



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>£m</u>	<u>Item</u>	<u>Expenditure</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

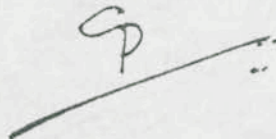
21. The RSC is in general well managed but could tighten up its planning cycle and the way in which new productions are mounted, notably in respect of scenery building and costume making. The savings are worth having, but are only marginal.

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).

A handwritten signature consisting of a stylized 'C' and 'P' followed by a long horizontal stroke.

C PRIESTLEY

22 July 1983

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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.

TD

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

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