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From the Minister for the Arts

C90/4826

Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
Parliament Street
London
SW1P 3AG

6 September 1990

Norman

PUBLIC EXPENDITURE SURVEY: OFFICE OF ARTS AND LIBRARIES

with BP?
When I wrote to you on 31 July, I said that I wished to reopen the three-year Settlement for the Arts now that the GDP deflator has again passed the point at which you and Richard Luce agreed this would be a possibility. I have now had the chance to consider Office of Arts and Libraries (OAL) funding ... responsibilities more closely and I attach a revised bid set out as in the Tables enclosed with Richard's letter of 6 June.

I appreciate the difficulties you face in seeking to hold down public expenditure this year, but my initial review of the widely-reported problems of arts organisations has convinced me that it would not be sufficient to rest on the settlement you agreed with Richard Luce last Autumn. Although that settlement appeared generous at the time, it did little more than put the funding for 1990-91 back to the level in real terms established in the first three-year settlement of 1987. It did nothing to tackle the underlying problems of deficits of arts organisations, many of them incurred or exacerbated because of the extent to which inflation had outstripped grants during the intervening two financial years. And of course inflation has again cut into the value of the settlement.

My assessment of the position has been aided by study of the report prepared by the Arts Council to which Richard referred in his letter, and by the detailed discussions my officials have had with institutions on their Corporate Plans. As the former indicates, we are now beginning to see the cumulative effects of several years of grant increases to Arts Council clients that have been below the level of inflation. The result of this is that deficits across all art forms are at their highest ever levels and there is a real risk that, unless more money is made available next year, irreparable damage will be done to some of our leading arts companies.

Despite the excellent response by the arts world to our demand that they should do more to help themselves (the details are set out in the paper attached to Richard's letter), the result of two years in which grant increases averaged 2 - 3% when inflation was running at more than twice this rate is that cumulative deficits for revenue clients stood at some £15 million at the end of March. This year's increase in the Arts Council's grants to its clients is unlikely to be enough to prevent deficits reaching £20 million by March 1991. This is because, although the Council's grant has increased by 12.5%, it has only been able to pass on grant increases of 8 - 9% to most clients after making good the shortfall in Westminster's grant to English National Opera and English National Ballet.

On present plans, the Council's grant is set to increase by 4.6% in 1991/92 and 3.8% in 1992/93. This is unlikely to prevent a further increase in deficits and I am very concerned about the likely consequences. The Arts Council has been monitoring the situation carefully. Already a number of leading companies are facing a financial crisis. The Liverpool Playhouse will go dark in November, the same time at which the Royal Shakespeare Company will be pulling out of its winter season at the Barbican. The Chairman of the Opera North in Leeds has also just written to me to warn that that Company is unlikely to be able to continue to operate in its present form without a substantial increase in grant: its deficit will reach 7% of turnover this year. These are only the most prominent examples of what is happening. ACGB investigations show that clients up and down the country are cutting down on numbers of performances and closing studio theatres, and that standards are deteriorating.

Against this background, I must now bid for a one-off cash injection of £20 million in 1991/92 to enable the Arts Council to clear client deficits. It is essential however that this money should not be allocated on the basis of which clients shout the loudest nor without regard to how well they are managing their affairs. It will therefore be targeted at those companies which can demonstrate to the Council's satisfaction not only that they have in place 3 - 5 year operational plans which will ensure that deficits will not arise in future. I should also like to discuss with the Council the possibility of introducing a challenge funding element, in addition to tight financial management.

Writing off deficits will not be of any value however unless at the same time we are seen to be upholding our manifesto commitment to maintain the value of our support for the arts. This applies equally to all the organisations funded by the Office. If we do not provide sufficient funds at a time when

high inflation affects the arts both directly in their core costs and indirectly in the amounts they can hope to raise through receipts, sponsorship, etc, then we shall find ourselves very quickly in the same spiral of deficits and closures all over again.

I have already recited some of the problems being faced by the Arts Council clients. There are similar difficulties amongst the museums and galleries. A number of them were only able to stay within grant last year by taking exceptional measures (eg drawing on trust funds, viring from building and purchase grants). This year's settlement enabled them to plan on the basis that such stop-gap measures need not be repeated. Inflation has now undermined even these plans. Many of them are taking steps to contain the situation by cutting services (galleries are routinely closed at the Victoria and Albert Museum (V&A), British Museum and the National Gallery; renewal of outdated exhibitions are being deferred, and essential work on cataloguing, conservation, research are also being postponed).

For that reason, with inflation now touching 10%, I am bidding for an additional 7% in 1991-92 for the running costs of all the arts organisations I support. The Arts Council's grant for 1991-92 is at present, as I have said, set to rise by 4.6% that year but, after setting aside additional money for incentive funding, it would only be left with 3% to pass on to its clients. A further 7% would ensure that those clients are no worse off in 1991-92 than they were at the beginning of 1990-91. For the subsequent years, I propose that the baseline thus re-established for 1991-92 should be increased by 7% and 6% respectively as a reasonable assessment of what would be needed to maintain the trend envisaged in the 1989 settlement.

I have also been struck since taking up my appointment by what I have heard about the state of some of the National Museums and Galleries (NMGs) buildings. Clifford Chetwood made this point to me forcefully during a visit to the V&A, whose problems may be more acute than other NMGs, but are not different in kind. When hard-headed and knowledgeable businessmen, our own supporters, express serious concerns about the public safety of their institutions, I believe we have to take notice. If galleries are classified by the number of buckets needed to catch the rain falling into them rather than by the importance of the works shown in them, there is something seriously amiss. Richard's commitment to putting right the fabric of these buildings by the year 2000 has been very well received, but it has brought to light yet more urgent projects which need to be tackled. The increase in funding for the buildings programmes you agreed with him last year is still not enough to meet these urgent demands,

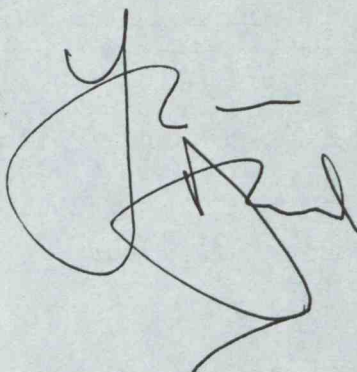
and there is a need to further accelerate the programme. Although many of the NMGs have been successful in getting sponsors and private donors to help, much of the necessary work is of a kind which sponsors will not support. In his letter of 6 June, Richard bid for £16.1 million for 1993-94 for this purpose. I wish now to complement that by increases in the intervening two years, designed to meet the priority requirements signalled to me by the NMGs in their Corporate Plans this year.

In your letter of 25 July, you invited me to reconsider the special bids which Richard had submitted. I have done so, but see no reason to depart from them except that I have now amended my bid for the British Library's moving-in and transitional costs for St Pancras. Since Richard's earlier letter, the Library has submitted revised figures which have been scrutinised closely by my officials.

The overall sums I am bidding for are not enormous, but they would make a very significant impact on putting the finances of arts organisations on a sound footing and helping to keep them there. The current, highly-publicised, tales of closures and deficits only detract from the Government's many achievements in supporting the arts. If we do not act, they are likely to get much worse over the coming year.

I am copying this letter to the Prime Minister, the Lord President, Chris Patten, Malcolm Rifkind, David Hunt and Peter Brooke.

DAVID MELLOR

A handwritten signature in black ink, appearing to be 'David Mellor', written in a cursive style.

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TABLE 1

OFFICE OF ARTS AND LIBRARIES

Emillion

	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>
I. TOTAL EXPENDITURE				
Expenditure baseline	494.2	525.5	547.5	561.2
A. Proposed additions (see Table 2)				
1. Museums & Galleries		26.7	35.2	50.3
2. Arts		46.6	32.1	56.1
3. The Heritage*		-	-	-
4. Libraries		20.7	25.5	-6.9
5. Administration		0.5	0.6	0.7
<hr/>				
Total additions (sub total)		94.5	93.4	100.2
GRAND TOTAL	494.2	620.0	640.9	661.4
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II. GROSS RUNNING COSTS				
Baseline	1.775	1.777	1.824	1.869
Change proposed by Dept	-	0.474	0.578	0.651
III. CS MANPOWER IN RUNNING COSTS				
Present plans	63	65	65	65

*Note that the Heritage is the subject of a separate bid proceeding in advance of PES 1990.

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TABLE 2

OAL: ADDITIONS

	Emillion		
	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>
1. THREE YEAR SETTLEMENT			
A. SPECIAL BIDS			
1. Museums and Galleries			
V&A/BM buildings	3.9	2.7	-
Purchase Grants	3.6	7.7	12.7
CILOR	1.3	1.4	1.4
2. Arts			10.5
3. Libraries			
Running Costs	2.1	1.6	-
BL Move-in Costs	3.8	8.9	2.1
TOTAL	<u>14.7</u>	<u>22.3</u>	<u>26.7</u>
B. BASELINES			
1. Museums and Galleries			
Running Costs	8.8	13.1	18.6
Building & Maintenance	9.1	10.3	16.1
Improvement Fund	-	-	1.5
2. Arts			
Running Costs	14.6	21.1	30.1
Deficit Reduction	20.0	-	-
3. Libraries			
Running Costs	4.6	6.9	9.7
TOTAL	<u>57.1</u>	<u>51.4</u>	<u>76.0</u>
2. OTHER			
1. St Pancras			
Buildings	9.9	7.9	- 18.7
Works of Art	0.3	0.2	-
2. Royal Opera House	12.0	11.0	15.5
3. The Heritage	*	*	*
4. Administration	0.5	0.6	0.7

*Note that the Heritage is the subject of a separate bid proceeding in advance of PES 1990.

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