (86 performances). It also undertakes an intensive programme of extra-mural work in schools, colleges etc. (This visit is funded separately from the principal RSC activities by the Arts Council, the County Council of Tyne and Wear and the box office.)

(4) and (5) The company then moves to London, becoming the "second-year" company. The RSC's London base moved in 1982 from the Aldwych Theatre to the Barbican Centre in and operated by the City of London; this

was a striking movement eastwards from the normal theatre-land of the West End. The second-year company works in the main house, the Barbican Theatre, and in the second house, The Pit (customarily about 360 and 340 annual performances respectively), for 11 months, from April until the following March; it repeats but also adds to the successes carried forward from the Stratford repertoire.

(6) The RSC has revived this year at the Arts Council's request its small-scale tour. A company of 18 performers under the direction of Miss Sheila Hancock OBE (Mrs John Thaw) will visit a total of 22 locations between 10 October and 28 January. (This tour is also funded separately by the Arts Council, a commercial sponsor - this year the National Westminster Bank - and the box office.)

4. Details of the RSC's Charter obligations, the form of its government and management and the way in which it carries out its main policies and objectives are given in Sections 1 - 3 of the main report on the RSC.

PERSONNEL

5. The RSC needs to combine the work of individuals and groups of individuals. The most obvious distinction between the component groups may seem to be that between performers and supporting staffs (1982-83 data):

| Type | Number |
|---------------------------------------|--|
| Performers | 144 |
| Musicians | 34 |
| <u>Artistic directorate, designer</u> | <u>18</u> |
| Administration | 35 (including heads of production & other depts) |
| Production departments | 89 |
| Stage departments | 124 |
| Theatre management & operation | 128 (including front-of-house) |
| Publicity | 18 |
| The Other Place | 8 |
| The Pit | 14 |
| Touring, Newcastle visit | 16 |
| <u>Miscellaneous</u> | <u>33</u> |
| Total | <u>661</u> |

6. However, the distinction between "performers" and "supporting staffs" is not the most important distinction between the staff of the RSC. The Company has set its face against "star billing" for its performers and presents them as an ensemble. In so far as it exists at all, the "star" function rests in effect with the Joint Artistic Directors and the remainder of the Associate Directorate.

7. The senior JAD, Mr Trevor Nunn, is also the Chief Executive. This means that the artistic, creative function is at the helm as well as in the engine room and that the task of the Administration and the rest of the RSC is to work in support of the artistic function. It gives rise to the formidable strength of the RSC as a performing company and as a business enterprise which, ultimately needs to succeed at the box office or go under, but also to some weaknesses which the Company recognises and will correct.

8.. The personnel of the RSC are discussed at various points in the main report, notably in my observations in Section 6 on various aspects of management and financial management and in the reports of the assignment officers which appear in Sections 9-15.

FINANCIAL AFFAIRS AND PROSPECTS

9. Mr Ian Trumper reports in Section 4 on the causes of the deficit after funding in 1982-83 and on the prospects for the years 1983-84 and 1984-85. And in Section 7 he outlines the options available for reducing the deficit in those years. As in the case of the Royal Opera House, there are no easy answers.

Income, expenditure and deficit

10. The composition of income and expenditure in 1982-83 was as follows:

| Income | £000 | % | Expenditure | £000 | % |
|-----------------------|-------------|------|-------------------------------------|-------------|------|
| Box office | 4201 | 87.4 | Performers, directors, stage mgt | 2611 | 30.9 |
| Overseas tours, TV | 231 | 4.8 | Stage operating | 1745 | 20.6 |
| Sponsorship | 124 | 2.6 | Production costs | 1669 | 19.7 |
| Vending | 193 | 4.0 | Theatre operating | 1654 | 19.5 |
| | | | Royalties | 82 | 1.0 |
| Other income | 55 | 1.2 | Publicity | 352 | 4.2 |
| | | | Administration | 309 | 3.7 |
| | | | Pensions, prof charges | <u>37</u> | 0.4 |
| | <u>4804</u> | | | <u>8459</u> | |

11. There was thus an expected difference between income and expenditure - the "funding requirement" or "deficit before grant" - of £3.665 million. The Arts Council (ACGB) grant was less than this, however, being set at £3 million. This created a deficit of £0.665 million after funding. Together with the RSC's accumulated deficit of £0.386 million brought forward from earlier years, this amounted to an aggregate deficit of £1.041 million by the end of the 1982/83 financial year.

12. The accumulated deficit of £1.041 million was reduced by a supplementary grant provided by the Government through the Arts Council in January 1983. The supplementary grant, of £0.85 million, brought the total down to £0.191 million, which was carried through to 1983-84.

13. Taking account of forecasts of ACGB grant, the reduced deficit is estimated by the RSC to rise by some £0.5 million to £0.701 million by 31 March 1984 and by a further £0.991 million to £1.682 million by 31 March 1985. Mr Trumper is in broad agreement with the RSC's estimate for 1983-84; regards that for 1984-85 as (necessarily) somewhat more speculative; but is satisfied that the present problem is the result of a long-established defect in the RSC's finances. This is underfunding,

which simply means that too low a proportion of RSC expenditure is grant-aided. It is also satisfied that the deficit can be removed only by a substantial reduction in the RSC's fixed costs. These are substantially the costs of and expenses of the artists, production departments, stage departments, theatre operating departments, and artistic and administrative staff, and account for 90% of total costs. Such a reduction would mean closing the London end of the RSC's operations. This and other options which are less effective are discussed later in this chapter. The alternative to reducing fixed costs is to fund them at a level which is shown to be necessary in the light of evidence produced by this scrutiny and thereafter is validated in the way proposed in Chapter 1 of this covering report.

Composition and causes of the deficit

14. Between 1981-82 and 1982-83 the RSC's expenditure increased by 25%. The distribution of the increase and the performance of the main components of expenditure against budget are shown in the following table:

Cost increases 1981-82/1982-83 and comparison of budgeted with actual expenditure, 1982-83

| Item | 1981-82 £000 | % of all costs | 1982-83 £000 | % of all costs | %ge increase 1981-82/ 1982-83 | Budget variances |
|------------------------------|-----------------|----------------------|-----------------|----------------------|-------------------------------------|---------------------|
| Artists' salaries & expenses | 2377 | 35.1 | 2611 | 30.9 | 9.8 | 31 |
| Production costs | 1130 | 16.7 | 1669 | 19.7 | 47.7 | (164) |
| Stage operating costs | 1364 | 20.1 | 1745 | 20.6 | 27.9 | (164) |
| Theatre op'g costs | 1203 | 17.7 | 1654 | 19.5 | 37.5 | (183) |
| Publicity | 334 | 4.9 | 352 | 4.2 | 5.4 | 23 |
| <u>Royalties</u> | <u>70</u> | <u>1.0</u> | <u>82</u> | <u>1.0</u> | <u>17.1</u> | <u>21</u> |
| <u>Totals</u> | <u>6478</u> | <u>95.5</u> | <u>8113</u> | <u>95.9</u> | <u>25.2</u> | <u>(436)</u> |

15. It will be seen that over four fifths of the increase of 25% in expenditure occurred in the areas of production costs, stage operating costs and theatre operating costs. The table also shows that the RSC spent £75,000 less than budgeted on artists' salaries and expenses; publicity; and royalties, but £511,000 more than budgeted on production costs, stage operating costs and theatre operating costs, making a total adverse variance from budget of £436,000.

16. The distribution of the deficit before funding in 1982-83 as between the different theatres and locations of the RSC was as follows:

| Location | £000 | Deficit as % of operating expenditure |
|------------------|-------------|--|
| RST, Stratford | 1219 | |
| TOP, Stratford | <u>30</u> | |
| Total Stratford | <u>1249</u> | 32 |
| Barbican Theatre | 2460 | |
| The Pit | <u>(9)</u> | |
| Total London | <u>2451</u> | 61 |
| Total RSC | <u>3700</u> | 46 |

17. The causes of the deficit after funding in 1982-83 were as follows:

(1) A marked decline in box office revenue at Stratford in 1981-82 when increased seat prices met sharp audience resistance. This caused the RSC to limit price increases in 1982-83, and, indeed, to reduce the top price from £12 to £11.50.

(2) The Company's belief that they had failed to invest enough in the look of productions in 1981-82 and previous years caused the increase in total expenditure of £1.672 million (25%), to include a deliberate, post-budget decision by the Finance and General Purposes Committee and the Council to spend more than allotted on the look of productions (both sets and costumes), so as to offer the public more attractive productions at Stratford and to get the first year to operating at the Barbican off to a good start.

(3) The long-established underfunding of the RSC by the Arts Council, despite step increases in grant in recent years.

(4) The bringing forward from 1981-82 of an accumulated deficit of nearly £400,000.

18. I now consider the main elements in these contributory causes in turn, beginning with the combination of box office revenue and underfunding. In each case I conclude by considering the prospects for the future, in the light of both Mr Trumper's assessment and my own reading of the omens.

Box office revenue and underfunding

19. The RSC is very dependent on box office revenue which, at £4.2 million, accounted for 87.4% of the income which it earned itself in 1982-83. Other sources of income, while valuable, do not begin to compare with its importance. For example, sponsorship income accounted for only 2.6% of all income. Income earned at the box office accounts for nearly half (49.8%) of expenditure. The significance of box office revenue and other earned income (note (1) below) in the finances of the RSC is shown by the following table, which is based on Section 4 of the main report (Table 4 and Annex 3). The table shows the proportions of the RSC's expenditure covered from 1978-79 by box office revenue and other earned income; the consequential funding requirement (or "deficit before grant"), ie the amount of expenditure left over to be met by the Government through the Arts Council; and the proportions of expenditure actually covered and not covered by Arts Council grant.

PERCENTAGES OF RSC EXPENDITURE COVERED BY BOX OFFICE REVENUE etc

| Year | Box office income | Other earned income | Total | Funding req't ('Deficit be-for grant') | ACGB grant | Not covered by ACGB grant | Accumulated deficit carried forward |
|------------------|-------------------|---------------------|-------|--|------------|---------------------------|-------------------------------------|
| | % | % | % | % | % | % | £000 |
| 1978-79 | 51.5 | 4.7 | 56.2 | 43.8 | 41.0 | (2.8) | (234) |
| 1979-80 | 54.3 | 4.8 | 59.6 | 40.4 | 39.0 | (1.4) | (295) |
| 1980-81 | 55.4 | 7.5 | 62.9 | 37.1 | 40.4 | 3.3 | (105) |
| 1981-82 | 47.2 | 10.2 | 57.4 | 42.4 | 38.3 | (4.1) | (386) |
| 1982-83 | 49.7 | 6.8 | 56.5 | 43.5 | 43.5(2) | - | (191) |
| 1983-84 (budget) | 50.1 | 6.1 | 56.2 | 43.8 | 38.4 | (5.4) | (691) |
| 1984-85 (budget) | 49.0 | 7.1 | 56.1 | 43.9 | 34.5 | (9.2) | (1682) |

Notes

(1) "Other income" includes catering, bars, publications and cloaks; overseas tours, TV; and sponsorship. Sponsorship increased from £25,000 in 1978-79 to £124,000 in 1982-83 (ie from 0.6% of expenditure to 1.5%).

(2) ACGB grant was set at £3 million in 1982-83, ie 35% of expenditure, but was increased by a supplementary grant of £0.8 million to cover:

(a) the elimination of the accumulated deficiency of £0.386 million and

(b) a further contribution of £0.464 million towards the year's total costs. The residual deficiency on that year, £0.191 million, was carried forward to 1983-84, as shown.

20. This means that any widening of the gap between box office revenue and operating costs will call for a disproportionate increase in funding, as Mr Trumper explains in Section 4, paragraph 24.

21. The gap between revenue and costs widened markedly in 1981-82 because of a fall in box office income at Stratford. This was the culmination of a trend over several years before. Whereas in 1978-79 there were nearly 500,000 paid admissions to the RST, by 1981-82 this had fallen to some 370,000; and whereas in the former year the RST had filled 93% of its seating capacity and taken 91% of the maximum possible earnings at the box office, in 1981-82 these proportions fell to 74% and 70% respectively.

22. By contrast, paid admissions to the Aldwych rose from 68% of seating capacity (58% of earning capacity) to 82% of seating capacity (70% of earning capacity). Of the small houses, TOP improved markedly over the period (82% of seating capacity rising to 92% and 86% of earning capacity rising to 92%) while the Warehouse (the precursor of The Pit) also achieved a rise from 59% of seating capacity to 82% and from 55% of earning capacity to 71%.

23. The result of this in cash terms was that box office income at the RST Stratford fell back from £1.987 million in 1980-81 to £1.835 million in 1981-82, a drop of 7%, and that box office revenue for the RSC as a whole increased by only 2% (plus £52,000).

24. This poor result occurred at a time when - the RSC argue - owing to underfunding, the price of admission to the RST was relatively high and the price of admission to the Aldwych Theatre was nearly 25% dearer than that at the National Theatre and dearer than in many commercial theatres.

25. The RSC did not believe that it would be sensible to try to recover more income by increasing seat prices to a level higher than it seemed likely that the market would bear. The Company increased the average price of admission in 1982-83 from £5.21 to £5.72. This was nearly 10% more than in 1981-82 and was above the increase in the Retail Price Index, but at a lower rate than the increase in operating costs (24.7%). This differential was due to the RSC's wish to avoid scaring the Aldwych audience away from the Barbican, but instead to offer a sort of "loss leader", and similarly to be gentle with the potential audience for Stratford after the setbacks of 1981-82.

26. The question of underfunding is extensively discussed in the Cass/Brierley memorandum, to which both Mr Trumper and I refer in our contributions to the main report (its purpose is explained in Section 3); I also refer to the comparison between the RSC and the National Theatre in my observations in Section 6, Part 1. I do not build too much on the RSC/NT comparison; I have not discussed the issues with the NT in detail; and there are in any case differences as well as similarities between the two. Nonetheless, aiming off for the danger of failing to compare like with like, I believe that there was a striking difference between the proportions of expenditure which were covered by grant in the two cases in the year cited (1980-81), ie 65% in that of the National Theatre, 38% in that of the RSC. (Both levels compare interestingly with the high percentage subsidy for the Comedie Francaise and 90% for the Schiller-Theater in West Berlin.)

27. Although it has in recent years uprated the level of grant increase to the RSC above the level of inflation, the Arts Council for its part regards the funding of the RSC as insufficient (Section 4, paragraph 7 ff and its Annex 1). The reason for the low level of funding is partly historical. For 20 years, until the recent supplementary grant, the funding of the RSC lay under the shadow of a qualification entered by the Treasury when the RSC was first grant-aided to the effect that if the RSC came to London and operated at a "national" level, it should not have the same size (or rather scale) of grant as the National Theatre. That qualification now no longer applies but its effect is still felt because the base for funding has never been established to the intellectual satisfaction of both the RSC and the ACGB.

28. It may well be thought that there is a paradox here. The Government has indicated by means of the supplementary grant made available to the RSC through the ACGB that, subject to the findings of this scrutiny, it wants the range of product provided by the RSC; and the ACGB is an enthusiastic supporter of the RSC (Section 3, Annexes 2 and 4 and Section 4, Annex 1). My findings are that, subject to the correction of a number of faults which are not endemic, the RSC is well managed; that its financial affairs are well conducted within the rules of the game as it is played (see covering report, Chapter 4); and that providing the present range of work at something like the present level of quality undeniably means a certain level of fixed and variable costs (see below). In terms of the comparison with the funding of the National Theatre, the uprating of the RSC's grant represented by the Government's subsidy through the ACGB in 1982 had the effect of raising the level of the RSC's subvention from 50% to 56% of the NT's subvention. The RSC believes

that, taking account of the differences between them, a subvention of 70% of that received by the NT would be right. Had such a ratio applied in 1982, it would have meant that the RSC would have obtained £4.581 million from the Government, rather than £3.8 million.

29. The RSC argues that as long as it is underfunded, it is led into the sort of circle of cost-cutting, reducing revenues, increased deficits and increased prices which caused the crisis in 1981-82. I sympathise with this argument.

30. The future course of box office revenue is obviously difficult to predict. As a matter of general principle, it would always be necessary to accept that a performing company would have its ups and downs and that, provided it showed that it did deserve support, it should to some degree be shielded from the worst effects of variations in earned income. In the year 1982-83 there was a palpable recovery in box office income. The budget prediction for the year was somewhat gloomy, given the overall poor showing in 1981-82, but in the event the RSC earned £0.5 million more than expected: whereas paid admissions at Stratford had been at 74% of capacity in the previous year, they were at 86% in 1982-83. Capacities of the two theatres in the Barbican were at encouragingly high levels, 86% in the Barbican Theatre and 89% in The Pit; and the RSC earned nearly £70,000 more than expected in the Barbican's first year, which suggests that in a full year of operation the Barbican presence would do well.

31. In the current year (1983-84) the RSC has increased seat prices between 6% and 12.5% at Stratford and by 18.5% at the Barbican Theatre; the latter increase compensates for the suppression of an increase from Aldwych prices for the opening year of the Barbican Centre. The RSC's budget prediction for income in 1983-84 was cautious, assuming 74% of earning capacity at Stratford and 72% in London. So far, however, the 1983-84 season has gone well, achieving an earning capacity of 81.8% at Stratford and 79.8% in London; by early September the RSC's box office takings were £0.1 million above expectation although with the potentially weakest part of the year still to come. The RSC estimates that, despite its lowish estimate of the level of paid admissions, box office income will nudge forward to account for just over half of costs (50.1%), owing to increased prices.

32. No predictions have yet been made about the detailed level of box office income in 1984-85, but the critical factor is how much expenditure is likely to be covered by such income. It would be reasonable to work on the assumption that it will not be more than 50%. If the RSC's forecast of its increased costs (ie 11% in 1983-84, 13% in 1984-85) is anything like accurate, the proportion of costs covered by income would be likely to fall.

33. It might be argued that seat prices should move upwards in step with unavoidable and reasonable increases in costs. It would be right for this to happen to the extent that informed predictions of market reaction justified it; indeed, it might well be right to increase the price of some seats at the Barbican considerably; but in setting seat prices it will always be essential not to obstruct public accessibility at the box office.

Directorial, company, stage management and band salaries and expenses

34. At £2.611 million, these costs accounted for 30% of all expenditure in 1982-83. They increased by nearly 11% as compared with 1981-82, but the RSC spent £31,000 less on them than budgeted. They comprise the payroll costs of the Stratford and London first-and-second-year companies, stage management teams in both places, the artistic directorate, designers and the band. The main elements are as follows:

| Item | Stratford £000 | London £000 | Total £000 |
|---|-------------------|----------------|---------------|
| Performers | 827 | 907 | 1734 |
| Stage management | 100 | 115 | 215 |
| Other expenses | 13 | 20 | 33 |
| JADs & other Associate Directors | 291 | | 291 |
| Music and Designers and voice directorates | 41 | | 41 |
| Non-resident Associate Directors | 2 | | 2 |
| Fees for other non-resident staff | 51 | | 51 |
| Other expenses | 92 | | 92 |
| NHI and expenses | 79 | 73 | 152 |
| Totals | 149 | 1115 | 2611 |

35. I consider matters affecting the payment of the Joint Artistic Directors in Chapter 4 of this covering report. The details lies in Section 2 of the main report (paragraph 17 ff) and Section 6, Part 2.

36. As already noted, the Associate Directors are in effect the RSC's "stars". They wield a very considerable influence over the affairs, fortunes and day-to-day working of the RSC. I have no comments on their pay (or on that of designers) but I have recommended the Governors to keep the size of the directorial cadre under review. I would expect, too, the Directorate as a whole, under the leadership of the Chief Executive and with the assistance of the General Manager, to bring into a better equilibrium than now the twin imperatives of artistic and financial operating policies (see below).

37. The average basic wage paid to an actor at Stratford has increased from £114 in 1978-79 to £200 pw in 1982-83 (plus 75%) and in London from £113 pw to £193 pw (plus 71%). This compares with an increase of 76% in the Equity Minimum Rate over the same period.

38. The RSC's provision for the pay of actors in 1983-84 was set at £1.46 million (22%, £0.26 million above that for 1982-83) (Section 4, paragraph 54). This was in response to pressure from Equity to raise the minimum rate in the RSC pay range from £110 pw to £120 pw; this has knock-on effects throughout the scale to the normal maximum of £375 pw.

39. I comment on the general issue of actors' pay in Section 6, Part 2. I conclude that although the RSC's performers are not highly paid in absolute terms, they are relatively well paid in comparison with large parts of a profession which suffers more than most from the laws of supply and demand; and that, given the size of their pay as a component of the RSC's budget (22%), the Company will always have to exercise a firm control over it. The ACGB's rules for client

companies refer to the observance of Government pay policy. Although there is a specific "pay policy" within the range of the Government's economic policies, no doubt both it and the Company would expect future settlements to take account of the generally low levels of current settlements in the industrial, commercial and public sectors and the Company itself to have a pay policy which is clear enough to be taken into account in deciding the scale of future policy subsidy.

40. As Mr Trumper explains (Section 4, paragraph 87), the RSC has budgeted for a 16.7% increase in 1983-84 in the salaries and wages covered by this sub-section of the report. This raises the spend to £3.047 million, or 32.5% of the total cost of the RSC. I would expect increases to be held at a much lower level than this in future years.

Production costs

41. Production costs comprise expenditure on and through the departments which make and paint sets and properties (the Scenic, Property and Paint Workshops) and which make costumes and wigs (Wardrobe and Wig Departments). These have been the subject of detailed examinations by Mrs Giorgina Soane ("Dressing the performer") and Miss Pearl Iley ("Dressing the stage"), given in Sections 9 and 10 of the main report.

42. Relevant expenditures increased by 47% (the largest percentage increase) between 1981-82 and 1982-83, from £1.13 to £1.669 million. The variance of actual from budgeted expenditure was also the largest in the year, at £164,000.

43. The RSC shows both strength and weakness in the production area. On the plus side, there can be little reasonable doubt that the RSC's decision to increase the level of its investment in the visual quality of its productions turned out to be a courageous and sound business decision; even if it had not been rewarded with success at the box office, as it appears to have been from the results in 1982-83, I would regard it as a churlish response to blame the RSC for a well thought-out decision, taken in good faith. As it happens, this response to what has been aptly called within the RSC the "net income imperative" (meaning the need to maximise net revenue and minimise the need for subvention) seems to have gone a long way towards helping the Company to pull off the marked recovery at the box office in 1982-83, quite apart from being a justifiable preparation for the move to the Barbican where it would be necessary to consolidate the Aldwych audience and to build up a new one. It is a policy which has the specific approval of the ACGB, whose attitude towards it is consistent with their attitude towards the question of investment in new productions by the Royal Opera House, Covent Garden Ltd (see ROH report, Section 3, Annex 1 and Section 12).

44. Mr Trumper agrees with the RSC that there is a correlation between reduced investment in physical production and reduced box office (Section 4, paragraph 45). He notes that in 1981-82 production costs at Stratford represented nearly 8% of the RSC's total costs and that the level of paid admissions there was 74% of capacity; in 1982-83 spending on productions increased by a fifth (to 9.2% of total costs) and paid admissions went up to 86% of capacity. Spending in London increased yet more, by two fifths, and paid admissions in the first year of the Barbican totalled 86.5% of capacity. As Mr Trumper explains (Section 4, paragraph 43), 1982-83 is the first season when all the productions in the RST Stratford were expensive; the first season in the Barbican simultaneously attracted a large investment; and the same policy has been continued into the current season.

45. On the minus side, I do not think that once the overall policy is set, there is a clear enough understanding of or a firm enough attempt to secure a correct

balance between the artistic and the logistic imperatives. I have discussed the issues in Section 6, Part 5 (Planning the season etc) and also in my observations on the reports by the assignment officers in Section 6, Parts 9 to 11.

46. Of course, the RSC is at the mercy of imponderables outside its control (eg the reluctance or inability of those whom it wishes to employ as directors, designers or performers to make up their mind whether or not to accept the offer made until late in the day). Nevertheless, I regard the planning cycle as starting some months later than it need and the control of particular productions into performance as capable of being tightened up (although also attended by the interplay of such imponderables as the inability of designers to shake themselves free of other assignments as soon as they had imagined). The besetting problem of lateness - in decision-making on the content of the new season and at such subsequent critical moments as the submission of set models and costume designs - leads to a cycle of peaks and troughs in the production departments, summarised by Mr Trumper in Section 4 and by me in relevant parts of Section 6.

47. Examples of this cycle include £42,000 for non-productive time in the production wardrobe in 1981-82; in the same year overtime accounted for more than a fifth of the production wardrobe's total payroll costs (Section 4, paragraph 36). In 1982-83, overtime in the production departments accounted for £155,000 and non-productive time for £64,000. It is impossible to say how much of that cost of £219,000 could have been avoided. Some overtime working will always be needed; some non-productive time may be unavoidable; and staff welcome overtime as a supplement to their earnings. But I agree with Mr Trumper's estimate that savings of some £50,000 might be achievable if peaks of work were smoothed out (Section 4, paragraph 37).

48. Other extra costs may prove more or less avoidable. The annual cycle of moving productions from Stratford to Newcastle and then to London had already imposed a cost on the RSC over and above the initial costs of making sets for the RST. The stage in the Barbican Theatre has different dimensions from the RST stage in Stratford, with which the Aldwych stage was broadly compatible. This has meant that the Scenic and Paint Workshops have had to put more effort than before into adjusting productions for the Barbican; Mr Trumper estimates that this may cost on average £15,000 at 1981/82 prices per production.

49. Such additional work, combined with lateness, can mean that the Scenic Workshop is unable to do all the new work on new productions at Stratford. Together with the fact that the Workshop is in any case unable to do steelwork, this has led the RSC to contract out some 30% of the work on new productions at Stratford and all the Barbican main stage sets for new productions in the current season.

50. While sympathetic to the RSC's problems, to its nature as a performing company and to its production staff, Mrs Soane and Miss Iley conclude that the variations between budgeted and actual expenditure in 1982-83 give cause for concern. For its part, the RSC takes the view that a substantial part of what the assignment officers regard as "overspending" was in fact due primarily to the RSC's policy decision that more attractive productions were a box office necessity and that, after the initial budgets had been set, more money should be allotted to increase the box office appeal of productions and, in particular, to open the Barbican theatres with exciting work. This decision was approved by the Finance and General Purposes Committee and the Council. My conclusion is that that policy decision was justified but that the assignment officers have correctly drawn attention to circumstances and practices in managing the season and productions into performance that should be put right, as well as to the need for a regular scrutiny of such policies as that on the overall quality of and detailed expenditures on

costumes. The RSC have conceded that this is so and have undertaken to see to (Section 6, Part 5).

51. For the future, the RSC has consolidated the increased level of spending on physical production in the budget for 1983-84, in which production costs will rise by some 6.3% to £1.774 million. The RSC will be lucky to hold to the budgeted cost of productions in the current season. In the preliminary budget for 1984-85, production costs are set to rise by another 16.8%. This means that by the end of 1985, production costs will have risen by some 80% in three years, the largest jump occurring in 1982-83. I regard this level of increase as somewhat contentious. Before signing it up, I should like to see an analysis of the results for this year, showing the proportions of expenditure attributable to productive time, non-productive time and overtime and a commentary by the Chief Executive, General Manager and Financial Controller.

Stage operating costs

52. "Stage operating" costs comprise the salaries and expenses of the stage and stage properties crews, stage electricians, sound engineers, casually employed "showmen" and the maintenance wardrobe and wigs staff. At £1.7 million in 1982-83, stage operating costs accounted for a fifth of the RSC's expenditure, just under the cost of the performing company and of stage management. In recent years the gap between the costs of stage operating on the one hand and company and stage management on the other has been narrowing and the former is now likely to exceed the latter.

53. Between 1981-82 and 1982-83, stage operating costs went up by over a quarter (27.9%) and there was an adverse budget variance of £164,000. Stage costs as a whole have gone up by 127.5% since 1978-79. The London theatre has always been more expensive to operate than the Royal Shakespeare Theatre owing to the fact that at the Aldwych changeovers between performances were invariably done at night, not the following morning as at Stratford. This practice has been carried into the Barbican, but RSC management intends progressively to negotiate changes in working practices - the need for which is acknowledged by the Union, NATTKE. Moreover, the Barbican has 44 stage staff as compared with 36 at Stratford. Since 1978-79, costs in London have increased by nearly a third from 11.3% of total RSC costs to 14.1%. The upward trend in London costs accelerated by nearly a third in 1981-82 and by more than a third in 1982-83. The move to and dealing with technical problems with the stage equipment in the first year of operation in the Barbican helps to explain the further jump in 1982-83, but there are certain underlying factors which give cause for concern, as Mr Trumper points out (Section 4 paragraph 59). Apart from the practice of "the night call" the Barbican has almost a third as many staff again as Stratford although there are fewer changeovers because productions have longer runs in London than in Stratford and there are no matinee to evening changeovers.

54. Wage settlements over the last five years have been made at an average percentage increase of 8% in Stratford and 8.2% in London. These rates of increase are not as great as those at the English National Opera, the National Theatre, the Royal Opera House or theatres in membership of the Society of West End Theatre. The rise in costs is due, rather, to the cost of overtime and of casual staff. In 1982-83 overtime at £170,000 amounted to more than basic wages; and in the 1980-81 pay negotiations, the RSC agreed to supplement the holiday pay of staff of one year's standing with the average overtime earned in the previous year. As Mr Trumper observed, this was a substantial concession, amounting to an addition of 5% to the staff cost (Section 4, paragraph 61). The total cost of showmen in 1982-83 was £0.207 million, compared with a budgeted £0.1 million.

55. The irony is that while the workload resulting from RSC activity (eg larger and more complex productions, some including a fair amount of water), requires even more overtime to be undertaken, there is a limit to what the crews in Stratford and London can or will take; and the wage cost of casual staff employed to supplement the permanent crews has increased sevenfold since 1978-79 to the level noted above.

56. Stage operating costs represented a peculiarly knotty group of fixed and variable costs. The stage crews are relied upon in important measure to make it "right on the night". Their work often involves much physical effort and strain; it can cause injury. And if they choose, a stage crew in any theatre can make life very difficult for management, even to the point of preventing the show going on, although it should be said that the indications are that industrial relations within the RSC are generally good, and that the use of strong-arm tactics is rare. In the RSC there is the added issue of a difference in pay rates, working conventions and length of working week as between Stratford and London. The Stratford crew who still work a six-day week naturally wish to move to a five-day week like their London colleagues. But the RSC needs to abate the apparently inexorable rise in the cost of stage operating.

57. Mr Peter Standley, the assignment officer who examined the stage departments, has made recommendations which I endorse. These are set out in his report (Section 11) and are summarised by me in Section 6, Part 10. They include a number of recommendations about the planning and timing of work before and after it reaches the stage department; and as regards volume of spend, the negotiation out of treble-time payments and additional leave for Sunday working as part of any agreement to a five-day week at Stratford and, in London, the abandonment of overnight production changeovers, in-year compensation for early over-spending and reviews of the use of casuals and the size of the electrics department.

58. It is difficult to quantify the savings which might be achieved as a result of these difficult measures and the RSC should not be pressed to achieve the impossible. But I believe that RSC's aims should be to decelerate the rate of increase in spending in what remains of 1983-84 and in 1984-85; and by 1985-86 to have begun to achieve a 10% saving in real terms in stage operating costs which will be fully achieved in 1986-87.

59. The RSC has in fact budgeted for a very small increase in stage operating costs in 1983-84 (3.2%). This is an earnest of its good intentions and it is important that the Company should be encouraged to hold as closely to it as common sense allows. I should conclude with the same point with which I end Section 6, Part 10. It is, certainly, necessary for both the Company and the staffs concerned to recognise the constraints on expenditure and the need to make every pound go a long way. To the degree that it is necessary as well as just and desirable for the RSC to narrow the gap between pay and conditions in Stratford and London, however, I think it right to recognise that we are here dealing with an important matter bearing on the RSC's financial future prospects: it would be a mistaken economy either to require the RSC to operate its stage department at a level below what was shown to be practicable or in such a way as to ill-reward staffs whose loyalty has been high in the past and deserves to be recognised.

Theatre operating costs

60. These costs comprise expenditures on maintaining and running the four theatres and on "front of house" (including box office, programme sellers and attendants). They cover a fifth of the RSC's staff and in 1982-83 amounted to £1.653 million, some 19% of all RSC expenditure. This compares with an expenditure of £0.72 million in 1978-79 (17.7%) and, more pointedly, of £1.203 million in 1981-82

(also 17.7%). There was an increase of £0.421 million in 1982-83 (plus 37.4%) and adverse variance from budget of £0.183 million.

61. Theatre operating costs divide between Stratford and London as follows:

| Stratford £000 | | | London £000 | | |
|-------------------|---------|---------------|----------------|---------|---------------|
| 1981-82 | 1982-83 | % increase | 1981-82 | 1982-83 | % increase |
| 606 | 765 | 26.2 | 525 | 845 | 60.9 |

62. It will be seen that whereas costs at Stratford increased by 26% between 1981-82 and 1982-83, those in London increased by 60.9%. The departure from budget at Stratford is due to building maintenance work of £33,000 and of office equipment (box office computers) of £55,000. The increase in London is attributable mainly to the higher cost of operating in the Barbican than in the Aldwych theatre, in particular to the cost of electricity in an "all electric" theatre, most of whose ancillary accommodation has no natural light. The adverse variance at the Barbican was due to building maintenance (£22,000) and electricity (£34,000), and to non-recurring costs of £19,000 arising from the move from the Aldwych to Barbican.

63. Although the RSC paid a peppercorn rent in 1982-83, service charges to the Barbican Centre amounted to some £0.285 million. A rent of £60,000 is chargeable in 1983-84, rising to £120,000 in 1984-85. Total charges will be upwards of £315,000 in 1983-84 and of £400,000 in 1984-85 (Section 6, Part 6, Annex 4). This means that the Barbican Centre will always be much more expensive to run than the Aldwych, although also possessing a higher box-office potential by virtue of its 1,160 seats compared with 1,000 at the Aldwych.

SUMMARY OF REASONS FOR THE DEFICIT AFTER FUNDING IN 1982-83

64. Mr Trumper summarises the reasons for the deficit as follows (Section 4, paragraph 81 ff):

- (1) The increase in expenditure outstripped increases in box office revenue, Arts Council grant and the Retail Price Index. Total operating costs rose in the period 1978-79/1982-83 by 107%, compared with increases in box office income of 100% and in grant of 79%.
- (2) Production costs were increased after budget to attract custom back to Stratford and into the Barbican. The increase was substantial, 56.8%, ie £1.669 million compared with £1.045 million. Increased investment in production appears to have contributed well to an increase of 31% in box office revenue, but it had financial implications for most categories of cost, ranging from increase in the number of actors to increased stage crew overtime.
- (3) Another principal cost increase was thus in stage operating. Costs here went up by 28% between 1981-82 and 1982-83 and caused an adverse budget variance of £159,000. Retrenchment is possible but will take resolution and time to achieve.
- (4) Theatre operating costs jumped by 37% between 1981-82 and 1982-83, producing an adverse budget variance of £183,000. This is attributable chiefly to the additional cost of operating in the Barbican.

FUTURE FINANCIAL PROSPECTS AND OPTIONS FOR REDUCING EXPENDITURE

65. The fundamental problem with the RSC's finances is that the Company is under-funded to carry out its existing range of activities at the current level of quality (Section 4, paragraph 98 ff). This is because such a high proportion of costs is in the category of fixed costs; because most of these are salaries and wages; because in the case of the most obvious of these, actors' salaries, the RSC is in competition with other theatres; and because the base from which the Company negotiates settlements is lower than that of certain other theatres.

66. In addition, the policy to invest more in production values and the changes associated with operations in the Barbican Centre both increase the cost of future operations.

67. As things stand now the RSC will carry an accumulated deficit of £0.7 million into 1984-85 and will end that year with an accumulated deficit of £1.7 million. If the level of ACGB grant for 1984-85 were some £3.7 million, as seems possible, the RSC would cease to be viable and extensive measures of retrenchment become necessary. The various elements which need to be considered are as follows.

Cash flow and trading at a deficiency

68. Technical points connected with these matters are considered by Mr Trumper in Section 7, paragraphs 6-10, and need not delay this covering report. The one point which should be recorded here is that, if the RSC were wound up altogether, the ACGB would ensure that sufficient money was available to pay all creditors. This guarantee has enabled the RSC to continue to trade as a going concern pending the outcome of the scrutiny.

Minor retrenchments and increases in income

69. The detailed examinations undertaken as part of the scrutiny have shown that there are few savings to be had within the operations as they exist at the moment. It is clear that some are to be obtained in smoothing out peaks and troughs of work in the production departments and also in stage operating, but it is difficult to put a firm value on these. Mr Trumper speaks of £50,000 in the production departments and I advocate a 10% saving in real terms in stage operating by 1986-87 but - while well worthwhile and tactically important - neither of these adds up to much compared with RSC's total deficit. Similarly, although I advocate a regular review of policy and expenditure on sets and costumes, I would not expect any savings achieved as a result to be substantial compared with deficit. The same is necessarily true of relatively small expenditures reviewed by Mrs Howard, Mr Clegg and Mr Penfold in their examinations of publicity, marketing and merchandising; transport, travel and the extra costs of touring in the United Kingdom; and the cost of storage and the hire department. Here the purpose of the examination was much more to test the quality of management and administration than to look for economies, although the assignment officers have pointed to some, which, although small, are worth having.

70. The prospects for income at the box office have already been considered. It is evident that if other revenue accounts for only 12% of income, there would have to be really dramatic increases in sponsorship and in income earned through transfers to the West End, overseas transfers and TV (and new media) to have any marked effect on the deficit. The RSC have done well to double sponsorship income so far in 1983-84 but experience in this field, and in the others already mentioned, indicates clearly that there are no easy pickings to be had and that it would be unrealistic to bank on sizeable increases.

71. That brings us inevitably to the question of retrenchments, which, although severe in themselves, do not appear to cut into the main body of the RSC. These are ceasing the Newcastle visit; closing TOP and The Pit; dispensing with the band; and attempting a general scaling down in activity and expenditure.

72. The Newcastle visit is costed and funded separately from the RSC's main operations. Although ceasing it could become necessary for other reasons if either Stratford or the Barbican closed, there is no financial advantage here and this course can be discarded. I draw attention to my observations on the cultural, recreational and economic value of the visit to the North East and its professional value to the Company in Section 3 of the main report.

73. Both the small theatres cause additional costs but, after income is taken into account, this reduces to some £76,000 in 1982-83 (main report Section 3, paragraph 18ff). I regard both small theatres as now well established as an intrinsic part of the RSC, as explained in the main report, and as being a good part of the attraction of the RSC for actors. It is possible that savings of a relatively minor kind could be achieved by reverting to the earlier practice of staging small-cast productions in TOP and The Pit and the RSC must be at pains to ensure that it avoids trying to get a quart out of these pint pots, but I do not estimate that economies in either case would be substantial. And if both main theatres were retained, there would be a high opportunity cost attached to each unused small theatre and in the case of the Barbican actual charges to the Barbican Centre associated with The Pit. Although I could not say that it was impossible, I would not regard it as a readily viable proposition for another operator to run either theatre.

74. The Stratford and London bands cost some £0.25 million in 1982-83. I consider them in Section 6, Part 6. Under draconian measures of retrenchment the band would go to the wall, but I do not recommend the dissolution of either or both bands as an isolated economy measure. It would damage the quality of RSC productions; be out of keeping with the RSC policy for improved production values; and unfairly discriminate against a loyal and long-established group of employees.

75. A general saving equivalent to the size of the accumulated deficit of £0.7 million by end-1984 could be achieved on paper by an 8% scaling-down of activity and expenditure. Having considered with numerous RSC personnel the question of a 10-15% decrease or increase in expenditure, I am satisfied that although the RSC would not cease to exist if required to make such a saving it would not be able to offer the same range of products as now; that income would be put at risk; and that this would not be a sensible treatment of the investment which has so far been made by the Government in the RSC.

Major retrenchments

76. It is clear that the only options which can produce savings approximate to the deficits as accumulated by end-March 1984 and end-March 1985 are the closure of either the London operation or "Festival" seasons in London and Stratford (Section 7, paragraphs 16 ff).

77. The option which produces greater savings is the closure of the Barbican Theatres by end-November 1984. This would have the effect of reducing the difference between income and expenditure, and therefore the need for subvention, by £1.2 million, from £4.7 million to £3.5 million. It would bring the operating deficit to within the anticipated grant of some £3.7 million currently forecast by the Arts Council and would have reduced the anticipated accumulated deficit to £0.494 million by end-March 1985.

78. The capital cost of this course would be in the region of £0.235 million, including rent for accommodation in the Barbican Centre between December and March of £0.111 million, redundancy payments (£70,000) and costs associated with the closure and evacuation of £55,000.

79. Closing Stratford is a more expensive option. It produces fewer savings, because the RSC owns the freehold of its properties in Stratford, the RST is cheaper to operate than the Barbican, has a greater earning capacity and is subject to less restrictive working practices. The "close-down" costs are in the region of £0.3 million, including redundancy payments of some £0.2 million and other costs of £85,000. Moreover, it would be necessary to replicate in London a proportionate part of the production departments which are based in Stratford. An estimate of the cost of this is £0.46 million.

CONCLUSION ON FINANCIAL AFFAIRS AND PROSPECTS

80. My general conclusion is that the financial affairs of the RSC are well ordered and that the Company is not wilfully extravagant. The three main areas in which it is possible to improve on present performance are as follows:

(1) Although I recognise that both planning the season and managing productions into performance are attended by imponderables, some of which are outside the Company's control, it is necessary to tighten up both the planning of the season and the management of productions into performance. It is impossible to attach a figure for savings to this, but the effect would be generally beneficial.

(2) It is necessary to even out the peaks and troughs of work in the production departments. These give rise to both non-productive time and overtime some of which is difficult to justify. A minimum saving here would be in the region of £50,000 a year.

(3) It is necessary to accelerate the reform of working conventions in stage operating in London. I suggest as a target the achievement of a saving of some £100,000 - £150,000 in real terms no later than the financial year 1986-87.

81. I recommend that the RSC should give assurances on these three matters and that the grant for the year 1986-87 assumes that the Company has reduced costs in real terms by £150,000 (1982-83 prices).

82. The budget for 1983-84 forecasts a funding requirement of £4.1 million. The Company considers this to be a "survival" budget. It is an incentive to the RSC to maximise box office revenue, although the Company would like to reduce some ticket prices. The budget also means that the pay of certain categories of staff remains depressed. The ACGB grant offer of £3.6 million for 1983-84 has since been reduced by 1%. Although I consider that the Company should continue to work in a climate of financial stringency a grant of the order indicated by the ACGB perpetuates the fault of under-funding and deprives the RSC of the conditions of stability to which I think that it is entitled by its record of achievement as a national company and by its contribution to the tourist trade.

83. The Company's box office income is already high as a proportion of operating expenditure and I do not believe that it can be much increased. Although the RSC has done well with sponsorship this year, doubling the amount received in 1982-83, it is unlikely that private funding could - in the foreseeable future - make such a contribution to RSC's revenues as to reduce the requirement for funding from

the Government by more than a small fraction. The same is true of income and from transfers, TV and new media.

84. **I recommend** that the Government should endorse the RSC's present pattern of activity, namely a main and a small stage in both Stratford and London; the visits to Newcastle; and the small-scale tour; and, as a corollary to this, that public funding should be increased as outlined below.

85. My **recommendations** as to the scale of the Government's investment in and support for the RSC, are as follows:

(1) Although the disparity between them is wide and will remain a justifiable grievance unless now narrowed, it is unnecessary to look to a direct comparison between the RSC and the National Theatre in deciding on a sensible funding base for the RSC. The principal necessity is to decide on policy towards the RSC; to decide as a matter of urgency how it will be funded in 1983-84 and in 1984-85; and, in the light of the policy so decided, to come to a settled view on the pattern of funding in and after 1985-86.

(2) In the light of the evidence produced by the scrutiny, the **Government's policy** towards the RSC can reasonably be as follows:

a. to confirm that the qualification of 1962 (paragraph 27) does not now apply;

b. to confirm that the RSC has long operated, is now operating and is expected to continue to operate at a level of national and international excellence consistent with its standing as a "national" company;

c. to endorse the RSC's "six-point" pattern of activity as currently but not unalterably expressive of the level of operation; and

d. to decide on an appropriate ratio between the proportions of expenditure to be covered by box office income and other income in the light of the formula outlined in Chapter 1 of the covering report, paragraph 4.

(3) **With regard to the current year (1983-84)**, the objective should be to bring the financial affairs of the RSC into balance and to set its financial prospects on a firm footing. The year should therefore see the start of a two-phase process of getting the funding base right for the longer term. Subject to the qualification noted below, the grant for 1983-84 should be set at £4.5 million. This should comprise three elements:

a. The funding requirement before grant of £4.1 million (ie 43.8% of expenditure) should be met in full.

b. The accumulated deficit should be cancelled, at a cost of £0.19 million. The object of this is to restore the RSC's reserve for repairs at Stratford, which has been depleted by the company to help narrow the gap between the funding requirement and the grant actually paid. It is in principle undesirable to make a business enterprise drain necessary reserves in this way. In the particular case of the RSC it risks a serious increase in cost to Government later, as the Royal Shakespeare Theatre, which combines structures over 50 and 100 years old, requires a sensible repair and maintenance programme. Work which needs to be

undertaken includes repointing at an estimated minimum cost of £0.1 million and refurbishments costing £0.25 million.

c. There should be a supplement of some £0.209 million to come to the £4.5 million mentioned above. The object of this should be to give the RSC additional room for manoeuvre, but it is subject to the qualification noted below.

The difference between the sum of the full funding requirement, the accumulated deficit and the further supplement on the one side and the ACGB grant reduced by 1% (£3.564 million) on the other is £0.936 million. This is the amount which is needed now. It might be paid in instalments between 1 November 1983 and 31 March 1984; the size of the last instalment should be settled in the light of progress with box office income towards the end of the current financial year.

(4) **With regard to the year 1984/85**, the objective should be to build upon the more stable financial position in 1983/84 to decide in principle the future "targeting" of the grant, as discussed in Chapter 1. It is not yet practicable to use a "targeting" procedure for the 1984/85 grant. The RSC's financial position was too unstable in 1981/82 and 1982/83 to determine a base for future funding, because of the move to the Barbican; the decline in the box office at Stratford; and the policy to stage more complex productions. I **recommend** that the 1984/85 grant should be settled after an examination by the funding authority of the detailed budgets for that year. The preliminary budgeted funding requirement for 1984/85 is £4.717 million and I do not think that the result will come out at more than £4.9 million. In my judgement this level of funding is what is required in the interests of future stability. In recognition that the budget for 1984/85 necessarily comprises estimates about which there is still uncertainty, for example, some of the costs at the Barbican, I **recommend** that the grant has a "guarantee" portion set at 5% of the total, to be paid if required on agreement of the final accounts for 1984/85.

(5) The qualifications referred to above are these:

a. The RSC should continue its efforts to augment "other income", notably transfers to the West End, TV, overseas tours and sponsorship, but the Government should accept that such income is both difficult to predict and unlikely to increase much beyond its 1982-83 level of 4% of expenditure. The target already budgeted for 1984-85 is £0.45 million (ie 4.2% of estimated expenditure); this target might be increased to £0.45 million (4.6%), but should not be forced up any higher. Targets for later years might be increased by 0.5% of expenditure a year, but reviewed in the light of progress. In making this recommendation, I draw attention to the point I have made elsewhere, namely that the funding authority will need to be fair and even-handed in its attitude towards the contribution to be made to companies' finances by sponsorship. There is also the important consideration that, as shown in Section 6, Part 3 of the main report, sponsors tend to fund the marginal rather than the central costs of the RSC and that increased sponsorship does not necessarily decrease the funding requirement.

b. The RSC should give the assurances noted in paragraph 81 above with regard to the reducible costs of production and stage operating, ie it should undertake to save £150,000-£200,000 per annum by 1986-87.

(6) With regard to the year 1985-86 and later years, the Government will no doubt wish to indicate now that it will treat 1985-86 as "Year One" under the arrangements outlined in Chapter 1 of this covering report (paragraph 4), unless enough progress is made in the near future to enable 1984-85 to be so regarded. Once the immediate problems of 1983-84 are out of the way, the Government and the RSC should agree on the base level for 1985-86 in the light of the "targeting" suggested in Chapter 1. The targets should cover both box office and other income on the one hand and expenditures on the other.

(7) The Government and the RSC may wish to use as the basis for their discussion the budget formula set out in the Appendix to Chapter 1, which draws on the experience of the scrutiny team.

(8) Alternatively, the Government might, consistently with my recommendations for periodic review of both the ROH and the RSC, seek the advice of independent persons in assessing the RSC's proposals.

86. If the Government were to decide that the nation could not afford the additional funding recommended above and that it was necessary to hold to the level of grant provisionally offered by the ACGB, I conclude that the RSC would not be able to operate as at present. It would then be necessary to retrench expenditures severely. The only option which would produce enough reductions in net operating costs to allow the RSC to function within box office income and public funding would be the closure of the Barbican end of the Company's operations. The capital costs of this option would be in the region of £0.25 million.

87. I do not think that retrenchment is the right answer. It would waste much of the investment the Government has made in the RSC in the past; be a stunning blow to the Barbican Centre in its early years; and lop off a fruitful branch of the leisure industry in London.

GENERAL ASSESSMENT

88. Naturally, the view taken of the RSC by outsiders is not universally admiring. I have been at pains to assemble adverse criticisms and suggestions and to put these to the RSC in the shape of Mr David Brierley, the General Manager, and Miss Sheila Hancock, the director of this year's small-scale tour. The result is given in Section 5 of the RSC report ("Common criticisms"). I conclude there that the RSC's underlying strength is considerable, that it is capable of responding effectively to well-founded criticism and that a lot of the criticism offered to me is unfair or misguided.

89. The view taken by the ACGB is favourable. The assessments by the Drama Panel and the Regional Advisory Committee, bar a few minor points, amount to a strong endorsement of the RSC's work (Section 3, Annexes 2 and 4). The assessment of the Finance Department is that the RSC's financial management is sound; that its decision to spend more on productions in response to box office decline was not only wise but exemplary; and that the RSC is underfunded (Section 4, Annex 1).

90. Although this report is about the financial affairs and financial management of the RSC, it would be disingenuous as well as unjust not to close by saying that the Company is doing work of fine quality; is demonstrating to the admiration of its audiences not just an impressive virtuosity but also the power of a great Company to exalt as well as to entertain; and is proving its capacity and potential as a business enterprise in the vanguard of the performing sector of the leisure industry.

91. As a customer of the RSC, but with a heightened awareness due to the scrutiny, I have been to see three productions in the current repertoire at RST Stratford, one at TOP, one in Newcastle, four at the Barbican Theatre and one in The Pit; I have seen two productions twice, MUCH ADO ABOUT NOTHING and ALL'S WELL THAT ENDS WELL (seen for the second time in New York). I will not attempt a commentary which others are better qualified to give, but I regard the standards of performance and production achieved as generally well up to and in some cases beyond the level to be expected of a national company. The response of audiences of which I have been a member, whether in Stratford, Newcastle or London, has been warm, enthusiastic and occasionally demonstrative (for example in the case of the current CYRANO DE BERGERAC). As a Briton I was proud to see how the Broadway audience received ALL'S WELL.

92. My general assessment of the personnel of the RSC is favourable also. I have offered some criticisms and suggestions, especially with regard to the planning of the season and the management of productions into performance; compared with the overall strength of the RSC these are of a relatively minor and achievable kind. I end the exercise with a sense of admiration for a company which, while no more perfect than any other organisation, has the great strength of imaginative creativity, intelligent enthusiasm, painstaking commitment to quality and a willingness to work very hard, at all levels, to achieve the desired result. One member of staff told me, in the course of discussing funding, that, "We feel as if we have done something awful, but no-one will tell us what it is". My advice is that the Government should now settle the affairs of the RSC on a foundation which consolidates its past investment and enables the RSC to go on from strength to strength.

CHAPTER 4

WIDER ISSUES

1. In this chapter, I deal with certain aspects of public funding, including funding through the Arts Council; wages and salaries; tax relief and business sponsorship; and more generally the performing arts.

The ROH - a national institution?

2. In recommending a higher level of funding for the ROH I am conscious that the ROH is a institution which attracts controversy. This is captured in a nutshell in a letter whose author said that she and her husband and their three children would dearly like to see the Royal Ballet at Covent Garden but that it was beyond their means. She wondered how it could be right for a company supported by public funds to be so far out of reach of ordinary families.

3. The logic of the fact that Government has funded the Covent Garden Companies for over a generation and that the Arts Council regard a national opera house in London offering opera and ballet at an international level as an essential part of the provision for the Arts in Britain (ROH Report, Section 3, Annex 1) is that the nation, in the form of the central Government, and the arts funding authority, wants the Royal Opera House to continue. Indeed, the Arts Council believes that the ROH is under-funded, no less than the ROH itself (ibid). On the other hand, there is a body of assorted arguments, which run to the effect that Covent Garden is too expensive to be accessible to ordinary people; that seats are made available to the wealthy through public subsidy; that allotting £10 million to the ROH out of the Arts Council's budget depletes the money available to other companies, which are accessible to the less wealthy; that opera is not a customary and generally accepted form of entertainment in Britain; that the ROH's links with the Establishment enable it to exert an undue influence on the Government; and that in any case the level of the ROH's artistic achievement does not match the level of its pretensions.

4. While the reference to a £10 million subsidy is strictly accurate, the argument about its scale neglects the fact that the ROH provides more than 500 performances a year by not one but three active and productive performing companies (namely the Royal Opera Company, the Royal Ballet and the Sadler's Wells Royal Ballet) and the supporting services necessary, whether of production or administration.

5. Of those three companies, the touring ballet, SWRB, perhaps demonstrates in one of the most effective ways available the function of public subsidy in making a performing art accessible to the public. The Royal Ballet is accessible in its Tent seasons and on tour, much more so than when it is performing at Covent Garden. The Royal Opera Company is relatively inaccessible, except through the Proms season, TV and radio or on its visits to Manchester; it will be even less accessible if my recommendation for ending the provincial visit is adopted.

6. Although I recommend in my report on the ROH a substantial increase in its work of "out-reach" I do not see how the Royal Ballet or the Royal Opera Company can be made much more accessible at the box office without a further increase in public funding. Such an increase would have to be **over and above** the increase in funding which I recommend later to correct the under-funding which I believe exists at present. I do not consider that it would be realistic to make such a recommendation in present circumstances. For the future, however, the logic of

funding the Royal Ballet and the Royal Opera Company cannot find a completely practical expression as long as the box office is effectively closed to the majority. It will be necessary to consider the case for additional funding on its merits and in the financial circumstances of the time.

7. The comments of Mr John Manduell, Sir Isaiah Berlin, Mr Diamand and M Gall (ROH Report, Section 12, Annexes 1-3) point up the case for an international opera house at the summit of a nation's musical life, as a medium in which the genius of the past and the present can express itself and the genius of the future can be formed; as a setter of standards; and as to some degree an expression of a nation's intellectual and aesthetic self-confidence. Sir Isaiah Berlin observes that:

"Like all major arts, opera is today, no less than yesterday, intrinsic to the culture of a developed society. This clearly profits by, but does not necessarily need, a native tradition - such a tradition has no real roots in the USA, or Switzerland, or Scandinavia, where excellent work is done. The absence of a strong operatic tradition in England seems to me sad but irrelevant" (ROH Report, Section 12, Annex 3).

8. The principal answer to the "Establishment" argument lies in the fact that the Government commissioned this scrutiny, the report of which will be publicly available. The Chairman and members of the Board of Directors of Covent Garden, like anybody else in any comparable situation, have used all the influence they have and have lobbied for their corner with vigour and determination; their successors will no doubt do so in future. M Hugues Gall's corrective comment on the "official" function of Houses in capital cities is useful here (ROH Report, Section 12, Annex 1, paragraph 14). But measures which would have the incidental effect of abating the suspicion with which the ROH is regarded can and should be taken. I have made recommendations in Section 2 of the ROH report which would widen the scope of the Board's representation; would increase their ability to reach out to and for new audiences; would lead them to bring into equilibrium the artistic and financial imperatives in their policy; and would ensure that they exercise the ultimate authority that rests with them for all aspects of the management of the ROH and in particular, within the context of this scrutiny, for living within a sensibly devised budget. I am satisfied that the Board live in a continual stress of soul over the ROH's finances but that they fully accept that they need to surpass anxiety, and to contrive and compel a steady adherence to budget, once this is fairly established.

9. I have also recommended that the Secretariat which the Civil Service has provided to the Board since 1947 should be replaced by one formed by the ROH's permanent staff. This implies no adverse criticism of the existing Secretariat or their predecessors, but simply that an institution with an annual turnover of close on £20 million should itself be capable of finding a competent Secretariat.

10. On the question of the level of artistic achievement I have had put to me arguments on both sides of the case. The issues are discussed in Section 12 of the ROH report.

11. Adverse criticism focused on the opera. The ROH is disposed to concede that its visual standards could be higher, but is proud of its musical standards. The Arts Council; Mr Haines, who has been going to Covent Garden for over 30 years; and others have had some tart observations to make. They are mitigated by those of Messrs Diamand and Gall. Taken together, criticisms do not add up in my judgement to a case for sweeping changes in personnel at Covent Garden. Indeed, I regard some of the criticisms put to me as less than completely fair and objective, but opera and ballet seem to be particularly emotive subjects, arousing intense feelings. In my view, the dominant messages which emerge are that there is no endemic

failure at Covent Garden; that it, like other Houses, has its ups and downs; that the Board, the Administration, and the Directorate, should take seriously criticisms which are made seriously; and that none of them need be or appear defensive or close-minded in doing so.

12. I conclude that it would be reasonable for the Government to continue to fund the ROH and that it would be prodigal and short-sighted to cancel the investment which has occurred since funding began. But I acknowledge that because of its relative inaccessibility at the box office the Royal Opera Company will need to find yet further measures of "out-reach"; and I observe that increasing the accessibility of the products of Covent Garden to the general public would be an excellent subject for further business sponsorship, following on the pattern already established.

Aspects of public funding

13. There are three fundamental questions about the public funding available to the ROH and the RSC: what is the function of subsidy? Should the grant-in-aid continue to be conveyed to the Companies through the medium of the Arts Council or directly from Government? On what basis should grant-in-aid be calculated?

14. As I see it, the function of subsidy is to preserve and promote the activities of the Company on behalf of the nation and to make it as accessible as possible to the public at the box office.

15. The two Companies are undoubtedly regarded by the Arts Council, along with the two other members of the "big four" (the English National Opera and the National Theatre) as being in a special category. They are "national" companies; they are regarded as centres of excellence and as standard setters; they are established to operate in repertoire with five companies in three main Houses and on tour; they are looked to for steady output of new work; they are also looked to to undertake national and - not least by the Foreign and Commonwealth Office and the British Council - international touring, underpinned by a strong central repertoire: hence the Royal Ballet's tour of the USA and the Far East during 1983, the Royal Opera Company's visit to Los Angeles in 1984 and the RSC's planned visit to a series of European countries, also in 1984.

16. Successive Governments and the funding authority have wanted the RSC and the three performing companies of the ROH to exist and to thrive, regarding them as important national assets, providing a good range of generally high quality products which is essential to the preservation of the heritage and the creation of the future in their respective art forms and important culturally to Britain both at home and overseas. Indeed, there is no doubt in the Arts Council's mind that, on the basis of experience so far, it would not be allowed by the Government to make substantial decreases in the funding of the Company if the effect was to impinge seriously upon the shape of the ROH and RSC and their artistic policies.

17. Nonetheless, the Arts Council acknowledges that the two Companies are under-funded to undertake that desired range of work, although not more comparatively more under-funded than any of its other clients. And it finds itself unable to bring funding up to the right level because that would mean robbing Peter to pay Paul.

18. Apart from the question of the disposition of the grant-in-aid made available to the Arts Council by the Government, there is also the effect of other pressures on the Council's policies, particularly perhaps at present the needs of the Regional Arts Associations.

19. There is a rough justice in this. All must bear a fair share of the burden when public expenditure is under restraint. No one suggests that either Company should have a blank cheque. But I think that the justice is too rough. There is something unreal and wasteful about treating the Companies as if they were on all fours with the Arts Council's other clients, to whom I intend no discredit or disrespect in saying that they - the national companies - are not. If the Government says that it wants the range of products now delivered by the Companies, broadly at the level of current quality but with an emphasis on the importance of constancy in the search for excellence and economy, it is logical either to earmark parts of the grant-in-aid to the Arts Council as being specifically and inalienably for the Companies, as recommended by the Select Committee on Education, Science and the Arts in the last Parliament,* or to make a direct grant to the Companies through the Office of Arts and Libraries.

20. Of the two funding routes noted in paragraph 19 I myself would prefer the second - direct grant - as more logically and completely expressing the purpose of the change I recommend, but provided the first - "earmarking" - has the effect of recognising and safeguarding the national companies' special standing and function that may be preferable as being more consistent with existing practice.

21. The danger which has always been pointed to when the question of the funding route is raised is that the "arm's length" principle would be breached. The argument has run that there should be a clear division between the source of funds and the means of their distribution; and that the distributor, in the shape of the Arts Council, should also be debarred from artistic interference. Furthermore, the Arts Council should not intervene in matters of day-to-day company management; a former Chairman of the Arts Council has argued with force and clarity that the principle on which the Council should work is that of "back us or sack us" (by which I assume that he means, "withdraw our grant").

22. I subscribe to the principle underlying the "arm's length" method. But I doubt whether it is actually at serious risk from the changes I recommend. An interference with grant, artistic policy or day-to-day management inspired by party political considerations would be repugnant; and it would get its own political reward in Parliament and elsewhere. Perhaps more important, it would be ludicrous. Equally, an intervention inspired by belief in the superiority of one's own taste or insight would very likely be or seem absurd. It would attract a predictable response in Parliament and elsewhere.

23. It is in fact easily possible to secure the observance of the "arm's length" principle while either earmarking grant-in-aid for the Companies or funding them direct. I have recommended (Chapter 1, paragraph 4) on financial grounds a formalisation of arrangements for grant-in-aid to the national companies.

24. My proposals recognise their importance to the nation and their function as centres of excellence. It will ensure that the "arm's length" relationship on artistic matters is maintained. The Government itself should not go in for formal artistic assessment. What it needs is merely a knowledge and understanding of their artistic objectives. The national companies are so visible that the funding authority will be quickly aware from the public and critical response to them whether they are, over time, achieving their artistic aims.

25. It will be clear from the foregoing that I do not recommend that the task of the triennial assessment should be added to the tasks of the Arts Council as an agent of Government. The Council necessarily has continuous commitments, explicit or implicit, to its varied clients and it would not lighten its burden if, in addition to looking after them, it had to take on the substantial job of evaluating the national

*Public and Private Funding of the Arts, Session 1981-82, recommendation 17.

companies. There is also the consideration that the assessment of a business of the size of a national company is neither a process in which the Arts Council is well versed nor one which conforms either to a long-standing interpretation of its function as a grant-distributor or to the capacity it has available to undertake it.

26. In addition, the national and some of the other leading companies stand in a different relationship to the Council from most of its clients. In terms of artistic firepower, the advantage rests with them, not the Council. And the Council acknowledges with refreshing modesty that the national companies are led by people with national if not international reputations.

27. If the Government decided to retain the services of the Council as the funding route, I would **suggest** that the Council should not be used as the assessing agency at the end of each three year period. The assessors should be independent persons, as recommended above, although one of their number should be either the Chairman or the Secretary General of the Council as noted above.

28. I also **suggest** that the Council should, if remaining the funding route, reconsider the purposes for which members of its staff attend company meetings as assessors or representatives. The opportunity cost of this arrangement seems high. The Council sends an assessor from the Finance Department to all meetings of the Board of Directors and the Finance Sub-Committee of the ROH and representatives from the relevant professional departments to those of the Opera and Ballet Sub-committees; similarly, an assessor attends meetings of the RSC's Finance and General Purposes Committee, Council and Governors. These add up to many meetings a year, 12 in the case of the RSC alone.

29. If the Government decided to use the Office of Arts and Libraries as the funding route, I suggest that the Council's assessors and representatives should be withdrawn. In so far as the Council needed to supplement its knowledge of the affairs of the companies derived from attending performances and press and other criticisms, I **suggest** that it and the companies should agree with the Office of Arts and Libraries on an economical and effective means of doing so. This might, for example, take the form of a single meeting a year between senior lay and professional members of the Council and the Company in question for an exchange of information and views on achievement judged against plan.

Foreign practice

30. The purpose of visits made by members of the scrutiny team to Berlin, Milan, New York, Paris and Vienna was to obtain another perspective on British practice, not to undertake a detailed comparison of the ROH and RSC with foreign counterparts. In the event, visits concentrated on opera and a report is contained in Section 11 of the ROH document. The Foreign and Commonwealth Office provided me with some useful notes on the Bolshoi and Kirov Ballet companies.

31. The main point of interest to be noted here is that the ROH is midway between a European and Soviet pattern of funding and the American model, represented by the Metropolitan Opera. The following table includes the Grand Theatre of Geneva, M Gall's House:

Sources of funding (%)

| | Box Office % | Central/ Local % | Business sponsorship/ Individual donations etc % |
|----------------|--------------------|------------------------|--|
| ROH | 38 | 55 | 7 |
| New York | 65 | 4 | 31 |
| Berlin (Opera) | 15 | 85 | - |
| (Theatre)* | 8 | 92 | - |
| Milan | 17 | 79 | 4 |
| USSR | Nominal | Substantial | - |
| Geneva | 40 | 60 | - |

32. Another point of interest is the high level of fixed costs. These vary from 73% in Paris, 76% in London to 80% in Berlin, Milan and New York. The level for the Bolshoi and Kirov is not known.

Salaries and wages

33. These are discussed in their place in the separate reports on the ROH and the RSC and there is little that needs to be said about them here, save what follows.

34. First, in two organisations which are necessarily labour intensive (ROH, 1035; RSC, 625), the cost of salaries and wages is a substantial part of their fixed costs, while overtime is a substantial part of variable costs. And, as I note below, guests' fees in the opera and ballet companies are a controversial item. It is therefore important and reasonable to look to the Board of the ROH and the Council of the RSC to make pay settlements consistently with the general level of settlements now being achieved elsewhere in the economy. Fixing the level of funding for three years ahead as proposed above would undoubtedly do much to help with this.

35. Secondly, however, I hope that the basis on which funding is settled will recognise the fact that one of the most substantial subsidies available to the Companies is the willingness of some staff to work long hours for modest or low wages. Staff with "industrial muscle" are usually paid reasonably or well; some others are less fortunate; and nothing in my report should be read as proposing that any existing salary or wage levels or differentials should be set in concrete forever.

36. Thirdly, there is a particular issue in the RSC, namely the pay and conditions of the Chief Executive and Joint Artistic Director, Mr Trevor Nunn, CBE and his co-joint director, Mr Terry Hands. (Mr Nunn is on unpaid sabbatical leave this year.) Objections have been made to me that the level of their salaries (£47,640 and £34,500 respectively) is excessive, and it is improper for them, or indeed people like them, to make substantial additional earnings from transfers of productions from the subsidised to the commercial theatre and to earn in their own right in the commercial theatre while employed in the subsidised theatre.

37. I consider the first of those issues in RSC Report (Section 6, Part 2). I need not repeat the detail here. I conclude that the RSC Governors are right to set these pay levels. There is no reason in principle why high value should not be set on merit in the subsidised theatre, especially one of the importance and standing of the RSC. The two Joint Directors have a remarkable and fitting talent, as may be seen in their work on stage. And I have no reason to disbelieve what others have told me, that they could earn more in the commercial theatre, especially abroad.

*Funding of the West German theatre by government (Federal, Land and Local) is at 83%.

38. As for the second objection, such facts as I can make available within the bounds of normal confidentiality are these. First, in negotiating a West End transfer, the RSC would be guided in its application for fees by its estimate of the risk being taken by the investor and by the trend of its negotiations with the Company or the individual backers concerned. Its judgement is that, within the limits of prudence and common sense negotiations are a matter of horses for courses. Normally, it would aim for a return to the RSC of some £50,000.

39. Secondly, as a matter of normal practice, the RSC additionally requires a payment for the Director concerned as part of any contract negotiated with a commercial theatre for the production of a play originated in the RSC by that Director. Thirdly, between 1966 and 1981, Mr Nunn undertook no work outside the RSC, although his contract with the Company allowed him three months in every 12 to do so; he has since undertaken work in the commercial theatre, notably CATS in the West End (now strongly established in the USA) and IDOMENEO at Glyndebourne. Fourthly, between 1970 and 1980 Mr Hands undertook assignments in opera houses and theatres at home and abroad, including Covent Garden, Genoa, Milan, Paris and Vienna; he did so with the RSC's full backing and encouragement, the Company always being interested in the extension and refreshment of talent.

40. I do not think that, on the basis of the data available to me, it can reasonably be argued that the Joint Artistic Directors of the RSC or the RSC itself are at fault. Indeed, I would not wish to leave the point with that negative slant upon it. My judgement is that the RSC and therefore the public are fortunate to have Messrs Nunn and Hands in their service; that the policy of allowing them to operate in other sectors of the theatre is entirely sound; that it is right that a Director should enjoy an extra return on his work where this can reasonably be obtained; and that both Messrs Nunn and Hands have contributed to the economic life and the good name of the country by their work in the West End and abroad.

Local authorities

41. Chapter 5 below contains a note on the local authorities consulted during the scrutiny. I note in passing the paradox that within their native places, London and Stratford respectively, the ROH and the RSC receive little or no subvention from the local authorities (the Greater London Council and the County and District Councils of Warwickshire and Stratford-upon-Avon), but there is a possibility that the GLC, which does fund the English National Opera, and the National Theatre, would be interested in assisting "out-reach" from Covent Garden.

42. The RSC is the tenant of the Corporation of the City of London in the Barbican Centre. The City is to be congratulated on its gift of the Centre to the nation and the RSC on the brilliance and distinction of the contribution it has made to the success of the Centre in its first year. The financial terms of the relationship between the Corporation and the RSC, although attended by several marks of generosity, will need careful management if the balance is not to be tilted against accessibility at the box office and the viability of the RSC's operation in the Centre put at risk. As indicated above, my colleagues and I would regard a solution to the RSC's current financial problems which involved ending its operations in the Barbican Centre as a damaging loss to the performing arts in London and very serious blow to the Centre in its infancy.

43. Outside London my colleagues and I have visited authorities which are associated with the Companies in one way or another - the County Council of Tyne and Wear and the District Council of the City of Newcastle-upon-Tyne because of the RSC's annual visit to the North East, the Greater Manchester Council and the District Council of the City of Manchester because of the Royal Opera Company's visits to Manchester. Records of our discussions are given in Section 6 of the RSC

report and Section 18 of the ROH report. The details need not be repeated here, but there are three impressions which I should record:

- (1) The firm belief of the authorities visited in the value of performing arts of a high quality and their commitment to their provision. I was particularly struck by the readiness of Tyne and Wear CC to consider increasing its contribution to the RSC visit to Newcastle, should this become unavoidable (RSC report Section 3, Annex 3).
- (2) The open-mindedness of the Greater Manchester Council and the City of Manchester about the good sense and the opportunity cost of continuing with the Royal Opera visits to Manchester, compared with the benefits of diverting the resources involved to building up provincial opera companies (ROH report, Section 18, Annexes 1 and 2).
- (3) The good opinions held by senior officials of the local authorities of ROH and RSC staff, based on co-operation with them (ibid).

Tax relief and business sponsorship

44. I draw attention to the note on VAT at Annex 1 and to the record of my discussion with the then Director-General of the Association for Business Sponsorship of the Arts (Mr Luke Rittner) at Annex 2; and to the discussion of sponsorship in the ROH report (Section 3, Annex 3) and the RSC (Section 6, Part 3 and Annex 6). The main points to be made here are as follows:

- (1) The case against totally removing VAT from the price of admission to theatres is appealing but not strong. Nonetheless, it is for consideration whether it could be levied at a lower rate in order to assist the theatre in difficult times or simply returned to it in the grant.
- (2) The range of tax reliefs available to companies appears adequate save the impediment to gifts in respect of capital works. The Government will no doubt wish to consider this issue in the review of tax reliefs indicated in the manifesto before the recent general election.
- (3) The range of reliefs available to persons could be extended with advantage by raising the threshold on individual gifts.
- (4) The Arts Council attaches increasing importance to business sponsorship of the arts and to performing companies' efforts to obtain it. The ROH achieved substantial private funding for Phase I of the redevelopment scheme at Covent Garden and continues to do reasonably well; the RSC is doing well this year, on the basis of a single member of staff. The Arts Council needs to be even-handed as between different performing companies in its application of its new policy on sponsorship; both it and the Government will wish to recognise that business sponsorship is now the aim of a more and more sophisticated field of applicants and that if all are winners the prizes may be, as in the Caucus Race, very small.

The wider issues

45. Although my commission was to examine only the affairs of the ROH and RSC, some thoughts on the wider picture, based on the work done by my colleagues and me in those Companies and on our discussions with representatives of many others, may be helpful. I therefore conclude with a few observations on the two Companies and on the performing arts more generally.

46. It is right to begin with a word about the realpolitik of the subsidised, performing arts. I do not think, and do not want to give the impression that I think, that all is for the best in the best possible of all worlds. The fact that my colleagues and I have come to have, overall, high regard for the two companies does not mean that we have no criticisms of them or that I am unconscious of the political way companies can behave, and believe that they must behave. At bottom, companies, including the ROH and RSC, do not believe that they can continue to produce first-class shows on the combination of box office revenue and subsidy available to them and this necessarily as they see it conditions their behaviour.

47. Companies understand that they are on the edge of a much larger world of spending. They cannot help contrasting their own struggle for survival with the larger sins of other parts of the public sector. One leading and successful businessman associated with a performing company has described his and his colleagues' view of what large parts of government and the public sector do like this:

"There are certain imperatives in public funding which must be well known to the Scrutiny: panic spending before the end of the financial year; illicit tuck-aways to make it appear that the cupboard is bare; the re-christening of old forms of expenditure with new names to chime with new Government policies; budget demand 30% above expectation, 50% above necessity and 1% above what the Treasury will actually give - and so on."

48. Against that general background, the company may well conclude that, if it is at the edge of a dirty game, its interest is in playing by the actual not the theoretical rules. The same businessman continued:

"Similarly there is a psychological imperative for all grant-in-aid bodies and it is that you must never operate within the financial limits set. If you do, your grant will be progressively reduced and your coat will be cut according to a diminishing supply of cloth and soon you will have no coat at all. You must always require more money than is on offer, or very soon they will have you over a barrel."

49. The basic questions now to be decided are whether the Government does regard the ROH and RSC as important enough to fund at a sufficient level and whether a fair funding regime can be established in order to provide both conditions of stability and a sensible discipline for investment, production and consumption. My strong recommendation is that the Companies should be funded on the basis of criteria which are clearly understood and at a level which is fair to the Company and to the taxpayer. I believe that direct funding or earmarking is very well suited to this purpose.

50. Secondly, I raised with Sir Isaiah Berlin whether the main argument for having a national opera house in London operating at an international level, was that it provided an expression of national will or identity. In his reply (ROH report, Section 11, Annex 3), Sir Isaiah makes the point that:

"Advances in the arts in general and opera in particular are brought about by, at most, handfuls of individuals. I really do not think that "national will" plays a part in this sphere. When something marvellous is achieved - the ballet of Ashton, de Valois, Fonteyn; the acting of Olivier, Gielgud, Richardson, Edith Evans - it is a source of immense pride. These phenomena are not always founded on a native tradition, but on inspired efforts .. it is the level, not the national quality of artistic achievement that is a source of satisfaction and pride, on the part of the public .. unless there is such a "centre of excellence" [as at Covent Garden], standards cannot but decline".

The scrutiny has repeatedly demonstrated the force of Sir Isaiah Berlin's reference to individuals. The spring of artistry and achievement is the particular man or woman, or the group of men and women animated by shared ideas and aims. The whole enterprise of a performing company needs the separate and collaborative effort of able individuals. My colleagues and I regard neither Company as perfect. Both are human, capable at once of superb achievement and, like the rest of us, falling flat on their faces. But it would be a gross injustice to them if we did not make plain our conviction that in the ROH and RSC the nation has two assets of great actual and potential value. This value is due to the gifts of genius, past and now refreshed, including the paramount genius of William Shakespeare; skill, invention and inspiration among directing staff; a brilliance of performers, which by turn amuses, exalts and moves; the hard work of production, other "behind the scenes" and administrative departments; and the contributions made by lay people, whether as Directors, or Governors or in such capacities as "Friends", both in Britain and in the USA.

51. If the nation now effectively depleted its subsidy to the Companies, it would waste much of its own earlier investment and lessen the future provision of opera, ballet and drama, including the work of its greatest playwright and poet. This would be astonishing in the USA where the generosity of the Friends of both the ROH and the RSC and their pride and affection for the Companies are evident; incomprehensible and laughable in Europe; and no doubt productive of at least a sardonic grin in the USSR, whose investment in the Bolshoi and Kirov companies is "vast" (ROH report, Section 11, Annex 6).

52. The case for the ROH, the RSC and other companies does not rest simply on their achievement on stage, excellent as that can be and often is; they are not simply consumers of the public good. Apart from their contribution to Britain's good name abroad and to the tourist trade at home, they contribute to employment, both within themselves and through the multiplier effect. They are part of the service sector and the leisure industry to which the Government rightly attaches increasing significance as a sector of the economy. They are also contributors to the Exchequer.

53. The performing arts companies, generally speaking, are making a distinguished contribution to recreation and entertainment in the UK, as well as giving it credit abroad. It is right to build on success. And because the nation will need the amusement, inspiration and sustenance the performing arts can give it for as far ahead as we can see it is just and wise to invest in them. In this regard I was struck by what was said to us in the special circumstances of West Berlin about the function of opera. The Intendant of the Deutsche Oper affirmed that opera "was not only an intellectual medium, it was also a contributor to social health and recreation: in the scheme of aesthetic things and enjoyment of and response to life, opera was one of the "green things" as valuable to the mind and spirit as open air and the countryside are to the body". It does not need the special circumstances of West Berlin to make that true, nor is it true only of opera.

CHAPTER 5

LOCAL AUTHORITIES

"You only have to spend a season playing Shakespeare in Stratford-upon-Avon, in the heart of Warwickshire, to know incontrovertibly that those plays were written by a man who had actually lived in Stratford and who had walked the Warwickshire lanes." (Donald Sinden, A TOUCH OF THE MEMOIRS, Futura Publications 1983, page 84; quoted with the permission of the author and the publisher)

1. It was necessary to consult certain local authorities, because of their association with either or both of the ROH and RSC, or because of their interest in and provision for the performing arts.
2. Most consultation was done face-to-face and is recorded in texts agreed with the local authorities concerned, annexed to relevant sections of the two reports:

RSC Report, Section 6 (Part 4) Annexes 1-4

Warwickshire County Council
Stratford-upon-Avon District Council
Stratford Town Council
The City of London (owner of the Barbican Centre)

RSC Report, Section 3, Annex 3

Tyne & Wear County Council
City of Newcastle-upon-Tyne District Council
(relevant mainly to the RSC's annual visit to Newcastle)

ROH Report, Section 18, Annexes 1 and 2

Greater Manchester Council
City of Manchester District Council
(relevant in each case mainly to the Royal Opera Company's visits to Manchester)

3. My consultations with the Greater London Council and with the Cities of Cardiff and Plymouth are also recorded in agreed texts and are in Annexes 3-5 to this covering report being of general rather than specific interest.

4. There are a few other matters which require comment here.

THE LICENSING FUNCTION

5. The Royal Opera House is not licensed by the GLC as, by virtue of Letters Patent, it is exempt under the provisions of Schedule 12 to the Local Government Act 1963.

6. The GLC, which is the licensing authority for the Barbican Theatre, regards the arrangements there as satisfactory in respect of safety and related regulations.

7. The Stratford-upon-Avon District Council is the licensing authority for the Royal Shakespeare Theatre and has no outstanding requirements in respect of it (but the building and some of the RSC's other properties in Stratford are in need of repair and refurbishment, see RSC Report, Section 6, Part 7).

LOCAL AUTHORITY FUNDING

8. Funding by authorities of a size which enables them to fund is as follows (1982-83 data):

| Authority | ROH | RSC | Remarks |
|--------------------|-----|-----------------|---|
| Warwickshire CC | N/A | Nil | The RSC has not sought a grant, and none is likely to be volunteered |
| Stratford DC | N/A | £1,700 | Also statutory rate relief of £7,590 (offset by RSC property rates of £6,800) |
| GLC | Nil | Nil | £1.7m for ENO and NT |
| City of London | Nil | Peppercorn rent | £60,000 rent in 1983-84, £120,000 in 1984-85 |
| Tyne & Wear CC | Nil | £49,000 | |
| GMC | N/A | N/A | £50,000 in 1983 for ROC visit |
| City of Manchester | Nil | N/A | |

9. The GLC does not intend to fund either the ROH or the RSC in addition to the ENO and the NT, whose own GLC subvention may in future be varied. However, the GLC is willing to discuss "out-reach" possibilities with either company.

10. The relationship between the City of London and the RSC is touched on in Chapter 3 of this covering report and in Section 6, Part 4 of the RSC report.

11. Local authorities accustomed to dealing with officers of the ROH (GMC) and RSC (Tyne & Wear, City of Newcastle) have a high regard for their professionalism. The GMC satisfied itself in discussion with the General and Assistant Directors of the ROH that their estimates of the cost for the ROC's visit to Manchester in 1983 were accurate and fair.

THE LESSONS OF EXPERIENCE

12. Local authorities in the North East (Tyne & Wear CC and Newcastle-upon-Tyne District Council) and in the North West (Greater Manchester Council and Manchester District Council) are alike in having put a considerable investment of resource and effort into widening local recreational and cultural opportunities.

13. The former have established a good working relationship with the Royal Shakespeare Company, whose annual visit to the Theatre Royal, Newcastle, to the Gulbenkian Studio in the University of Newcastle and to a community circuit is, in my view, an exemplary use of professional skill and of public money, whether from the local authorities or the touring budget of the Arts Council.

4. Authorities in the North West have established a relationship with the Royal Opera House which is one of mutual respect but is also marked by a growing conviction on both sides that to take the Royal Opera Company to the Palace Theatre, Manchester, regularly is not a viable proposition in terms of the burden it imposes on the resources of the ROH, local authorities or the Arts Council.

15. Equally, there is the conviction that the opportunity cost of the Manchester visit is very high and that better use could be made of the money involved perhaps to build up Opera North, as the opera company for Northern England.

16. I draw attention to the view of the question of Royal Opera Company touring expressed by the GMC and the City of Manchester, whose openmindedness is to be applauded. Their view coincides with that of my colleagues and me that regular touring by the ROC is intolerably expensive and that if the object is to increase regional provision the money could be better spent on the regional companies. Efforts to build up strong regional centres of the performing arts, with a combination of resident companies and visiting national and other companies, seem to have made good headway and to be wholly admirable. They are excellent objects for regional business sponsorship, but the Association for Business Sponsorship of the Arts is more hopeful about this in Scotland than in England and Wales (see Annex 2 of this covering report).

17. Some regret was expressed to me about restrictions to the pattern of regional activity by national companies. For their part, however, the Tyne & Wear County Council are well content with the RSC's Newcastle visit, whose duration (six to seven weeks) they think just right, and do not regard their area as a strong claimant for small-scale touring. As the RSC's "6-point" pattern of activity is now well established, I would think it a pity to disturb it, and the pattern of touring by the Royal Ballet and SWRB is similarly conditioned by practice and, in the case of the RB, by limitation to the number of theatres which can take it.

THE MULTIPLIER EFFECT

18. The RST's importance to the economy of Warwickshire and the West Midlands more generally is dealt with in Section 6 of the RSC Report, Part 4.

19. The RST provides some 250 jobs in Stratford. It is high among the reasons why tourists and others visit the town. The theatre attracted an estimated 458,000 visitors in 1982. Many of these spent in local shops, restaurants, hotels etc. The RST itself buys goods and services locally.

20. The economic significance of the RSC's annual visit to the North East is dealt with in Section 3 of the RSC Report and its Annex 3.

21. The importance of the RSC to the success of the Barbican Centre has already been touched on (in Chapter 3 of this covering report).

22. A common sense interpretation is that the effect on the tourist trade and on the local economy more generally of closing down the RST Stratford would be very severe and that recovery would take several years. Naturally, ceasing the RST's visit to Newcastle is in a different order of things but it would hurt the region's prospects of attracting inward investment and deprive the local economy of a number of modest but nonetheless important contributions. Ceasing the RSC's presence in the Barbican would undoubtedly be a severe blow to the Centre in its infant years.

23. The multiplier effect of the Covent Garden companies was not discussed with any local authority. Common sense again suggests, however, that similar effects of those noted above would follow from job losses among the ROH's 1000 staff and from depleting the multiplier action of its presence in London and its touring work.

ANNEX 1

VAT AND THE ENTERTAINMENT INDUSTRY

Scope of VAT: Note by HM Customs and Excise

1. VAT is a tax on consumer spending. It is chargeable by businesses on their supplies (either as part of the price or as a separate charge) and paid over quarterly to Customs & Excise. Businesses can deduct the VAT charged to them by their suppliers from what they pay over so they themselves are not taxed - their accounting is in VAT - exclusive terms.

2. VAT is chargeable at 15% on all supplies except for items which are specifically zero-rated (taxed at 0%) or exempt (no tax chargeable but non-deductible on related purchases, so the business making exempt supplies is treated like a private consumer or an organisation which is not in business). Very broadly, zero-rating is reserved for essential items figuring largely in family budgets eg food, house prices, fuel and power, passenger fares, children's clothing, while exemption mainly applies to "intangibles" such as financial services, insurance, rents and betting and gaming.

The entertainment industry

3. Virtually all forms of entertainment are subject to VAT except radio and TV. There are two main arguments against VAT. First theatre and music promoters have pressed for live performances (at least) to be zero rated. It is the consumer who pays. The effect of zero-rating **if passed on in ticket prices** would be to reduce prices by about 13% and might consequently increase sales to the benefit of the industry.

4. In other EEC Member States five countries have a reduced rate of VAT for the arts and entertainment generally; France has a reduced rate for the arts only; and in some countries, notably Germany, certain state-subsidised bodies are exempt. Such an exemption is enshrined in the EEC Sixth Directive on VAT, albeit it in imprecise and qualified terms. However, the Directive also contains a specific provision which permits Member States not to implement this exemption for the time being, so that it is effectively optional. It would require a unanimous vote of the Council of Ministers to remove Member States' right to continue to tax the arts.

5. Second, subsidised arts organisations argue that it is absurd for government to hand out grants with one hand and take money away in taxation with the other.

6. The Select Committee on Education, Science and the Arts recommended in a report in the 1981/82 session that "cultural services which are in the public interest" should be exempted from VAT by 1985 and, in the meantime, should be subject to a reduced rate.

The case against VAT relief

7. The Government considered the Select Committee's recommendations, but in its published reply it rejected them, as it considered that the objective of sustaining the varied and high standards of cultural activities in the United Kingdom could be more efficiently secured by means of direct assistance in the form of grants than by the introduction of a VAT relief. A major consideration was also that VAT is an important revenue-raising tax on consumption which depends for its success on a

broad base and a relatively low rate. Existing reliefs are in the main limited to essential items of significant and continuing expenditure in the budgets of ordinary families. Even so only about 50% of consumer expenditure is taxed, the proportion increasing slightly with income. Many interest groups argue cases for relief, and singling out a discretionary item of expenditure such as entertainment would not be justifiable when many areas of essential expenditure, and nearly all forms of discretionary expenditure are subject to the tax. Since the tax was introduced ten years ago, successive Governments have resisted efforts to reduce VAT liability, knowing that to give way in one area would only make it harder to defend the rest.

8. To define an area for VAT relief in the entertainment sector would be very difficult. Such criteria as "the public interest" might not stand up long against the test of tax litigation. It could be argued that singling out the subsidised sector would be to give to them that have. Outside this sector value judgements cannot be avoided. If theatre why not cinema? If 'serious' music why not pop concerts? If art exhibitions, why not admissions to stately homes and gardens? If all these, why not football matches and other spectator sports enjoyed by the less well-off as well as the middle classes?

9. There are, however, such distinctions in other Member States. There may be long-standing precedents for special treatment of the arts, or a general acceptance that tax systems operate fairly arbitrarily.

10. The cost of VAT relief depends on where the line is drawn. For the theatre alone zero-rating would cost about £25 million, for the field recommended by the Select Committee around £100 million (1981-82 figures). However, the introduction of a new zero-rating for the entertainment industry would be contrary to the terms of the EC Sixth Directive.

11. In its reply to the Select Committee's Report, the Government rejected the claim that it is illogical to subsidise bodies while subjecting them to VAT. This could lead to the conclusion that VAT relief should be restricted to these bodies which receive a subsidy, which would be seen by other cultural bodies as highly discriminatory. In any case, a system of grants is a more efficient way of helping the arts than a relief from VAT, since a VAT relief would apply assistance thinly across the board irrespective of how deserving a body was of support, whereas grant assistance can be directed where the effect is most beneficial. In addition, the stimulus to ticket sales produced by lower prices would only be as effective in economic terms as direct subsidy if the negative price elasticity of tickets was around unity - quite a high figure considering that a change in the public's spending on entertainment involves a change in patterns of leisure activity. It might well be the case that the problems being experienced by, for example, West End theatres has more to do with the effects of the recession on discretionary spending than with ticket prices.

ANNEX 2

BUSINESS SPONSORSHIP OF THE ARTS

1. This section is based on a discussion with Mr Luke Rittner, then Director of the Association for Business Sponsorship of the Arts (ABSA) in London on 24 May 1983 and on the ABSA's evidence to the Select Committee on Education, Science and the Arts on 1 April 1981 (Minutes of Evidence, Volume II). It also takes account of other discussions, for example with Mr A E Frost, CBE, Finance Director of Marks & Spencer plc, a member of the Arts Council; Miss Jane Jacomb-Hood, sponsorship officer of the RSC; and Sir Francis Sandilands, Commercial Union Assurance Company, a Director of the ROH.

General

2. The ABSA announced on 27 May 1983 the results of its first quantitative survey of corporate arts sponsorship in the UK. These showed that, whereas in 1976 corporate sponsorship had amounted to no more than £0.7 million, "sponsorship is now accepted as the norm" (Mr Rittner):

(1) A sample of 63 ABSA members was as spending £7.2 million.

(2) Further statistical analysis showed a minimum level of £12.5 million being spent by business on the arts in 1982. This is well above what has until now been considered the approximate level of sponsorship, namely an estimated £7-8 million.

(3) The survey also pointed to a maximum possible level of £14.5 million.

3. The ABSA is pleased with these results, but hopes that it will in future be able to bring more medium and small companies into sponsorship. For their part, performing arts companies, especially the small ones, have greatly improved their efforts to attract sponsors during the period of the ABSA's operation (Mr Rittner); those companies are now so concerned about the need to build up funding that they realise they must encourage every reasonable source. There is still some way to go in achieving this, especially among performers, some of whom have philosophical objections to the involvement of money other than box office revenue or public subsidies. But the success of such companies as the New York City Ballet in attracting sponsors shows what can be done with the help of performers.

ROH and RSC and self-help

4. It appeared from the ABSA evidence to the Select Committee that neither the ROH nor the RSC needed the ABSA, although they came to it for advice, and that they were "self-supporting in the way of asking for contributions" (Evidence, pages 285 and 286). Mr Rittner confirmed that, having people engaged full-time on sponsorship, the ROH and RSC did not need the ABSA, which in any case dealt with actual or potential sponsors, rather than with performing companies. Otherwise:

(1) Perhaps because the ROH had sought to expand sponsorship, potential sponsors tended to the view that Covent Garden had all the private money it needed. The general ROH attitude was described to me as being somewhat unfortunate here; not all sponsors like being given the impression that they were lucky to be associated with Covent Garden; this was debilitating and made the Friends' job of attracting new sponsorship a hard one. The ROH also had the problem that its high social prestige was not necessarily a

positive factor in attracting sponsorship. The Proms, supported by Midland Bank, represented the sort of thing that firms might wish to put big money into, ie funding accessibility to the less well-off. Some firms were now worried about being too closely identified with an organisation which was so overtly exclusive. The ROH could help itself by means of various forms of "out-reach", for example lunch-time workshops or small concerts; the orchestra playing in poorer parts of London; and some of the performances or concerts being in the parks (on the New York Central Park pattern, see Section 11, Annex 1).

(2) The RSC had put much effort into attracting sponsorship but had yet to be rewarded with substantial success.

(3) The problem for both companies in considering the future prospects for sponsorship was that the money they needed, especially the ROH, was large; that big money was not to be had easily; and that each had yet to consolidate a reservoir of sponsors to succeed one another in giving. This problem needed an up-to-date approach; the success of Glyndebourne, which had a queue of sponsors, shows that it is not insoluble.

(4) Both companies were probably asking reasonable sums of sponsors, but what any company actually got rarely had anything to do with what it needed.

The good sense of developing continuing relationships with a particular sponsors in preference to single, once-for-all donations

5. Industrial and business organisations receive applications from a multiplicity of potential clients and may choose to sponsor a variety of clients in the broad fields of art and culture; charitable work; recreation and sport, although sport is now getting an expensive form of sponsorship. Many firms wish to show themselves even-handed in their dealings with applicants and may choose not to enter into an extended relationship with clients, so that they can fund a succession of different bodies.

6. There is therefore safety in numbers and it is sensible for the ROH and RSC as potential clients to spread their net as wide as they can. It is also sensible to go for the sponsorship of both particular productions and of such functions or services as education.

7. The attractions of opera, music and ballet to the potential sponsor of the arts are greater than those of the theatre and the visual arts. One important reason for this is purely timing. As the programme for opera is known so far ahead, it is possible to get a sponsor for a production to be staged in 1986 now, whereas the RSC's programme would not be settled that far ahead.

The likelihood that business sponsors would sponsor either contemporary British opera or experimental work in opera, ballet or theatre

8. Sponsors are very cautious about investing shareholders' money in new ventures or things out of the ordinary. The RSC was unable to find a sponsor for NICHOLAS NICKLEBY and has had a lot of trouble attracting business sponsorship for this year's small-scale tour. The problem is that a sponsor knows roughly what he is paying for in respect of an established opera; with the theatre it is much less easy to predict what he will find himself associated with.

ax-relief

9. The ABSA informed the Select Committee in 1981 that the tax laws seemed to provide enough incentive to sponsors and that taxation relief for companies was pretty adequate (Evidence Volume II, pages 279 and 281).

10. A payment in sponsorship of the arts may qualify for tax relief in one of the four ways set out below.

a. Covenanted payments

11. Many performing and other arts companies are established as charities. In such cases:

(1) An annual payment **by a company** under an irrevocable covenant or disposition, covering more than three years, is deductible in calculating total profits for the purposes of Corporation Tax. The company makes the covenanted payment under deduction of Income Tax, but the charity claims repayment of the tax deducted from the Board of Inland Revenue.

(2) A similar payment **by an individual** qualifies for income tax relief at the basic rate. The relief is effectively obtained by the tax payer deducting tax at the basic rate and keeping it when he makes the payment. Income tax relief at the higher rates, and for the investment income surcharge, is allowed to individuals in respect of charitable covenants subject to a ceiling relief on payments of £3,000 pa. (In order to pass on this relief to the charities themselves, covenantors need to increase their net giving since tax continues to be deducted at the basic rate only from the annual payments.)

b. Business expenses

12. To qualify for relief in calculating tax on business profits, a sponsorship payment must be of a **revenue** nature and be incurred wholly and exclusively for the purpose of the trade. This means that:

(1) **Capital** payments are ruled out. No deduction is allowable for any lump sum donation towards the building or modernisation of a theatre or the purchase of equipment.

(2) The **business purpose** must be the sole purpose for which the payment is made. Expenditures are not admissible if they are made for a dual purpose, eg promoting the donor's business and promoting a charitable for benevolent object - but the expenditure does not cease to be deductible if, incidentally, it benefits such another party as a charitable body despite its sole object being business promotion.

c. Capital Transfer Tax

13. Gifts may qualify for certain exemptions from the charge to CTT on gratuitous transfers of property by individuals and close companies:

(1) The first £3,000 of gifts by an individual in any one tax year is exempt as are gifts made by an individual to any one person if, in all, they do not exceed £250 in any one year.

(2) Outright gifts to charity are exempt, whatever the value, if made more than a year before the donor's death; otherwise they are exempt up to a cumulative total of £0.2 million for each donor.

(3) There is an unlimited exemption for gifts or bequests to certain national institutions concerned with the preservation of the national heritage (eg the British Museum or the National Trust) or to certain other bodies, such as universities and local authorities.

d. Capital Gains Tax

14. A gift of chargeable assets to a charity, or to the national heritage or other bodies referred to in paragraph 13(3) above is not charged to CGT but is treated as giving rise to neither gain nor loss.

15. The ABSA does not regard the corporate tax laws as unreasonable or as preventing companies from giving, but the blocking of capital donations (paragraph 12(1) above) is regrettable. A comparison is often made with the tax rules of the UK and the USA. In fact, corporate tax laws are similar. Whereas charitable giving earns substantial relief in the USA, it is restricted to £3,000 in the UK (paragraph 13(1) above) and it is highly desirable that the threshold for relief should be raised well above that limit.

Sponsorship and the development of territorial and local identity

16. I discussed with Mr Rittner the question raised with the Select Committee (Evidence Volume II, pages 289 and 293), namely how sponsorship is developing in Scotland and Wales and in the provinces of England and whether it was likely that, on present evidence, say, Scottish Opera and Ballet, WNO, Opera North and the Royal Exchange Theatre, Manchester, among others, would attract and keep a sizeable territorial, regional or local sponsorship.

17. Mr Rittner replied that the only evidence of such a development was in Scotland, where sponsorship had developed strongly, having increased by 30% since 1981-82. Scotland had a very strong sense of national identity and of pride and it was fortunate that Glasgow, the home of Scottish Opera, was also the headquarters of several banks and insurance companies. The same sort of national loyalty might develop in Wales, but seemed less probable in the English regions.

C Priestley

ANNEX 3

GREATER LONDON COUNCIL

1. This is based on an informal discussion with Mr L E Peterken, Controller of Operational Services, on 7 June 1983.
2. The relevant policy of the GLC is to assist in the funding of two of the "big four", namely the National Theatre and the English National Opera. These institutions attract a grant from the GLC of £725,000 and £975,000 respectively in the current financial year. The GLC may wish to consider at some future time the balance between the funding it wishes to make available to the two national companies on the one hand and to "community" and other local theatre groups on the other; for the present, however, the policy is to fund the NT and ENO at much the same level as in 1982. There is no intention to contribute to the funding of either the RSC at the Barbican or the three companies at Covent Garden.
3. The GLC is not averse, however, from assisting with the work of "out-reach" by any of the four companies which are the subject of this scrutiny. It has in the past promoted performances by the ballet companies in its public parks and would be very willing to do so again in future. The GLC is committed to increasing public accessibility to the arts as witnessed by, for example, the way in which it has opened up the non-auditorium spaces in the Royal Festival Hall to the public. It would therefore be interested in discussing with the companies further measures of "out-reach", whether on a large or a small scale, which would promote public interest in and accessibility to the art forms represented by each.

The GLC as Licensing Authority

4. The GLC is the Licensing Authority in respect of the Barbican Theatre. The Royal Opera House, Covent Garden, is not licensed by the Council as, by virtue of Letters Patent, it is exempt under the provisions of Schedule 12 to the London Government Act 1963.

The use of the Barbican Theatre for public entertainments is subject, therefore, to the Council's technical requirements and rules of management.

So far as safety and related regulations are concerned, the arrangements are satisfactory. The Barbican is a modern building and the Council monitored it 'in the build' right the way through.

C Priestley

ANNEX 4

CITY OF CARDIFF

1. This section is based upon an exchange of letters with the Chief Executive of the City of Cardiff, Mr H T Crippin, embodying the views of the General Administrator of the New Theatre, Cardiff, Mr Peter Lea.
2. The City finds it difficult to make many specific comments about either the **Royal Opera House** or the **Royal Shakespeare Company** as neither has visited Cardiff since 1980. There is no doubt about the excellence of either although this is only to be expected, with such large amounts of funding. If grass roots evidence is anything to go by, there always seems to be some evidence to support an element of luxury existing in these Companies that is not possible in provincial theatres which are continually striving to cut corners to save on subsidy.
3. Asked to enlarge on this point, the City responded by saying that there is no doubting the quality of productions from both companies and that it is foolish to suggest that a certain level of expenditure is unnecessary. However, the standards set are never likely to be matched by other companies appearing at the New Theatre, as their budgets are always so much smaller. Where a suggestion of "luxury" arises is very often in the large number of staff carried on tours and in some cases the very expensive properties and scenery used. It may be that these elements are justified, but the General Administrator is of the opinion that it should be considered of extreme importance that a close watch should be kept on any waste of expenditure.
4. The second main point raised on behalf of the City is the question why the **Royal Shakespeare Company** for many years toured in any major way only to Newcastle and thus deprived other areas of the United Kingdom of its excellent product. The City asked whether it would not be fairer to spread touring around the county on a four year cycle or at least give other areas some opportunity to present the RSC at other times during the year. Another possibility is that if a particular production in the RSC's repertoire is a great success, some provincial theatre managements might join together to formulate a tour and assist with the financial requirements to set it up.
5. It would also help places like Cardiff if **Sadler's Wells Royal Ballet** had a more definite touring arrangement, ie they only visit the same theatres one in a three year cycle, so that all again share something from the large amount of funding made available to it.
6. These points have been made "on many previous occasions" in the past respectively to the RSC and to the ACGB.

C. Priestley

ANNEX 5

CITY OF PLYMOUTH

1. This is based on and closely follows a letter from the Chief Executive and Town Clerk, Mr A Forbes Watson, dated 12 May 1983.

Value of scrutiny

2. The City's officers agree that the Companies concerned, as national companies and representing "centres of excellence", should be scrutinised from time to time. Although their costs are not strictly the concern of any particular local authority, it is necessary to keep such companies under review.

Does the country need national companies?

3. The basic question is not so much whether the companies should be subsidised but whether, as a nation, the United Kingdom should have such national companies as the ROH and the RSC.

4. The City's officers answer in the affirmative. Nationally, there are many diverse policies like employment, environment, transport, housing and leisure together with the cultural and arts policies and programme. Each contributes to the basic fabric of society. Once this is accepted, the overriding importance of the ROH and RSC in and to the field of arts must be accepted.

Should such companies be subsidised at all?

5. If the companies are not subsidised, the product will either be priced out of many people's range or move towards an eventual demise. In certain foreign countries, particularly those in the Eastern Block, substantial subsidies are payable to comparable organisations. And there is perhaps very little difference between the subsidy given to the ROH and RSC by the nation and to the Theatre Royal, Plymouth, by the City Council. This highlights the point that, although much subsidy and support goes into the national companies, subsidy is equally important for the role of local authorities; there is also some interdependence between the national companies and provincial theatres, for example, the City regards the Theatre Royal as a venue and focal point for the arts from which the national companies can draw and through which they can consolidate their touring work.

Avoidance of deficit financing

6. The City could never be too enthusiastic with deficit financing being accepted as a matter of practice because it becomes far too easy for companies, particularly in the artistic field, to rely upon this arrangement. It believes that if some system of specifically targeted funding could be evolved, and further discipline applied in the arts field, companies and related bodies would find it easier to work and plan within targeted resources.

7. Local authorities are under stringent constraints from central Government as to the amount of money that they can allocate from their local resources towards funding visits by the national companies. As there appears to be no immediate prospect of contributions in general being raised, it might be desirable for central Government to consider further discipline being applied on the basis of target funding or, having made certain assumptions on that basis, accepting a higher level of funding to such companies from its own resources.

Level of funding for national companies

8. With regard to the funding of the ROH and RSC, etc the City could not specify a figure, but believes that there must be a balance between artistic quality, objectives and touring policy on the one hand and the cost of meeting these objectives on the other. It would be interesting to establish the effect of a 10 - 15% variation upwards and downwards in funding on the quality of product produced. The City also thinks it important to bear in mind that the national companies are largely paid for by the taxpayer who should have the opportunity to see them, not just the London public.

Reconciliation of artistic planning with annual budgeting

9. The City accepts that reconciling artistic planning with annual budgeting is difficult, but it is something that local Government has become accustomed to and is having to apply even tighter. It is not beyond the realms of possibility for the Arts Council and the national companies to work out some broad resource parameters, so that such companies over a three to four year period can submit plans and stick to the available resources.

C Priestley

c B.I. 4 pages 1-7 of Report



Prime Minister (2)

MW 28/9

MINISTER OF STATE, PRIVY COUNCIL OFFICE

The Report is summarized at Flag A

MW

AT 30/9

PRIME MINISTER

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

I understand that the report by Clive Priestley on his enquiry into the financial affairs of these two companies, commissioned by my predecessor, will be available within the next few days - possibly on Friday (30 September) or Monday (3 October). In accordance with the arrangements you have agreed, I propose to publish it on receipt and at that stage will say no more than the attached statement.

it will be handed to the companies on Friday

At this stage I intend to treat it as a consultative document and will be inviting comments from the Arts Council and the two Companies concerned.

30m or it is proposed to publish on Monday 3 October

A copy of this minute and enclosure goes for information to Peter Rees.

by

MW

LORD GOWRIE

28 September 1983

DRAFT PRESS STATEMENT BY THE MINISTER FOR THE ARTS

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND
ROYAL SHAKESPEARE COMPANY

The Minister for the Arts has now received the report by Mr Clive Priestley, CB, into the financial affairs of the Royal Opera House and the Royal Shakespeare Company, commissioned by his predecessor in February of this year. Copies have been sent to the Chairmen of the Arts Council and the two Companies concerned, who are being invited to comment by the end of October. The Minister will be considering the report in the light of those comments, before any statement is made.

September 1983



OFFICE OF ARTS AND LIBRARIES
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London SW1A 2AZ
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From the Minister for the Arts

2 September 1983

Clive Priestley Esq CB
British Telecom
2-12 Gresham Street
London EC2V 7AG

D 6/9

My dear Clive

Your letter of 30 August is helpful in giving us part of the background to the recent press reports about the ROH/RSC scrutiny. The Minister regrets the leaks that have obviously taken place and hopes very much that they will not be repeated. He agrees with you that a build-up of informed discussion, speculation and pressure would obviously hamper sympathetic consideration of your report when it arrives. The Minister's intention is that it should be published as soon as it is available. Meanwhile he hopes that none of those concerned would in fact (to use your words) "feel that he must speak to the press in advance of the report being delivered". Of course the press will use every stratagem to get details of the contents and the views of those affected by it, but all concerned must realise that premature disclosure could do harm to their interests.

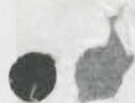
I am copying this letter to the recipients of yours.

Yours love

Mary

MISS M G E GILES
Principal Private Secretary

Ants Policy March 80





10 DOWNING STREET

Prime Minister:

I am asked to see the Clive Priestley report on the ROH and RSC. The original is, I suspect, still at

request.

[Handwritten signature]
1/9/9

[Handwritten initials]

1/9

Miss M G E Giles
Private Secretary to the
Minister for the Arts

30 August 1983

My dear Mary,

JD

31/8

ROH/RSC SCRUTINY: PUBLICATION AND PUBLICITY

1 Thank you for your letter of 24 August.

Publication etc

2 I am glad that the intention is to move to early publication. As you will have seen from articles in the SUNDAY TELEGRAPH at the weekend and the GUARDIAN yesterday, there is already some vigorous leaking going on. You will need to know that both Paul Williams and Nicholas de Jongh rang me and the circumstances in which they did so.

Williams got in touch here late on Friday afternoon. By that time he was already extremely well informed about the direction to be taken by my report, although he had acquired a number of errors along the way. I thought it sensible to correct some of these rather than allow them to enter the record and, as he already knew so much, I did not think it sensible to be stuffy and uncommunicative. His article is interesting; it looks as if he has been speaking to a number of people other than, perhaps, in the RSC.

Nicholas de Jongh rang me on Sunday evening from Edinburgh at my weekend address, having been put on to me by his editor and re-routed from my home via the person who was looking after it for us. He was in a bit of a state, not having seen the Williams piece but having had it read to him over the phone. He knew a lot of the background of course. As he was in a difficulty, and was plainly going to write something whatever I said, I thought it reasonable to give him a little help whilst asking him not to stir things up.

I am bound to say that I feel more than a little irritated to have been put in this position without any warning from those concerned.

I think it would be a good idea if we had some ground rules. If anyone in OAL, ACGB or either of the companies feels that she/he must speak to the press in advance of the report being delivered, I shall be grateful if she/he will kindly let me know. I find it vexing that, before the report has been finalised and submitted, there is such well informed speculation about its content and, as far as I am concerned, I think I am owed the courtesy of being consulted.

I must leave it to you to establish such ground rules as are necessary to protect the Minister's interest. Perhaps you will kindly let me know what is said. I should add, and this is not an incidental point, that having been until recently a member of the Prime Minister's staff, I have a particular feeling for her position in all this; and I am bound to say that I do not think that the cause will be assisted by leaks which have the effect of seeming to make her the butt of the arts lobby or anyone else. What we must aim for is a temperate and objective discussion of issues which are, I think we all agree, of great interest to the performing arts and the intellectual and cultural health of the nation. Sorry to be pompous!

Delivery of the report

We are now, definitely, on the last lap. There is still some drafting to be done but I see most of that being finished this week. Thereafter, my aim will be to let the Minister have an advance copy of the text, if necessary not in its final form owing to the pressure on the typing and word processor pools, as soon as I can. I would estimate that a presentable version of the main report will reach the Minister by mid September and the printed version a little later.

I am copying this letter to Sir Kenneth Cork (Chairman, RSC); Sir Claus Moser (Chairman, ROH); Sir William Rees-Mogg (Chairman, ACGB); and Tim Flesher at No 10.

Yours ever,

Clive



Per

OFFICE OF ARTS AND LIBRARIES

Mr Rickett - For information

With the compliments of
Lord Gowrie
Minister of State

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Telephone 01-273 4400



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From the Minister for the Arts

24 August 1983

Clive Priestley Esq CB
Director of Special Projects
British Telecom
Telecommunications HQ
2-12 Gresham Street
LONDON EC2V 7AG

DP
28/8

My dear Clive

ROH/RSC SCRUTINY: PUBLICATION AND PUBLICITY

1. Thank you for your letter of 19 August about the publication of the report on the scrutiny.
2. I have now had another discussion with Mark Hodges about this issue. We accept that there is likely to be a good deal of misinformed speculation if the scrutiny is not published quickly, but we think the Minister could reasonably expect at least a few days in which to consider whether or not he wishes to talk to the Chairman of the Arts Council and the Chairmen of the Companies before the report is published. It would be helpful, therefore, if all concerned would regard the document as confidential until a decision has been taken about publication.
3. The latest news of our move is that although OAL will be moving early in October the Private Office will not be moving until later that month. We will of course arrange to let you have the address and telephone number as soon as we have more definite information. In the meantime I wonder if it is possible for you to let us have an indication of when the report is likely to be submitted to the Minister?
4. I am copying this letter to Sir Kenneth Cork, Sir Claus Moser and Sir William Rees-Mogg.

y
Tom. ewer

mary

MISS M G E GILES
Private Secretary

TELECOM

Clive Priestley CB
Director of Special Projects

| |
|---|
| MINISTER OF STATE PRIVY COUNCIL OFFICE |
| C. 8 |
| 22 AUG 1983 |
| FILING INSTRUCTION: FILE No. |

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Miss M G E Giles
Private Secretary to the Minister of State
(Privy Council Office)/Minister for the
Arts
Old Admiralty Building
WHITEHALL SW1

My dear Mary,

| |
|---|
| OFFICE OF ARTS AND LIBRARIES |
| ACTION <i>by Secretary Mr Hodges.</i> |
| BY <i>QP7132</i> |
| FOR INFORMATION: <i>Mr Phipps Mr Stone</i> |
| 19 August 1983 |
| OAL (MB) ✓ |

ROH/RSC SCRUTINY: PUBLICATION AND PUBLICITY

1 You very kindly rang me about this the other day and we had a useful conversation about the question of when the report to the Minister should be published. You told me that there was some anxiety in OAL about the report leaking and discussed with me the possibility of my asking the parties to keep the thing under wraps; I replied that, as I was no longer in Whitehall, it might be inappropriate for me to ask the parties such a thing.

2 Since we spoke I have been thinking about the matter further. It seems to me that, whatever requests are made to the parties, a garbled account of the report is bound to reach the press. For one thing, I have been consulting the companies and the Arts Council about large parts of the text and, despite their best endeavours, there are bound now to be quite a number of people who know the sort of thing that I am going to say. For another, because it will be necessary to issue quite a large number of copies of the report to each of the parties they and we are bound to face the risk that there may be tactical leaking by someone, with whatever motives.

3 My conclusion is that the better course would be to take the bull by the horns and for the Minister to make the report available when he receives it, under cover of a summary indicating (a) how the scrutiny has been carried out; in what documentation the report consists; and what the main message is; and (b) how he is now proposing to proceed, ie the report has gone simultaneously to the two companies and the ACGB, he is allowing them X weeks in which to respond and he will be announcing his conclusions thereafter. As I mentioned to you on the phone the other day, I think it would be a great burden to the Minister if, instead of doing that, he had to cope with what might well be a barrage of misinformed comment and question during the period when he and the parties are using their best endeavours to consider the issues.

4 I am bound to say that I think the same consideration applies to the parties, and especially to the two companies. I would regard it as very unfortunate, and indeed unfair, if during the period when they were clearing their own minds on the issues raised by the report and were endeavouring to give the Minister a well considered and informed response, they had to devote some of their energy to beating off or

otherwise responding to ill-informed and possibly malicious comment, based on a garbled version of the scrutiny. It is, incidentally, already clear that parts of the report, taken out of context, could be used by an enemy of either company in a misleading and damaging way, creating impressions in the public mind which would take a lot of eradicating; I am thinking of things like the reports on the wardrobes, where the assignment officer has, quite rightly and at my request, gone into a lot of detail. We all know, or think we do, about clothes and how much they cost; my own eyebrows went up at some of the items identified by Georgina Soane; and I am in no doubt at all that if such material was quoted out of context early on it could cause everyone needless and persistent trouble.

5 Therefore, my clear and firm view is that the report should be made available as soon as it is sent to the Minister and to the three Chairmen.

CHANGE OF ADDRESS

6 I understand that your office will be moving to Government Offices, Great George St in the foreseeable future. Will you very kindly arrange to let me have your new address, telephone number and date of removal as soon as you know them yourself?

7 I am copying this to Sir Kenneth Cork, Sir Claus Moser and Sir William Rees-Mogg.

Yours ever

Oliver

Copy to: Sir Kenneth Cork GBE FCA
Sir Claus Moser KCB
Sir William Rees-Mogg

*P.S. Sorry to be so "bawdierish" - it is the
result of dictating too early in the morning.*

Mr. Butler

What am I
go to do about
this?

CR.

Caroline

CR
15/11

There was a subsequent
of letters through which I shelved
the engagement sine die.

So no need to reply unless you
want to take up the invitation to you!
Robin

British
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Clive Priestley CB
Director of Special Projects

Miss C Stephens
10 Downing St
London SW1

Miss Stephens

8/8

Telex
Giro a/c

CP/51

2 August 1983

Dear Clive,

I was so sorry to hear yesterday about the Prime Minister's eye trouble and hope that it will clear up, or be cleared up, soon.

The Prime Minister very kindly sent me, as you may know, a brief note in her own hand, regretting that the lunch arranged for yesterday at The Army and Navy Club had to be dropped; she went on to say, "We will have the lunch at No 10 soon".

Obviously, all bets are off for the time being and perhaps we can come back to the question of a lunch when the Prime Minister is better and has had her holiday. Let us have a word on the phone about the knotty question of who gives it! On the one hand, I should like to go ahead with restoring the arrangement we set up for yesterday with me in the chair; on the other hand, I would not want to upset the Prime Minister by sticking obdurately to the arrangement as planned for yesterday.

Incidentally, would you care to have lunch with me one day during the summer or early autumn if you can get away? It would be good to see you again; Jenny Gore here will get in touch with you and see what would suit you.

Yours ever,

Clive

C PRIESTLEY

2

PRIME MINISTER

Attached is an advance summary of Clive Priestley's scrutiny of the Royal Opera House and the Royal Shakespeare Company, together with Lord Gowrie's comments on his findings. Mr. Priestley's principal recommendations are for additional finance for the Royal Opera House and the Royal Shakespeare Company (£4 million) and additional funding for other arts bodies (£13.5 million). Lord Gowrie's minute comments on the implications for arts spending as a whole. At this stage you need do no more than note Mr. Priestley's report since it has not yet been formally submitted.

JD

29 July 1983

PRIME MINISTER

SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

I have seen Clive Priestley's minute of 22 July about the special financial scrutiny of the Royal Opera House and the Royal Shakespeare Company.

In my view Clive has done an outstanding job. His report is directly concerned with the affairs of these two major Companies. But it cannot avoid fundamental questions about the Government's policy to the arts in general. I will of course want to consider the whole report very carefully when it is submitted to me next month, but I offer my preliminary thoughts.

My starting point - which Clive strongly endorses - is that the ROH and RSC are centres of excellence in our national life which must be safeguarded. We should continue to invest in them for two reasons. First, they have a quality and excitement which help define our sense of ourselves and the way other people view us. Second, they are an integral part of the British artistic estate. Taken as a whole, this estate is clearly very successful in economic terms and has immense potential for further growth. I am thinking of such fields as the export of television, film and musical material, including popular music, and the record, video and publishing industries. There is a connection, for instance, between the success of the Royal Ballet and the success of 'Cats'. I know few people who have looked closely at British culture who do not also make a connection between our thriving pop music economy (25% of all records sold in the US are British) and the emergence since the War of London as a world leader in music. More directly, the attraction of Britain's arts and heritage is the raw material of our tourist trade.

But the scrutiny poses us with stark choices. Do we recognise that the economic and social importance of the arts estate is such that there can and should be some growth in support? If so, I would firmly endorse Clive's recommendations for additional finance for the ROH and RSC (£4m) and additional funding for other arts bodies (£13.5m). I will in any case be making the most strenuous efforts to increase private funding and to improve financial management. But realistically, these efforts will not find us the sums involved - in the short term at least.

Alternatively, do we face a period of zero growth in arts expenditure? If so, we have two options. Either the ROH and RSC must do their best on what we already give them (and Clive spells out some of the consequences of this in paragraph 14 of his minute). Or other arts activities would have to be severely cut for the benefit of those two companies. Without prejudging this year's PESC discussions, the existing plans for

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central Government arts expenditure already imply real cuts overall, and in line with our Manifesto commitment I shall have to make some additional bids to maintain the present level. I agree with Clive that it would be politically very dangerous to give special treatment to the ROH and RSC against a background of diminishing resources for the arts. There would, in short, need to be some overall increase to make the recommendations viable. The Arts Lobby is one of the most vocal in the country - in the regions just as much as in London - and alive to charges of favouritism.

In recent years, it seems to me, your administration and our party have won the arguments about Britain's future intellectually as well as politically. Reversal, as opposed to restraint, of the growth in public support of the arts, would in my judgement lose us friends whose influence is out of all proportion to their number.

We shall need to study the full report before any final conclusions can be reached. I am committed to seeking the views of the Arts Council and the two companies concerned. In addition to questions of funding and organisation I will want particularly to consider the issue of publication. Given that we will be consulting quite widely on the report, it is bound to leak. I am therefore in favour of publishing it as soon as possible and indicating that a statement will be made when Parliament resumes in the autumn.

I am sending a copy of this minute to Clive Priestley.

B.G.

LORD GOWRIE
29 July 1983

CONFIDENTIAL



2000 JUL 6 e

1000 JUL 6 e



MR FLESHER

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

1. I plan to report to Lord Gowrie next month, a few weeks after leaving Whitehall for British Telecom today. As the Prime Minister caused the scrutiny to take place, I should be grateful if you would show her - at leisure - this forecast of my conclusions and recommendations. (Financial data on the Royal Opera House (ROH) and Royal Shakespeare Company (RSC) are contained in the Annex, where I also discuss three possible reasons for the deficit.)

2. May I begin by saying that I have recently had cause to read the Prime Minister's speech to the Royal Academy in May 1980 and that I was struck by her concluding remark that we are the trustees for the future of our existing heritage? Mrs Thatcher quoted Psalm 16, v.6, "The lines are fallen unto me in pleasant places; yea, I have a goodly heritage", and said that our own heritage could not be taken for granted. I hope I can honestly say that I have not been Smirnoffed by this scrutiny, ("He was only a civil servant until he saw the Royal Ballet") and that we do have here an opportunity to safeguard for the future two of the nation's leading assets, the Royal Shakespeare Company and the three Covent Garden companies.

METHOD OF WORK

3. The scrutiny has consisted of:

- (1) A "top-down" look at financial and managerial control in the two companies, conducted by me; Mr

David Allen (ex-Rayner Unit, now free-lance); Mr John Ashworth (Coopers & Lybrand Associates); and Mr Ian Trumper (Deloitte, Haskins and Sells).

(2) A "bottom up" look at selected departments, including scenery building, costume making, publicity and transport, by six of my assignment staff.

(3) Consultations with the Arts Council; selected local authorities; selected companies at home; selected companies overseas (Metropolitan, New York; Deutsche Oper, Berlin; La Scala, Milan; National Opera, Paris; and Staatsoper, Vienna); and selected critics.

(4) Consultations with the advisers appointed by Mr Channon, Mr Peter Diamand (now with the Orchestre de Paris); M Hugues Gall, Director of the Geneva Opera; and Mr Michael Haines (Thomson McLintock), the accountant appointed at the PM's request that we should have a financial expert available to us.

4. The scrutiny has been carried out against the background of classic "Rayner" questions, namely in this case: Why does the nation subsidise the ROH and RSC, what do they cost, what value do they add and do things have to be done in the way they are? The report will deal with the three fundamental questions which caused the scrutiny to be commissioned in the first place: Why did each company go into deficit in 1982-83? Why will they go into deficit in 1983-84? What must be done to prevent this happening again?

SUMMARY OF FINDINGS

Function of subsidy



5. The function of subsidy can be summarised as being that of preserving and promoting the activities of the company in question on behalf of the nation and making it accessible to the public at the box office.

Income and expenditure of the Royal Opera House

6. In 1982/83 the cost of operations in the ROH was £18.8 million against a self generated income of £8.2 million. This left a gap before grant of £10.6 million. Of this, £9.9 million was funded by the Arts Council with a supplementary grant in January 1983 of £0.45 million. This was not high enough to cancel the ROH's accumulated deficit which they believe to be due, in part at least, to their enforced visit to Manchester in 1981. So a deficit of £0.2 million was carried into 1983-84. On present budgets it will rise to £1.06 million by 31 March 1984.

7. The Arts Council had already indicated before the recent public expenditure package that client companies should not look for an increase in grant for 1984-85 of more than 3½%. This meant that the difference between grant and the ROH's expenditure before grant would widen out in 1984-85 to produce an accumulated deficit of £2.9 million.

Income and expenditure of the Royal Shakespeare Company

8. The cost of operations in the RSC in 1982-83 was £9.34 million against an income of £5.68 million. This left a gap before grant of £3.66 million. Of this, £3 million was funded by the Arts Council with a supplementary grant in January 1983 of £0.85 million. The supplement was not enough to prevent the RSC carrying forward into 1983-84 an accumulated deficit of £0.2 million, which is expected to rise to £0.7 million this year and to £1.7 million next year.



Relevant considerations

9. In considering the subsidies paid to the ROH and RSC it is important to recognise the following:

(1) The ROH comprises three performing companies - the Royal Opera, Royal Ballet and the touring Sadler's Wells Royal Ballet - in addition to the House itself. These four sets of activity account for 1,000 employees, responsible in 1982-83 for 540 performances, of which 48 ballet performances were in the provinces and 73 were abroad.

(2) The RSC performs in London and Stratford, with a big and a small theatre at each base; has an annual short season in Newcastle; and this year it is reviving its small scale tour. These activities account for some 600 employees, responsible for 1,400 performances in 1982-83.

(3) Neither company receives grants on its main activities from other public bodies unlike the National Theatre and the English National Opera who both receive substantial support from the Greater London Council.

(4) The operating costs of the RSC and the three ROH companies are substantial (see Annex, paras 1 to 7 for details). Our advisers confirm what our own observations indicate, that opera and ballet in particular are inherently expensive art forms, with big casts, complex sets and live music; the Covent Garden Orchestra cost £1.65m in 1982-83, for example. There is substantial competition among

Houses for leading singers, conductors, directors and designers; but the importance of high fees for stars can be overdone. Such fees are relatively marginal to the total cost of a House and our adviser, M Hugues Gall, who in addition to directing the Geneva Opera is secretary-general of the international association of opera directors, tells me that London pays below the odds because (a) stars must come to London to show that they operate in all the leading houses and (b) because they like coming to Covent Garden, which has a high reputation among singers and others for care and courtesy. I shall put some effort into explaining what the General Manager of the Metropolitan Opera, New York, said to me about opera namely that it is - in cost terms - "a dinosaur living in the twentieth century". I shall point up the efforts which the companies have made to contain certain costs; and in the case of the RSC I shall bring out the fact that low wages for some artists and staff represent a real extra subsidy from within the company.

(5) The companies contribute not only to the common weal and standing of the nation, but also to the Treasury, of course. VAT and personal taxation at the RSC should bring in about £3m in 1982-83 for example.

Do we want the ROH and RSC?

10. Successive Governments have shown that they want the RSC and the three performing companies of the ROH to exist and thrive. They are important national assets, providing a good range of generally high quality products, essential to the preservation of the heritage and the creation of the

future in their respective art forms, and important culturally to the UK both at home and overseas.

11. The quality of arts institutions will by their creative nature ebb and flow. Recently the Royal Opera Company has had its critics whilst the other companies have been riding high. In earlier years the positions of ballet and opera have been reversed. But success and variability need to be considered objectively over time. I believe few would gainsay the conclusion that the ROH companies and the RSC have been immensely successful in their work over their relatively short lives.

Accessibility to the public: a middle-class rip-off?

12. The question of accessibility raises a more fundamental question. The RSC and the Sadler's Wells Royal Ballet are relatively accessible to their audiences, with a top seat price at Stratford of £12.50 and of £9.50 at the Barbican (RSC) and £9 (SW Royal Ballet). The Royal Opera and the Royal Ballet are less so, especially at Covent Garden, where seat prices are beyond the reach of most ordinary families. The top seat price for opera in the coming season will be £42.00 (OTELLO with Placido Domingo); and for ballet £19.00 (all evening performances).

13. I propose to deal with the question of seat prices for the Royal Opera and Royal Ballet as follows: whilst it would be tempting to bring them down substantially through say £2-3 million increased subsidy the pressure on the arts budget, and public expenditure generally, is such that this cannot be regarded as a feasible objective for the foreseeable future. That is a bullet we shall simply have to bite on. I shall do something to soften it by reference to private funding and particular initiatives, but it is misleading to pretend that there is much room for manoeuvre

here. But the ROH in particular must reach out to the public by the all imaginative means it can afford.

What should be done?

14. I have concluded that there are no easy solutions. The great majority of each company's costs are fixed in relation to their artistic policies and objectives. And even in those areas where the costs are more readily variable, we have found few examples of extravagance or inefficiency on any significant scale. I shall be making recommendations for each of the companies which will affect costs at the margin. But reductions in expenditure of the amount necessary to live within present Arts Council funding would require dramatic changes in provision, eg:

(1) In the RSC, it would be a matter of restricting operations to one or other of the Stratford and Barbican theatres, probably to Stratford as that is the base, containing the workshops in addition to the original Royal Shakespeare Theatre. This would save some £3m, but at a very high price in terms of lost provision to the public and of a severe blow to the Barbican Centre in its infancy.

(2) In the ROH, it would be a matter of some combination of abandoning the touring ballet (Sadler's Wells Royal Ballet) and/or cutting the opera company back, by restricting promotion to "festivals". As a concomitant to this, the orchestra and chorus would need to be disbanded and new, smaller cadres formed. The loss of the SWRB, especially to the regions, would be serious. Changes at Covent Garden itself could not take effect in less than two years and would be viewed

with astonishment abroad, where the House has won much admiration. But it cannot be denied that these measures would have their friends at home.

15. Our brief look at other Opera Houses and drama companies overseas offers few insights as to how the deficits might be eliminated. On the contrary, the European Houses are much more heavily subsidised than ours (up to 85% of costs); and in the USA the tens of millions of dollars of private sponsorship are bought by means of generous tax concessions (which apply to all sorts of donation).

16. There is however scope for improvements, firstly in management structure and systems. This is much more so in the ROH than the RSC. One of my assignment staff has well said that the relatively junior staff who head up certain departments of the ROH (eg costumes) look after the pence once allocated but the centre does not adequately plan the allocation of pounds to live within the overall budget. The senior staff of the ROH and we are working to produce a financial policy and management structure (including separate management for each of the 3 performing companies) which will engender greater financial discipline and more effective planning and control of money and resources.

17. Secondly, there are potential savings to be made but these are at the margin.

18. In spite of some shortcomings in each company, I believe that the deficits which gave rise to this scrutiny are due principally to the fact that the Arts Council grant is not high enough to meet the costs of having the ROH and RSC companies as at present constituted and functioning.

19. I have concluded that:

(1) The Government should increase the 1983-84 grant to the ROH and RSC to enable them to eliminate their budgeted accumulated deficits. The cost of deficits at 31 March 1984 is £700,000 in the case of the RSC and £1,057,000 in the case of the ROH.

(2) This writing off of deficits should only be done however on condition that the defects of management and financial policy to which my report draws attention are palpably corrected.

(3) For the future the government should aim to establish conditions of financial stability for a period of say three years, by fixing a level of subsidy and linking it to inflation over this period. This will enable the companies to plan ahead and avoid the wasteful hassle of the current, annual round. This means:

(a) Revising the level of grant from the Arts Council for 1984/85, in order to cover the ROH's and RSC's budgeted costs of operations. The 1984/85 grant for the two companies is expected to be £14.3 million based upon a 3% increase on the 1983/84 grant. This would need to be revised by about £2.3 million in order to cover the 1984/85 budgeted deficits. This is in addition to the £1.7 million needed to eliminate their accumulated deficits to March 1984.

(b) Direct funding of the companies by government rather than through the Arts Council. But government would look to an independent agent, probably the Arts Council, to advise it on the level of grant appropriate for the next period of 3 years in the light of artistic and financial achievement.



Political Considerations

20. First, the case for extra funding for the ROH is relatively uncontroversial. The RSC already provides a good regional coverage through its base at Stratford and its visit to Newcastle. But the Company is not without enemies in the commercial and other grant-aided theatres who argue that they are equally hard pressed and that if they are expected to survive on their budgets, the RSC should be as well.

21. Secondly, extra funding for the ROH would be more controversial, less for the funds which go to support the ballet companies than for the feeling that the Royal Opera Company is for the toffs and is consuming a disproportionate share of the financial cake. I hope to explode some of the myths here and to identify the relative shares of the Arts Council grant which go to each of the three companies.

22. Thirdly, uprating both companies would be difficult for the Arts Council which would expect to come under severe pressure from the regional lobby and other performing arts companies. Some easement of this pressure could come from my recommendation that the Royal Opera Company should no longer tour in the UK - it is prohibitively expensive for the benefits which it yields. This will release some Arts Council money which could be made available to the regional opera companies.

23. Fourthly, ceasing to fund through the Arts Council would be controversial in some quarters (Lord Goodman and the regions, notably) and the Government might choose to drop this recommendation while adopting others. But if the Government is saying that it wants the two companies to operate as now and if it regards them as a national asset, there is something both unreal and wasteful about treating them on all fours with, say, the Watford Civic Theatre (no

disrespect intended). The Arts Council knows that it is not free to drop either the ROH or the RSC, since Government would not countenance this. But equally, under pressure from the regions and its other clients, and reasonably wishing to avoid robbing Peter to pay Paul, it refuses to fund at the level it acknowledges is required. There is rough justice in this. All must bear their share of cuts when public expenditure is under restraint. And there is no suggestion that either company should have a blank cheque. I am satisfied however that the right course is now direct grant, not least because of my reservations, to be registered separately with Lord Gowrie, about the competence, good sense and judgement of the Arts Council. But the Government should not get into the "artistic assessment" business; on that it should look, periodically, to the Arts Council (para. 19(3)(b) above).

24. Finally, if I may, a point about the contribution to the nation of the performing arts as a whole. I firmly believe that the Government can and should be generous here.

25. I would not recommend giving all performing companies more money simply to sweeten the pill of uprating the ROH and RSC. That would be feeble. It may be necessary in the present economic climate to take a Napoleonic decision that the ROH and RSC need more money and must have it, that the rest must manage on their present grants; and perhaps that some must go to the wall. (There is strong evidence that other performing arts companies are operating under very difficult financial circumstances and are having to cut back their activities. These cut backs were necessary to live within the 1983/84 grant of £93.5 million provided by the Government. The Arts Council assessed that £111.0 million was needed in order to carry out the desired programme of

work and at least £98.5 million in order to support a "survival" programme.)

26. I would present the case for additional funding of other performing arts companies in addition to the ROH and RSC as follows:

(1) The performing arts companies are generally speaking making a distinguished contribution to the recreation and culture of the UK, as well as giving it much credit abroad.

(2) They are generally efficient and effective in their own right and compare favourably with some other clients of Government.

(3) It is right to build on success. And because the nation will need the sustenance the performing arts can give it for as far ahead as we can see (contributing to what Sir William Rees-Mogg has described to me in an ugly but telling phrase as the "re-personalisation of society") it is just and wise to invest in them.

(4) The additional funding required by all companies (including ROH and RSC) in 1983/84 is estimated at about £17.5 million. In the absence of such extra funding the performing companies will be obliged to cut back further their activities. Fewer performances mean fewer opportunities for audiences to reap the benefits of the public money already being invested in these companies.

(5) Such a policy, noble and humane as well as economically correct, would sink the accusation that

PERSONAL AND CONFIDENTIAL

the Government is Philistine and stop the mouths of some of those who might be its most determined and articulate critics.

27. I am copying this to Lord Gowrie.

SP

C PRIESTLEY

22 July 1983

ENC: Annex as indicated

ANNEX

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE
ROYAL SHAKESPEARE COMPANY

Basic data on the Royal Opera House, Covent Garden Limited

1. The ROH comprises three companies, the Royal Opera Company; the Royal Ballet; and the Sadler's Wells Royal Ballet, whose primary function is to tour ballet in the United Kingdom.

2. The income and expenditure of the ROH are broadly as follows, earning at the box office and by other means being far outstripped by expenditure (1982-83 data):

| | <u>£m</u> | <u>£m</u> |
|--|-----------|-----------|
| <u>Income</u> | | |
| Box Office | | 5.7 |
| Touring | | 1.0 |
| Catering, publications and other services | | 0.5 |
| Funding productions etc | | 0.5 |
| Other income | | 0.5 |
| <u>Expenditure</u> | | |
| Salaries and wages* | 14.3 | |
| Expenses | 4.5 | 18.8 |
| Deficit for the year, met by ACOB grants | | 10.6 |

* Permanent staff at 31.3.1983: 1037

3. Of the deficit of £10.6 million, £9.55 million was met by the 1982/83 Arts Council grant, £0.45 by the supplementary grant in January 1983, and £0.38 by grants brought forward not used in earlier years. This left a deficit of £0.22 million to be carried forward to 1983/84.

4. The detail of the expenditures in 1982/83 is as follows:

| | <u>Wages</u> <u>£m</u> | <u>Expenses</u> <u>£m</u> | <u>No of performances</u> |
|--|---------------------------|------------------------------|---------------------------|
| A. Royal Opera Company | 3.62 | 0.02 | 143 |
| (including guests, | 1.85 | - | |
| extras and other | 0.46 | | |
| fees) | | | |
| B. Royal Ballet Company | 1.78 | 0.03 | 162 (1) |
| (including guests) | 0.34 | - | |
| Royal Ballet touring: | 0.30 | 0.26 | |
| extra costs | | | |
| C. Orchestra of the Royal Opera House | 1.65 | - | |
| D. Sadler's Wells Royal Ballet | 1.01 | 0.07 | 235 (2) |
| SWRB Orchestra | 0.35 | - | |
| SWRB touring: extra costs | 0.26 | 0.64 | |
| E. Production | 1.29 | 0.71 | |
| Stage crew etc | 2.09 | 0.30 | |
| F. House management and maintenance | 0.99 | 1.16 | |
| G. Press and Box Office | 0.31 | 0.64 | |
| H. Others | 0.70 | 0.67 | |
| Total (actual) | <u>14.35</u> | <u>4.50</u> | <u>540 (3)</u> |

Notes

(1) including 48 in Plymouth, Manchester and Battersea.

(2) including 73 abroad

(3) NB: The ROH also put on 13 performances by visiting companies making a grand total of 553.

Basic data on the Royal Shakespeare Company

5. This year the RSC is operating on a "six point" pattern:

(1) and (2) One company of actors works at Stratford on the main stage (The Royal Shakespeare Theatre) and the small stage (The Other Place).

(3) At the end of its Stratford run, the first company makes a seven-week visit to Newcastle in February and March.

(4) and (5) The company then moves on to London, for a second year of life, to large and small stages in the Barbican Centre (the Barbican Theatre and The Pit).

(6) The RSC has revived this year at the Arts Council's request its small scale tour (for which it has a demountable auditorium that can be put up in schools gymnasias, village halls etc).

6. The RSC's income and expenditure are broadly as follows (1982-83 data):

| <u>Item</u> | <u>Income</u> | <u>Item</u> | <u>Expenditure</u> |
|-------------------------------|---------------|----------------------------|--------------------|
| | <u>£m</u> | | <u>£m</u> |
| Box Office | 4.82 | Theatre and company costs* | 8.20 |
| Trading and touring subsidies | 0.86 | Touring costs | 0.77 |
| | | General expenditure | 0.37 |
| | <u>5.68</u> | | <u>9.34</u> |

* Employees: 593 at 2 April 1983 including some part time staff.

The detail by main item and by performances is as follows (1982/83 data).

| | <u>£m</u> | <u>No of performances</u> | |
|-----------------------------------|-------------|---------------------------|--------------|
| A. Artists' salaries and expenses | 2.62 | 2 main. 2 small stages | 1.106 |
| B. Costs of UK touring | 0.77 | Newcastle visit | 86 |
| C. Production | 1.67 | UK tour (EDUCATING RITA) | 208 |
| D. Theatre operations | 3.36 | | |
| E. Administration | 0.31 | | |
| F. Publicity and others | 0.61 | | |
| | <u>9.34</u> | | <u>1,400</u> |

7. There was a deficit before grant in 1982-83 of £3.7 million. Of this, £3.85 million was funded by the Arts Council which includes a supplementary grant in January 1983 of £0.85 million. This supplement was not high enough to prevent the RSC carrying forward into 1983-84 an accumulated deficit of £0.2 million.

Reasons for ROH and RSC Deficits

8. It is convenient to consider the evidence available in respect of three possible reasons for the deficits as follows.

Assuming that all each company does is desired and endorsed by the Arts Council and the Government, it does not get enough subsidy to make up for an unalterable short-fall at the box office and of private funding

(a) Endorsement of the companies' work

9. There is no doubt about the Arts Council's endorsement of the RSC's product. They concede that the RSC is under-funded by comparison with the National Theatre, who in turn do not dispute the RSC analysis. Having now spent some time with and at the RSC, I am impressed by it, although not unreservedly. You would need to go a long way to find such an effective outfit in Whitehall, but it could be argued that the RSC's financial policy has been one of "creative deficit". On the other hand, this policy has been due to a long running sense of grievance which the Arts Council has now conceded is justified.

10. Covent Garden is somewhat more controversial. It is the most expensive of all the Arts Council clients (£10.4 million in 1982-83) although this simple statement conceals the fact that "Covent Garden" is in reality three separate companies, not one. There is a generally high regard for the Sadler's Wells Royal Ballet, which is seen as doing excellent work in the regions. The Royal Ballet is at the top of its class in the UK. It has just returned to London after a brilliantly successful visit to New York and the East; Mr Allen and I saw them dance amongst other things ENIGMA VARIATIONS and a new Ashton ballet on their first night in New York where they deservedly had a splendid reception. We are dealing with large costs at Covent Garden. If one wants a metropolitan opera house, operating both opera and ballet at international level, you get drawn straight away into the big costs of resident chorus, company of dancers, orchestra and production staffs and lay yourself open to being held to ransom by international stars and the unions.

11. The Arts Council is enthusiastic about the ballet companies, and agrees that London needs an international opera house. But, conscious that there is vocal adverse criticisms of Covent Garden, it has made some of its own, directed at a lack of "inspirational electricity" on the artistic side and what it regards as too indulgent control on the financial side. I am looking to my advisers to give me their opinion but, frankly, I find the ACOB not impressive on this front.

12. In all this one has to be conscious of certain characteristics of a performing company and the environment in which it operates. First, in each case we are looking at a combination of the work of individuals and the work of groups of individuals. Because the thing is intensely human, and because fashions change, each institution will suffer from time to time from an ebb and flow in public and critical esteem. I shall have to aim off for this. Secondly, it is very easy to develop a strong emotional commitment to a company with which one is associated. In the case of the ROH, I think that some of the Directors, including the Chairman, Sir Claus Moser, find it very difficult to contemplate any compromise between their attachment to high artistic standards and cutting their coat according to the cloth they have available. They look with some envy at practice abroad; the Austrians, French, Germans and Italians pour much more subsidy into opera and ballet than we do and have no hesitation about seeing it as something due to "the Nation".

(b) Short-fall at the box office

13. Seat prices although high, are not as controversial in the RSC and SWRB as they are in the Royal Opera Company and the RB. The top seat prices at Stratford and London are respectively £12.50 and £9.50. The top seat price at the Barbican could probably go higher. But there is no doubt that audiences there and at Stratford are sensitive to price movements. Apart from that, one of the functions of subsidy is to make the work of national companies accessible to the public and it would be paradoxical to oblige the RSC or the ROH to recoup such a proportion of their costs at the box office as to price themselves out of the market.

14. Seat prices for the SWRB on tour are reasonable (up to £9.00). Seat prices for the Royal Ba are beyond most ordinary families (up to £19). Seat prices for the Royal Opera Company will range this autumn from £8.50 to £42 (for OTELLO with Placido Domingo), while for the visit to Manchester in September they will run from £6.50 to £23.50.

(c) Private funding

15. Both the RSC and the ROH are putting intelligent effort into attracting more sponsorship. But the ROH has already soaked up a lot of goodwill as well as cash to finance the first phase of its rebuilding work at Covent Garden. And it is clear that it would be unwise for any company to rely on receiving year by year a set proportion of its income from private sources. This is certainly what the few talks I have had with industrialists on this subject would indicate. The main sources of income are and must remain the box office and Government grant.

The company does more than is actually desired and endorsed by the Arts Council and the Government and can be covered by subsidy, box office and private funding

16. It follows from what is said above that the companies' work is broadly endorsed by the Arts Council, as it is also by my team and me on the important assumption that it is what the Government wants on behalf of the nation. My report will ask the Government whether the ROH and RSC are indeed what they want and it will advise them to say yes.

17. In case however the Government places an absolute priority on restraining public expenditure, I shall present contingency plans for scaling down each company.

18. We shall track through the severe options available, including the depleted opera season and the abandonment of the SWRB (which will be very hard if not impossible to defend politically).

19. In the case of the RSC, various scalings down are possible, eg dropping the bands and the two small stages, but there too it is probable that the amputation of either Stratford or London would be necessary. Both of these would be very unattractive politically. In particular, the loss of Stratford would mean the loss of six main house and five small house productions a year (500 performances, 1982 data), a serious blow to the local economy and, worst of all, a damaging loss to the UK as a nation in Shakespeare's home town.

20. The loss of the Barbican Theatre and The Pit would not necessarily mean the end of the Barbican Centre as a viable enterprise for the City of London but it would be a staggering blow during its infancy, quite apart from being a major loss temporarily at least, to the tourist trade in London.

The Company's work is desired and endorsed by the Arts Council but it manages itself badly and has poor financial control; its expenditures are extravagant

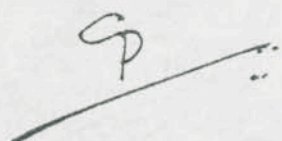
21. The RSC is in general well managed but could tighten up its planning cycle and the way in which new productions are mounted, notably in respect of scenery building and costume making. The savings are worth having, but are only marginal.

22. Higher management at the Royal Opera House leaves something to be desired. At the operational level there are problems similar to those at Stratford just mentioned. Again, savings are possible, but are marginal.

23. The main worries at Covent Garden are a refusal of the Board of Directors to compromise artistic standards (as they see them) in order to live within their budget (although the RSC could also be accused of this); a defective management structure; and indifferent control over certain production costs: one of my assignment staff has well said that the relatively junior staff in charge of certain departments (eg costumes) look after the pence once allocated, but the centre does not adequately plan the allocation of pounds to live within the overall budget.

24. There is little evidence in either the RSC or the ROH of wilful or negligent extravagance

25. I shall have only minor comments to make on financial policy and management of the RSC. In the case of the ROH, the senior staff and we are sorting out a financial policy and new management structure (ie separate management for each of the three companies). In this we are greatly assisted and fortified by the new Chairman of the Finance Committee, Sir Denis Forman (of Granada Television).


C PRIESTLEY
22 July 1983



Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House, York Road
London SE1 7PH

Telegrams: Aristides London SE1
Tel: 01-928 9222

27th April 1983

C Priestley Esq
Management and Personnel Office
Whitehall
LONDON SW1A 2AZ

Dear Clive

Handwritten initials
27/4

Thank you for your letter of 12th April about the ROH/RSC scrutiny.

Mr Channon was pleased to hear that you had a helpful meeting with Mr Price, but is not entirely happy about the prospect of your appearing before Mr Price's select committee at this stage in the enquiry. The time is past when it would have been topical to explain the reason for it, and it is too soon to give any hint of the outcome. You will not be able, without breach of trust, to reveal anything of what the companies have said to you. It could be rather a frustrating occasion for all concerned - especially since several members of Mr Price's Committee are sceptical of the value of a Rayner scrutiny in this field.

Mr Price is of course continually trying to widen the remit of his Committee. It is probably not worth a row if he insists upon a discussion but Mr Channon thinks it would be unwise to remind him. With luck, Mr Price will not follow up his suggestion until the scrutiny is over - when of course it could be very suitable.

I am sending copies of this letter to the recipients of yours.

Yours ever

Mary

Miss M G E Giles
Private Secretary

Ants & Amerites March 1980
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MANAGEMENT AND PERSONNEL OFFICE

WHITEHALL LONDON SW1A 2AZ

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12 April 1983

Miss M G E Giles
Private Secretary to the
Rt Hon Paul Channon MP
Minister for the Arts

See Mary,

ROYAL OPERA HOUSE/ROYAL SHAKESPEARE COMPANY SCRUTINY:

MR CHRISTOPHER PRICE, MP

Mr Price had lunch with me yesterday as my personal guest at my Club. It was a friendly occasion and I was able to say quite early on without his taking offence, that the Army and Navy was the closest I could get to a golf club!

2. While nothing of great substance came out of the talk as regards the content of the scrutiny, there were a number of points which you might like to pass on to Mr Channon.

3. First, whilst Mr Price did not make a meal of the Burrett scrutiny last year, he did express, in perfectly reasonable terms, a scepticism about the Rayner scrutiny method. My main response was to say that I thought that the body of Gordon Burrett's report was very good indeed but that he might perhaps have avoided obiter dicta. Mr Price said without any heat that he thought Gordon had shown some naivete but that he himself was far from opposed outright to short sharp inquiries. Indeed, he thought that the method had probably established itself in Government. He asked a few questions about the origins and present status of the scrutiny programme.

4. Secondly, he asked, without any persistence, about the origins of the current exercise. I was rather vague in reply to this, saying that I thought that the Minister shared with many people outside the two performing companies a sense of bafflement, perhaps of intellectual frustration, about what the money put into them was spent on. I indicated that this bafflement was, so to speak, without overtones or implication that the two companies were guilty of mis-spending: one part of the scrutiny would serve the useful purpose of establishing the facts of the matter.

5. Thirdly, I was at pains to emphasise that this scrutiny is outside the annual Rayner scrutiny programme. It was highly unusual in that it was being done by the Rayner Unit itself, and usual in the sense that it would be following the normal scrutiny technique. I said this in anticipation of Mr Price's raising the question of my appearing before his Committee with my colleagues.

6. Fourthly, Mr Price did indeed towards the end of our conversation come round to the question of our giving evidence. I indicated that it would be a matter for the Ministers concerned to pronounce on (ie your Minister and the Prime Minister) but that I did not imagine there would be any difficulty provided we all understood what we were about. I said that, for my own part, I would welcome a meeting with the Committee before the end of the exercise because I thought that it would be valuable to us and possibly to them. I suggest that there should be some simple ground rules: we should not be asked to break confidences and we should not be asked to divulge to the Committee thoughts/conclusions/recommendations which we had not by then shared with the Minister. I also thought that an informal rather than a formal meeting might be the better bet.

7. Mr Price seemed to accept that there would have to be ground rules. His own firm preference was for a formal meeting, as Members prepared themselves better for a formal than for an informal occasion. He thought that an encounter at about the end of May would suit the Committee; I said that this would also suit me very well, if the Minister was content. Mr Price may take an opportunity to mention all this to Mr Channon whilst they are both in New York.

8. Fifth, Mr Price very readily agreed that I should have a get together with Dr John Myerscough, one of their specialist advisers whom they had found particularly helpful.

9. Finally, Mr Price offered some relatively simple thoughts about the development of the arts in the regions; self-advertising by the two performing companies; and the development of sponsorship.

10. I am copying this to Mr Ian Gow MP and Willie Rickett at No 10 and to Sir Robert Armstrong.

Yours etc,

C Priestley

C PRIESTLEY



1) Mr Butler
for information

2) Pa.

MANAGEMENT AND PERSONNEL OFFICE

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TF

24 March 1983

24/3

Miss Mary Giles
Private Secretary to the
Rt Hon Paul Channon MP
Minister for the Arts

Jean Mary,

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND ROYAL SHAKESPEARE COMPANY

The scrutiny team has now completed a round of preliminary meetings with senior people in the Arts Council and the two companies, as well as in OAL and the Treasury. Its purpose has been to give the team a general understanding of the subjects of the scrutiny and to prepare a Study Plan as the basis of the main stage of the exercise.

2. I enclose the Study Plan for your Minister's agreement. My colleagues and I are available to discuss this with him, if he wishes.

3. Mr Haines has seen a copy and is in agreement with it. Copies have also been set to the whole Board of the Royal Opera House, with whom the team will be meeting at 5 pm on 29 March, and Sir John Tooley; to Sir William Rees-Mogg; and to Sir Kenneth Cork, Mr Geoffrey Cass, Mr Trevor Nunn, Mr Terry Hands, Mr David Brierley and Mr William Wilkinson at the Royal Shakespeare Company. I am explaining to them that it has yet to be agreed by the Minister and should be regarded as a draft at this stage.

4. Annex C of the study plan (the detailed timetable of who does what and when) has yet to be completed but we expect to do this within the next few days.

5. I intend to begin the main stage of the scrutiny immediately after Easter, starting with the Royal Ballet who go off on tour on 16 April; to complete the factual analysis by the end of June; to consult the Minister and others on emerging conclusions in July; and to write up the report as soon as possible thereafter.

6. This timetable may prove to be optimistic. I have felt able to tighten up however partly because I shall now be devoting

more of my own time to the scrutiny than originally envisaged. And partly because I intend to use a number of my assignment staff from here to cover such areas as production departments; transport and storage; publicity; and administrative overheads. I am also thinking of recruiting another full-time member of the team, from within government.

6. I am copying this to Tim Flesher (No 10) for information: to Mark Hodges; and to Joan Kelley (HM Tsy).

Yours ever,

C. Priestley
C. PRIESTLEY

Enc: Draft study plan

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE, COVENT GARDEN LTD
AND THE ROYAL SHAKESPEARE COMPANY

Preamble

1. The Minister for the Arts announced on 20 December 1982 that the grant proposed for the Arts Council for 1983-84 would be £92m, an increase of 9 per cent on 1982-83. He also announced that £5m supplementary provision would be taken during 1982-83 to enable the Arts Council to reduce deficits and contribute to towards other expenditure being incurred by many performing arts companies and that he proposed having a special financial scrutiny of the operations of one or more major companies.

2. The Arts Council announced its allocations of the supplementary grant of £5m on 12 January 1983. The largest part of this went to the "big four" national companies (the English National Opera, the National Theatre, the Royal Opera House and the Royal Shakespeare company), most going to the RSC, which received £850,000, and to the ROH, which received £450,000.

3. Later in January the Arts Council announced that of the £92m grant for 1983-84, £25.95m would be allotted to the "big four" as follows:

| | <u>Main grant</u> | <u>Visit grant</u> | <u>%ge increase on 1982-83</u> |
|-----|-------------------|--------------------|--------------------------------|
| | <u>£m</u> | <u>£m</u> | |
| ENO | 5.265 | 0.25 (Plymouth) | 7.4 |
| NT | 6.39 | | 7.4 |
| ROH | 10.245 | 0.2 (Manchester) | 7.3 |
| RSC | 3.6 | | 20.0 |

4. The Minister for the Arts announced on 7 February 1983 that the special financial scrutiny he had presaged in December 1982 would examine the financial affairs and prospects of the Royal Opera House and the Royal Shakespeare Company and make recommendations by the late summer.

Scope of the scrutiny

5. The scrutiny will cover:

- (1) The policies and objectives determining the artistic work of the ROH companies (the Royal Opera, the Royal Ballet and the Sadler's Wells Royal Ballet) and the RSC.
- (2) The way the ROH and RSC are organised at the top to plan their activities and to achieve their objectives effectively and economically.
- (3) The ordering of priorities and the balancing of artistic objectives against the money available.
- (4) Procedures and systems for financial and other forms of management including the allocation of responsibilities; financial information; and budgetary planning and control.
- (5) The artistic standards and levels of productivity aimed at and their implications for eg the use of manpower; rates of payment and the range of works performed.
- (6) How and where the costs of the ROH and RSC arise; the cost-effectiveness with which resources are used; the relationship of costs to revenues.
- (7) How and where the revenues of the ROH and its constituent companies and RSC arise, including the determinants of box office and other House receipts (eg prices, balance of programme offered); initiatives to raise money from private sponsorship; and the negotiation of grants from the Arts Council.

- (8) How the recession is affecting the ROH and RSC and their considered view of future prospects; and how deficits have arisen in the past and the risk of their doing so in the current and future financial years.

6. It is also necessary to consider the broader context in which the companies operate, given their status as "national companies" and "centres of excellence" and their substantial dependence upon public sponsorship to complement the money they earn at the Box Office and by other means (eg transfer to commercial theatre, TV etc). The scrutiny will accordingly include:

- (1) Parliament's interests in and attitudes towards the performing arts in general and the ROH companies and the RSC in particular.
- (2) The Government's objectives in funding the performing arts in general and the ROH companies and RSC in particular.
- (3) The relevant functions, policies and assessments of the Arts Council in respect of the ROH companies and RSC and the translation of these into particular levels of grant.
- (4) The claims on Government funding for the performing arts which arise throughout the country and the relevant policies and attitudes of Local Authorities, regional arts bodies and other subsidised performing companies in respect of the present pattern of funding.
- (5) Similarly, the attitudes of the non-subsidised commercial theatre.

- (6) The level of support given to the ROH companies and RSC compared with other "national companies" in the UK and with the great national companies overseas.

7. The scope of the scrutiny as outlined above is set out in more detail in the schedule of work at Annex A. In devising a suitable plan of work, which is comprehensive without taking for ever, it is necessary to recognise that:

- (1) The Royal Opera House is not one, but three performing companies - the Royal Opera, the Royal Ballet and the Sadler's Wells Royal Ballet. Each has a distinct identity and serves somewhat different audiences, although operating under the umbrella of the ROH and sharing certain common facilities. In addition, the Sadler's Wells Royal Ballet is not housed in Covent Garden, its "home", when not on tour, being the Sadler's Wells Theatre.
- (2) The Royal Opera has a commitment to visit Manchester during 1983. The Royal Ballet will undertake a tour in the USA and the Far East. Similar plans are in prospect for later years. And the Minister has indicated that the national companies have an obligation to tour (House of Commons, 7 February 1983).
- (3) The Royal Shakespeare Company operates simultaneously from two bases - Stratford and London. It plays in four theatres, each serving different audiences. In addition the Stratford Company plays a seven week season in Newcastle-upon-Tyne in the late winter.

Conduct of the Scrutiny

8. The affairs of the ROH companies and RSC will be examined in parallel, partly in order to take advantage of emerging lessons and partly to advance the work at the fastest possible rate.

9. The working method will consist largely of interviewing and on-the-spot inquiries, making the maximum possible use of the professional and specialist knowledge and opinion of the personnel of the companies. The desired approach is very much one of getting out and about, talking to all levels in the performing companies and observing the work as it is done, but this will have to be made conformable to the amount of time available for each company.

10. The first stage of the study, now completed, has comprised preliminary discussions with the Minister for the Arts, Council/Board members of the ROH and RSC, the Chairman of the Arts Council and senior personnel of the Office of Arts and Libraries, the Treasury, the Arts Council and the ROH and RSC. A list of those seen so far is at Annex B.

11. The main purpose of these meetings has been to gain a broad understanding of the nature of the businesses; of the working environment; of the policies and objectives of the Government, the Arts Council and the performing companies; and of the planning and budgetary processes and management structure. They have also provided the opportunity to discuss the "work schedule" at Annex A.

12. Members of the team have, since beginning the scrutiny, attended performances of Carmen, The Sleeping Beauty and the MacMillan triple bill at Covent Garden; All's Well that Ends Well and Poppy at the Barbican; King Lear at Newcastle; Julius Caesar in Stratford. Other visits are planned to various theatres at which the companies perform including seeing the Sadler's Wells Royal Ballet on tour; and possibly the Royal Ballet and the RSC in New York. The team will also watch other companies.

13. The next stage will be the detailed examination of the work of the companies on the ground and the analysis of relevant financial information.

14. The overall approach of the scrutiny will be to question why things are done as they are; why they are done at all; and whether they could be done more effectively at less cost. The essential first step will be to obtain an overall picture of the structure of the costs and revenues of the companies - historically, now and expected.

15. The second step will be to evaluate the effectiveness of the existing financial controls at the various levels in the management of the ROH and its companies and the RSC. This will lead into the third step of talking to staff and performers in the performing companies and in those departments which support them with a view to appraising the management and control of resources both generally and in respect of components of particular interest eg production (property, scenic, costumes etc); technical and stage staffs; storage and transport; such aspects of administration as publicity, house maintenance, catering; and fixed and variable overheads (heating and lighting, telecommunications etc).

16. Simultaneously with the detailed examination of the companies there will be further interviews with Ministers and officials; the Arts Council; relevant Parliamentary Select Committees; Local Government and regional arts bodies; and visits to other theatre managements in the UK and overseas.

17. In addition the study team will be seeking the views of staff representatives in the ROH companies and the RSC (see below) and selected critics. Initial contact has already been made and some views received.

18. The objective is to build up the factual foundation on which to base the scrutiny's conclusions and recommendations.

Some Issues

19. Certain issues have already been identified, which the team wishes to examine in order to provide a thorough-going survey. These include:

- (1) Why subsidise the ROH companies and RSC at all? If a subsidy is paid, what should be its purpose and how can the relationship between the grant-maker and the grant-receiver best be devised?
- (2) What would be the effect of an increase/decrease in the grants to the ROH and RSC by, say, 5% in real terms or leaving the grant at its present level.
- (3) How much room for manoeuvre has the Arts Council in determining the grants to the ROH and RSC?
- (4) How reconcilable are the policies to enable the "national companies" to survive and thrive and to spread public support for the performing arts throughout the country?
- (5) Is there a case for separate funding of the "national companies" and should the principle governing such funding continue to be deficit financing rather than specifically targeted?
- (6) How can you achieve a greater level of national accessibility to the ROH and the RSC?
- (7) Is it prudent and fair economically and artistically, to require "national companies" to tour and if so are the present funding arrangements adequate?
- (8) What are the functions of the Boards of the ROH and RSC and how should they be exercised?

- (9) How do you reconcile the requirement for artistic planning several years ahead with annual budgeting?
- (10) Is it possible to get a company whose end is not wholly commercial to obey commercial disciplines?
- (11) At what point does the number of new productions in the repertoire become inadequate and begin to undermine the objectives of the companies as "centres of excellence"?
- (12) What substance, if any, have charges of extravagance against the ROH and RSC?

20. The study team will seek to answer these questions and others which emerge in the course of the scrutiny over the coming months.

Report

21. The report will cover the subjects noted above and in the work schedule at Annex A. The team will discuss its emerging conclusions and recommendations with the Minister for the Arts, the Arts Council and the Boards and management of the companies before finalising its report. No views will be attributed to those interviewed except where authorised to do so.

22. A final report will then be presented to the Minister for the Arts. Copies will be sent simultaneously to the Chairman of the Arts Council and the Chairmen of the Boards of the ROH and RSC.

Consultation with trades unions

23. The study team are in touch with the General Secretaries of Equity, the Musicians Union and NATTKE. The team will be

talking to representatives of the unions in the ROH and RSC and their members, in the course of the scrutiny.

Examining Officers

24. The report will be made by Mr Clive Priestley, Under Secretary, Management and Personnel Office. He will be assisted by Mr David Allen and Mr Ian Trumper, FCA. Mr Allen is a former Treasury Economic Adviser and member of the Rayner Unit, now an independent consultant. Mr Trumper is a chartered accountant on secondment to the Rayner Unit from Messrs Deloitte, Haskins and Sells.

25. Consideration is being given to the appointment of an additional full time member to the team from within Government. Assistance will also be given by members of Mr Priestley's assignment staff in the Management and Personnel Office, to cover in particular such areas as: production departments; transport and storage; publicity; and administrative overheads.

26. The broad allocation of work of the team will be:

- (1) Financial management and control: Mr Trumper
- (2) Management and control other than financial in the ROH companies: Mr Allen
[A N Other]
- (3) Management and control other than financial in the RSC: Mr Priestley
- (4) The broader context (OAL, ACGB, regions, comparisons with other companies, etc):
Mr Priestley

27. The team will consult Mr M G M Haines, a partner with Thomson McLintock & Co who has accepted the Minister's invitation to advise the team on financial matters. The Minister

for the Arts has also written to two persons of standing in the field of the arts asking if they will be available to give advice to the team. These are Mr Peter Diamand, former Director of the Edinburgh International Festival; and M Hugues Gall, Director of the Geneva Opera. At the time of writing only M Gall has accepted.

Timetable

28. A timetable of work is at Annex C. The second stage of the scrutiny begins with the Royal Ballet on account of their departure overseas on 16 April.

29. The intention is to complete the factual analysis by as soon as possible after the end of June; to consult on emerging conclusions and recommendations in July; and to report as soon thereafter as possible.

C Priestley
Head of the Rayner Unit
Old Admiralty Building
Whitehall SW1

23 March 1983

FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND ROYAL SHAKESPEARE COMPANY

Preface

- The need for a scrutiny: recent history and prospects.
- Terms of reference and objectives of the scrutiny.
- Conduct of scrutiny.

Parliament's Interest

- Oversight of the financing of the arts by the Select Committee on Education, Science and the Arts and the Public Accounts Committee.
- The functions of the Exchequer and Audit Department in respect of ACGB grant-in-aid.

The Government at Arm's Length

- Government policies and objectives towards the subsidy of the performing arts.
- Policies for the arts in the context of their contribution to the cultural life of the nation, tourism, employment and government revenue.
- The functions of the Minister for the Arts and of OAL.
- Principles and practice determining the level of grant-in-aid to the ACGB; management of OAL's total budget (for museums, arts and libraries); and OAL's relationship with HM Treasury.
- Accountability of OAL for grant-in-aid to ACGB.
- OAL's relationship with ACGB, including the systems for the monitoring and control of ACGB activities.

Chairman & Clerk of the Select C'ttee.
and Mr Patrick Cormack.
Chairman of Public Accounts Committee.
Comptroller and Auditor General

OAL: Minister
Sir James Hamilton
Mr Hodges, Mr Stone & Mrs Bauer

HMT: Chief Secretary
Miss Kelley & Mr Faulkner

The Arts Council of Great Britain

- The ACGB's functions; the work of the relevant officers and panels, including the 'assessors' of performing companies; and accountability for grants disbursed.
- ACGB policies and objectives towards the funding of the performing arts and the "national companies" in particular, with special reference to the ROH and RSC.
- Principles and practice determining the ACGB's overall budget, the ordering of priorities and the allocation of grants amongst clients.
- The effect of annual budgets on ACGB freedom of manoeuvre in planning its support for the arts and in dealings with clients, and the timing of grants.
- The ROH and RSC grants: defining the purposes; determining the levels; and monitoring and controlling the use made of the money paid out.
- Separate budgets for touring.
- The ACGB's view of future prospects for the performing arts and their subvention, with special reference to the "national companies" and the ROH and RSC in particular.
- The ACGB's activities in the context of Local Authority and private sponsorship of the performing arts and of the non-subsidised commercial theatre.
- How the outsider (eg critics) views the operations of the ACGB and the attitudes also of the opera, drama and ballet companies who do not have 'National' status.

ACGB: Sir William Rees-Mogg (Chairman)
Sir Roy Shaw (Sec General)
Mr R Pulford (Dep Sec General)
Mr A Field (Finance Director)
Mr D Reid (Drama Director)
Dr B Deane (Music Director)
Miss J Nicholas (Dance Director)
Mr D Pratley (Regional Director)
Chairmen of Advisory Panels on
drama, dance, music, regions and
housing the arts.
Chairmen of Arts Council Scotland
and Wales.

ROH: As below

RSC: As below

External: Chairmen and General

Managers of ENO and NT.
Selected critics and commentators
Selected commercial theatres.
Selected other ACGB grant
supported opera, ballet and drama
companies.
Selected Local Authorities
ABSA (incl Mr Luke Rittner) and
selected other private sponsors.
BBC, IBA and selected recording
companies.
British Council.

THE ROYAL SHAKESPEARE COMPANY

Introduction

- A potted history, with particular reference to the last 25 years.
- The nature of the business and its organisation.
- A 'National Company' with a Stratford HQ; a London branch; and a 'little theatre' at each.
- Policies and objectives determining RSC activities.
- Facing up to hard times.

Planning With Limited Resources

- Estimating the budget for the financial year ahead.
- Planning the work of and setting up the 'Companies' for the year ahead.
- Balancing commercial and budgetary considerations against artistic objectives.
- Setting ticket prices.
- Squaring the circle of forecast 'house' receipts and total expenditures, including coping with "inflation plus"
- The implications of annual ACGB grants for artistic and financial planning.
- Ordering priorities within budgetary constraints and allocating out budgets to productions and service departments.
- Centrally held contingency reserves.

Sir Kenneth Cork
Mr Dennis Flower
Mr Geoffrey Cass
Mr Trevor Nunn & Mr Terry Hands
Mr David Brierley
Mr William Wilkinson
The Trades Unions (as necessary on this and other subjects noted below).

Sir Kenneth Cork
Mr Geoffrey Cass
Mr Trevor Nunn & Mr Terry Hands
Mr David Brierley
Mr William Wilkinson
Miss Jane Jacomb-Hood

Living Within Budgets (Who Does What and How?)

- Exercising the responsibilities allocated for monitoring revenues and expenditures against plan.
- Using information systems for monitoring and reporting on deviations from plan.
- Ensuring that budgets once allocated are made to stick.
- Managing cash flow.
- Accountability for and responsiveness to cost over-runs and revenue short-falls.
- Scope for trimming expenditures and boosting revenues in-year.

How and Where the Expenditures Arise

- Profile of total expenditure 1972/73-1982/83 (in money and real terms).
- Profile of the main elements of expenditure, by type (eg salaries, accommodation, materials) 1972/73 to 1982/3, in money and real terms.
- Allocation of total expenditure between the four theatres and touring 1979/80-1983/84
- Allocation of total expenditure between the various 'activities' (eg players, stage, workshops, publicity, theatre management etc) 1979/80-1983/84.
- For each of the 'activities', disaggregation of expenditure by type 1979/80-1983/84
- Comparing forecast against actual expenditures.
- Capital purchases, maintenance & repairs and investing to save.

Mr Geoffrey Cass
Mr Trevor Nunn & Mr Terry Hand
Mr David Brierley
Mr William Wilkinson
Selected directors and designers
Planning Controller, Production
Controller and other senior managers
with budgetary responsibilities.

Mr David Brierley
Mr William Wilkinson
Production and Planning Controllers
Production and Company Managers
London and Stratford Managers
'Little Theatre' and tours
Administrators.
Heads of workshops (Stratford)
Selected directors, designers and
performers.

- Analysis of the costs of a representative selection of productions 1982/83 and 1983/84

How and Where the Revenues Arise

- Profile of 'house' receipts, sponsorship, grants and other income 1972/73-1982/83 (in money and real terms)
- Allocation of 'house receipts between the four theatres and touring 1979/80-1982/83.
- The determinants of 'house' receipts: pricing policy, critical and public response, mix of productions etc.
- Analysis of the revenues of a representative selection of productions (as above).
- Sponsorship: sources; how generated; prospects.
- ACGB grants: how much; how negotiated; how essential; how compared with grants to other theatre companies.
- Other income (eg TV, West End transfers): how much; how negotiated; how dependable; prospects.

Narrowing the Expenditure-Revenue Gap

- Holding down costs and raising productivity.
- Good house-keeping initiatives.
- 'Economy' productions.
- Spreading overheads.
- Box office initiatives and special fund-raising activities.
- Effective use of assets, including disposals.

Mr Geoffrey Cass
Mr David Brierley
Mr William Wilkinson
Miss Jane Jacomb-Hood
City of London
GLC and Stratford upon Avon DC
Selected private sponsors

Mr David Brierley
Mr William Wilkinson
Selected budget holders and managers

Planning With Limited Resources

- Planning the work of the performing companies for up to four years ahead, including the balance between new productions and revivals.
- Estimating the budget for the year(s) ahead.
- Balancing commercial and budgetary considerations against artistic objectives.
- Negotiating the appearance of visiting performers.
- Setting ticket prices.
- Squaring the circle of forecast 'house' receipts and total expenditure, including coping with "inflation plus".
- The implications of annual ACGB grants for artistic and financial planning.
- Ordering priorities within budgetary constraints and allocating out budgets to productions and service departments.
- Centrally held contingency reserves.

Living Within Budgets (Who Does What and How)

- Exercising the responsibilities allocated for monitoring revenues and expenditures against plan.
- Using information systems for monitoring and reporting on deviations from plan.
- Ensuring that budgets once allocated are made to stick.
- Managing cash flow.
- Accountability for and responsiveness to cost over-runs and revenue short-falls.

Sir Claus Moser
Sir Denis Foreman
Sir John Sainsbury
Prof. Wynne Godley
Sir John Tooley
Mr Adrian Doran & Mr David Pilcher
Mr Richard Wright
Mr Paul Findlay
Sir Colin Davis & Miss Jennie Selby
(RO)
Mr Norman Morrice & Mr Anthony Russell
Roberts (RB)
Mr Peter Wright & Mr Christopher
Nourse (SWRB)

Sir Denis Forman
Sir John Tooley
Mr Adrian Doran & Mr David Pilcher
Mr Richard Wright
Mr Paul Findlay
Technical Director, Production
Manager and other ROH managers with
budgetary responsibilities.
Sir Colin Davis, Miss Jennie Selby
and Miss Linda Duxbury (RO)
Mr Norman Morrice, Mr Anthony Russell
Roberts & Mr Peter Brownlee (RB)
Mr Peter Wright & Mr Christopher
Nourse

- Scope for trimming expenditures and boosting revenues in-year.
- Feed-back of monitoring and control into the planning process.

How and Where the Expenditures Arise

- Profile of total expenditure 1972/73-1982/83 (in money and real terms).
- Profile of the main elements of expenditure, by type (eg salaries, accommodation, materials) 1972/73-1982/83.
- Allocation of total expenditure amongst the three performing companies and the ROH overhead. 1979/80-1983/84.
- Allocation of total expenditure between the various activities (eg performers, orchestra, stage, workshops stores, admin. etc) 1979/80-1983/84.
- For each of the 'activities', disaggregation of expenditure by type 1979/80-1983/84.
- Analysis of the costs of a representative selection of productions 1982/83 and 1983/84.
- Comparing forecast against actual expenditure.
- Capital purchases, maintenance and repairs and investing to save.

How and Where the Revenues Arise

- Profile of 'house' receipts, sponsorship, grants and other income 1972/73-1982/83 (in money and real terms).
- Allocation of 'house' receipts between the performing companies 1979/80-1982/83.
- The determinants of 'house' receipts: pricing policy, critical and public response, mix of productions etc.

Mr Adrian Doran & Mr David Pilcher

Mr Richard Wright

Mr Paul Findlay

Production Manager, House Manager,
Technical Director.

Heads of wardrobe, scenic, props and stores.

Mr Bram Gay & Miss Honor Thackrah.

RC, RB & SWRB Directors, managers,
Producers and selected performers.

Sir Claus Moser

Sir Francis Sandilands

Sir John Tooley

Mr Adrian Doran & Mr David Pilcher

Mr Paul Findlay

ROH Trust, Friends of Covent Garden.

Marketing Manager

Selected business sponsors: Midland Bank & Barclays International.

- Analysis of the revenues of a representative selection of productions (as above).
- Sponsorship: sources; how generated; prospects.
- ACGB grants: how much; how negotiated; how essential; how compared to grants to other opera companies.
- Other income (eg TV, recordings): how much; how negotiated; how dependable; prospects.
- Financing capital projects.

Narrowing the Revenue-Expenditure Gap

- Holding down costs.
- Raising "productivity".
- Good house-keeping initiatives.
- Box office initiatives and special fund-raising activities.
- Effective use of assets.

The Redevelopment Programme

- Planning and budgeting for redevelopment

UK and Overseas Comparisons

- Costs
- Grants
- Productions
- Attendances
- Seat prices

Sir John Tooley
 Mr Adrian Doran & Mr David Pilcher
 Mr Richard Wright
 ROB, RB & SWRB Directors and
 General Managers
 Organising Director of ROH Trust

Mr Robin Dartington
 Development Appeal Directors

English, Scottish and Welsh National Operas.
 Berlin Staatsoper; Paris Opera;
 Munich Hof- and Nationaltheater;
 Vienna Staatsoper; New York Met.;
 La Scala, Milan.

-o

Local Authorities

Greater London Council
City of London
Stratford upon Avon DC
Warwickshire County Council
Greater Manchester Council
City of Manchester
Tyne and Wear County Council
City of Birmingham
City of Plymouth
City of Cardiff

-o-o-o-

Other ACGB Grant-Aided Companies

Opera

Scottish Opera
Welsh National Opera
Kent Opera
English National Opera
Opera North Ltd

Ballet

Ballet Rambert
London Festival Ballet Trust
Northern Ballet Theatre Ltd
Contemporary Dance Trust Ltd

Drama

Birmingham Repertory Theatre
Bristol Old Vic Trust Ltd
Leeds Theatre Trust
Leicester Theatre Trust
Liverpool Repertory Theatre
English Stage Company Ltd
Royal Exchange Theatre (Manchester)
Nottingham Theatre Trust
Crucible Theatre Trust (Sheffield)

ANNEX B

People interviewed by 22 March 1983

1. Government

The Rt Hon Paul Channon, MP, Minister for the Arts
Mr M W Hodges, Mr R H Stone and Miss H Bauer (OAL)
Miss J Kelley and Mr M J C Faulkner (HMT)

2. Arts Council

Sir William Rees-Mogg
Sir Roy Shaw
Mr Richard Pulford
Mr Anthony Field

3. Royal Opera House, Covent Garden Limited

Sir Claus Moser
The Hon Colette Clark
Sir Denis Forman
Lord Gibson
Sir Francis Sandilands
Sir John Tooley
Sir Colin Davis
Mr Norman Morrice, Royal Ballet
Mr Peter Wright, Sadler's Wells Royal Ballet
Miss Jennie Selby
Mr Anthony Russell-Roberts
Mr Christopher Nourse
Mr Richard Wright
Mr Adrian Doran

4. Royal Shakespeare Company

Sir Kenneth Cork
Mr Geoffrey Cass
Messrs Trevor Nunn and Terry Hands
Mr David Brierley
Mr William Wilkinson

5. Trades Unions

Mr Peter Plouviez, Equity

Anto e Almeida



10 DOWNING STREET

Papers to be returned to
FERB

through Mr Flesher

Handwritten initials, possibly 'AF' or similar, enclosed in a circle.

AF

8.3.83



216 AH
cc Sir Armstrong

10 DOWNING STREET

From the Principal Private Secretary

MR PRIESTLEY
MANAGEMENT AND PERSONNEL OFFICE

SPECIAL FINANCIAL SCRUTINY OF THE ROH
AND RSC

Over the weekend, I showed the Prime Minister your minute of 25 February, with a copy of your letter of the same date to Mary Giles. The Prime Minister read these papers and noted them without comment.

F.R.B.

7 March 1983

MA



10 DOWNING STREET

DA
7/3

With the compliments of

IAN GOW



[Blind copy: Mr Gow]

*My
2-3*

MANAGEMENT AND PERSONNEL OFFICE

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01-273 3508
GTN 273
Switchboard 01-273 3000

1. Mr. Fletcher

2. File

28 February 1983

Christopher Price Esq MP
House of Commons
London SW1

Dear Mr. Price,

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE
ROYAL SHAKESPEARE COMPANY

The Minister for the Arts wrote to you about this on 7 February and, as I think you know, the scrutiny team has been assembled and is at work.

2. The team is now working towards the preparation of a detailed plan of inquiry, for which purpose it is seeing people in the two companies; in the Arts Council; and elsewhere. I am sure you will be particularly interested in our work and have thoughts and ideas to contribute to it. So we should very much like to meet you in the near future and to have the opportunity to consult you again during the course of our exercise, should this be agreeable to you. In the hope that you will be willing to see us, my office will be in touch with yours in the next day or so to see what would suit you; we could wait on you at the House of Commons or see you here if you prefer a change of scene.

3. You may like to know that we are treating all interviews as being on a personal and confidential footing; nothing will be attributed to a particular interviewee without her/his authority.

4. I should like you to meet my colleagues Ian Trumper and Dave Allen as soon as possible, but if you would prefer a first meeting with me alone I would be very glad to call on you at the House of Commons or to offer you a talk over lunch as my (not the taxpayer's) guest.

*Yours sincerely,
C. Priestley*

C PRIESTLEY



MANAGEMENT AND PERSONNEL OFFICE

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01-273 3508
GTN 273
Switchboard 01-273 3000

25 February 1983

Miss M G E Giles
Private Secretary to the
Rt Hon Paul Channon MP
Minister for the Arts

Alan Murray

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND ROYAL
SHAKESPEARE COMPANY

I have taken counsel with the Royal Opera House, Royal Shakespeare Company and Arts Council on the question of an "Olympian" and a "professional", first raised with them at the Minister's meetings on 7 February. My intentions are now as follows and I should be glad to have early confirmation that the Minister is content with them or to have alternative ideas.

OLYMPIAN

2. Naturally, this does cause some problems as it is difficult to find names which are equally at home across the whole range of work at Covent Garden, Stratford and the Barbican. However, the name which seems likely to attract the most confidence is that of Mr Peter Diamand (69), Director of the Edinburgh International Festival, 1965-78, and Director and General Manager of the Royal Philharmonic Orchestra, 1978-81. I propose to ask him to be available to advise the team in drawing up its plan of work; as it moves towards its conclusions and recommendations; and on the draft of the report.

3. The Royal Opera House think that there would be merit in consulting similarly a person of standing in the world of international opera and ballet. Their suggestion is M. Hugues Gall. M. Gall was in the French Ministry of Culture in the late 1960s; was assistant director of the Paris Opera in the early 1970s, with a particular responsibility for ballet; and became director of the Geneva opera in about 1978. I think there is indeed merit in this and I propose to seek M. Gall's help.

4. There are certain other people whose names have been suggested whom I think it would be useful to consult, though on a less formal footing than Mr Diamand. These are:

Sir Richard ATTENBOROUGH)
Mr Melvyn BRAGG) who need no explanation

Mr Cyril DAVIES (59), Chief Executive, City of Newcastle. Has been in local authority finance since 1946. Is a member of the Advisory Council for the Scottish Opera and chairman of the Finance Committee for the Northern Sinfonia Orchestra. Is associated with the RSC's Newcastle venture. Is a qualified accountant.

PROFESSIONAL

5. The requirement here is that the team should have access to someone with experience in the examination of the costs and expenditure of such enterprises as the ROH and the RSC, eg an accountant specialising in this area.

6. Specialist accountants are mostly in the employ of the performing companies and it is therefore a matter of finding someone who, although not a specialist, knows enough to be worth listening to.

7. Mr Cyril Davies would no doubt help somewhat but the choice of private sector accountants seems to narrow down to two names:

Mr M G M HAINES, CA (47). Suggested by the staff of the Arts Council; works for Thomson McLintock & Co. Member of Microelectronics Industry Support Programme Advisory Board, 1979; Pharmacists Review Panel, 1980.

Mr Stuart YOUNG, FCA (48). Suggested by Mr Channon. Senior Partner in Hacker Young (Accountants). Non-executive Director, British Caledonian Airways. Financial adviser to the Wolfson family. Member, Historic Buildings Council, 1976 - ; Trustee, Architectural Heritage Fund, 1973 - ; Trustee, National Gallery, 1980; Governor, BBC, 1981. Brother of Mr David Young, chairman of the Manpower Services Commission.

8. I have consulted Sir Peter Carey (Department of Industry) about these names. He does not know whether either has much acquaintance with the performing arts, other than as a consumer, but would regard both as excellent for the purpose, being good accountants and people of sophistication and taste. Mr Haines was a Deputy Director of DOI's Industrial Development Unit on secondment from his firm and was first-rate at the job. I think Mr Young's appointment might be criticised on "jobs for the boys" grounds, but his record may give him a slight edge and I am inclined, if Mr Channon agrees, to go for him.

CRITICS

9. It is plainly desirable that I should invite the leading critics to put to the team any observations which they think will help us in our inquiries. I am writing today to the critics listed in the attachment. It has been suggested to me that I should not make the critics feel too important and I am accordingly attempting to achieve a relationship of a suitable arm's length.

10. I am copying this letter to Sir Kenneth Cork and Mr David Brierley (RSC); Sir Claus Moser and Sir John Tooley (ROH); Sir William Rees-Mogg and Mr Anthony Field (ACGB); and Mr Colin Peterson (Public Appointments Unit).

Yours ever,

Chwi

~~C PRIESTLEY~~

Enc: List of critics

DAILIES:

| | |
|--------------------|--|
| Daily Express | Douglas Orgill |
| Daily Mail | Jack Tinker |
| Daily Mirror | Arthur Thirkell |
| Daily Star | Ken Eastaugh |
| Daily Telegraph | Keith Nurse |
| The Financial Time | Michael Coveney (also A Thorncroft, arts page editor) |
| The Guardian | Michael Billington; Nicholas de Jongh |
| Morning Star | Thomas Vaughan |
| Evening Standard | Milton Shulman |
| The Sun | Tim Ewbank |
| The Times | Irving Wardle; Christopher Warman; Bernard Levin |

SUNDAYS:

| | |
|-------------------|----------------------|
| Sunday Times | James Fenton |
| The Observer | Robert Cushman |
| Sunday Express | Clive Hirschon |
| Sunday Mirror | Madeleine Harmsworth |
| The People | John Du Pre |
| Sunday Telegraph | Francis King |
| News of the World | Ivan Waterman |

OTHERS

| | |
|---------------------|-----------------|
| Desmond Shaw-Taylor | ex-Sunday Times |
| W Mann | ex-Times |

PERSONAL

Prime Minister

2

Mr FLESHER

I don't know whether you had a chance to read the attached letter.

Mr. Priestley was keen that you should know whom he was proposing to use as consultants. He knows

SPECIAL FINANCIAL SCRUTINY OF THE ROH AND RSC that Mr. Stuart Young is unlikely to have time to be able to help. FERB

The attached copy letter to Miss Giles (OAL) shows how things stand on the subject of your minute of 1 February. I shall come back to the Prime Minister with firm news shortly. At the same time, I should be very grateful for 10 minutes worth of Mrs Thatcher's time to take her mind on a couple of points I would rather not commit to paper but which are important to her interest in the exercise. 17.3.

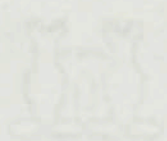
CP

C PRIESTLEY

25 February 1983

Enc: As indicated

CONQUEROR



Arts Archives

with compliments *Very Confidential*

Michael

We Spoke

*May
11/2.*

Private Secretary for the
Minister for the Arts



Department of Education and Science
Office of Arts and Libraries
Elizabeth House York Road
London SE1 7PH

Tel: 01-928 9222 ext

1. Politically so far, we have had good relations with the Arts world in spite of a 10 per cent real cut in expenditure since the election. I am most anxious to keep these good relations going in election year. The Arts world is vocal, influential and has close contact with the media. Cecil Parkinson agrees that it would be a great pity unnecessarily to lose their goodwill and have a concerted attack on us.
2. There are some activities in the arts scene of particular importance to intelligent floating voters. If throughout the country the Party is criticised month after month for its neglect of the arts, it will be a gift to the Alliance. There are prominent Tory dissenters who will also make use of it! The risk of this happening has been created by the lack of no more than £10 million or so.
3. There are two main problems. I have to keep enough money for the museums to cope with a number of expensive and important items on the heritage front which I know privately will soon be offered for sale. The National Heritage Memorial Fund will be able to help. But we do not want to be accused of letting Britain's major heritage go abroad. So that limits to some extent my money for the performing arts.

4. The National Companies

The Royal Opera House had a projected deficit of £1.9M. This has been reduced to £1M by cutting their productions and by cancelling the visit of the Royal Opera to Manchester.

The Royal Shakespeare Company have an accumulated deficit of £650,000. They simply must have a substantial increase in their grant this year if they are to survive.

The English National Opera has a potential crisis in that their boilers are on the point of collapse and they

may need another £1M simply to keep the theatre open.

5. The Regions

Manchester

In the North West there is an outcry because the Royal Opera House has had to cancel its proposed visit to the Palace Theatre, specially rebuilt with a particular view to receiving the Royal Opera House visits. Politically I judge it essential for this tour to go ahead if extra money is found for the arts.

Plymouth

The English National Opera Company's tour is threatened. Again I judge politically that tours outside London by the national companies are essential. The criticism is always made that all the money for the arts is spent in London and the regions get very little.

Glyndebourne Touring

There is a question mark over the length and possible existence of Glyndebourne Touring.

Bournemouth

There is a question mark over the existence of the Pournemouth Symphony Orchestra. They have a substantial potential deficit.

Scottish Opera

Is in grave financial difficulties, and may well have to close.

Taunton - Theatre seems doomed.

Guildford - Theatre seems doomed.

Birmingham, Exeter, Basingstoke, Oxford and Cambridge Theatres all remain under threat. Liverpool is still in trouble.

Welsh National Opera, in spite of their successful

... / ...

Amoco sponsorship, and Opera North in Leeds have serious financial difficulties. Their activities would certainly be severely curtailed.

Newcastle

The Northern Ballet is under great threat of closure.

The Royal Shakespeare Company's tour is under threat.

Cornwall

The Gallery at Newlyn would be under threat, in a politically sensitive area.

I must emphasise that what I have written in this paper is only gleaned from private discussions with William Rees-Mogg. The Arts Council itself has not been consulted and might have different ideas of where to make the necessary cuts. But any alternative package they might propose would be equally painful. Their scope for manoeuvre is severely limited. Other examples could easily be found.

6. Political Consequences

These various crises look like hitting us towards the beginning of the new financial year about the worst possible time during the run up to the election. The Theatre Museum campaign this summer shows how sensitive these arts issues are. I believe we run a substantial risk of a much larger campaign in all sections of the arts world. This could be very embarrassing and would be a gift to the Liberal SDP Alliance.

7. Conclusions

A sum of £10M is required. This would preserve the Government's reputation in the arts and stop most of the attacks. The money would be used for saving the Opera House and the Royal Shakespeare Company and for avoiding the worst problems among the theatre and

... / ...

orchestral companies in the regions.

8. Possible Solutions

- (i) The easiest would be to increase the budget for next year by £10M.
- (ii) Alternatively, a special fund at my disposal could be created to be used to meet crises and to help those who had made special efforts to help themselves.

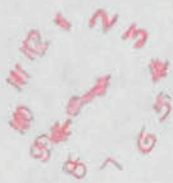
In either case, we ought to have a financial enquiry into the Royal Opera House and probably one other large institution, say the Royal Shakespeare Company, to discover why they have such a deficit and to discourage others from being extravagant.

Technically it would be possible to allocate at least some of the money out of this year's public expenditure totals by my bringing forward other expenditure from next year and re-ordering my budget. If a special fund were to be created it would have to be one which could be carried forward from one year to another. The problem could not be resolved merely by matching what people had raised for themselves. Some of the biggest institutions and, incidentally some of the best run would probably find this impossible, although many have had appeals and have raised a lot of money.

Timing

It is essential to announce the grants before Christmas. We have always done so during the lifetime of this Government and we would be causing even more problems if we failed to do so this year and would face much criticism.

11 FEB 1963





huc

RW7

10 DOWNING STREET

ARTS AND
AMENITIES.

From the Private Secretary

7 February, 1983

The Prime Minister has seen your Minister's minute of 3 February about the arts grants.

The Prime Minister's conclusion is that the decision to make available £5 million to the Arts Council for 1982/83 was taken on a totally false basis. It was her understanding that the £5 million was required to extinguish the deficits of the big four national companies. But it now appears that the big four received only £1.75m. The Prime Minister has also commented that she is extremely sceptical about the suggestion that some of the Directors of the Royal Opera House feel that they have been treated handsomely: most of them, she considers have no such feeling.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office, HM Treasury) and to Richard Hatfield (Cabinet Office).

M. G. SCHOLAR

Miss Mary Giles,
Office of the Minister for the Arts,
Department of Education and Science

CONFIDENTIAL

RW

with compliments

Private Secretary for the
Minister for the Arts



Department of Education and Science

Office of Arts and Libraries

Elizabeth House York Road

London SE1 7PH

Tel: 01-928 9222 ext



Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House York Road
London SE1 7PH

Telegrams Aristides London SE1
Tel: 01-928 9222

7th February 1983

Christopher Price Esq MP
Chairman
Select Committee on Education
Science and the Arts
House of Commons
LONDON SW1

Pl. file

c: Mr Priestley.

2

ROYAL OPERA HOUSE AND
ROYAL SHAKESPEARE COMPANY:
SPECIAL FINANCIAL SCRUTINIES

In my evidence to the Select Committee on 19th January, I promised to let you have details of the financial scrutinies announced on 20th December, when these had been settled. As you will now know, I made an announcement about these studies at Question Time today indicating that the terms of reference will be:

'To examine the financial affairs and prospects of the Royal Opera House and the Royal Shakespeare Company and to make recommendations.'

The study will be led by Mr Clive Priestley, who is an Under Secretary in the Management and Personnel Office; he will be assisted by an independent free-lance economic consultant, Mr David Allen, and a private sector chartered accountant, Mr Ian Trumper. The team will start work more or less immediately, and I hope that they will be in a position to report to me by the late summer.

How the terms of reference are interpreted is a matter for the team, in consultation with the companies concerned, but I would expect them to embrace policies and objectives, and management responsibilities along with financial ones. The team will be able to call on special assistance in financial and other areas as they judge necessary.

I hope this gives you the information that you need. I am sure that the results of these studies will be extremely interesting.

PAUL CHANNON

✓ cc R. H. H. 2.

It was the big four that were coming down the road I believe in 3 months this money on a solely

Prime Minister

PRIME MINISTER

Jacob Lavis

and I very much regret my part in

reversing the grant for 1982-83 for the big 4's deficits (but the to make it available.

The big 4, it seems, got only £1.75m of the £5m. This suggests that the Arts Council didn't need £5m for

Royal Opera still has problems in 1983-84

1. Thank you for your minute of 31 January about the arts grants. As you will recall, the £5 million made available to the Arts Council in 1982-83 was to remedy the political difficulties we foresaw in an inadequate financial provision for the Arts, and in particular for the four National Companies.

MUS 4/2

and what the money was for the big four in need.

2. At our meeting you laid down that any additional money must be allocated in 1982-83 and that there must be no increase in public expenditure for 1983-84. As you know, under Government accounting rules payment cannot be made in advance of need. Within these constraints I believe that the £5 million has been sensibly used. Apart from the direct grants to the National Companies, they are benefitting additionally in 1983-84 because some of the supplementary money has been used this year to reduce claims by others for 1983-84.

??

£850,000

3. Of the four National Companies, the Royal Shakespeare Company received £850,000 of the supplementary grant. This went towards reducing the very large existing deficit built up during the year. Their basic grant in 1982-83 had been £3.275 million. In 1983-84 they will receive a basic grant of £3.975 million. Taken together with the £850,000, the total allocation has risen by some 47 per cent to £4.825 million.

£250,000

4. The English National Opera Company received £0.25 million. Lord Goodman has told me that he is delighted with the grant and we shall certainly have no complaints from them.

£200,000

5. The National Theatre received £.2 million of the extra. This has dealt with their deficit problem and they are delighted.

... / ...

6. The Royal Opera House received £450,000 of the supplementary grant. Their basic grant in 1982-83 had been £9.550 million. In 1983-84 their basic grant will be £10.445 million. Taken together with the £450,000, their total allocation has risen by some 14 per cent to a total of £10.895 million.

£450,000

Total £1.75m

7. The Royal Opera House problem arises because of a forecast - not an actual - deficit of £1.2 million in 1983-84 using their own financial assumptions. Their problems therefore are quite different from the Royal Shakespeare Company who had a large actual deficit. The Royal Opera House's actual deficit in 1982-83 has been met in full.

8. The Royal Opera House potential deficit is obviously very serious. William Rees-Mogg has now written to the Royal Opera House indicating that what he finds "most worrying is that the financial planning at the ROH does not seem to proceed on realistic assumptions." It is a matter of concern that an organisation in receipt of large amounts of public money should contemplate a potential deficit of £1.2 million if they do not receive a 25 per cent increase in their grant. This seems unreasonable at a time of public expenditure constraint.

9. As you know, I do not settle the detailed arts grants in this field. That is for the Arts Council. From the reactions that I have received from all the Arts organisations that I meet, however, the House of Commons and the Press, I believe that, in fact, this Government's standing in the Arts world throughout the country has never been higher.

10. Certainly some of the Directors of the ROH feel that they have been treated handsomely. John Sainsbury told me that he believes that the great majority of his colleagues feel that they could not have expected more generous treatment.

Mark
↑
then
do it!

This is misleading. There is not a sudden increase in Covent Garden's deficit. A progressive deterioration has been marked by

... / ...

i. using up reserves from previous years, which have now been exhausted;

CONFIDENTIAL

ii. an unusually low number of new productions

in 1982-83. I attach (in confidence) a copy of Sir Claus Moser's letter to the Chairman of the Arts Council on this arithmetic.

11. In addition to the problems of the National Companies, we have also resolved all the major regional problems which I referred to in the note I sent to Ian Gow on 13 December. In particular the collapse or serious financial insecurity of the Welsh National and Scottish Opera Companies and some of the leading regional theatres and orchestras would have caused very great political embarrassment.
12. With William Rees-Mogg and the new Secretary-General, I am determined that we obtain value for money and get the Arts bodies to make realistic plans for the future. You will recall, that, for the Royal Opera House and the Royal Shakespeare Company, we are to have special financial scrutinies, the details of which I hope to announce next week.
13. All the indications are that as a result of the Government's action in December we have resolved the immediate crises that would otherwise have faced us in the Arts.
14. I am sending a copy of this minute to the Chief Secretary.

P.C.

3 February 1983

Arts & Amenities ; Policy towards the
Arts March '80



ROH38

From Sir Claus Moser KCB Chairman

Royal Opera House

Covent Garden London WC2E 7QA
Telephone: 01-240 1200
Cables: Amidst London WC2

as from

New Court
St. Swithin's Lane
London EC4P 4DU
Telephone ~~8145264256~~ 01-280 5000

Sir William Rees-Mogg
Chairman
Arts Council of Great Britain
105 Piccadilly
LONDON W1

27th January 1983

Dear William,

As I said on the telephone, we are very grateful for the increased grant for 1982/83 and 1983/84, though it still leaves us with a large deficit. We shall try to reduce the deficit, but I see no prospect of eliminating it.

It is therefore unfortunate that the impression has been conveyed, and widely reported, that the deficits of the large companies have been wiped out by the increased grant. I hope we can correct this impression publicly, as well as in the minds of the Government and the Arts Council.

What has happened is this:

- (i) We informed you in November and December that our likely deficits were
£200,000 for 1982/83
£1,020,000 for 1983/84
and that we were not able to make further changes to reduce these.
- (ii) Our serious problem, the size of our deficit and the Manchester cancellation, became central elements in the public debate; and undoubtedly contributed to the Government decision to find extra money for the arts generally and for those in major deficits in particular.
- (iii) Indeed, when the Minister spoke to me on the day he made his statement in Parliament, I had the impression that the £5m. for 1982/83 was intended principally to clear the deficits of the large

./.....

companies, including the Royal Opera House, although I recognise that no specific figure was promised to us at that stage;

(iv) It was evident that we were expected to go to Manchester, helped by the extra money. This we immediately decided to do, knowing that, even with a special grant of £200,000 from the Arts Council, we should have to find a further £225,000 extra (£175,000 as known to you plus £50,000 for five London performances we cannot now put on). In deciding to go to Manchester, we expected that our deficit would be largely covered by increased funding.

(v) In fact the arithmetic is now this, taking the two years together:-

| | |
|--|--------------------|
| We start with <u>deficits</u> of | £1,220,000 (above) |
| We add <u>Manchester</u> unfunded cost | £ 225,000 |
| | <hr/> |
| | £1,445,000 |
| | <hr/> |

You have added to our grant

| |
|--|
| £450,000 (for 1982/83) |
| £265,000 (on next year's anticipated grant) |
| <hr/> |
| £715,000 |
| <hr/> |

Leaving us with at least £730,000 unbridged deficit.

(vi) These figures represent the most favourable position and do not take into account some recent doubts we have had concerning the sustainable level of private funding.

The unbridged deficit arises because we received less than half as much out of the £5m. than we had hoped for. I understand the pressures on the Arts Council, but we must now make clear that our deficit has not by any means been cleared. Otherwise we are put in an impossible situation publicly and with our own staff and unions.

I am sending a copy of this to Paul Channon

Yours sincerely

Claus Moser

Sir Claus Moser

CONFIDENTIAL

JUE

WJ



10 DOWNING STREET

From the Private Secretary

MR C. PRIESTLEY

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

Thank you for your minute of 27 January, which the Prime Minister has now seen. While she is in general content with the proposals set out in your minute for the scrutinies of the Royal Opera House and the Royal Shakespeare Company, the Prime Minister considers that the team is vulnerable to the criticism that it includes no one with experience in the examination of the costs and expenditure of this kind of enterprise. Mrs. Thatcher considers that in order to enhance its credibility the team needs access to such expertise as, for example, might be provided by accountants specialising in this area. I should be grateful, therefore, if you could arrange for this to be considered and report to the Prime Minister when satisfactory arrangements have been made.

I am sending a copy of this minute to Mary Brown (Lord Privy Seal's Office), Richard Hatfield (Cabinet Office), and John Stevens and Eleanor Goodison (M.P.O).

(Timothy Flesher)

1 February, 1983

CONFIDENTIAL

l



file 15
Arts & Amenities
Co.

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. 5 **183**

MINISTER FOR THE ARTS

We agreed the additional £5 million for the Arts Council this year in order that they could deal with the problems of the four big companies.

I now gather that the Arts Council have decided to spread the money widely among their clients, and that as a result the problems of the four big companies are not being properly dealt with, despite Press reports that they are. That seems to put all concerned - the Government, the Arts Council and the companies concerned - in a false and difficult position.

[Handwritten initials]
I should be grateful if you could let me have an urgent report on exactly what is happening, and what we can now do to sort things out. I am displeased to put it mildly - the money was given for a specific purpose only.

I am sending a copy of this minute to the Chief Secretary, Treasury.

answered by phone

Margaret Thatcher

31 January 1983

15

PERSONAL



*Pl. type attached
minute for PM*

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A083/0333

31st January 1983

Dear Robt,

*Robert
I agree - splendid.*

Thank you for your letter of 28th January.

I absolutely agree with your comment on the Priestley proposal. I have minuted Tim Flesher accordingly (copy attached).

I don't think that it is the Office of Arts and Libraries that has loused up the operation, but the Arts Council. They have not used the extra money just for the four big houses but have spread it around some forty of their clients, great and small. The result is that nobody is satisfied.

Do you think that the Prime Minister should send a minute on the lines of the attached?

*Yours ever
Robert*

F.E.R. Butler, Esq

PERSONAL

PERSONAL AND CONFIDENTIAL

DRAFT MINUTE FROM THE PRIME MINISTER

URGENT

MINISTER FOR THE ARTS

I thought that ~~we had~~ ^{He} agreed ~~an~~ additional £5 million for the Arts Council this year in order that they could deal with the problems of the four big companies.

2. I now gather that the Arts Council have decided to spread the money widely among their clients, and that as a result the problems of the four big companies are not being properly dealt with, despite Press reports that they are. That seems to put all concerned - the Government, the Arts Council and the companies concerned - in a false and difficult position.

3. I should be grateful if you could let me have an ^{urgent} report on exactly what is happening, and what we can now do to sort things out. I am displeased to

^{put it rudely - the money was given for a}
4. I am sending a copy of this minute to the Chief Secretary, Treasury.

Precedence purpose only.

CONFIDENTIAL

MR. FLESHER

Special Financial Scrutiny of the Royal Opera House,
Covent Garden, and the Royal Shakespeare Company

Mr. Priestly has sent me a copy of his minute of 27th January.

2. I must declare my interest. I have sent Mr. Priestley a minute putting it on record that, as I am Secretary to the Directors of the Royal Opera House, Covent Garden, I shall not seek to involve myself with the decisions on the form which this scrutiny should take or with the conduct of the scrutiny, but that, if those concerned wish to ask me for advice or information, I shall be happy to help in any way I can.

3. You have asked me to comment on Mr. Priestley's minute.

4. I note that Mr. Channon has turned down a proposal to bring in management consultants. Given that decision, I think that the Prime Minister can be content to see the scrutinies entrusted to Mr. Priestley, Mr. Allen and Mr. Trumper, subject only to one major point.

5. The team proposed is vulnerable to the criticism that it includes no one with experience of the problems of running a theatrical or operatic enterprise. Some of these problems are of a kind not encountered in the ordinary industrial or commercial enterprise. If the team has no input of this kind, it will be in danger of reaching conclusions which the Royal Opera House or the Royal Shakespeare Company can easily show do not have regard to their special circumstances or problems, and thus put the credibility of the whole exercise in question.

6. I think that there are two possible ways of remedying this deficiency.

7. The team could be given an adviser or assessor with relevant experience: someone who would not be a member of the team but to whom the team could turn to seek advice and to test the sense and practicability of its ideas. The difficulty is to think of someone

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CONFIDENTIAL

with the right combination of experience and detachment. The only person I have been able to think of is Sir Kenneth Robinson: for some fifteen years a company secretary, and a former chairman both of the English National Opera and of the Arts Council.

8. The alternative would be to ask each of the two houses to provide an additional member of the team for its own scrutiny. This would ensure that the team had someone with appropriate expertise for each scrutiny. The external members of the team would be in a majority, and the scrutiny could not therefore be steered in wrong directions or distorted by the "in-house" member. And this would have the added advantage, not only of associating someone "in-house" with the scrutiny (and thus improving its credibility to the house concerned), but of introducing the scrutiny technique to the managements concerned.

9. On the whole I favour the second approach (paragraph 8). I cannot speak for the Royal Shakespeare Company, but I am sure that the Royal Opera House could and would find somebody suitable.

RA

Robert Armstrong

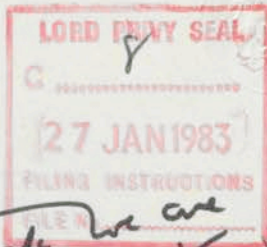
31st January 1983

CONFIDENTIAL

27.1
Mrs BROWN

To see

Mr FLESHER



cc for information

Mr Hatfield (CO)
Miss Goodison (MPO)
Mr J W Stevens

Prime Minister:
Sir Robert Armstrong

Comments are attached. Do you agree with his proposal that someone from the Royal Opera House and the RSC should be associated with the scrutiny?
R 31/1

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE COMPANY

We spoke. The purpose of this minute is, as agreed, to take the Prime Minister's mind on the involvement of Mr Trumper and me in this exercise.

As you know the background is that the Minister for Arts and Libraries wishes me to undertake and later to report to him on the special scrutiny of the Royal Opera House and the Royal Shakespeare Company. The field work would be done by Mr D R Allen, whom the Prime Minister will remember as one of Sir Derek Rayner's staff officers, 1979-81, now out of the civil service and working as a free-lance, and by Mr I F S Trumper FCA, who is on secondment to the Rayner Unit from Messrs Deloitte Haskin and Sells. I can commend both these officers; Mr Allen whom I know well and who would be doing most of the work is a man of considerable intellectual brilliance and personal charm.

3. The cost of the work would be borne by the MPO. It would total upwards of £23,000. Mr Channon has turned down an alternative approach (suggested by Sir Derek Rayner), which would have meant bringing in management consultants, with whom Mr Allen would have been associated. This would have been more expensive than the MPO exercise outlined in para. 2 above but would have had a certain merit noted in my minute to Mrs Brown of 18 January and copied to you.

4. This merit was that the "consultant" approach would have avoided the possible criticism which might be levelled at a Priestley-Allen-Trumper team, viz:

I do not think we are equipped to examine the work of the Opera House. There must be some circumstances in this work.



- (1) That we were not sufficiently expert in financial matters, a criticism attributable to top businessmen, accountants and such like associated with the ROH and RSC, eg Sir Kenneth Cork, Lord Goodman, Sir John Sainsbury and Sir Francis Sandilands. (I would not take this too seriously. Mr Allen is a very shrewd economist, now working in the private sector, although with modest businesses; Mr Trumper is thoroughly versed in private sector business practice.)
- (2) That we were tainted by the alleged attack on the Theatre Museum and the Museum of Childhood in last year's scrutiny of the Victoria and Albert and Science Museums by Mr Gordon Burrett. (Ditto. The Burrett "taint" is in fact a smear on Mr Burrett, which I can rebut, robustly if necessary. And in any case, we should remember the respective positions of the piper and his paymaster, especially as the cost of this exercise would be borne by us.)
- (3) That we were too part-time (Priestley and Trumper one day a week, Allen 3 days a week). (The answer is that OAL will not pay for consultants and we won't either. But if the team finds, as it may well, that it needs specialist help, it should be able to get it.)

5. As indicated, I think that we can get over these initial complaints. But it would be wrong for me to commit myself without warning you that there may be problems at the report stage, if we have (for example) either to criticise the management of the ROH and RSC or to recommend a substantial increase in public funding. The Prime Minister will wish to consider whether she wants this exercise to be conducted by staff so closely connected with her in the public mind.



Advice

6. On balance, I think that the Prime Minister might agree that we should do this job. The Government is committed to it; it is timely; the Rayner scrutiny method is economical and fast, as well as searching; and, leaving my self out of it, there is no doubt that Mr Allen and Mr Trumper will do a good job.

7. There is also the important consideration that if we are doing the scrutiny on behalf of the Government (and MPO is paying for it) we are entitled to make the examination as stringent and radical as is consistent with fairness and common sense.

8. I suggest that the Prime Minister should sanction our undertaking the exercise, on the understanding that I retain control over the terms of reference and methods to be used and that these are not made the subject of compromises between the Minister, the Arts Council, the ROH and RSC with which I do not agree.

SP

C PRIESTLEY
27 January 1983



Arts +
Armenia's *Wm*
20/1

From the Private Secretary

MR PRIESTLEY

cc Mr Flesher ✓
Sir Robert Armstrong
Mr Cassels
Mr J W Stevens

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND THE
ROYAL SHAKESPEARE COMPANY

Thank you for your minute of 18 January which I have shown to the Lord Privy Seal. She does not have any points to make at present on the alternative approaches to the scrutiny which you have set out. She would, however, like to have a general word with Sir Robert Armstrong and Mr Cassels when she next sees them about the implications of Option 1 for MPO's workload. I will let you know if she has any comments in the light of that.

Mary Brown

MARY BROWN

20 January 1983

Arts & Amenities

Policy

March 80

CONFIDENTIAL

010
Southwick
Scouting

PA Arts Committee

Mr. Fleisher
Thanks.
19.1
cc for information
Mr Fleisher
Sir Robert Armstrong
Mr Cassels
Mr J W Stevens

Mrs BROWN

Mr Byker:
You might like
to be aware of this.

JF
19/1

SPECIAL FINANCIAL SCRUTINY OF THE ROYAL OPERA HOUSE AND
THE ROYAL SHAKESPEARE COMPANY

Just before Christmas the Government announced that it was making a supplementary grant of £5 million to the Arts Council for the current financial year to enable it "to reduce deficits and contribute towards other expenditure currently being incurred by many performing arts companies"; and that the Arts Council grant for 1983-84 would be £92 million.

2. Simultaneously, the Minister (Mr Channon) announced that he would be having a special financial scrutiny of the operations of one or more major companies. These will be the Royal Opera House and the Royal Shakespeare Company.

3. The Arts Council announced last week that it had used a large part of the £5 million to cancel the losses of the four major arts institutions which are, in addition to the ROH and the RSC, the English National Opera and the National Theatre.

4. The Office of Arts and Libraries has discussed with the Treasury and me the way in which the scrutiny would be conducted. It does not have the staff to do it itself. Nor does it wish to pay for consultants if it can help it. So it would like us to do the job.

5. I have given this a lot of thought and have consulted Sir Derek Rayner who thinks, as I do, that the ROH and RSC are a minefield and whose views on the right method are captured in (2) below. I have now written to OAL as follows.

- (1) One method - which I have already outlined to the OAL and Treasury - would be for me to lead a small team consisting of Mr Ian Trumper, FCA, the chartered accountant on secondment to

us from Deloitte's, and of Mr David Allen, formerly a Treasury Economic Adviser, private secretary to Lord Lever when CDL, staff officer to Sir Derek Rayner, May 1979 - November 1981 and now working as a free-lance. MPO could carry Mr Allen's costs, which - for a 6-month scrutiny on a 3 day a week footing - would be £11,700 plus travel and subsistence. Mr Trumper and I would work part-time, although the feasibility of this will be clearer when we have been able to talk to the ROH and RSC. (The travel element would be important. Quite apart from travelling in the UK, it would be necessary to visit some of the leading international performing companies to make comparisons.) The team would need to be supported by access to a leading figure in the arts world, who would act as a wise man/woman.

- (2) A second method would be to employ a firm of consultants and to associate Mr Allen with them on the same or similar terms as above. This method would avoid the criticism which might be levelled at the team under (1), namely that we were insufficiently expert in financial matters; that we were tainted by the alleged attack on the Theatre Museum and the Museum of Childhood in last year's museums scrutiny by Mr Gordon Burrett; and that we were too part-time. (The possibility of the first of those criticisms is attributable to the number of top business people, accountants and others associated with the ROH and RSC, including Sir Kenneth Cork, Lord Goodman, Sir John Sainsbury and Sir Francis Sandilands.) This would be a more expensive method than (1).

and artistic matters!

If two consultants and Mr Allen were employed, it could cost up to £70,000 plus travel and subsistence. I have told OAL that I could not undertake that MPO would be willing to pay for more than Mr Allen's costs. (DES has a budget of £32.4 million this year for staff and general expenses and it is hard to believe that none of this could be released for a scrutiny which has an obvious importance.)

- (3) Mr Channon would be well advised to consider the choice between (1) and (2). But as ROH/RSC objections may be much less than implied in (2), it would be useful if the head of OAL and I could explore informally with the heads of the Arts Council, the ROH and the RSC the probable scope of the scrutiny and the most sensible way of conducting it, with a view to advising Mr Channon on how best to proceed.

6. If in the light of (3) above, the Minister wishes us to be involved, he will no doubt write to the Prime Minister, given her earlier involvement, and to the LPS, seeking their consent.

7. The Prime Minister was involved in the discussions leading to the decisions noted in paras. 1 and 2, as was - I understand - the Paymaster-General. She is likely to be interested in how the exercise is conducted.

8. There is nothing for the LPS to do at present, but if she wishes to convey any preliminary points I should be glad to have them.


C PRIESTLEY

18 January 1983

ARTS AND AMENS.



L. C. A. H.

10 DOWNING STREET

From the Principal Private Secretary

24 December 1982

My dear Claus,

I am writing on the Prime Minister's behalf to thank you for your letter of 23 December.

She is glad that you welcomed the announcement of the Minister for the Arts on 20 December and notes that in the circumstances you do not feel it necessary to pursue your request for a meeting with her. She is grateful to you for writing as you did.

I am sending a copy of this letter to the Office of the Minister for the Arts.

Yours ever,

Robin Butler

Sir Claus Moser KCB CBE

A. H.



Royal Opera House

Covent Garden London WC2E 7QA
Telephone: 01-240 1200
Cables: Amidst London WC2
Telex: 27988

Prime Minister (2)

From Sir Claus Moser KCB Chairman

ms 23/12

as from
New Court
St. Swithin's Lane
London EC4P 4DU
Telephone 01-626 4356

23rd December 1982

Dear Prime Minister,

Since writing to you on the 16th December, the Minister for the Arts has announced his allocation to the Arts Council; and I am sure all of us concerned with the performing Arts were delighted and relieved that the Government had been able to make considerably more money available than had been expected.

Although we will not know our individual grants until mid-January, it seems clear that the increased money is intended particularly to help the national companies in difficulty. This should remove the main concern that led me to write to you on behalf of the four major Houses, and we feel that we should not now ask to take up your valuable time.

May I say again how delighted we are that the Government has taken this step to help the Arts.

I am sending a copy of this letter to the Minister for the Arts.

Yours sincerely

Claus Moser

Sir Claus Moser

The Rt.Hon. Margaret Thatcher, MP
The Prime Minister
10 Downing Street
LONDON SW1

Arts
Institutions
Policy



ACTS AND AMENDS.
J. C. A. G.

10 DOWNING STREET

From the Principal Private Secretary

21 December 1982

Dear Mary,

I am writing to confirm that, as I told you on the telephone, I spoke to Sir Claus Moser after your Minister's announcement yesterday and suggested that, in view of the Minister's announcement, Sir Claus Moser should consult the other chairmen of the four great national institutions in the performing arts and let me know whether they wished to press their request to see the Prime Minister. Sir Claus Moser agreed to do so, and indicated that he thought it would be unlikely that the four chairmen would want to take the Prime Minister's time in view of the changed circumstances.

The ball is now in Sir Claus Moser's court and if, as I expect, he confirms that no meeting is necessary, we can leave matters there.

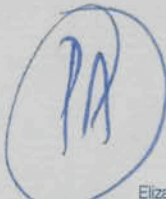
Yours ever,

Miss Mary Giles,
Office of the Minister for the Arts.

Robin Butler

A. H.

FBI ← NB M.C.S.
≡

Arb +
Amenities




Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House, York Road
London SE1 7PH

Telegrams: Aristides London SE1
Tel: 01-928 9222

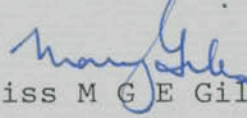
20th December 1982

F E R Butler Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street
LONDON SW1

✓
Dear Robin,

The Prime Minister will be glad to know that Mr Channon and the Chief Secretary have reached agreement on the provision of an additional £8M to various Arts Bodies in 1982-83, including £5M for the Arts Council for the reduction of deficits and other contributions to the urgent needs of the performing arts. I enclose a copy of an answer which Mr Channon will be giving this afternoon to a question about Arts Council financing.

We have begun exploring with Clive Priestley the best way of arranging the scrutiny of company finances which the Prime Minister wishes to be undertaken. We shall let you know when a firm arrangement has been made.

Yours ever

Miss M G E Giles
Private Secretary



CF
M h k 2 pps
Mus 10/2

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Minister for the Arts
Office of Arts and Libraries
Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

17 December 1982

2 pps

We spoke last night about your letter of 16 December.

We agreed that, leaving aside the forthcoming bids for the Victoria and Albert and Science Museums, an addition of up to £8 million would be made to your budget in 1982-83. The deployment of that sum is of course a matter for you and you and your accounting officer will need to satisfy yourselves that the extra commitment can be entered into without impropriety. Of the four items listed in your letter, I would have thought the first should probably have the highest priority.

As I made clear, I am not willing to give the assurance you seek that the Treasury will look favourably on an additional bid for 1984-85. The increased level of support we have now agreed for 1982-83 does not create any presumption in favour of an addition in later years. The main point of the exercise is to rescue a number of national and regional performing arts bodies from severe immediate embarrassment and, for example, the paying off of deficits should benefit the companies concerned not only in 1983-84 but thereafter. In addition, we shall be looking for economies as agreed at the Prime Minister's meeting arising from improved efficiency and increased private sponsorship.

My agreement is conditional, of course, on a special audit in the four national companies as agreed at the Prime Minister's meeting. Our officials should be in touch urgently to discuss what form this should take. It should certainly get under way early in the new year and I await your proposals. My agreement is conditional also on your agreeing to examine again how best to increase private sponsorship for the companies concerned. I suggest our officials should pursue this also rapidly.

I should be glad if you would give me a sight of the terms of your announcement in draft.

Leon Brittan
LEON BRITTAN

PRIME MINISTER

The Arts

The Chief Secretary and Mr. Channon have agreed an extra £8 million for 1982/83 - £5 million for the four National Companies to wipe out their deficits (together with the deficits of a number of other companies), £1½ million to top up the National Heritage Fund, and £1½ million for the British Film Institute. This should ease the pressure somewhat in 1983/84, and should be much welcomed by the arts lobbies.

Your diary is very full next week, and given that Mr. Channon will be announcing these decisions on Monday, there seems little point in meeting with the Chairmen of the Big Four. Another consideration is that it might be better for the arts lobbies not to know that you have been involved, so as not to encourage them to apply to you every time the shoe pinches. Mr. Channon concurs in this view.

Agree now not to see the Big Four?

Yes - but let

MLC

Mr. Channon
further his views
Just.
not

17 December 1982

No act to C.H. necessary.

Ful



10 DOWNING STREET

From the Private Secretary

16 December 1982

The Prime Minister has received the attached letter from Sir Claus Moser asking if she would be prepared to meet the Chairmen of the English National Opera, the National Theatre, the Royal Shakespeare Company and himself. I imagine the Prime Minister will wish to agree to the request but I should be grateful for your advice on timing and when necessary for a brief. I imagine also that Mr. Channon would wish to be present at the meeting but perhaps you could confirm this as soon as possible, a telephone call will do.

I am sending a copy of this to John Gieve (HM Treasury).

(TIMOTHY FLESHER)

Miss Mary Giles,
Department of Education and Science.



Royal Opera House

Covent Garden London WC2E 7QA
Telephone: 01-240 1200
Cables: Amidst London WC2
Telex: 27988

From Sir Claus Moser KCB Chairman

as from
New Court
St. Swithin's Lane
London EC4P 4DU
Telephone 01-626 4356

The Rt.Hon. Margaret Thatcher, MP
The Prime Minister
10 Downing Street
LONDON SW1

Prime Minister:

*Agree to
a meeting, subject*

16th December 1982

*to Mr Channas news
are timing?*

Dear Prime Minister,

Yes Mr

H

16/12

I am writing to ask whether you might have time to meet the Chairmen of the four great national institutions in the performing Arts - Lord Goodman (English National Opera); Lord Rayne (National Theatre); Sir Kenneth Cork (Royal Shakespeare Company); and myself (Royal Opera House). We would very much appreciate an opportunity to acquaint you with the predicament which we face on present grant indications, and the adverse reaction there would be abroad to the collapse or decline of any one of us, as our reputation goes far beyond national borders.

There are obviously differences between our four institutions, but we are broadly alike in the seriousness of the situation we face. Though it hardly needs saying, we pride ourselves as being this country's centres of excellence in the theatrical and operatic arts, built up to present levels in the last decade or two. We want to do everything possible to go on bringing credit to this country and happiness to the millions who see our performances in London, in the regions and abroad; and we are desperately anxious not to decline.

We know and greatly appreciate your own enthusiasm for the arts and your commitment to the preservation of excellence. We would be most grateful if you could spare the time for a talk with us.

I am sending a copy of this letter to the Minister of State with responsibility for the Arts.

Yours sincerely

Claus Moser

16 DEC 1962



GENERAL



Department of Education and Science

Office of Arts and Libraries
From the Minister for the ArtsElizabeth House, York Road
London SE1 7PHTelegrams: Aristides London SE1
Tel: 01-928 9222

16th December 1982

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Whitehall
LONDON SW1

Dear Leon,

I gather that our officials have discussed ways and means of supplementing the 1982-83 provision for the Arts so as to ease the position next year.

They agreed that some very urgent needs for supplementation in the national museums should be looked at on their own merits, without prejudice to or by the present operation. Leaving these on one side my proposals, in outline, are these:

1. Arts Council: something over £5M in order to pay off deficits of various performing companies and orchestras (£4M +), to make cash payments in respect of various theatre etc building projects in progress (£700,000) and to make donations towards various funds and other operations (£300,000).
2. British Film Institute: £1M, in order to buy film stock for copying films in the National Film Archive (£750,000), to buy new equipment for the BFI offices and the National Film Theatre (£200,000) and to buy equipment for regional film theatres (£400,000).
3. National Film School: £200,000, to buy cameras and other equipment.
4. National Heritage Memorial Fund: £3.0M, to bring the fund up to a satisfactory level for coping with needs arising between now and the end of 1983-84.

This supplementation, amounting to something close to £10M, should enable me to fund the performing arts in 1983-84 at a reasonable minimum level. Inevitably, however, there will be anxieties among recipients about their future financing. Even though the enquiries I shall be instituting into the financing of some companies should

... / ...

have a helpful effect, it would not be realistic to assume that with the baseline provisionally indicated for 1984-85 in the Government's present plans it would be possible to avoid some recurrence in that year of the difficulties we are now facing as a result of recent underfunding. I would judge it necessary therefore to give an assurance that the Government will bear in mind, when reviewing expenditure plans next year, the need for an upward revision in provision for the Arts. I can only give such an assurance if you assure me now that the Treasury will be prepared, in next year's expenditure review, to look favourably on an additional bid for 1984-85 reflecting at least a major part of the supplementation now being made.

I am under great pressure to announce the Arts Council grant for 1983-84 at Question Time on Monday. But, more important, the Prime Minister will need to know by tomorrow evening whether we shall be asking her to see us on Monday. I hope we can reach agreement in time to make this unnecessary.

Yours,

Paul

PAUL CHANNON

Arts + Amenities
March '80, Policy
towards the Arts.



SUBJECT

CONFIDENTIAL

Arts & Amenities cc DES
bc JV IG CDL

JD

cc Master



10 DOWNING STREET

From the Private Secretary

14 December 1982

The Prime Minister this morning discussed with the Chief Secretary and the Minister for the Arts the Arts Council Grant for 1983/84.

The Prime Minister said she had become aware, during a political discussion earlier this week, that the proposed financial provision for the Arts, and in particular for the four National Companies (i.e. the English National Opera, the Royal Shakespeare Company, the National Theatre and Covent Garden) would be represented as wholly inadequate, and that the Government would face considerable political difficulty in consequence. She had accordingly asked Mr. Channon to produce a note on this subject. It was clear that the four National Companies were heading for a very difficult time. The Chief Secretary said that he had reached agreement with Mr. Channon in September that £230.9 million should be provided for the Arts and that figure had subsequently been published. It would not be tolerable to revise it upwards, and if there was a problem for these four companies it should be met by an adjustment of expenditure priorities within this programme.

After discussion, the Prime Minister said that it would not be acceptable to squeeze the provision for museums and the British Library excessively in order to make room within the Arts programme for more provision for the performing arts. Nevertheless, Mr. Channon should do whatever he could in that direction. The Chief Secretary and Mr. Channon should together consider to what extent it would be legitimate to bring forward expenditure from 1983/84 into the current year, so as to permit a less restrictive level of expenditure next year on the performing arts. It would be desirable for decisions to be reached before Christmas, if this was at all possible. Treasury Ministers should also consider whether there was any scope for introducing a tax concession - say, on Capital Transfer Tax - to induce more private sponsorship of the Arts. As a condition of the additional expenditure this year a special audit, or Rayner-style scrutiny, should be undertaken where appropriate with the four National Companies: it was clear that their management needed, in some cases, great improvement, and that extravagance needed to be identified and dealt with. It was, further, for consideration whether the additional expenditure should be made conditional upon additional private sponsorship for the companies concerned.

/ I am sending

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CONFIDENTIAL

- 2 -

I am sending a copy of this letter to Mary Giles (Office of the Minister for the Arts).

M. C. SCHOLAR

John Gieve, Esq.,
HM Treasury.



FILE SW
Arts & Amenities

10 DOWNING STREET

From the Principal Private Secretary

8 December, 1982

Sir Claus Moser telephoned me to say that the Chairmen of the "Big Four" performing arts companies - Covent Garden, English National Opera, National Theatre and the Royal Shakespeare Company - wanted to ask for a meeting with the Prime Minister because the financial position of each of them in the coming year looked like being so serious. Sir Claus Moser told me that he would write formally to the Prime Minister early next week, by which time he hopes that the prospects for Covent Garden will be clearer as a result of resolving the question-mark over their Manchester tour.

I have mentioned Sir Claus Moser's approach to the Prime Minister, who has asked me to get Mr. Channon's advice. Mrs. Thatcher has commented that she would like to know how such a serious position has developed for the "Big Four" companies when, as she understands it, their grant from the Arts Council has gone up at least in line with the general provision for pay and price increases in public expenditure.

When Sir Claus Moser's letter arrives, I will forward it to you, and there is no need to let me have Mr. Channon's advice before then. But it would be convenient if you could now start preparing that advice, so that the Prime Minister can respond quickly after receiving Sir Claus Moser's letter.

I am copying this letter to John Gieve (Chief Secretary's Office, Treasury).

F. E. R. BUTLER

Miss Mary Giles,
Department of Education and Science

TWP

Arts + Amenities

PRIME MINISTER

I mentioned to you that Sir Claus Moser telephoned me on behalf of the Chairmen of the "Big Four" performing arts companies - Covent Garden, English National Opera, National Theatre, and Royal Shakespeare Company - who had agreed to ask to see you because the financial position of each of them in the coming year looked like being so serious. Sir Claus Moser said that he wanted me to put this request to you informally in the first instance because he recognised that you had very little room for manoeuvre: the "Big Four" recognised that it would not be right to ask for a larger share of the Arts Council grant at the expense of others. On the other hand, they were already running large deficits and since they could not continue to run deficits they were facing a desperate prospect.

Normally, my next step would be to ask for Mr. Channon's advice on this request (though I should be surprised if he did not advise you to see them). Shall I seek Mr. Channon's views?

Yes - but how
have they got
themselves into
this position?
mt

F.R.B.

7 December 1982



Arts & Amenities
Prime Minister 2

*Paul Channon has agreed
to find £1/4 m for this
donation, as you suggested.*

Treasury Chambers, Parliament Street, SW1P 3AG

*WM
5/5*

Rt Hon Paul Channon MP
Minister for the Arts
Office of Arts & Libraries
Elizabeth House
York Road
London SW1 7PH

5 May 1982

Paul,

ms

ROYAL ACADEMY APPEAL

Thank you for sending me a copy of your minute to the Prime Minister of 29 April, proposing a £200,000 grant to the Royal Academy appeal.

Our officials have already discussed your proposal. On the understanding that the grant will be financed from within your agreed PES programme and the cash limit on Class X Vote 22, and that no actual or implied commitment to further support will be given, I am content for you to proceed as you propose.

I am copying this letter to the Prime Minister and to Michael Heseltine.

Leon

LEON BRITTAN



WR seen
6/5

*With the Compliments
of the
Chief Secretary to the Treasury*

Treasury Chambers,
Parliament Street,
SWIP 3AG



Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House York Road
London SE1 7PH

Telegrams Aristides London SE1
Tel: 01-928 9222

5th April 1982

William Rickett Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Willie

ROYAL ACADEMY APPEAL

Thank you for your letter of 4 May indicating the Prime Minister's agreement to a Government donation to the appeal. As I mentioned on the telephone we have now agreed with the Treasury that it will be made up to £250,000 and Mr Channon will make the announcement on 10 May on the Royal Academy dinner.

I am copying this to Terry Mathews (HM Treasury) and David Edmonds (Department of the Environment).

*Memo over
Mary Giles*

Miss M G E Giles
Private Secretary



Re B

Ans & Ans

10 DOWNING STREET

From the Private Secretary

4 May 1982

Royal Academy Appeal

The Prime Minister was grateful for Mr. Channon's minute of 29 April. She agrees that the Government should make a donation to this appeal, but she would like to suggest that the donation should be made up to £250,000, rather than the suggested £200,000, if that is at all possible.

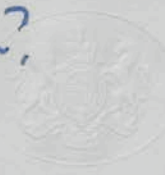
I am copying this letter to Terry Mathews (HM Treasury) and David Edmonds (Department of the Environment).

W. F. S. RICKETT

Miss Mary Giles,
Department of Education and Science.

11

Should - 40y
make it - £ 4 million?



Prime Minister

Content for a donation of £200,000 to be made to the Royal Academy Appeal?

I understand that the Chief Secretary will not object, given that the money will be found from the DES' existing DES provision.

PRIME MINISTER

not

ROYAL ACADEMY APPEAL

Sir Hugh Casson has told me of his talk with you about the Royal Academy's financial Appeal to be launched in June.

W/C
30/4

As you know, the Academy receives no direct financial support from public funds although it has rent free accommodation at Burlington House and some of its exhibitions receive Government indemnity cover. The Appeal is for £6 million to keep the Academy going and to improve its work.

The Academy would very much welcome an early gesture of support from the Government for its Appeal. They believe it would help them get a good response to the Appeal.

The Royal Academy is a much respected institution with a world wide reputation and a distinguished history. It is attempting to help itself in a major way by this Appeal. I believe there are excellent grounds for the Government supporting it - as in the case of the Royal College of Music.


If you agree, I would like to announce in my speech at the Royal Academy Dinner on May 10 the Government's intention to donate £200,000 to the Appeal. The money can be found by a rearrangement of my existing programme for 1982-83 and 1983-84.

May I have your permission to go ahead?

I am copying this minute to Leon Brittan, whose officials have already discussed this proposal with mine, and to Michael Heseltine, with whom I have been in touch about the needs of the Royal Academy.

P.C.

PAUL CHANNON
29 April 1982



Privy Council Office,
Whitehall,

London, SW1A 2AT

With the Compliments
of the
Private Secretary
to the
Lord President of the Council

A0A



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

19 March 1982

CC PRESS
1. WFSR to see
2. RA
Wm 19/3
MP 19/3

Dear Mary

I mentioned to you yesterday that the Lord President of the Council and the Chief Whip had considered your Minister's letter of 15 March concerning publication of the Government's reply to the Third Report of the Education, Science and Arts Committee. I am writing to confirm their judgement that it would be preferable to hold up publication of this White Paper until the week beginning 29 March. I understand that this slight delay would not cause any inconvenience to your Minister in connection with the Education, Science and Arts Committee's intention to hold a further hearing before Easter.

I am copying this letter to Mike Pattison, No 10, David Willetts, HM Treasury and to Murdo Maclean, No 12.

Yours sincerely
Nick Huxtable

N P M HUXTABLE
Private Secretary

Miss Mary Giles
Private Secretary to the
Minister for the Arts
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

CONFIDENTIAL



Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House, York Road
London SE1 7PH

Telegrams: Aristides London SE1
Tel: 01-928 9222

15th March 1982

The Rt Hon Francis Pym MC MP
Lord President of the Council and
Leader of the House of Commons
68 Whitehall
LONDON SW1

Dear Francis

*Prime Minister
Mr Ingham
The Chief Whip and
the Lord President have agreed
with Mr Channon that this
should not be released until
after the Hillhead by election.
It will probably now be published
in the week of 29 March.*

*CP
16/3*

GOVERNMENT REPLY TO THE THIRD (INTERIM) REPORT
FROM THE EDUCATION, SCIENCE AND ARTS COMMITTEE:
PUBLIC AND PRIVATE FUNDING OF THE ARTS

[Handwritten mark]

The above Committee's interim report on 'Works of Art: Their Retention in Britain and Their Acquisition by Public Bodies' was published on 6 April 1981 and there is now considerable pressure for the Government to reply. The proposed reply has been the subject of intensive consultations between the relevant Ministers concerned with the heritage, which has inevitably taken time.

... I now attach the response which it is proposed that the Financial Secretary to the Treasury and I should present to Parliament as a White Paper in our joint names on 22 March. This will inevitably prove somewhat disappointing to our backbenchers and to the heritage world in general. The Arts Debate on 22 February showed that they (and indeed both sides of the House) hoped for acceptance of more of the Select Committee's recommendations. I have now had a letter to the same effect from Patrick Cormack as Chairman of our Arts and Heritage Committee. But this seems to be the best compromise that can be arrived at.

I should be glad to know whether the proposed publication date is acceptable, and to have authority to proceed accordingly.

Copies of this minute and enclosure go to the Prime Minister, members of the Cabinet, Michael Jopling and Sir Robert Armstrong.

[Handwritten signature]

PS. There is some urgency in this as a Select Committee hearing has already been postponed and another one is scheduled to take place before Easter.

Paul

CONFIDENTIAL

RETENTION OF WORKS OF ART IN BRITAIN
AND THEIR ACQUISITION FOR THE NATION

OBSERVATIONS BY THE GOVERNMENT ON THE
THIRD REPORT FROM THE EDUCATION, SCIENCE
AND ARTS COMMITTEE SESSION 1980/81

Presented to Parliament
by the Minister for the Arts
and the
Financial Secretary to the
Treasury
March 1982

LONDON
HER MAJESTY'S STATIONERY OFFICE

£ net

(15 MARCH 1982)

GOVERNMENT OBSERVATIONS ON THE THIRD REPORT FROM THE EDUCATION, SCIENCE AND ARTS COMMITTEE SESSION 1980-81: PUBLIC AND PRIVATE FUNDING OF THE ARTS: INTERIM REPORT ON WORKS OF ART: THEIR RETENTION IN BRITAIN AND THEIR ACQUISITION BY PUBLIC BODIES

The Government welcome the Committee's interest in this subject and share their view of the importance of safeguarding those works of art which form part of our national heritage.

Before commenting in detail on the Committee's recommendations the Government believe it would be helpful to set out in general terms their policy on the protection and public enjoyment of outstanding works of art. This starts from the premise that, wherever possible, private owners should be helped through capital tax concessions to retain ownership of outstanding works of art provided that they agree to care for them on behalf of the public and afford reasonable public access to them. Where it becomes necessary for owners to dispose of works of art of heritage quality the Government wish them to have an incentive to sell to a public collection or, where appropriate, to offer them in lieu of tax. This has been seen by successive Governments essentially as a balancing of the interest of the private owner on the one hand and the public benefit on the other. A number of the Committee's recommendations are concerned with where and how that balance should be struck. They raise questions on which different judgements are clearly possible.

The Government further recognise the emphasis throughout the Committee's Report on the need for clear and simple guidance on the measures for protecting works of art. Inevitably there are complexities when individual tax positions are involved but the Government fully acknowledge that the success of their policy for safeguarding works of art depends on private owners and those advising them being aware of the various reliefs available.

The Government have noted with concern that the Committee had received representations casting doubt on the competence and impartiality of the Capital Taxes Office when dealing with cases of conditional exemption. It is difficult to respond to such complaints because of their generalised nature, but the Government will of course look into any specific case which is brought to their attention. Some applications necessarily take time to process. This can arise as much from the need for owners and their legal and other advisers to consider their claims as from the need for the Capital Taxes Office to obtain professional advice from within

a limited circle of experts and advisers. The Government would like to put on record their view that the Capital Taxes Office deal with claims as efficiently and speedily as their limited resources allow and are prepared to go to great trouble in offering help and advice to owners.

The Government's response to the Committee's individual recommendations, as summarised in paragraph 26 of their Report, is set out below. Observations are also made on a number of views expressed in the Report which do not appear in the summary of recommendations.

Recommendation (i)

'The Treasury Memorandum, Capital Taxation and the National Heritage, should be withdrawn forthwith and a new one relating to works of art and heritage objects should be drawn up by the Office of Arts and Libraries, in consultation with the Treasury' (Paragraph 8)

Response

As the Minister for the Arts has already announced, in answer to a Written Question from Mr. Andrew Faulds MP on 26 February 1981, the Office of Arts and Libraries intends to publicise the procedures for acceptances in lieu and private treaty sales in a new document which will be made widely available to the owners of works of art and their advisers. This will describe to owners in simple language the possible advantages of offering their works for sale by private treaty or in lieu of tax. At the same time more detailed information on the reliefs available on heritage property of all kinds will continue to be needed, and this is provided by the Treasury Memorandum. The Memorandum will be kept under review and revised and updated as necessary; a new version will be brought out in the light of the Government's reply.

Recommendation (ii)

'In return for exemption from capital taxes an owner should enter details of his work/works of art, together with appropriate photographs, in the list kept at the Victoria and Albert Museum. The anonymity of owners should be preserved, but any bona fide scholar should have access to the list and opportunity to view the objects. Equally, every museum and gallery should have automatic access to the list, and opportunity to borrow objects for special exhibitions'. (Paragraph 10)

Response

Conditional exemption in respect of works of art is designed to encourage their retention in the United Kingdom in such a way that they can also be publicly appreciated: it is a statutory requirement that the owner of a conditionally exempt work of art must take reasonable steps to secure reasonable access to the public. The terms 'reasonable steps' and 'reasonable access to the public' are not defined in the legislation and the Government accept the Committee's view that the arrangements which fulfil the access requirement should not place an undue burden on the individual owners concerned. No changes in the present procedures are necessary where the object is already in a building open to the public, but the Government propose to modify the existing arrangements in respect of objects which are not in a house which is (or will be) open to the public. In the case of such objects, which account at present for less than 10 per cent of those for which conditional exemption is sought, the owner will in future be able either:

- (a) to arrange to lend objects to public collections on a long-term basis (or to continue such an arrangement if it already exists); or
- (b) to ask the Capital Taxes Office to arrange for details of the object (and of how to contact the owner or his agent) to be entered on the lists of conditionally exempt objects kept at the Victoria and Albert Museum and the National Library of Scotland.

Owners choosing alternative (b) will be required to lend conditionally exempt objects, on request by a public museum or gallery, for one special exhibition of up to 6 months in any two year period (or such longer loan and period as would be reasonable in appropriate cases, subject to the duration of the loan not exceeding 25 per cent of the period). They will also be required to provide reasonable public access by appointment to scholars and other members of the public.

Public museums and galleries will be advised of the arrangements for consulting the list of conditionally exempt objects, which will also be accessible to scholars and members of the general public.

The Government believe that these new arrangements will help to meet two specific criticisms voiced by the Committee: the responsibility at present placed on owners to locate public collections willing to display their objects; and the possibility under the present system that owners can be deprived indefinitely of objects that they own.

The revised arrangements will be set out in detail in a new version of Form 700A on which applications for conditional exemption in respect of works of art are made and in the guide to the national heritage and capital taxation which will be issued shortly by the Office of Arts and Libraries.

Recommendations (iii) and (iv)

'In return for exemption from capital taxes, an owner of a work of art should be under an obligation to give a public institution through the Standing Commission on Museums and Galleries the first chance of acquisition in the event of his/her deciding to sell' (Paragraph 11)

'In the event of an owner wishing to sell a work of art refusing to offer it to the nation, the Export Reviewing Committee should have power to recommend the indefinite withholding of a licence to export' (Paragraph 12)

Response

The Government welcome the spirit of these recommendations. They agree that it would be reasonable to expect an owner who had benefited from conditional exemption for a work of art to give a public institution the first chance of acquiring it if the owner subsequently decided to sell it. Owners of objects exempted after 1 September 1982 will be expected to give three months notice to the Museums and Galleries Commission of any intention to sell such objects. The Government also agree that, where an object which meets the Waverley criteria as being an item of national importance is not offered to the nation, the Reviewing Committee on the Export of Works of Art should take this into account in considering the length of time for which an export licence should be withheld.

The Government already have power to withhold an export licence indefinitely. Under the Reviewing Committee's existing rules an indefinite export stop is already automatically recommended to the Minister for the Arts if an owner of a conditionally exempt item whose export is objected to under the export licensing procedures, and which is judged to meet one or more of the Waverley criteria, refuses or announces an intention to refuse an offer from a public collection. The Government intend to advise the Reviewing Committee that an indefinite stop should similarly be recommended if the Museums and Galleries Commission have not been given three months notice of an intention to sell a conditionally exempt object for which an export licence is sought and which meets one or more of the Waverley criteria. Applicants for an export licence would be advised of the need to fulfil the three months notice condition before an application was heard by the Reviewing Committee.

Recommendations (v) and (vi)

(v) 'In the case of private treaty sales there should be a proper and clearly understood incentive to owners to sell to public institutions'. (Paragraph 16)

(vi) 'Simple and clear rules for private treaty sales free of capital taxes should be officially and unequivocally accepted by the Treasury, and arrangements for offering works of art to Inland Revenue in lieu of tax should be clearly laid down by means of a special clause in the Finance Act'. (Paragraph 17)

The Government have considered these two recommendations carefully, and have consulted widely about them. They accept that the present procedures have not always been clearly understood and that the 'douceur' has in the past been thought by some to have statutory force. As a result, it has been argued, negotiations in private treaty sales have been unduly constrained by the practice of calculating the price to the public institution on the basis of 25 per cent of the tax exemption.

The Government accept the Committee's recommendation that private treaty sales should be based on clear and straightforward rules, and, as indicated previously, the forthcoming document from the Office of Arts and Libraries will set these out. It will also confirm that private treaty sales of works of art to public bodies, as well as acceptances in lieu of tax, do not give rise to capital taxation. Although the legislation is silent about the apportionment of the benefit of the tax exemption between the vendor and the acquiring body, the douceur arrangement, which has been adopted as administrative policy for capital tax purposes, follows the principle recommended by the Waverley Committee on the Export of Works of Art. The Government have noted both the Committee's preference for 'free and unfettered' bargaining and the generally expressed view of museums and galleries that the public collections should have guidelines on the way in which they take account of the tax exemptions in negotiating purchases. In the Government's view there are a number of conflicting considerations, one of which is the incidence of tax. They consider that a reasonable procedure, consistent with the Waverley principles, would be to continue to apply 25 per cent of the value of the tax exemption, but that it should be open to museums and galleries to negotiate above or below this figure. For example, a higher figure may sometimes be necessary to provide an adequate inducement in respect of low value items and a lower figure may well be reasonable in very high value cases. The Government's advice to museums and galleries will therefore be that they should think in terms of 25 per cent but be ready to negotiate above or below this figure where flexibility is appropriate.

The Committee recognised that a museum interested in acquiring an object would need to be fully informed of the vendor's tax position. In general the Government's view is that institutions should not enter into negotiations unless vendors are prepared to agree to allow their tax position to be confirmed by the Capital Taxes Office.

The Government have noted the suggestion in the report (paragraph 16) that a committee on the lines of the Rockley Committee should be set up to arbitrate on valuation in private treaty sales. They take the point that there may be a need for some adjudication where there is a difference over estimates, but they do not favour the establishment of another non-Departmental public body at a time when the Government's policy and the general climate of opinion is directed towards reducing the number of such bodies. However, they will certainly be prepared in cases of disagreement to encourage the parties to seek further independent advice.

The Government have considered whether the arrangements for taking account of the tax exemption in calculating the value at which an object is accepted in lieu of tax should be laid down in a Finance Act, but do not see any advantage in statutory provision, particularly in view of the flexible arrangements now proposed for private treaty sales.

Recommendation (vii)

'The capital transfer tax concession on the surrender of an object of art should be raised from 25 per cent to 75 per cent' (Paragraphs 18-19)

The Government note the suggestion in the report (paragraph 19) that the 25 per cent douceur in acceptance in lieu cases offers insufficient inducement to owners. The number of offers accepted, under consideration and in prospect do not in fact support this argument. In view of this and because for private treaty sales 25 per cent will remain the norm, as discussed in the response to Recommendations (v) and (vi), the Government do not propose to make any increase in the rate in acceptance cases.

The Government note the Committee's suggestion that the independent committee discussed in the response to Recommendation (v) should have a part to play in determining the heritage status of the items concerned and in adjudicating on valuations. Here again the Government do not think it would be right to set up a new non-Departmental public body. They are satisfied that the revised system for obtaining expert advice on the pre-eminence and valuation of objects offered in satisfaction of tax, which was announced by the then Minister for the Arts on 7 August 1980, provides a fair and satisfactory way of proceeding.

The system provides that in cases of doubt expert advisers should consult the Museums and Galleries Commission or the Royal Commission on Historical Manuscripts who would then, if necessary, convene an informal panel of independent advisers which might include a representative of the appropriate Historic Buildings Council. It is, of course, open to the heritage departments at present to consult an independent arbitrator in cases of disputed valuation.

The Committee prefaced their recommendation by deploring the present practice whereby the net cost of property accepted in lieu of tax counts as public expenditure and has to be met from the Vote provisions for the protection of the national heritage. As the Committee recognise, there can be no open-ended commitment on the part of any Government to accept objects in lieu of money. The present arrangement for controlling the allocation of resources for the acceptance of objects in lieu is simple, easily understood and brings the matter within Parliamentary Estimates scrutiny procedures. Under any alternative arrangements which might be devised it would still be necessary to take into account the value of objects being accepted in satisfaction of tax in determining the resources to be made available for heritage purposes generally. It would not result in additional resources being made available for other areas of the heritage. The Government have previously made it clear that reimbursement of the Inland Revenue is an integral part of the acceptance in lieu arrangements, and they do not think it would be right at present to change this.

The Government have also considered whether the administrative arrangements for the acceptance of heritage property in lieu of tax might be improved by making an order to transfer to the National Heritage Memorial Fund those functions currently carried out by the Office of Arts and Libraries, the Department of the Environment, and the Scottish, Welsh and Northern Ireland Offices. The National Heritage Memorial Fund was established comparatively recently and the Trustees have indicated that for practical reasons they would prefer not to take on the additional responsibility of dealing with offers of heritage property in lieu of tax at present. The Government therefore propose that no change should be made now in the existing arrangements. The case for transferring responsibility at a future date will however be kept under review and the Government will be interested to have any further views from the Committee and other interested parties.

Recommendation (viii)

'The Inland Revenue should forgo all interest charges which arise from delays in deciding whether or not to accept property under the in-lieu provision'
(Paragraph 22)

Response

This recommendation is similar to that made by the Expenditure Committee (Environment Sub-Committee) in its Third Report on Session 1977/78 - the National Land Fund - which was carefully considered by the present Government. The Government concluded that interest should not be forgone and this was announced on 24 April 1980 by the then Minister of State, Treasury, in answer to a Written Question from Mr Andrew Faulds. No tax is charged on objects accepted in lieu, and the question of interest therefore arises in respect of tax due on other components of the estate. There is no reason why the interest charge on that liability should depend on whether the tax liability on the remainder of the estate is settled in cash or in kind. In so far as the acceptance in lieu procedure may take longer than other forms of payment, increases in the value of objects since the date on which the tax liability arose will be taken into account in arriving at the amount of tax satisfied, so that any increase in value between the date of liability and the date of acceptance in payment accrues to the offerer, not to the Inland Revenue, and may well exceed any interest included in the overall tax charge. The Government feel that they therefore cannot accept the Committee's recommendation on this point.

Tax Credit Arrangements

In paragraphs 20 and 21 of their Report the Committee saw advantages in a scheme whereby an object could be accepted in lieu of a tax liability which was less than the value at which the work was accepted. The balance would constitute a credit available for settlement of a future capital tax liability. The Committee urged that the practical difficulties inherent in this proposal should be overcome.

Response

The Government recognise the prima facie attractions of such an arrangement. However, they doubt whether any vendor would be prepared to accept a tax credit on the lines proposed by the Committee, which would neither attract interest, nor be capable of encashment, and would be eroded in value through inflation. Nor would the Government consider it right to offer a tax credit arrangement on such terms. A

scheme which did not suffer from these fundamental defects of inequity would give rise to a number of practical difficulties which were set out in a paper submitted to the Committee by the Minister of State, Treasury. Given the option of a private treaty sale to the bodies listed in Paragraph 12 of Schedule 6 to the Finance Act 1975 - which has tax advantages similar to acceptance in lieu for the vendor, who can then use any balance as he wishes - the Government do not consider that there is a sufficiently strong case or demand at present for this facility to justify the necessary legislation and administrative machinery. However, this is a matter which they will continue to keep under consideration.

5 MAR 1982

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Chancellor of the Duchy of Lancaster

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 4400

A & A

30 October 1981

Prime minister

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20/10

MT

Miss M G E Giles
Private Secretary to the Minister
for the Arts
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

I have told Mary Giles
& Douglas Board that the
pm has no comment.

Dear Miss Giles

Thank you for your letter of 26 October to Jim Buckley about the proposal that Dr Roy Strong should appear in a television commercial for Harveys sherry and that Harveys in return should pay a substantial sum, possibly £30,000, to the Associates of the V&A for maintenance of the galleries.

The Chancellor of the Duchy sees no objection to what is proposed on the basis you describe; ie no identification of Dr Strong by name or function, no link with the V&A and no personal advantage to accrue to Dr Strong. She thinks however that the Prime Minister may like to know of this novel development and I am therefore copying this letter, with a copy of yours, to Willie Rickett.

Yours sincerely

Douglas Board

D R H BOARD
Assistant Private Secretary



CHANCELLOR OF THE
DUCHY OF LANCASTER
C 5
26 OCT 1981
Department of Education and Science
PLACING INSTRUCTIONS
Office of Arts and Libraries
From the Minister for the Arts

Elizabeth House York Road
London SE1 7PH

Telegrams: Aristides London SE1
Tel: 01-928 9222

26th October 1981

IN CONFIDENCE

J. Buckley Esq
Private Secretary to
The Chancellor of the Duchy of Lancaster
Civil Service Department
Whitehall
LONDON SW1

Dear Jim,

Harveys (the wine and sherry company) have put a proposition to Roy Strong, the Director of the V & A. They have offered to pay a substantial sum - it might be £30,000 - to the Associates of the V & A for refurbishment of the galleries if he will appear in a television commercial for their sherry. The V & A would not be mentioned or shown in the advertisement, and Dr Strong would not be identified by name or function. Harveys seem to feel that he is well enough known in their market for the message to get across implicitly. Needless to say, he would get nothing out of it personally.

The Director of the V & A is strictly speaking a civil servant, but we think Roy Strong is not seen by the general public as a civil servant. He has made his considerable reputation - as an art historian, critic, commentator and organiser of exhibitions by his own abilities and personality.

As you know, we are doing everything we can to promote private support for the arts. Most of our national museums and galleries have attracted substantial patronage and sponsorship from business in the past couple of years; the V & A already has Mobil providing its guide leaflets and Conran providing a standing exhibition of good industrial design. The Museum certainly needs the money: the cost of maintaining the buildings and keeping the exhibits available to the public is very high, and £30,000 would be very helpful indeed. The Chairman of the V & A Advisory Council, Sir Alexander Glen, entirely agrees.

In the overall interest of the museum, we think that it would be advisable to agree to this proposal. Harvey's need a very quick answer. The Minister wondered if Lady Young would see any objection.

Yours very truly,
Mary Giles
Miss M G E Giles
Private Secretary

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130 OCT 1987



cc: PS to Paul Channon
Arts & Amonities

10 DOWNING STREET

THE PRIME MINISTER

9 January 1981

Dear Mr. Jenkins,

Thank you for your letter of 7 January.

I have noted that you have resigned from Norman St. John-Stevas' Committee of Honour on Business Sponsorship of the Arts. I am sorry you have reached that decision.

Yours sincerely
Margaret Thatcher

Clive Jenkins, Esq.

Association of Scientific Technical and Managerial Staffs

General Secretary Clive Jenkins

10-26A Jamestown Road, London NW1 7DT telephone 01-267 4422

telex no 25226



January 7, 1981

Dear Prime Minister,

The Lord President of the Council, the Rt Hon Norman St John Stevas MP, invited me to become a member of his Committee of Honour on Business Sponsorship of the Arts because he saw a role for support for the arts in the private sector as well as defending a firm commitment for funds from public sources.

It seems to me now that this Committee's intent is now endangered by Mr Norman St John Stevas' departure and I wish therefore to withdraw from it.

I think it is of enormous importance that our artistic heritage and our current cultural activities be defended and promoted with extraordinary vigour in these difficult times.

I think Norman dedicated himself towards this end and therefore, as a gesture of support for his activities and regret at his dismissal, I wish to withdraw my services from the Committee.

yours sincerely,
Clive Jenkins

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1



PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

✓
MAD

Chancellor of the Duchy of Lancaster
and
Minister for the Arts.

7th July 1980

Arts + Amintion

The Rt Hon Paul Channon
Minister of State
Civil Service Department
Whitehall
LONDON SW1A 2AZ

I was taken aback by your letter of 25 June in which you say that you have no alternative but to regard my Committee of Honour on business sponsorship as a new quango.

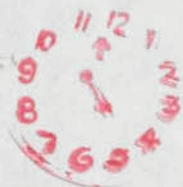
10.6.80 - I thought I had made it clear in my letter to the Prime Minister that this was not a Committee to which I had "appointed" people in the usual sense - hence my use of the term "Committee of Honour" - but a discussion group which I had invited people to attend as a more convenient means of collecting views than the alternative of pursuing with such people, individually, a topic which they had raised with me on a variety of occasions.

I am of course answerable to the House for this, in the same way as I am answerable for the rest of my work, but it seems to me that you are in danger of redefining quango to include any informal grouping of people who meet more than once to discuss a topic or related topics with a Minister.

I hope that in the light of this further explanation you will agree that there is no question of this group being included in the list of quangos.

I am copying this letter to the Prime Minister and the Chancellor of the Exchequer.

7 JUL 1980



Original - GR



cc CDL

10 DOWNING STREET

THE PRIME MINISTER

7 July 1980

Dear Sir Gerald,

Thank you for your letter of 26 June in which you asked whether anything could be done to avoid the closure of theatres and the increasing number of artists out of work.

You referred to the reduction in the Arts Council grant-in-aid last year. It is important to remember that in 1978/79, the financial year in question, the grant had already been increased by more than 20 per cent over the previous year. In the current year the grant-in-aid has again been increased by more than 20 per cent, to £70 m. Indeed the Arts Council have acknowledged that this year's grant represents a fair deal for the arts, and that it will enable them to support some new projects. I am sure you will agree that the arts have been treated fairly, particularly in a period of economic restraint.

I know that there are some very real problems, but the Government has taken steps to assist the theatres and to try to attract additional money for the arts. First, as regards theatres, a special grant of £15,000 has been given to the Theatres Trust, which is consulted on all proposals for change of use of theatre buildings. Secondly, a Government campaign has recently been launched to stimulate business sponsorship of the arts, and a significant shift in public opinion in favour of such sponsorship has already taken place. You may be interested to see a copy of the brochure which the Office of Arts and Libraries have also recently issued about sponsorship, and this is enclosed. Thirdly, the Office of Arts and Libraries is actively participating in a

/ movement

movement, which derives from the business sponsorship campaign, to encourage and advise arts bodies on various ways in which they can help themselves to maximise box office income and other forms of support.

Finally, I think that the enclosed copy of an Answer to a recent Parliamentary Question shows that the Government has achieved a good deal in the field of the arts during the past thirteen months in spite of all the difficulties.

Yours sincerely
Raymond Deakin

Sir Gerald Glover



Minister of State

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
LONDON SW1A 2AT

Prime Minister

Yet another black mark for the
COL over the handling of the
business sponsorship
initiative

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

MP
25/6

Arts + Amenities

ms

25 June 1980

Dear Norman

Thank you for sending me a copy of your letter of 10 June to the Prime Minister, in which you outlined the steps you are taking to encourage business sponsorship of the arts.

I know that the functions of your Sponsorship Advisory Committee are advisory, not executive. But this is equally true of many quangos, and I have no alternative but to regard this Committee as a new quango - ie a non-departmental body appointed by a Minister and for which he is answerable in the House. This will mean that it has to be included in the list of quangos. I am not suggesting that we should do anything further about this, but it would be helpful if in future we could be consulted before any new quangos are set up, as suggested in paragraph 4 of my letter of 21 April.

I am copying this letter to the Prime Minister and the Chancellor of the Exchequer.

PAUL CHANNON

Pal

26 JUN 1960



CONFIDENTIAL

Arts & Amateurs 2.
PRIME MINISTER

PM seen



In the enclosed letter,
Mr Biffen complains
that the CDL failed to
consult Treasury before

Treasury Chambers, Parliament Street, SW1P 3AG

publicly launching his
business sponsorship
campaign. No need for
you to reiterate this,
13 June 1980

T P Lankester Esq
Private Secretary
Prime Minister
10 Downing Street
London SW1

I think.

MAP 16/v1

Dear Tim,

SPONSORSHIP OF THE ARTS

In connection with the Chancellor of the Duchy's letter of 10 June to the Prime Minister, you may find it helpful to see the attached copy of the Chief Secretary's letter of 11 June to the Chancellor of the Duchy.

Yours ever,

A C Pirie

A C PIRIE
Private Secretary

CONFIDENTIAL

cc PS/Chancellor
 PS/Financial Secretary
 Sir Douglas Wass
 Mr Middleton
 Mr Bridgeman
 Mr Kemp
 Mr Boote
 Mr I L Smith
 Mr S H Woodall



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman St John-Stevas MP
 Chancellor of the Duchy of Lancaster
 and Minister of the Arts
 Privy Council Office
 Whitehall
 London SW1A 2AT

11 June 1980

MT
 Dear Norman,

SPONSORSHIP OF THE ARTS

I note with some concern the suggestion in the Press that your approach to the clearing bank chairmen about getting up an independent charitable foundation for the Arts could be linked with the question of taxation of bank profits.

You will no doubt have seen what Nigel Lawson said in the House during the Finance Bill Committee Stage debate on 3 June (Hansard 3 June Cols 1282-86) when he ruled out a tax for this year on last year's bank profits. However, the Chancellor is concerned to keep open the possibility for his next Budget of introducing such a tax if bank profits continue to increase, particularly if there is an urgent need for additional taxation to reduce the PSBR.

It is therefore important that in your discussions on Friday with two of the clearing bank chairmen you should avoid saying anything which might make it more difficult for the Government to introduce a tax on bank profits at some later date. I recognise the importance you attach to increasing the level of private sector support for the Arts. But I am sure you will agree that we must avoid any implication that charitable giving now might be an acceptable substitute for fiscal or monetary measures later on.

I should be grateful if you would keep me in touch with developments and, given the Treasury's particular interest in bank profits and general responsibility for the Government's relations with the financial sector, if Geoffrey Howe or I could be consulted about any future meetings you may have it in mind to arrange.

John Biffen

JOHN BIFFEN

16 JUN 1960

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arts + America

PRIME MINISTER

The Chancellor of the Duchy of Lancaster reports that he has now publicly launched his campaign for business sponsorship for the arts. I think this should have been cleared with the Chancellor and with you first, particularly after you had vetoed his writing to The Times on the subject. But his approach does link with your message at the Royal Academy.

MP

mf.

13 June 1980



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster
and
Minister for the Arts.

10 June 1980

The Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW1

J. de P. Perinista

BUSINESS SPONSORSHIP OF THE ARTS

I have kept you in touch informally with my plans for encouraging increased business sponsorship of the arts, including my approach to the clearing banks to suggest that they set up a joint foundation for the arts. I should now like you to know that I have held a press conference today to announce the formal opening of a campaign to stimulate sponsorship. A set of papers is enclosed.

.....

At the press conference I announced that I am taking the advice of a group of distinguished people in public life who have relevant experience in this field and whom I shall call together from time to time to discuss possible initiatives. I envisage their being convened at the most four or five times between now and the New Year, when I would propose to have a stock-taking session to assess the impact of our campaign and the value of the specific projects we will have undertaken. We met for the first time on 3 June. I do not regard this as a new "fringe body" in the technical sense, since this "comitato d'onore" will have no executive role, but will merely tender advice, will be entitled to no expenses, and its membership will be flexible. My officials have been carrying out a programme of discussions with a number of authoritative people and organisations in this field; and this group is a convenient way of similarly collecting outside views on the subject in discussion from time to time.

My office are drawing up, in the light of the advice we have received so far, a programme of research, speaking engagements, seminars and receptions (in which your own for the Royal Opera House Development Appeal Fund on 24 June will be an important feature). We shall be considering whether the Association for the Business Sponsorship of the Arts, to which I recently made

contd



a special grant of £25,000, can be strengthened and used as the main executive instrument to pursue the campaign; and we shall also be considering specific suggestions for encouraging the arts, such as an award scheme on the lines of the Queen's Award to Industry and - among the most important tasks - we shall be seeking to co-ordinate the many bodies which are now beginning to take an interest and initiative of their own. We shall also be issuing a booklet "The Arts are your Business", designed to explain the mutual advantages of business sponsorship to companies and arts bodies and techniques for obtaining sponsorship.

I am copying this to the Chancellor of the Exchequer and the Minister of State in the Civil Service Department for information.

ew you

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arts + amenities JS

① ~~Carroll~~ - to me

cc Press
Miss Lister

② p.a.

31 March 1980

The Prime Minister has read the Chancellor of the Duchy's letter of 26 March about private sponsorship of the Arts. She was interested to see the plans for the sponsorship campaign. She regrets, however, that she cannot at this stage agree to hold the proposed reception here at No. 10 in view of commitments to hold certain other receptions in the course of the summer.

T.P. LANKESTER

John Stevens, Esq.,
Chancellor of the Duchy of Lancaster's Office.

800



Chancellor of the Duchy of Lancaster
and
Minister for the Arts.

*Not yet. We
are already committed
to NSPC and Govt. Under
the 55.5 has to an extent
the 'office' in
Whitehall!
part - 1*

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

26th March 1980

*It speaks for the
Cabinet members!*

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Prime Minister

*would you like to
give a reception
in response at X?*

My dear Prime Minister,

*M.
28/3*

As you no doubt know I am anxious to encourage increased sponsorship of the Arts by private individuals and companies to complement public support and enable some new developments to be undertaken.

We believe that there is potential for a substantial increase in the overall level of private sponsorship, particularly in the regions. Estimates made by the Association for Business Sponsorship of the Arts (ABSA) suggest that the level has grown rapidly from a low base. Companies are now realising the benefits of sponsoring the Arts and no doubt the taxation changes which were made last summer have helped this trend.

I have taken every opportunity to express publicly my support for private sponsorship and my belief that a mixture of Government and private funds will be helpful to the Arts. I am currently considering with ABSA and other interested bodies a number of ways in which I could intensify the campaign to encourage potential sponsors. A note setting out plans for the campaign is enclosed. As you will see one of the items on the list is a reception. ABSA have advised me that it would be helpful to invite about one hundred prominent businessmen to encourage their co-operation and demonstrate the importance which the Government attaches to sponsorship. We believe that this would have a greater impact if you would agree to hold the reception at Number 10 and possibly give a short address. In view of the overall campaign I think that it would be helpful to hold the reception some time during June, but if this is not convenient for you we could adapt the programme to fit in with whatever is suitable for you.

...

X

Yours as ever

*P.S. We really are truly praying & it would be wonderful
if you could give us a boost!*

NOTE

A CAMPAIGN FOR BUSINESS SPONSORSHIP OF THE ARTS, 1980

1. The following events are planned as part of a general campaign.

- (i) an advertising campaign by ABSA - April;
- (ii) a press conference by the Chancellor of the Duchy - April/May;
- (iii) a seminar on taxation and sponsorship, organised by ABSA and preceded by a keynote speech by the Chancellor of the Duchy - May;
- (iv) programme by the Gulbenkian Foundation, including research into current levels of sponsorship and marketing the arts, and grants to smaller artistic companies wishing to review their current funding policies;
- (v) weekend seminars for arts administrators, organised by ABSA;
- (vi) regional meetings between ABSA, CBI and businessmen;
- (vii) regional meetings for artistic companies, organised by Regional Arts Associations and involving the Chancellor of the Duchy and, possibly, private consultants;
- (viii) receptions in the regions for local sponsors of the arts, organised by the Regional Arts Associations;
- (ix) supporting literature, outlining the commercial benefits of sponsorship for the sponsor, and providing advice to artistic organisations wishing to attract business sponsorship;
- (x) an international conference at Leeds Castle, organised by ABSA - November;
- (xi) ABSA/Daily Telegraph Awards to business sponsors - November.

2. A committee would be responsible for organising this campaign. Chaired by the Chancellor of the Duchy, it would include representatives of the Arts Council, Regional Arts Associations, BFI, Crafts Council, ABSA, and Gulbenkian Foundation, together with a number of prominent businessmen. Responsibility for day-to-day management of the campaign would be devolved to an executive committee chaired by OAL.

Financial Incentives to Business Sponsorship of the Arts

Present and future action by OAL

| <u>Subject</u> | <u>Action to date</u> | <u>Further action</u> |
|--|---|---|
| Charitable covenants (a) reduction in covenant period | CDL has made representations to Chancellor of Exchequer | Await Budget |
| (b) tax relief at higher rates (e.g. through "averaging") | " " | " " |
| Tax relief on single donations, eg to an upper limit of £500 | CDL has written to Chancellor of Exchequer; OAL has written to I Revenue, who see difficulties of practicability and of principle. | Await Budget; compile information on overseas arrangements (in hand) |
| Author - spreading copyright earnings for taxation purposes | I Revenue has offered to consider individual cases where the existing provision, for spreading over 2 or 3 years, is inadequate, and the OAL has written to the writers' organisa- tions, informing them of this and offering the CDL's good offices in passing on evidence of individual cases to I Revenue. | Await response from Inland Revenue Authors |
| Definition of a "charity" (Goodman Committee on "Charity Law & Voluntary Organisations"; dn 24. 1. 80 (copy attached) 10th Report of Expenditure Committee, 1974-5, "Charity Commissioners and their Accountability"; Correspondence with Duke of Edinburgh). | OAL has checked that Home Office does not propose to take any further action, following Home Secretary's answer to PQ | No further action for present; any change would require legislation. |
| National lottery for the arts | Correspondence with Mr Robin Day and with Home Secretary; Commons debate on Royal Commission on Gambling (during which most MPs opposed this suggestion) | NFA for present |

Subject

Action to date

Further action

Lower rate of
VAT for the
Arts

Approach Customs & Excise
after Budget; Update
information about other EEC
countries (in hand)

Publicity

CDL's speeches; ABSA's
booklets (including one
on VAT drafted by C&E).

Keynote speech by CDL,
after Budget, suitable
for quotation in a
revised ABSA booklet.

Charity Commissioners

Miss Fookes asked the Secretary of State for the Home Department if he will now reply to the report of the Expenditure Committee on the Charity Commissioners and their accountability.

Mr. Whitelaw: The Government have considered the report by the Expenditure Committee on the Charity Commissioners and their accountability published in September 1975 and have also taken into account the conclusions reached by Lord Goodman's committee on charity law and voluntary organisations, which was set up by the National Council of Social Services and reported in December 1976.

The Government appreciate the useful work done by both Committees in examining a wide range of issues relating to charity law and administration. It is now over four years since the Expenditure Committee reported and three years since the Goodman committee reported. Their proposals need to be viewed in the light of the Government's current policies.

The Government recognise that charitable trusts occupy a special position in our law and that special privileges attach to charitable status. We believe that the concept of charity in the legal sense remains valid and useful since it both reflects and encourages a spirit of beneficence and public service whose continuance is of great importance to society. The Government do not consider that there is at present a need for changes in the law on charitable status or in the administrative practices relating to charities. We do, however, set great value on the contribution made by voluntary organisations and volunteers to the provision of a wide range of services and facilities that are essential to the well-being of society. We are considering how best we may, within the present financial restraints, encourage the development of the voluntary sector as a whole, and in that context we are paying particular attention to the Goodman committee's recommendations relating to fiscal matters.

28 MAR 1960



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