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# The Arts Council of Wales - Supporting Major Capital Projects



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I have prepared this report for presentation to the National Assembly under the Government of Wales Acts 1998 and 2006.

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**Report presented by the Auditor General for Wales to the  
National Assembly for Wales on 31 January 2008**



*Galeri Caernarfon*

*Source: Arts Council of Wales/Robert Williams*

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## Summary

- 1** In 2002, the Audit Committee of the National Assembly for Wales (the National Assembly) reported on the involvement of the Arts Council of Wales (Arts Council) in the failed Centre for Visual Arts project<sup>1</sup>, following a report by the Auditor General for Wales (the Auditor General)<sup>2</sup>. The Audit Committee recommended that the Auditor General undertake further work to test the effectiveness and adequacy of the revised procedures for supporting capital projects introduced by the Arts Council between 1999 and 2002. This report presents the results of that follow-on examination.
- 2** The Arts Council manages a five-year rolling programme of Lottery-funded capital expenditure. Over the eight years 1999-2000 to 2006-2007, the Arts Council has awarded capital grants of some £61 million, £39 million of which have been towards major capital projects (defined for the purposes of this report as those projects awarded capital grants of £50,000 or more). The Arts Council's latest capital spending plan for the five years 2007-2008 to 2011-2012 is to award just under £16 million, almost all towards major building construction, refurbishment and upgrade projects.
- 3** In managing its capital programme, the Arts Council has to deal with a range of stakeholders, partners and clients. This creates a number of challenges for the Arts Council because:

  - the Arts Council co-funds major building refurbishment and upgrade projects with other bodies and each funding partner has its own particular objectives, priorities, budgetary constraints, procedures and timetables for providing capital funds;
  - the Arts Council relies upon arts organisations and other bodies (eg, local authorities) to deliver those projects that it funds; and the capacity of these bodies to manage the design, development, construction and running of major arts facilities is variable;
  - major capital projects are inherently risky for grant recipient organisations to deliver, and to operate as viable facilities for arts activity in the longer term; and
  - the completion of a major capital project often entails increased operating costs for the organisation running the facility, with potential financial implications for the Arts Council where it provides revenue grants to those organisations.
- 4** In the light of these challenges, we examined whether the Arts Council is effectively managing the risks involved in supporting major arts projects through its capital grants programme and associated support activities. We focused our examination on major building construction and refurbishment projects and did not review in detail projects relating to grants for equipment purchases or for public art installations. Specifically, our examination considered:

<sup>1</sup> The Arts Council of Wales: Centre for Visual Arts, National Assembly for Wales Audit Committee, Report 05-02, June 2002

<sup>2</sup> The Arts Council of Wales: Centre for Visual Arts, Auditor General for Wales, November 2001

- whether the Arts Council has robust arrangements for selecting major projects for its capital programme (Part 1); and
- whether the Arts Council adequately safeguards its spending on major projects in its capital programme (Part 2).

**5** We concluded that the Arts Council has learned the lessons from early Lottery-funded projects and has broadly sound processes in place for managing its capital programme to address key risks relating to the selection and funding of major construction and refurbishment projects. As a result of our examination we make a number of recommendations on funding partnerships, risk management and lessons learned, to improve the effectiveness and adequacy of the Arts Council's current practices and procedures (paragraph 24).

## The Arts Council's selection of major projects for its capital programme is strategy driven and soundly based

**The Arts Council is steadily achieving its capital programme objectives, but should improve its co-operation with project funding partners**

**6** **The Arts Council has strategic objectives and priorities for its capital programme that reflect the Welsh Assembly Government's strategic agenda.** The Arts Council operates within an overall policy and resources framework determined by the Welsh Assembly Government (the Assembly Government), although its capital programme is financed by the income stream it receives from the Lottery. The Arts Council's strategic priorities for its capital investment align with

the strategic agenda of its main sponsor, the Assembly Government. The main objective of the Arts Council's capital programme is to support the construction, refurbishment and improvement of arts facilities across Wales. The main priority of the capital programme has developed from a primary emphasis on filling geographical gaps in the provision of arts facilities across Wales to principally improving and enhancing facilities in existing locations.

**7** **The Arts Council has made steady progress towards achieving its capital programme objectives since 1999.** Between April 1999 and March 2007, the Arts Council has awarded £61 million in grants under its capital programme, of which over £39 million (64 per cent) has been in major capital grants (for £50,000 or more) in support of 49 major building construction, refurbishment or upgrading projects. Projects supported have varied from artists' workshops and craft centres to major performance venues across the whole of Wales, including key venues in Newport and Caernarfon. Although important major projects in Wrexham and Merthyr Tydfil did not go ahead as originally proposed, the Arts Council, in conjunction with partners and clients, is continuing to support the development of new proposals for arts facilities in these locations.

**8** **The Arts Council relies on its clients to successfully develop and complete their projects.** The Arts Council's capital programme clients include arts organisations, community and voluntary organisations, and local authorities. The Arts Council depends on these organisations being able to secure partnership funding from other sources, to procure and manage the design, development and construction of projects,



and to continue arts activity once facilities are operational. As at 31 March 2007, of the 49 building projects awarded major capital grants between April 1999 and March 2007, nine were still under development or construction and two had been abandoned.

**9 The Arts Council and its clients depend on other funding partners to contribute towards major projects in the capital programme.**

The Arts Council co-funds capital projects with partners such as the Welsh European Funding Office (WEFO), the former Welsh Development Agency (WDA) and local authorities. Each funding body has its own objectives, priorities, budgetary constraints and administrative procedures relating to funding capital projects. The Arts Council's ability to achieve its capital programme objectives in part depends on the actions and decisions of its funding partners, which creates co-ordination and communication challenges for the Arts Council and its clients. Key success factors for effective working between funding partners include funding partners' willingness to converge funding packages, to communicate openly and on a timely basis, and to engage actively in supporting projects to succeed and in handling difficulties that arise.

**10 Extending the use of strategic agreements with all key funding partners would help improve operational co-operation and coordination on capital projects.**

The Arts Council has a strategic partnership agreement with the Welsh Local Government Association as a framework for joint working and advocacy for the arts in Wales, and has representatives from all 22 local authorities in Wales on its three regional committees. The Arts Council has had strategic agreements with other major funding partners for the development of specific sectors of the arts,

but has had no form of overarching strategic co-operation agreement with partners such as WEFO, the former WDA or the former Wales Tourist Board, now all part of the Assembly Government. The absence of such agreements means that operational co-ordination and joint working on individual projects is ad hoc rather than part of an agreed framework. There is acknowledged room for improvement in collaborative working between these 'central' funding partners and a desire among officials to forge closer operational links, for their mutual benefit and that of client organisations. There would be merit in the Arts Council taking a more formally designated and agreed lead role in supporting the development and implementation of predominantly arts-related projects.

**The Arts Council is operating sound processes for assessing the merits of major capital projects**

**11 The Arts Council has well-established processes for assessing major project proposals that are readily available to and understood by applicants.**

In assessing major project proposals, the Arts Council considers both the merits of project proposals and their viability. It uses expertise and information from across the whole organisation when examining individual project proposals, and engages external professional advisors, where appropriate. The Arts Council issues clear and succinct guidance to applicants for capital project funding that sets out the objectives and priorities of its capital programme, the purpose of its capital grants, the types of grant available and its criteria for project assessment. The organisations we visited understood the Arts Council's capital grant application procedures.

**12 The Arts Council assesses the merits of project proposals systematically and consistently, considering their strategic importance, arts activity benefit and architectural quality.** The Arts Council's criteria for assessing the merits of project proposals include their contribution to the Arts Council's strategic objectives, their benefits in terms of the quality of arts activity and participation, and the quality of their design and building work. We found that the Arts Council applied its assessment criteria consistently across different projects and systematically documented the application of its criteria. We also found that the Arts Council's Capital Committee dealt with major capital grant applications on a consistent basis, and reviewed and challenged the assessments made by Arts Council officials and external professional advisors. Although the Arts Council has developed its assessment criteria over many years and continues to refine them, there is scope to develop further their application by the Arts Council, in particular, more clearly to distinguish between 'quality' and 'viability' issues in coming to an overall assessment of project proposals.

**13 In the light of its experience, the Arts Council has changed certain programme policies and processes to improve effectiveness.** The Arts Council has acted, in response to its formal capital project monitoring, to refine certain programme policies and procedures. It has cut back its investment in areas of limited effectiveness and impact in terms of arts activity (such as multi-use venues) and boosted its efforts in other priority areas (such as to attract good-quality applications for public art projects).

## **The Arts Council's spending on major projects in its capital programme is adequately safeguarded**

**The Arts Council's spending on major capital projects is based on managing risks**

**14 The Arts Council manages its capital programme against the background of fluctuating and uncertain Lottery income.** The availability of Lottery money to fund the Arts Council's capital programme has been variable and remains uncertain because of natural fluctuations in the level of income the Lottery generates for good causes. Between 1999-2000 and 2006-2007 the Arts Council's capital budget averaged around £7 million a year. Over the same period, the demand by arts organisations and other clients for the Arts Council's capital funds averaged over £13 million a year, some 86 per cent greater than the Arts Council's budget. The Arts Council manages its overall capital programme by prioritising spending on projects that best fit its strategic agenda and by concentrating on applicant organisations that have a proven track record in successfully operating arts facilities. The Arts Council is managing its in-year capital spending through close project monitoring, by maintaining projects in reserve and by supporting the development of new proposals. It also recycles funds within the Lottery programme, reallocating sums from projects that fail to proceed and sums recovered from organisations that fail to comply with grant conditions.





- 15 The Arts Council adopts a staged and supportive approach to funding major capital projects.** The development and implementation of major capital projects can take many years. To manage risks relating to uncertainty over its financial commitments, the Arts Council adopts a staged process to funding the development and construction or improvement of arts facilities. This includes early project registration for grant applications over £50,000 and a three-stage process to funding project development and building works for grant applications over £100,000, whereby applicants progressively develop their proposals to established Royal Institute of British Architects (RIBA) standards. The Arts Council also provides advice and other assistance, on a case-by-case basis, during the development and implementation of projects. This helps the Arts Council identify key areas of risk relating to projects. It also benefits grant applicants through improving the robustness and realism of their project proposals.
- 16 The Arts Council thoroughly assesses the viability of project proposals, considering the financial standing and organisational capacity of grant applicants.** The Arts Council's criteria for assessing the viability of major capital project proposals include the financial health and stability of applicants and the robustness of business plans, project cost plans and marketing plans. The Arts Council also assesses applicants' organisational capacity to manage their capital projects and to deliver their artistic programmes following project completion, and provides additional support, through funding professional services or capacity building, where needed. The Arts Council uses external professional advisors to assess key issues, such as organisations' business plans and specific project cost plans. It shares its assessments with grant applicants, and projects may be modified as a result, to make them more manageable to fund and deliver successfully.
- 17 The Arts Council assesses project risks, based on risk assessments produced by grant applicants.** The information provided by applicant organisations includes formal capital and revenue risk analyses, and a risk register for the construction phase of major capital projects. The Arts Council also assesses the underlying assumptions in applicant's business plans, including examining the robustness of applicant's contingency plans for dealing with financial, capacity and delivery risks. The Arts Council uses this information and analysis to assess the overall risks of each project. Exceptionally, where its assessment raises fundamental concerns or novel and contentious issues, the Arts Council may also carry out a more detailed sensitivity analysis of project proposal assumptions. The Arts Council manages the likely and actual operational running cost impact of capital projects on a case-by-case basis, in the broad context of the Assembly Government's strategic agenda to ensure that theatres and performance spaces improved and equipped through Lottery funding have sufficient revenue so that these assets can be fully used.
- 18 The Arts Council is developing its assessment and management of capital programme and project-specific risks.** The Arts Council's overall system of internal control includes risk management processes and its corporate risk register includes a number of high-level risks relating to the management of Lottery capital funds. However, at the time of our examination,

the Arts Council had not formally assessed the detailed financial and operational risks arising from the day-to-day management of its capital programme. The Arts Council is now developing its identification and assessment of risks at capital programme level to link more systematically with its overall corporate risk management procedures. The Arts Council has also recently improved its internal risk management processes relating to individual capital projects by introducing standardised risk register documentation for each project where its capital grant contribution is £100,000 or more.

### **The Arts Council takes adequate steps to protect and control its financial exposure on major capital projects**

- 19 The Arts Council requires applicants to accept standard and specific grant conditions and to agree legal contracts.** The Arts Council does not make capital grant payments until an organisation has formally confirmed its acceptance of a grant offer and related grant conditions. It places legal charges on buildings for all its major capital project grants and agrees formal legal contracts with applicant organisations for all capital grant awards over £500,000. Under these arrangements, grant recipients are required to notify the Arts Council of any changes in the objectives and purpose of their projects or if they cease to operate as a going concern. Violation of grant conditions means that the Arts Council's grant offer lapses with immediate effect, with no further sums payable and amounts already paid becoming repayable. The Arts Council generally applies its right to recover grant payments where the grant recipient defaults, but has taken action on a case-by-case basis in relation to certain bodies with charitable status.

- 20 The Arts Council caps its major capital grant awards and insists on cost reviews when cost pressures subsequently arise.** In capping its capital grant awards, the Arts Council seeks to transfer the risks of cost escalation onto other funding partners and grant-recipient organisations themselves. However, the Arts Council has awarded supplementary capital grants on a number of projects in the past, primarily for reasons of the strategic importance of particular venues and to maintain the architectural quality of individual buildings. In the last few years, however, through the combined application of revised procedures introduced progressively from 1999, the Arts Council has managed virtually to eliminate the occurrence of supplementary applications from grant recipients towards increased project costs.
- 21 The Arts Council's monitoring of major projects during construction is proportionate and effective, but with scope for greater integration with funding partners.** The Arts Council monitors major capital projects during construction through regular reports made by grant recipients and through periodic visits to building sites by Arts Council officials and their professional advisors. These practices are designed to detect risks and problems before they materialise, to avoid having to manage difficulties later. For projects where its capital grant contribution is over £500,000, the Arts Council requires grant recipients to provide it with a fully revised business plan six months before scheduled practical completion of building works. Grant recipients found providing broadly similar information to different funding partners at different times to be onerous, and expressed a desire for simpler forms and more synchronised processes for submitting monitoring returns. We see benefits in this, for grant recipients in



terms of reducing administrative effort and for funding partners in terms of improving the consistency and comparability of reported information.

**22 The Arts Council's post-completion project monitoring is tailored to particular circumstances, but should focus more consistently on the ongoing financial standing of capital grant recipients.**

The Arts Council formally requires recipients of capital grants to complete a standard project evaluation document on completion of their capital projects. The Arts Council also requires grant-recipient organisations to self-certify, on an annual basis, continuing compliance with grant conditions and, where appropriate, with legal agreements, for up to 50 years depending on the nature of the capital project. These capital audit forms require information about ongoing levels of arts activity but do not explicitly require information about the ongoing financial viability of grant-recipient organisations. The Arts Council's post-completion project monitoring would be enhanced if its capital audit forms captured key, relevant information about the financial standing of capital-grant recipients, particularly where these organisations were not revenue clients of the Arts Council.

**23 The Arts Council should evaluate more systematically the benefits and impact of completed projects.** At present, a limited amount of assessment of the impact of capital funding for arts and arts-related projects has been undertaken in Wales, by and on behalf of various bodies, including the Arts Council and its capital grant clients. Where necessary, the Arts Council has made a number of adjustments and improvements to its capital programme policy and priorities as a result of its own reviews of the effectiveness of grants towards different types of organisation and

different art forms. While these reviews are individually informative, they are piecemeal and not part of a coherent, Wales-wide programme of research and evaluation. The Arts Council's post-completion project monitoring would be enhanced if it took the lead in promoting or undertaking a co-ordinated evaluation programme, conducted on a consistent basis, which would help further refine the strategic priorities for its capital programme and funding decisions on individual major capital projects.

## Recommendations

- 24** We make the following recommendations to assist the Arts Council in its process of continuous improvement.

### Funding partnerships

- i** To make more of its funding partnerships the Arts Council should:
  - a** establish strategic partnership agreements with key funding partners in the Assembly Government (WEFO and the new Department for the Economy and Transport), to improve mutual knowledge of respective programme priorities and programme management processes and facilitate operational co-operation on individual capital projects;
  - b** take a lead partner role on those major projects where it is the major funding provider, with endorsement from its Assembly Government sponsor department (the new Department for Rural Affairs and Heritage) and with the agreement of other key funding partners, to improve co-ordination between funding partners and reduce the administrative burden on grant applicants and recipients;

- c** in relation to grant applications, systematically share information with major funding partners on applicant organisations and their project proposals, to improve operational efficiency and responsiveness to clients; and
- d** in relation to monitoring projects during construction, consult with its major funding partners and arts organisations about simplifying routine information requirements from grant recipients and synchronising reporting timetables, to reduce the administrative burden on grant recipients and improve the consistency and comparability of reported information.

### **Risk management**

- ii** To improve its risk management further, the Arts Council should:
  - a** in recognition that project risks could materialise early, have risk registers in place for each major capital grant award to cover the full life-cycle of the project, not just from the pre-tender stage;
  - b** promote a standard sensitivity analysis methodology for grant applicants to undertake on key business case assumptions for high value and/or high risk projects, to demonstrate the vulnerability of their business plans and financial projections to uncertainties; and
  - c** incorporate in annual capital audit forms, questions on the financial viability of recipients of high-value and/or high-risk capital grants.

### **Lessons learned**

- iii** To capture and promote lessons learned for future improvement, the Arts Council should:
  - a** actively facilitate mentoring between grant applicants and recipients, to improve the transfer of knowledge and experience about applying for capital grants, managing capital projects and sustaining arts activity; and
  - b** establish a programme for systematically assessing the medium-term (three-five years) and longer-term (10+ years) impacts of projects that have received capital grants, as a basis for the continuous improvement of the Arts Council's capital programme.



## Part 1 - The Arts Council's selection of major projects for its capital programme is strategy driven and soundly based

- 1.1 To achieve its strategic objectives, the Arts Council needs to ensure that it selects the right capital projects for inclusion in its capital programme. A key operational risk for the Arts Council, whose capital programme is implemented through projects managed by others (mainly arts organisations) and which involve significant partnership funding, is that the implementation of its programme objectives and priorities may be ineffective if its project selection is not soundly based and its relationships with clients and partners are not well managed to facilitate project delivery.
- 1.2 This part of the report considers how well the Arts Council manages the risks related to choosing which major capital projects to fund.

### **The Arts Council is steadily achieving its capital programme objectives, but should improve its co-operation with project funding partners**

#### **The Arts Council has strategic objectives and priorities for its capital programme that reflect the Welsh Assembly Government's strategic agenda**

- 1.3 The Arts Council operates within an overall policy and resources framework determined by the Assembly Government, from which it receives just over two-thirds of its income each year through grant-in-aid (£28 million for 2006-2007). The Arts Council is also

responsible for disbursing National Lottery funds in Wales, the remaining third of its income (£11 million for 2006-2007, of which the Arts Council budgeted just over £5 million for capital spending), financed by the income stream it receives from the Lottery under section 23(1) of the Lottery Act 1993, advanced from the Department for Culture Media and Sport. The Arts Council funds its capital programme from National Lottery money. However, in determining the objectives and priorities for its capital programme, the Arts Council takes account of the strategic agenda set by its main sponsor, the Assembly Government.

- 1.4 The Arts Council's primary objective for arts infrastructure (arts organisations and facilities) in Wales is 'continuing to develop a network of financially secure and well-managed arts organisations, with access to a range of well-equipped spaces, helping them to exploit their artistic potential and build bigger and broader audiences'<sup>3</sup>. Within this primary objective, the main purpose of the Arts Council's capital programme is to support the construction, refurbishment and improvement of arts facilities across Wales and the purchase of equipment for arts organisations. The Arts Council's strategy and plans for this programme of capital investment have been iterated in a number of key documents, including *Supporting Creativity*, its five-year Arts Development Strategy and action plans for the period 2002-2007 (April 2002), its *Strategy for the Distribution of Lottery Funds in Wales* (January 2003), its 2005-2008

<sup>3</sup> Access to Excellence II, Arts Council of Wales Corporate Plan 2005-2008, p.23

corporate plan *Access to Excellence* (June 2004), and its operational plan 2006-2007 *Art in Action* (March 2006).

**1.5** The Arts Council's capital strategy, as articulated in these documents, is in accordance with the strategic agenda of the Assembly Government set out in the document *Creative Future: A Culture Strategy for Wales* (January 2002) which emphasised generally the need for arts organisations to be placed on a sustainable financial footing and for increased investment in buildings and facilities across all art forms. It is also in accordance with the current Assembly Government action plan for delivery in the arts sector in Wales which seeks, among other things, specifically to develop performing arts centres<sup>4</sup>. The current strategies of both the Assembly Government and Arts Council emphasise:

- supporting the construction and improvement of a strategic network of arts facilities;
- supporting the development of well-managed, financially secure arts organisations; and
- increasing access to arts facilities and events for all parts of the community.

**1.6** The Arts Council's approach to its capital programme has shifted from a primary emphasis on filling geographical gaps in the provision of arts facilities across Wales to one of principally improving facilities in existing locations. The Arts Council's current top-six priorities in providing capital grant support are set out below:

- 1** the extension, improvement and refurbishment of the existing network of venues;

- 2** the refurbishment and improvement of smaller venues with a proven track record;
- 3** the development of modest new-build projects for organisations with a strong track record;
- 4** the provision of workshops and studios for artists and craftspeople;
- 5** the provision of public art; and
- 6** the purchase of equipment and musical instruments.

**1.7** Early in 2006, during the course of our examination, the Assembly Government set up a policy review of arts funding in Wales (the Wales Arts Review). The review's remit was to advise on the existing and future role of the Arts Council, on the respective future roles of the Arts Council and the Assembly Government, and on the international context of arts funding. Its purpose was to inform Assembly Government decisions on the future framework for funding arrangements which support the arts, including the role of the Arts Council. The review panel's report was published on 29 November 2006 and debated in Assembly plenary on 6 December 2006, where the 'arms length' principle for the strategic management of the arts in Wales was reaffirmed. The Assembly Government is now considering the recommendations of the review panel's report.

**1.8** While not directly addressing the Arts Council's Lottery-funded capital programme, the report of the Wales Arts Review made some observations about the need to improve the strategic context in which the Arts Council operates. In particular, the review panel considered that:

<sup>4</sup> *Delivering the Connections: From Vision to Action*, Assembly Government, June 2005, p.21



- the annual remit letters in which the Culture Minister conveys his priorities to the Arts Council were piecemeal and focused on particular initiatives rather than strategic developments<sup>5</sup>;
- the lack of clarity in setting strategic priorities was the main cause of tension between the then Culture Minister and the Arts Council, requiring urgent resolution<sup>6</sup>; and
- in relation to the Arts Council's revenue funding of arts organisations, that a perceived absence of strategic direction meant that parts of the arts community felt that there was a culture of management rather than strategy<sup>7</sup>.

In our own investigation of the Arts Council's capital programme, funded by Lottery money, we found that the strategic priorities of the Arts Council and the Assembly Government were generally concordant.

### The Arts Council has made steady progress towards achieving its capital programme objectives since 1999

**1.9** Between April 1999 and March 2007, the Arts Council has awarded £61 million in capital grants under its capital programme, of which over £39 million (64 per cent) has been in major capital grant awards (for £50,000 or more) towards 49 building construction and refurbishment projects across Wales. This represents an average of £800,000 awarded per major project. The Arts Council's performance between April 1999 and March 2007 in awarding grants under its key priority areas is shown in **Figure 1**, highlighting that the Arts Council's greatest effort, in terms of both the number of projects supported (36) and the value of grants awarded (£21 million), has been on the improvement and refurbishment of existing large and small venues. Twenty-five large capital projects (awarded capital grants of £100,000 or more by the Arts Council) have

**Figure 1: Between 1999-2000 and 2006-2007, most of the Arts Council's major capital grant awards, in number and value, have been towards improvement and refurbishment projects**

Broad programme priorities	Value of grant awards (£ million)	Number of projects awarded grants
Extension, improvement and refurbishment of facilities	19.3	21
Construction of new facilities and the development of modest new build proposals	17.6	10
Improvement of smaller venues	1.7	15
Provision of workshops and studios for artists and craftspeople	0.6	3
<b>Total</b>	<b>39.2</b>	<b>49</b>

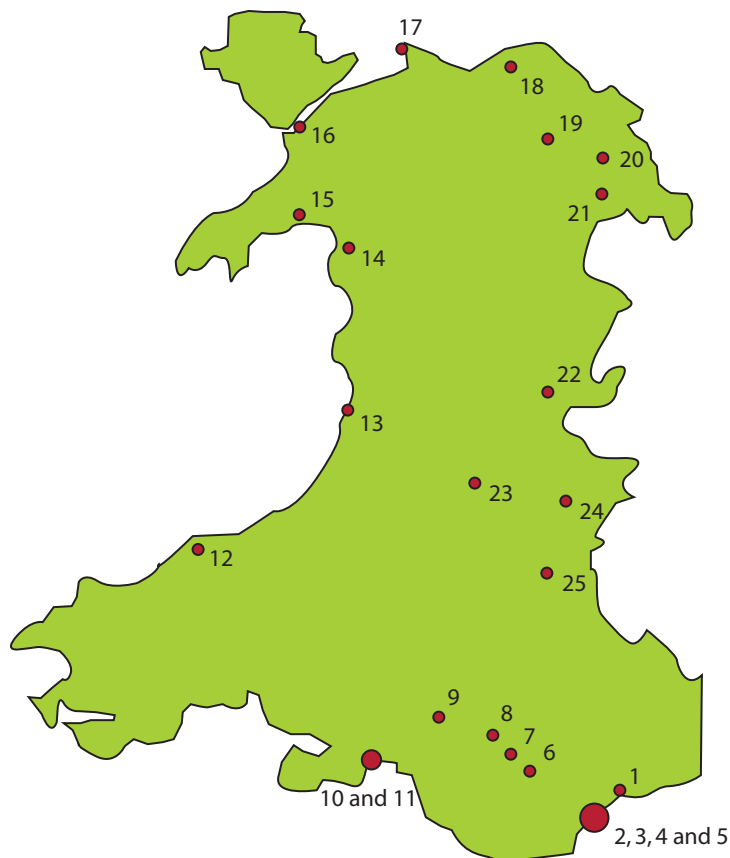
**Note**

Of the 49 projects, nine were still in progress at 31 March 2007

Source: Arts Council of Wales

<sup>5</sup> A Dual Key Approach to the Strategic Development of the Arts in Wales, Wales Arts Review, November 2006, para.2.6  
<sup>6</sup> A Dual Key Approach to the Strategic Development of the Arts in Wales, Wales Arts Review, November 2006, para.2.8  
<sup>7</sup> A Dual Key Approach to the Strategic Development of the Arts in Wales, Wales Arts Review, November 2006, para.2.13

**Figure 2: Twenty-five large building projects have been completed between April 1999 and March 2007 throughout Wales**



Completed projects awarded capital grants over £100,000

1 The Riverfront	10 Grand Theatre Swansea	19 Theatr John Ambrose
2 Wales Millennium Centre	11 Swansea Little Theatre	20 Coedpoeth Community Centre
3 Bay Art	12 Theatr Mwlidan	21 Stwit Arts Centre
4 Craft in the Bay	13 Aberystwyth Arts Centre	22 Oriel Davies Gallery
5 Llanover Hall Community Arts	14 Theatr Ardudwy	23 Carad
6 Valleys Kids	15 Tŷ Newydd Writers Centre	24 Theatre Powys
7 Cwmaman Institute	16 Galeri Caernarfon	25 Wyeside Arts Centre
8 Maerdy Community Centre	17 Venue Cymru	
9 Glynneath Training Centre	18 Theatr Elwy	

Source: Arts Council of Wales





## Case Study A: Wrexham Theatre and Performing Arts Centre

The grant applicant for the proposed new theatre and performing arts centre in Wrexham was the local authority, Wrexham County Borough Council. The Arts Council contributed £19,000 in 1996 towards feasibility study work and £97,000 in 1998 towards project development. In March 2001, the Arts Council awarded £3.9 million to the local authority towards the £5.1 million estimated construction of the theatre. Increases in estimated construction costs during design development led to the Arts Council awarding the local authority a supplementary grant of £542,000 in February 2003. Estimated costs then increased to £6.3 million following receipt of tenders for the construction contract. Capital cost escalation together with problems relating to contractors and local concern over future running cost commitments led Wrexham County Borough Council to abandon the project in December 2003. This was despite an additional supplementary award of £150,000 from the Arts Council in September 2003 and an offer of £660,000 directly from the Assembly Government towards the project, in recognition of its strategic importance. At the time the project was terminated, the Arts Council's promised contribution towards construction costs was £4.6 million (up 18 per cent) and its total capital grants offered towards the project as a whole stood at £4.7 million. In May 2004, Wrexham County Borough Council repaid the £304,000 in capital grants that it had actually received from the Arts Council towards the project to that point. In November 2005, the Arts Council awarded £15,000 towards a feasibility study by the local authority into a proposed redevelopment of the existing Wrexham Arts Centre, which is principally a visual arts gallery and already in receipt of Arts Council funding.

## Case Study B: Merthyr Tydfil Theatre and Arts Centre

The Castle Theatre Trust developed outline proposals for a theatre and arts centre in the Merthyr Tydfil during 2002 and 2003. In June 2003, the Arts Council's Capital Committee considered an application by the Trust for a capital grant to support project development but deferred its decision pending clarification of the local authority's involvement in the project, as the Arts Council judged the Trust to lack the organisational capacity to drive the proposal forward on its own. In late 2003, the local authority, Merthyr County Borough Council, decided to develop its own theatre project as part of a major redevelopment at Rhyd-y-Car and not to support the Castle Theatre Trust's project. In light of this the Arts Council decided in January 2004 that it could not award a capital grant towards the development of the project proposed by the Castle Theatre Trust. In October 2006, the Culture Minister announced the provision of £250,000 in capital funds to the Arts Council specifically towards the £300,000 estimated costs of a feasibility study for a new Cultural Enterprises Centre in Merthyr Tydfil, to be undertaken by the University of Glamorgan, the Heads of the Valleys Partnership and Merthyr Tydfil Borough Council.

been completed by applicants between April 1999 and March 2007, and **Figure 2** shows that these are distributed throughout Wales.

Ffrwdamos Community Centre (Penygraig), Tŷ Newydd Writers Centre (Cricieth), and Butetown Artists Studios (Cardiff).

**1.10** The 15 major capital projects reviewed in detail by the Wales Audit Office, which illustrate the range and nature of the Arts Council's grant awards across its priority areas, are summarised at **Appendix 2**. Completed projects include a small number of new-build venues, such as the Wales Millennium Centre (Cardiff)<sup>8</sup> and Galeri Caernarfon, as well as major improvements to existing facilities such as the Aberystwyth Arts Centre, Theatr Mwdan (Cardigan), Soar

**1.11** The Arts Council's 1999 capital strategy specifically identified that access to arts facilities was unsatisfactory for the towns of Wrexham, Newport, Caernarfon and Merthyr Tydfil. Proposed projects in Wrexham and Merthyr Tydfil both failed to proceed, being abandoned in December 2003 and January 2004 respectively (**Case Studies A and B**). But the Arts Council supported the development and completion of a major capital project in Newport, contributing

<sup>8</sup> The Wales Audit Office is currently conducting a separate examination of the use of publicly funded resources in building and supporting the Wales Millennium Centre, which was mainly financed by the Assembly Government and the Millennium Commission. Therefore that project does not feature significantly in this report on the Arts Council's management of its overall capital programme.



*Galeri Caernarfon*  
 Source: Arts Council of Wales/Robert Williams

£8.2 million towards the £13.5 million cost of the new Riverfront Theatre and Arts Centre, which opened in October 2004 (Case Study Q). And in Caernarfon, the Arts Council contributed £2.9 million towards the £7.4 million cost of the new Galeri Caernarfon, which opened in March 2005 (Case Study R).

**The Arts Council relies on its clients to successfully develop and complete their projects**

1.12 The Arts Council’s progress with implementing its capital strategy and its capital programme is contingent on the active participation and co-operation of its clients. The Arts Council’s capital grant clients (ie, grant applicants and recipients) are arts organisations and other bodies, such as local authorities, wishing to develop facilities to house arts activities. Capital grants are available to organisations and not individuals, and the Arts Council gives priority to well-established organisations with

a proven track record in delivering arts activity. While the Arts Council may solicit grant applications for projects to include in its capital programme that accord with its strategic priorities, the Arts Council is primarily reliant on individual organisations to come forward with viable proposals in the first instance. The Arts Council also depends on grant applicants and recipients being able to secure partnership funding from other sources, to manage the design, development and construction phases of projects themselves and to ensure that arts activity continues to take place once facilities have become operational.

1.13 The Arts Council’s grant applicant organisations determine which procurement approach to adopt for their major building projects. With relatively few exceptions (which include the design and build contract for the Wales Millennium Centre), most grant applicants follow a traditional approach to procurement, with separate contracts for design and construction elements. The Arts Council generally favours this approach by its clients as being most appropriate for the bulk of major capital projects (which are refurbishment and improvement rather than new-build projects) and for minimising the risk that building quality might be compromised through cost and time pressures during construction.

1.14 Most of the organisations awarded capital grants by the Arts Council between April 1999 and March 2007 have completed their building projects and are running as successful arts facilities and venues. Of the 49 major building construction and refurbishment projects awarded capital grants over this period, two have been abandoned – Wrexham Theatre (Case Study A) and the Parc and Dare Theatre, Treorchy (Case Study



### Case Study C: Parc and Dare Theatre, Treorchy

In June 2005, the Arts Council's Capital Committee deferred its scheduled consideration of an application for full project funding from Rhondda Cynon Taf County Borough Council as, between submitting its application and having it considered by the Arts Council, the local authority decided not to continue with the theatre project. The local authority subsequently repaid £124,000 in capital grants that it had received from the Arts Council towards developing the project before it was terminated.

C). As at 31 March 2007, nine major projects were in progress, including the proposed National Centre for Photography, Port Talbot (Case Study L) and Ruthin Craft Centre (Case Study M).

- 1.15 As well as supporting the development and completion of particular projects in particular locations, the Arts Council has cross-cutting objectives for its capital programme investment. In response to the Disability Discrimination Acts 1995 and 2005 (Case Study D), the Arts Council introduced a cross-cutting objective to help improve access and associated facilities for disabled people in arts venues, through an initiative encouraging arts organisations to make appropriate improvements to their non-publicly owned buildings and facilities. However, despite setting aside funds within its capital programme specifically for such projects, and widely publicising the availability of these funds, the take-up by arts organisations has been low and slow.

### Case Study D: Capital funding to help venues comply with the Disability Act 1995 and 2005

In 2002, the Arts Council carried out a review of accessibility for disabled people to the 60 arts venues across Wales, well in advance of the coming into force in October 2004 of Part 3 of the Disability Discrimination Act 1995 which required that organisations take reasonable steps to ensure that disabled people are not discriminated against when using their services. The Disability Discrimination Act 2005 further extended the scope of Part 3 of the 1995 Act to include private clubs, potentially embracing more arts organisations. After conducting another study to ascertain the possible cost implications of the 2005 Act, the Arts Council established and publicised a sub-programme of Lottery capital funding specifically for disability-related projects, setting aside over £1.5 million over the three years 2004-2005 to 2006-2007. A small number of projects are now going ahead throughout Wales. The Arts Council published its latest arts and disability strategy, *Moving Beyond*, in April 2005, setting out its priorities and plans in relation to disabled artists and arts consumers in Wales.

### The Arts Council and its clients depend on other funding partners to contribute towards major projects in the capital programme

- 1.16 The Arts Council co-funds major building construction, refurbishment and upgrade projects with other public bodies, usually contributing between a quarter and three quarters of total project costs. The Arts Council's main regular funding partners are:
- WEFO, established as an executive agency of the Assembly Government in April 2000, becoming a division within the Assembly Government in April 2003;
  - the former WDA, which became part of the Assembly Government in April 2006<sup>9</sup>;
  - the former Wales Tourist Board, which also became part of the Assembly Government in April 2006; and

<sup>9</sup> Most of the former Department for Enterprise, Innovation and Networks became part of the new Department for the Economy and Transport, following the 2007 National Assembly elections.

## Case Study E: Tŷ Newydd Writers' Centre, Cricieth

The grant applicant, the Taliesin Trust, was a well-established organisation with a successful track record in running Wales' National Writers' Centre at Tŷ Newydd. The objective of the project was to refurbish and upgrade the Tŷ Newydd building, a former home of David Lloyd George, to improve facilities at the writers' centre, including full disabled access. In 1996, the Arts Council made two successive grants to the Taliesin Trust, some £5,000 for a feasibility study followed by some £44,000 to develop the scheme. A subsequent grant application by the Taliesin Trust for £1.6 million was rejected by the Arts Council in 1999, on the basis that the proposed level of investment was difficult to justify in view of the levels of public accessibility. The Arts Council then awarded the Taliesin Trust some £14,000 to develop its plans with a view to applying for European funding from WEFO. In November 2002, the Arts Council deferred consideration of an application for £650,000 by the Taliesin Trust, on the basis that further development of the proposal was necessary, before awarding £900,000 in March 2003 towards the estimated £2.1 million total project costs for the renovation and refurbishment of the Tŷ Newydd building. In February 2004, the Arts Council awarded a further £110,000 to the project towards increased project costs, taking its contribution to just over £1 million. Over the next 12 months, the Taliesin Trust secured funding offers from WEFO (£375,000), Gwynedd Council (£325,000), the Heritage Lottery Fund (£250,000), and the former WDA (£182,000); though an application to the former Wales Tourist Board was unsuccessful. At the end of 2004, the total estimated project costs were £2.4 million. Building work began in February 2005 and was completed, slightly behind schedule but within budget, in March 2006. The Tŷ Newydd Writers' Centre was officially reopened in May 2006.

- those of the 22 local authorities in Wales that provide support towards major projects in their areas.

Other bodies that have contributed towards individual projects include the Millennium Commission (now the Big Lottery Fund), the Heritage Lottery Fund, the Assembly Government Department for Local Government and Culture<sup>10</sup>, and various private organisations.

**1.17** The Arts Council is dependent on its various funding partners being able to consider applications relating to major arts projects in good time, to contribute the full amounts of funds applied for by the Arts Council's clients, and to honour their intentions and commitments throughout the life-cycle of each project. Each of the Arts Council's principal funding partners has its own objectives, priorities, budgetary constraints and administrative procedures relating to capital project funding, which creates co-ordination and communication challenges for the Arts Council and its clients, particularly given the

often long lead times for the design and development of projects.

**1.18** Examples of effective working between major funding partners on particular projects are the Tŷ Newydd Writers' Centre, Cricieth ([Case Study E](#)), the Soar Ffrwdamos Community Centre, Penygraig ([Case Study F](#)), and Theatr Mwlidan, Cardigan ([Case Study G](#)). We found that key success factors common to these projects were:

- funding partners' willingness to converge financial support packages during project development, consistent with their respective corporate objectives;
- open and timely communication between major funding partners during project construction, with the Arts Council generally taking a lead role in monitoring the construction phase; and
- mutual commitment by funding partners to actively engage in supporting projects to succeed and in constructively handling difficulties that arise.

<sup>10</sup> The Culture parts of the former Department for Local Government and Culture were incorporated into the new Department for Rural Affairs and Heritage, following the 2007 National Assembly elections.



## Case Study F: Soar Ffrwdamos Community Centre, Penygraig

The grant applicant, Valleys Kids, was a well-established organisation with a successful track record in providing arts activity. The objective of the project was to refurbish and upgrade the Soar Ffrwdamos chapel building to provide a multi-use community arts centre, with full disabled access. In 2003, the Arts Council contributed £84,000 to project development. This was followed by £1.1 million for the construction phase of the project in 2004, in two successive awards (for £820,000 and £265,000) towards total project costs of £2.3 million. Between these two awards, the Arts Council carried out an exercise to review and reduce costs prior to building work beginning, due to tenders for the construction work coming in greater than estimated and budgeted. As well as the Arts Council, funding partners included WEFO, the former WDA, the former Wales Tourist Board and the local authority, Rhondda Cynon Taf County Borough Council. During construction, the project fell behind schedule and costs increased, mainly due to problems with dry rot and the roof of the building. These increased costs were met by additional contributions from WEFO and the former WDA. Originally scheduled to be completed in late January 2006, the building work was finished in early April 2006, in time for programmed events to take place at Easter.

## Case Study G: Theatr Mwldan, Cardigan

The Theatr Mwldan company was established in 1992. It holds the site of the theatre on a long lease from Ceredigion County Council and owns the building within which the media centre is located. In 1998, an initial project proposal for Arts Council funding was unsuccessful. Supported by project development funding of £27,000 from the Arts Council, Theatr Mwldan then developed a proposal to attract European funding through the establishment of a centre for creative industries on the site to promote local economic development. The objective of the revised project was to develop Theatr Mwldan into a 'creative hub', involving the expansion and refurbishment of the theatre (including a new build second auditorium), the conversion and refurbishment of adjoining buildings into a new media centre for creative individuals and business, and improvements to road access and car parking. The total estimated cost was £6.4 million, with major contributions coming from WEFO, the Arts Council, Ceredigion County Council and the former WDA. The Arts Council awarded Theatr Mwldan £1.6 million towards the project (25 per cent of estimated costs) in December 2000. The rest of the funding package took two years to secure, a process that Theatr Mwldan found difficult and lengthy. In June 2002, following receipt of tenders for the building construction contract, the original budget was found to be insufficient. The Arts Council made a supplementary grant to Theatr Mwldan of £600,000 in June 2002 towards this increase in estimated costs. Following construction completion, the Arts Council awarded an additional £135,000 towards cost overruns in May 2004, taking its total contribution to £2.3 million, a third of the £6.9 million total final project cost. The Arts Council is also supporting Theatr Mwldan financially through its Arts Outside Cardiff programme.

**1.19** In the case of the Tŷ Newydd Writers' Centre (**Case Study E**), although the Taliesin Trust failed to secure additional funding from either the private sector or the former Wales Tourist Board, the main public sector funding partners (the Arts Council, WEFO, Gwynedd Council, the Heritage Lottery Fund and the former WDA) remained committed to the project, despite estimated project costs increasing as the project was developed and delays occurred due to the weather and local flooding during construction work. However, the Taliesin Trust found the different processes and procedures of their main project funding partners challenging, particularly concerning cash-flow management during the building works phase.

**1.20** In the case of the Soar Ffrwdamos Community Centre (**Case Study F**), despite problems relating to changes in the scope of the project during detailed design and development, and time overruns and increased building costs during construction, the main funding partners (the Arts Council, the former WDA, WEFO and Rhondda Cynon Taf County Borough Council) remained engaged with and committed to the project and provided support, over a five-year period, to ensure its successful completion in April 2006. However, Valleys Kids (the grant applicant) found the different processes and procedures of its main project funding partners to be challenging, particularly regarding duplication of effort in making

## Case Study H: Torch Theatre, Milford Haven

The Torch Theatre Company is a well-established organisation, and the theatre building is a venue for theatre, opera, music, dance and cinema. In April 2002, the Arts Council awarded the Torch Theatre a capital grant of £36,000 towards development funding to thoroughly review the theatre's capital needs. In July 2004, the Arts Council awarded a major capital lottery grant of £2.75 million towards an estimated £5 million project to upgrade and extend the building and to purchase equipment. As well as building refurbishments, the project included adding a second auditorium, improving the cinema, new facilities for community arts groups, a gallery, conference facilities, and improving disabled access. The Arts Council also provided a grant of £15,000 from its capacity building scheme to enable the Torch Theatre to appoint a professional fundraiser for the project. The Torch Theatre had also applied to WEFO for support in 2003 but, after initial indications that some European funding would be made available to the project, its application was rejected on the basis that the Arts Council had not at that time confirmed whether capital lottery funding would be available towards the project. Following the Arts Council's award of £2.7 million, the Torch Theatre applied again to WEFO, in August 2004, for £2 million partnership funding towards the project. In July 2005, WEFO rejected the Torch Theatre's application once again. By this time the estimated total cost of the project had increased to £5.4 million, mainly due to cost increases arising from the delay in starting the project. In September 2005, the Arts Council awarded an additional capital grant of £1.75 million towards the project, made available from the failure of other projects in the capital programme to proceed, taking its total contribution to £4.5 million. In view of the Torch Theatre's strategic importance, the Arts Council also contributed funds towards the theatre from its Arts Outside Cardiff programme, funded by Assembly Government grant, and from its sustainability programme, to help with capacity building.

capital grant applications and receiving regular payments of grant money during project construction.

- 1.21 In the case of Theatr Mwldan ([Case Study G](#)), despite the arts centre's initial difficulties achieving recognition as a strategically important venue and in attracting capital funds for the project, the project was redefined to be more attractive to a wider range of funding bodies. The new theatre, new gallery (Oriol Mwldan), refurbished cinema, and a multi-media centre (Creative Mwldan Creadigol) for small creative arts businesses, became progressively operational between January and June 2004.
- 1.22 An example of the difficulties in building and maintaining a funding partnership is the Torch Theatre, Milford Haven ([Case Study H](#)). The Theatre approached the Arts Council and WEFO for the majority of the estimated costs, along with other financial support from the former Wales Tourist Board and a transfer of land from the local authority, Pembrokeshire

County Council. Despite strong initial indications that some European funding would be made available for the project, and following two successive submissions to WEFO and a lengthy period waiting for a decision, no European funding was ultimately forthcoming. The Arts Council and the Assembly Government subsequently awarded additional funds to the project, in view of its strategic importance for the development of performing arts in Wales. This enabled major refurbishment work to begin as planned in November 2006. Another example is Ffotogallery ([Case Study L](#)), awarded £2.4 million by the Arts Council in April 2003 towards the creation of a National Centre for Photography in Wales, but which has experienced significant difficulties in securing partnership funding for the over £4 million project to be based in Margam Park near Port Talbot, with the result that construction is not yet underway.



*Aberystwyth Arts Centre  
Source: Arts Council of Wales*

### **Extending the use of strategic agreements with all key funding partners would help improve operational co-operation and coordination on capital projects**

**1.23** Since July 2005, the Arts Council has had a strategic partnership agreement with the Welsh Local Government Association. This is intended to facilitate more consistent strategic co-ordination with local authorities and to be a framework for joint working, particularly to strengthen the case for investing in culture and the arts as a driver of economic and social change. The Arts Council also has representatives from all 22 local authorities in Wales on its three Regional Committees to help inform its own regional arts strategies and planning. Despite this, there is considerable variation in the Arts Council's relations with individual local authorities in Wales concerning capital investment in the arts. Local authorities also vary in the level of investment they make in arts facilities and

programmes, faced with competing priorities for financial resources<sup>11</sup> and the fact that investment in arts provision is a discretionary matter for local authorities.

**1.24** The report of the Wales Arts Review recommended<sup>12</sup> that the Arts Council develop strategic partnerships with consortia of local authorities, to expand and formalise these existing arrangements and consider replacing the current Regional Committees with the new partnerships in due course. For its part, the Wales Audit Office would encourage any initiative to improve strategic co-ordination and co-operation between the Arts Council and local authorities in Wales which might lead to more effective and efficient delivery of major capital projects funded by the Arts Council that involve local authorities. The Arts Council's relationship with local authorities in Wales is particularly important as local authorities can be both clients and partners of the Arts Council in relation to major capital projects.

**1.25** Regarding funding partners other than local authorities, the Arts Council has had strategic co-operation agreements with certain public bodies in the past and is seeking to develop new agreements in future. These relate to specific sectors and sub-programmes, such as the development of creative industries (the subject of an agreement with the former WDA) or cultural tourism (the subject of a possible agreement with Visit Wales, the former Wales Tourist Board). However, the Arts Council has had no memorandum of understanding, concordat or other form of overarching strategic co-operation agreement with major funding partners such as WEFO, the former WDA and the former Wales Tourist Board, now all part of the Assembly Government.

<sup>11</sup> Improvement Studies Summary Reports, Wales Audit Office, March 2006, pages 9-13

<sup>12</sup> A Dual Key Approach to the Strategic Development of the Arts in Wales, Wales Arts Review, November 2006, paragraphs 1.39, 5.2 and 5.12

- 1.26** To facilitate better joint working, we would see merit in the Arts Council putting in place a strategic partnership agreement with WEFO in particular, as one of the Arts Council's cross-cutting objectives for its capital programme is to seek to maximise opportunities for attracting European funding. This would be in addition to and complement the Arts Council's established policy and resources framework with the Assembly Government. We note that the Arts Council has already taken steps during 2006-2007 to enhance its strategic and operational relations with WEFO.
- 1.27** At individual project level, each funding body independently scrutinises an applicant's legal status and financial viability, the suitability of the proposed project against local and national strategic plans, and the reasonableness of project costs. We found that although funding bodies often consulted each other about matters such as the availability of matched funds, the priority attached to the project by partner bodies and timing issues, they did not usually share with each other the results of their project appraisal and project risk assessments.
- 1.28** Our interviews with officials in the Arts Council's main partner bodies (WEFO and the former WDA) revealed a consensus that there was room for improvement in collaborative working, and in particular for greater sharing between funding partners of basic information about applicant organisations and of the results of project appraisals. In our view, the different objectives and priorities of the various funding bodies are not a barrier to co-operation; they can complement each other and enhance individual project development and assessment. Officials in both the Arts Council and WEFO in particular told us that they would welcome closer links with each other on specific projects that they are involved in co-funding.
- 1.29** For the Arts Council's clients (applicants for major capital grants), the different objectives, priorities and procedures of the various funding bodies involves them in considerable effort and some duplication when submitting applications for project funds. In addition, the different timetables for considering grant submissions can create problems for grant applicants in securing matched funds in the first place, and delays by funding bodies in dealing with applications can create problems for applicant organisations in managing their cash-flows. Not surprisingly, we found that grant-applicant organisations would like to see more consistency in the funding application forms and procedural requirements of different major funding bodies.
- 1.30** In our view, major projects benefit from the clear designation of a single body as the lead organisation. We found that the Arts Council's funding partners and clients broadly viewed it as an efficient and effective partner regarding the development and implementation of major capital projects. For those projects that are predominantly arts-related, therefore, the Arts Council is the natural lead; although there may be occasions when specific factors point to another organisation taking the lead, such as where economic development is the primary intended benefit of a major capital project, or where the Arts Council is a relatively minor contributor of capital funds.
- 1.31** For the Arts Council to adopt a lead role in this way would have the potential to benefit other funding bodies by enabling them to rely more formally and systematically on the work of the Arts Council and its professional consultants in managing their respective programmes and when carrying out their own project assessments. It would also benefit the Arts Council's clients by reducing the administrative burden on them in dealing with different bodies and assist them with





managing their own projects. For the Arts Council to assume such a designated lead role in relation to arts projects would require the endorsement of the Assembly Government and the agreement of funding partners.

## **The Arts Council is operating sound processes for assessing the merits of major capital projects**

### **The Arts Council has well-established processes for assessing major project proposals that are readily available to and understood by applicants**

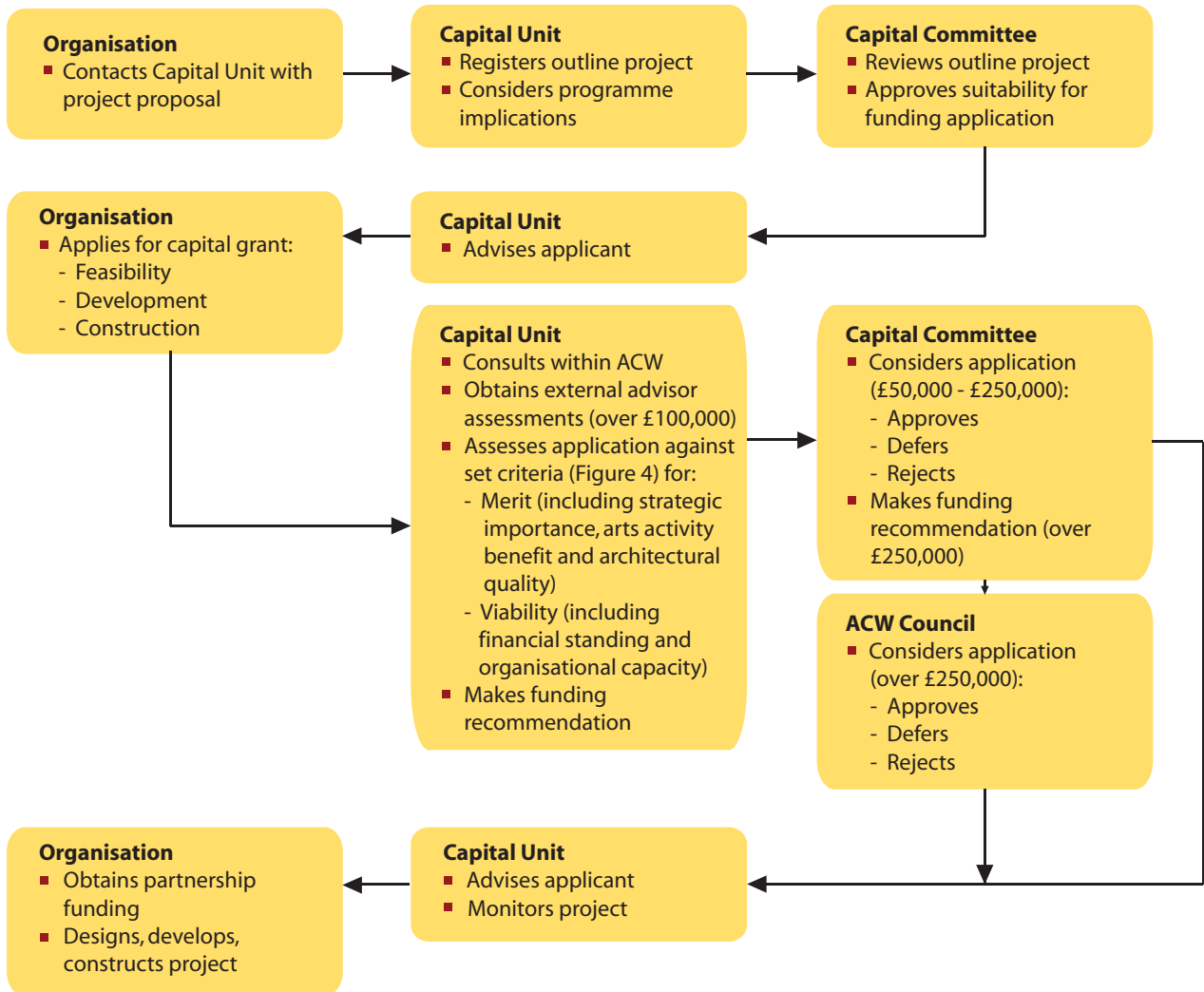
**1.32** The Arts Council is required by the Assembly Government and the Department for Culture, Media and Sport to have well-established processes for assessing major capital project proposals. The Arts Council's main processes and procedures for assessing the merits of project proposals, in terms of their strategic importance, operational benefits and architectural quality (paragraphs 1.35-1.41 below), and for assessing the financial viability and capacity of the applicant organisations (paragraphs 2.13-2.19 of this report) are summarised in **Figure 3**. Grant applications are processed differently depending on the value of grant applied for. The Arts Council's central Capital Unit, its regional offices and its Capital Committee each has defined roles in the process for assessing project proposals, assisted, where appropriate, by professional external advisors.

**1.33** The Arts Council issues clear and succinct guidance to applicants for capital project funding that sets out the objectives and priorities for its capital programme, the purposes and of its capital grants, the types of

capital grants available, and its criteria for project assessment. The guidance explicitly states that the Arts Council will give priority to applications that fit in with its strategy and that come from organisations with an established track record and sound financial standing. Interviews with representatives in the arts organisations visited by the Wales Audit Office established that grant applicants understood the Arts Council's application procedures and its project assessment criteria.

**1.34** We also found that these organisations broadly appreciated the assistance given by officials in the Arts Council's central Capital Unit with supporting them to refine the scope of their project proposals and project funding packages. The Arts Council encourages applicants for major capital grants to contact other similar organisations in Wales that have gone through the process of applying for capital funds and managing the development and construction of their own projects. The consistent view from people interviewed at the organisations we visited was that, while they welcomed the capital funding they had received for their projects, the actual experience of managing detailed development and construction had generally been challenging and testing of organisational skills and resources. In our view there is an opportunity for the Arts Council to be more proactive in facilitating mentoring between grant applicants and recipients in relation to major capital projects, for example through national or regional seminars on capital project and capital funding issues. This would help improve the transfer of knowledge and experience in the sector about applying for capital grants, managing capital projects and sustaining arts activity in new, improved or refurbished venues.

**Figure 3: The Arts Council has well-established processes for assessing applications for major capital project funding**



Source: Wales Audit Office



**Figure 4: The Arts Council's capital project assessment criteria cover a wide range of factors**

- 1 contribution to Arts Council's strategic aims
- 2 demonstrable benefit to the people of Wales and quality of arts activity and participation
- 3 opportunities for people with disabilities
- 4 standard of design and building work
- 5 environmental sustainability, including building materials, energy efficiency and transport considerations
- 6 amount of funding from sources other than the Arts Council
- 7 financial stability, including the ability to meet any future running costs
- 8 robust marketing plans
- 9 educational and outreach activities proposed
- 10 capability and structure of management to complete the project successfully
- 11 assessment and recording of risks associated with the project and the development of a suitable risk management strategy

Source: Arts Council of Wales, May 2006<sup>13</sup>

**The Arts Council assesses the merits of project proposals systematically and consistently, considering their strategic importance, arts activity benefit and architectural quality**

- 1.35** The Arts Council has clear criteria for assessing capital grant applications for major building construction and refurbishment projects. These criteria, set out in **Figure 4**, cover a wide range of factors. Among the criteria are a number that are used to assess the merits of individual projects (**Figure 4**, criteria 1-5 and 9) and others used to assess the financial viability and related risks of individual projects (**Figure 4**, criteria 6-8, 10 and 11). This section of the report focuses on the Arts Council's application of its criteria for assessing the merits or quality of project proposals. The Arts Council's assessment of the financial viability of project proposals and related risks is examined in Part 2 of this report.
- 1.36** Overall responsibility for handling capital grant applications and reviewing their eligibility rests with the Arts Council's Capital Unit. The Arts Council requires all applicants for grants of over £50,000 to register their projects in outline, prior to formal applications for grant awards, to allow its Capital Unit to screen

potential applications for their merits against programme objectives. As organisations develop their project proposals in more detail they may submit successive applications for project funding from the Arts Council and receive capital grants towards project development (see further, paragraphs 2.7-2.12).

- 1.37** The Capital Unit assesses applicants' developing proposals against three key criteria: their goodness of fit with the Arts Council's strategic aims; their benefits in terms of the quality of arts activity and participation; and the quality of their design and building work, including fitness for purpose. Secondary criteria relating to quality aspects of project proposals cover opportunities for disabled people, environmental sustainability issues, and educational and outreach activities. In assessing the merits of applications for major capital grants, the Capital Unit liaises internally with colleagues in the three Arts Council regional offices about the application and the relevant Regional Director gives a formal assessment of the project, how it fits with the regional strategy, regional programmes and other projects for arts development in the region.

<sup>13</sup> Information on Capital Lottery Grants, Arts Council of Wales, May 2006

**1.38** The Capital Unit also engages professional external assessors, such as architects and quantity surveyors, to comment on the merits of particular project proposals and project specifications, where appropriate. The professional, external architectural assessment addresses the quality and fitness for purpose of the proposed building works. For 2006-2007 the total cost to the Arts Council of its external architectural assessment of individual capital projects was £7,600.

**1.39** Each project is different, with different merits and risks, involving different solutions, projected costs and funding requirements. The Capital Unit scores individual criteria and no relative weighting is put on any particular criterion. We found that Capital Unit officers took a rounded approach to making an overall recommendation on individual projects, before submission to the Capital Committee for review and decision. Based on our analysis of a sample of 15 projects and review of relevant papers, we found that the Arts Council's officials applied the assessment criteria consistently across different projects. We also found that Arts Council officials systematically documented the application of appraisal criteria during the project assessment process.

**1.40** From our detailed examination of 15 projects ([Appendix 2](#)) and our review of Capital Committee papers for the five years 2002 to 2006, we found that the Capital Committee dealt with applications on a consistent basis, relative both to other applications of a similar nature and to progressive and successive applications relating to the same project. We found that the Capital Committee reviewed and challenged the assessment and scoring undertaken by the Arts Council's officials and

external professional advisors before making its decision or, in the case of awards over £250,000, making a recommendation for the decision of the full Council (the Arts Council's governing body). We also found that key deliberations and decisions were clearly documented.

**1.41** The Arts Council has developed its project assessment criteria over recent years in light of generally recognised good practice, and continues to refine them in response to new developments. For example, the 'environmental sustainability' criterion was specifically and separately designated in 2006, being previously included as an element in the broad 'standard of design and building work' criterion. In our view, there is scope to refine the Arts Council's approach further by brigading its criteria into two main categories for project assessment purposes and further sub-dividing or combining certain existing assessment criteria (see [Figure 5](#)). This would enable the Arts Council to assess the risks and rewards on 'quality' (strategic fit and community impact) and 'viability' (financial health and organisational capacity) issues separately before coming to an overall project evaluation.

**In the light of its experience, the Arts Council has changed certain programme policies and processes to improve effectiveness**

**1.42** The Arts Council carries out formal project monitoring and periodically reviews the effectiveness of its capital programme. This enables it to refine its policies and processes to better target its capital resources and achieve greater impact from its investment in arts projects. In recent years, the Arts Council has made the following changes to its programme policies and processes:



**Figure 5: Suggested assessment categories and key criteria for major capital projects**

- 1 Quality: strategic fit, community impact and building design and construction:
  - contribution to Arts Council strategic objectives & priorities;
  - community benefit and impact;
  - equality of access and participation (including opportunities for people with disabilities);
  - standard of arts activity (including educational and outreach activities);
  - fitness for purpose of building proposals;
  - standard of design and building work; and
  - environmental sustainability of facility (eg, materials, energy efficiency and transport issues).
- 2 Viability: financial health and applicant capacity:
  - funding required from sources other than the Arts Council;
  - financial health of the applicant organisation;
  - ability of applicant organisation to meet projected future running costs;
  - capability of applicant organisation's management;
  - robustness of applicant's risk assessment and risk management plans;
  - project management and construction contractor assessment; and
  - robustness of marketing plans.

- Capital grants to multi-use venues, such as community centres, village halls and church halls, have proved to be relatively poor value for money, since arts activity tended to fail at the expense of non-artistic activity. In 2005, following review of the results of systematic capital project monitoring, the Arts Council's Capital Committee agreed to adopt a more stringent approach to considering and awarding grants to these venues. The Arts Council now gives priority to venues with a good track record of activity and that are well managed, while not wishing to exclude from consideration any applicants whose proposal appears promising.
- Capital grants to schools and educational organisations have also proved difficult regarding compliance with grant conditions over time and subsequent action to recover capital grants where arts activity tailed off or failed at these venues.

The Arts Council consequently amended its eligibility requirements for capital grants and revised its guidance to grant applicants so that applicants were made fully aware of their long-term obligations.

- Public Art is a priority area in the Arts Council's capital strategy, but was not attracting enough applications for good-quality public art projects. In 2004, the Arts Council reviewed and refined its capital grant guidelines in consultation with Cywaith Cymru, the national organisation for public art in Wales, and the arts regeneration agency CBAT, to encourage more and better-quality applications.
- In 2002, the Arts Council revised and tightened its policy and guidance on repeat applications by traditional brass and silver bands for capital grants for musical equipment purchases.

## Part 2 - The Arts Council's spending on major projects in its capital programme is adequately safeguarded

- 2.1** To comply with the financial requirements of its main sponsor, the Assembly Government, and of the Department for Culture Media and Sport, the Arts Council needs to ensure it manages its capital programme spending with regard to the principles of propriety and value for money. Key risks for the Arts Council are that it fails adequately to manage its financial exposure during the development and building phases of major capital projects and that, once projects have been completed, the new or improved facilities may result in a poor return on the Arts Council's capital investment, in terms of sufficient levels of arts activity to be viable.
- 2.2** This part of the report considers how well the Arts Council ensures its capital spending on major building construction and refurbishment projects is adequately safeguarded.



Activity at Aberystwyth Arts Centre  
Source: Arts Council of Wales

### The Arts Council's spending on major capital projects is based on managing risks

#### The Arts Council manages its capital programme against the background of fluctuating and uncertain Lottery income

- 2.3** Over the eight years 1999-2000 to 2006-2007, the Arts Council has operated first a three-year and then a five-year rolling capital programme. This programme is funded from its share of Lottery money received under the National Lottery Act 1993, advanced by the Department for Culture, Media and Sport. Overall some two-thirds of the Arts Council's Lottery income in the eight years from 1999-2000 to 2006-2007 has been on capital grants, with the remainder on revenue grants. The Arts Council's capital programme budget, awards and payments for this period is shown in **Figure 6**. The Arts Council's current capital programme spending plans for the five years 2007-2008 to 2011-2012 totals nearly £16 million. The Department for Culture, Media and Sport has informed the Arts Council that the arts in Wales will continue to receive Lottery funding after January 2009 but because of the nature of the Lottery the level of this funding cannot be forecast with certainty.
- 2.4** Relative to its £58 million capital programme budget for the eight years from 1999-2000 to 2006-2007 (an average of just over £7 million a year), **Figure 6** shows that the Arts Council has awarded nearly £61 million in grants



**Figure 6: The Arts Council's capital programme budget for 1999-2000 to 2006-2007 was £58 million, over £7 million a year on average**

All amounts £m	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Budget	9.6	6.7	8.5	10.7	6.1	7.6	3.7	5.2	58.1
Awards	12.9	9.6	5.3	3.4	7.4	9.1	8.7	4.5	60.9
Payments	4.7	5.1	4.3	7.6	11.9	8.1	5.7	6.0	53.4

Source: Arts Council of Wales

(an average £7.6 million a year) and made payments to projects of over £53 million (an average £6.7 million a year). The variations between the programme budget figures, grant awards and grant payments are due to timing differences inherent in managing spending on major capital projects. Timing differences arise for a variety of reasons, including:

- organisations may not submit formal grant applications to the Arts Council for consideration as planned (for example because they need more time to develop their plans and/or secure funding from other sources);
- awards can be made by the Arts Council well before funds are actually drawn down by grant recipients (for example because of the need for applicants to secure additional funding);
- the Arts Council may defer awarding grants having considered applications (for example if it is not happy with aspects of the proposal and it requires applicants to deal with these before making an award);
- the Arts Council does not make payments to grant recipients until recipient organisations have formally confirmed acceptance of the grant offer; and
- the Arts Council only processes payments after it has received appropriate evidence of expenditure being incurred by the grant recipient.

**2.5** Overall demand on the Arts Council for capital funding in the period 1999-2000 to 2006-2007, measured as the total amount of funds that arts organisations have requested, was some £108 million; £50 million (86 per cent) more than the £58 million budgeted in the Arts Council's capital programme and £47 million (77 per cent) more than the £61 million actually awarded by the Arts Council in capital grants over the same period. The Arts Council considers that the situation whereby demand for capital funds significantly exceeds supply is likely to continue for the foreseeable future.

**2.6** The Arts Council manages its capital programme budget overall by prioritising spending on those major capital projects that offer the best fit with the Arts Council's own strategic agenda and concentrating on applicant organisations that have a proven track record in successfully operating arts facilities. It manages its in-year programme budget by closely controlling and monitoring expenditure on ongoing major capital projects, over-programming (including more projects in the programme that available funds can support) to take account of slippage in the

timing of actual need for funds by applicant organisations, maintaining projects on a reserve list and supporting the development of new projects. The Arts Council also reviews funding commitments on old projects to enable recycling of unused funds elsewhere within the capital programme, and reallocates sums recovered from projects that fail to proceed and sums recovered from organisations that fail to comply with grant conditions.

### **The Arts Council adopts a staged and supportive approach to funding major capital projects**

**2.7** The development and implementation of particular capital projects can take many years. To manage the risks associated with uncertainty over its funding commitments as project proposals are developed by applicant organisations, the Arts Council adopts a staged process to supporting the development and on-site construction of arts facilities. This involves applicants registering their projects early on, and then progressively developing their project proposals to recognised architectural standards. The Arts Council's Capital Unit also gives advice and assistance to grant applicants and recipients, on a case-by-case basis, during the development and implementation of projects. The purpose of the Arts Council's staged process and supportive approach is to help organisations improve their applications and ultimately succeed with their projects, while seeking to safeguard its own investment of funds through progressively increasing certainty over project costs.

**2.8** Organisations planning to apply to the Arts Council for capital grants of more than £50,000 are required to register projects in outline with the central Capital Unit in advance of making a full application. As well as enabling the Arts Council to screen

potential applications for their merits against its programme priorities, this allows the Capital Unit to identify, early-on, any financial and other risks arising from the proposed nature and scale of the projects. This in turn helps the Arts Council to manage the phasing and funding of individual projects in the programme within available capital resources.

**2.9** Following project registration, the Arts Council's Capital Unit involves itself early in the design and development of all major arts capital projects, to help applicants improve the robustness and realism of project proposals. This advice and support to applicants identifies and pursues key areas of risk in project development, such as over-ambition, unrealistic capital cost projections, over-optimistic running cost impacts and ill-defined project benefits. We found, from our visits to seven arts organisations ([Appendix 2](#)), that these bodies were broadly grateful for the advice, assistance and support given by officials of the Arts Council's Capital Unit in helping them to develop and implement their project proposals. Some of the organisations visited found early intervention by the Arts Council to be challenging and occasionally over-prescriptive at the time, but ultimately beneficial in outcome.

**2.10** We found that the Arts Council officials adequately recorded significant actions relating to their early involvement in project development on formal project files, and that these actions were also formally noted in the minutes of the Arts Council's Capital Committee. We noted, however, that the Arts Council does not formally evaluate the impact of its early involvement. In our view such evaluation would help the Arts Council more clearly identify common issues of concern in project development and help it refine its objectives and priorities in supporting the development of major capital projects.





## Case Study I: Butetown Artists Studios and Bayart Gallery, Cardiff

Butetown Artists first formed as a studio group in 1992, at a run-down, Grade 2 listed building in Bute Street that had housed artist's studios since 1979. In October 1995 the group received a capital grant of £5,000 from the Arts Council towards the costs of a feasibility study into the refurbishment of the building, followed in December 1996 by a grant of £127,000 for project development. In 1997 the artists group reconstituted as a company limited by guarantee, aiming to provide secure and affordable working spaces for its members and to investigate the potential of refurbishing the building to exhibit art to the public. In July 1997 Butetown Artists successfully secured a capital grant of £664,000 from the Arts Council towards the estimated £950,000 costs of refurbishing and improving the building to provide 16 artist's studios and a new art gallery. Mainly funded by the Arts Council, other significant contributions came from Cardiff City Council, CADW, the former Cardiff Bay Development Corporation and the Foundation for Sport and the Arts. Building work began in January 1998. By March that year a number of problems arose with the project, mainly relating to the discovery of greater than expected dry rot, the need for greater than anticipated repairs to stonework and the need for additional work on the building foundations. In January 1999 the Arts Council approved a supplementary award of £89,000 towards increased project costs, taking its total contribution to some £750,000. The building works also took longer than planned to complete, eventually over-running by nearly six months. The refurbished artists' studios were operational from 2000. The project overall, including the new art gallery, was completed in late 2001 and formally opened in February 2002. The total cost of the capital project was nearly £1.1 million. Following the completion of the capital project, Butetown Artists was awarded significant revenue grants by the Arts Council for capacity building, in 2003 (£50,000) and 2004 (£37,000), to enable it to employ part-time staff and put the gallery element of the organisation in particular on a more sustainable, long term footing.

- 2.11** For major capital grants of £100,000 or more, the Arts Council operates a three-stage project development process, which may be supported by successive capital programme grant awards. This staged process allows issues specific to individual projects to be addressed and resolved during project definition and development, before construction or refurbishment work begins. First, applicant organisations are required to carry out a feasibility study and full options appraisal, to RIBA 'stage C' standard. For those projects which look promising, applicants are then required to develop their plans to RIBA 'stage D' standard, which includes the development of detailed architectural proposals, project cost plan and organisational business plan. It is at this stage that the Arts Council takes its decision on approving funding for the proposed building works. However, before applicants can draw on the approved funds they are required to develop their plans to RIBA 'stage E' standard, when greater certainty over project design and costs is achieved and final refinements and enhancements to projects can be dealt with.
- 2.12** Where specific concerns are raised as a result of the 'stage D' assessment, decisions on major capital grant awards may be deferred by the Arts Council's Capital Committee, allowing applicants to deal with these before further consideration of the 'stage E' grant award. As a result of its progressive introduction of the 'stage D' requirement (in 1999) and the 'stage E' requirement (in 2003), and the greater certainty over costs that it has brought, the Arts Council has managed virtually to eliminate applications for supplementary grants at the construction phase of major projects, which occurred with earlier projects such as Bayart (Butetown Artists), Cardiff ([Case Study I](#)), the Aberystwyth Arts Centre ([Case Study J](#)) and the Newport Theatre and Arts Centre ([Case Study Q](#)). The Sherman Theatre, Cardiff, ([Case Study K](#)) is a recent example where the Arts Council has required the applicant to do more work on its detailed proposals before considering a final major capital grant award for project construction.

## Case Study J: Aberystwyth Arts Centre and Creative Arts Business Units

### Arts Centre

Aberystwyth Arts Centre is one of the largest and busiest arts centre in Wales, with an annual turnover of over £3 million and receiving over 500,000 visitors a year. The arts centre is run as a department of the University of Wales, Aberystwyth. It receives annual revenue funding from the Arts Council and is also supported by Ceredigion County Council and by the University itself. The main capital redevelopment of Aberystwyth Arts Centre took place between 1997 and 2000, following a period of research and consultation by the arts centre management, beginning in 1994, to develop the project. The project involved redeveloping and re-equipping the building, including a new cinema, gallery, performance studio and workshop spaces, as well as refurbishment of the theatre foyer and front of house areas. In May 1997 the Arts Council awarded £2.5 million towards the then estimated £4.1 million cost of the project, but noted that the main risk at that point was uncertainty over project costs, which required further development. When tenders were received for the project the lowest tender submitted was £1.7 million higher than the pre-tender estimate, highlighting serious deficiencies in existing cost estimates. This necessitated a reassessment of the design of the project to keep in within budget, including changes to specification and a drastic cutting back in planned equipment procurement, from £1.1 million to £300,000 (a reduction of over 70 per cent) to help fund structural elements. This led the Arts Council's Capital Committee to question whether the revised project was still viable or appropriate in terms of its quality and cost-effectiveness. The arts centre's management and officials of the University also expressed concerns about the effect that the proposed changes would have on the architectural integrity of the project, given the arts centre's regional and national importance. Following a review of the project, in September 1998 the Arts Council's Capital Committee approved a subsequent supplementary grant award of £150,000 of matched funding, to cover the reinstatement of certain items deemed necessary to enabling the objectives and long term operation of the project to be fulfilled. This took the Arts Council's approved contribution towards the project to £2.65 million. The Arts Council also made it clear that there would be no further funding available for the project beyond this amount. Construction began in November 1998, under a fixed-price contract. The arts centre remained open for business during the building works phase of the project, during which construction difficulties and contractor management problems occurred. The building contractor submitted a number of claims, but the arts centre contained cost overruns within its overall budget of £4.3 million. The building works were completed in April 2000, six months later than planned. An economic impact assessment of Aberystwyth Arts Centre carried out in 2004 estimated that the refurbished arts centre directly and indirectly supported almost £5 million of local economic turnover and was responsible for over £1 million of disposable earned income in the regional economy, directly supporting over 100 full-time equivalent jobs.

### Creative Arts Business Units

Aberystwyth Arts Centre was awarded a £94,000 capital grant by the Arts Council in June 2005 towards developing a project to provide newly-built accommodation units for creative arts businesses, to integrate with the centre's existing infrastructure. In March 2006 the Arts Council's Capital Committee approved a grant for some £350,000 towards a £1 million project to build 16 units (tenancies for six of which have already been agreed in principle), with other funds coming from the former WDA (£200,000) and from the arts centre itself (£280,000). Construction of the units, originally planned to begin in summer 2006, is now scheduled to begin in December 2007 and be completed by June 2008.

### **The Arts Council thoroughly assesses the viability of project proposals, considering the financial standing and organisational capacity of grant applicants**

**2.13** The Arts Council's process for appraising the viability of project proposals in major capital grant applications reflects the requirements of both the Department for Culture Media and Sport and the Assembly Government for

ensuring propriety and value for money. The Arts Council assesses the applicant's financial health and stability, and the robustness of its business plan and project cost plan, including detailed review of project costs, marketing plans and future revenue projections. The Arts Council also assesses applicants' organisational capacity to manage their capital projects and deliver their artistic programmes following project completion.



## Case Study K: Sherman Theatre, Cardiff

The grant applicant, the Sherman Theatre Ltd, was established in its present form in 1987, is a major producing and presenting venue in South Wales and a revenue client of the Arts Council. The theatre company holds the theatre building on a 125 year lease from the Arts Council, which owns the freehold to the property. The theatre building is in a poor state of repair and lacks adequate rehearsal space for the theatre companies that use the facility. In March 2004 the Arts Council awarded the Sherman Theatre £35,000 towards a feasibility study into proposals to improve the venue. In April 2005 the Sherman Theatre subsequently submitted an application to the Arts Council for £212,000 towards the development of the proposed theatre improvement project. Following assessment, this was considered by the Capital Committee in September 2005. At this stage the building works for the proposed project were estimated to cost a little over £8 million, with the Arts Council indicating its intention to cap its contribution at £4 million, a property development company indicating it would be prepared to contribute some £2 million towards the construction of residential units as part of the redevelopment, and leaving £2 million to be found from other sources. The Capital Committee approved the award subject to a number of specific conditions, including clarification of proposed arrangements with the property developer and clearer determination of the accommodation requirements of proposed residents. The Sherman Theatre is still developing its 'stage D' detailed proposals for, and likely costs of, construction work on the building, and working on additional fundraising. In parallel with working on its capital project proposals, the Sherman Theatre was included on the Arts Council's pilot programme for sustainable organisations, which included reviewing the operation and structure of the theatre company and exploring the potential for partnerships with and residencies for other drama-related organisations.

- 2.14** To complement its own internal expertise in assessing the financial viability of projects the Arts Council uses external professionals at key stages as proposals develop. All capital projects over £100,000, and certain projects under £100,000 if deemed necessary because of specific risks, are externally reviewed. The Arts Council appoints and manages, on a contract basis, a pool of professionally qualified and experienced external experts, including business advisers, venue managers, architects and quantity surveyors. The main external assessors of financial viability are a business consultant to review the business plan and related risks, including visitor numbers or seat sales, and a quantity surveyor to review costs. For 2006-2007 the total cost to the Arts Council of its external financial assessment of individual capital projects was £12,900.
- 2.15** Grant applicants receive a copy of external assessors' reports for information and comment. The Arts Council requires the applicant to agree the factual accuracy of the external assessor's report and invites the applicant to comment on the external assessment before formal consideration of the application by the Capital Committee. The external assessors' reports help the applicant and the Arts Council to clarify matters and to take action on, or make changes to, applications. These matters may include the realism of post-project running cost projections and visitor numbers.
- 2.16** As a result of the Arts Council's assessment, the scale and scope of applicants' proposals may be changed during project design and development. For example, the original proposal for Theatr Mwldan, Cardigan ([Case Study G](#)) was scaled up to make the most of potential for integrating the theatre improvements with the provision of space to house local creative industries. On the other hand, original plans for the Tŷ Newydd Writers' Centre ([Case Study E](#)) were scaled down into separate phases to make the project more realistic to deliver and to fund, with Phase 2 of the project, involving an earth-covered extension to the building, still to be developed and financed.



*Ty Newydd Writers' Centre*  
 Source: Arts Council of Wales

**2.17** The assessment of organisational capacity in relation to applications for major capital grants is done by Arts Council officials, drawing on internal knowledge and information about applicant organisations, particularly where these are existing revenue clients of the Arts Council. Arts Council officials do, however, refer to and draw on external assessors' reports for additional insight on capacity issues, particularly the business consultant's review of the organisation's business plan. Where organisational capacity concerns arise, the Arts Council may support its capital grant applicants or recipients in two main ways:

- by providing capital grant assistance for professional project management support where this would benefit a particular arts organisation and improve project delivery prospects; and
- by providing, from 2004-2005, revenue grants for 'sustainability' or 'capacity building' purposes, through a pilot programme to help improve the artistic and financial stability of arts organisations.

**2.18** The Arts Council's pilot programme for sustainable arts organisations rationalised what was previously a set of ad hoc revenue grants for capacity building or financial stabilisation purposes, in addition to the Arts Council's specific annual revenue grants. The Arts Council may consider the need for additional revenue funding to improve financial stability before an arts organisation submits a formal application for capital grant, as was the case for Ruthin Craft Centre ([Case Study M](#)) and Oriel Mostyn ([Case Study N](#)). The pilot programme is still operating, with a planned review of the programme originally scheduled for 2006-2007 deferred pending the outcome of the Wales Arts Review in 2006 and, subsequently, pending the Arts Council's own internal reorganisation, due to be fully implemented by October 2007. The sustainable arts pilot programme shows the inter-relation between the Arts Council's capital and revenue funding streams and its efforts to be joined-up in providing financial support for its clients. Examples are the Torch Theatre, Milford Haven ([Case Study H](#)), where the Arts Council provided a revenue grant to pay for a professional fundraiser to raise additional money towards the capital project, and the Sherman Theatre ([Case Study K](#)) where the theatre company has worked with independent consultants to review its entire operation and the potential for partnerships with other drama-related organisations.

**2.19** Regarding capital grants for professional services, we found from our visits to projects that the arts organisations supported in this way welcomed and valued this form of direct assistance in helping them achieve their project outcomes. For example, in the case of Ty Newydd Writers' Centre, the Arts Council made the appointment of a professional project manager, to support the Centre's



Director manage the construction phase of the project, a condition of grant and provided specific funds for this as part of the overall grant award (**Case Study E**). Five of the 15 projects reviewed by the Wales Audit Office (**Appendix 2**) involved specific capital grants for project management, with fees varying from £14,000 to £50,000 and averaging £36,000. For the eight other projects where building works have been completed or are underway, project management was included in contracts with the project architects or for other composite professional services.

### **The Arts Council assesses project risks, based on risk assessments produced by grant applicants**

**2.20** The Arts Council's management of its capital programme is based on processes that identify, assess and seek to mitigate key operational and financial risks relating to individual projects. In assessing risks associated with funding individual projects, the Arts Council is required by its main sponsor the Assembly Government, and by the Department for Culture Media and Sport to operate policies and procedures, taking account of the type and value of projects, that require grant applicants to have appraised project risks and uncertainties.

**2.21** For its part, the Arts Council requires grant applicants to demonstrate that they have identified and assessed the risks associated with their projects and to have developed suitable strategies to minimise the impact of these risks. Risks include not securing sufficient funds, funding delays, planning permission difficulties, changes in key organisational staff, increased future running costs and fluctuations in future income. The Arts Council requires all applicants for major capital grants to provide three scenarios in their applications for grant funding: where funding is provided at the

optimal level requested, where funding is reduced by 25 per cent and where funding is reduced by 50 per cent. The Arts Council also requires applicants to have realistic contingency plans for dealing with reduced funding levels.

**2.22** The Arts Council requires all applicants for major capital grants to undertake some form of sensitivity analysis, to show the vulnerability to future uncertainties of key assumptions in business cases, such as income and expenditure projections. All applications for grants over £100,000 towards major capital projects must also include formal revenue and capital risk analyses, and a risk register for the construction phase of a major project. The Arts Council uses this information to assess the overall risks of each project. From our review of major capital projects we found that the quality of applicants' sensitivity analyses was variable. The Arts Council does not require applicants to undertake or document their sensitivity analyses in a consistent way. In our view, the Arts Council would improve its assessment of applicants' business plans if, for high value and/or high risk projects, it promoted a standard sensitivity analysis methodology for applicants to follow.

**2.23** Arts Council officials and its external assessors carry out detailed evaluation of the underlying assumptions in applicants' business plans. This analysis also tests the robustness of applicant's contingency plans for dealing with financial, organisational capacity and project delivery risks. Where this assessment raises either fundamental concerns or novel and contentious issues, the Arts Council, using external assessors if necessary, will carry out its own detailed sensitivity analysis of the business plan. One example where the Arts Council did this

## Case Study L: Ffotogallery, Port Talbot

Ffotogallery was established in 1978 and is the national development agency for photography in Wales. It is a revenue client of the Arts Council and is also supported by Cardiff County Council. Originally based in Cardiff city centre the organisation has relocated, on a temporary basis, to the Chapter Arts Centre in the west of Cardiff, with the gallery element located at Turner House in Penarth, pending the planned establishment of a National Centre for Photography in Wales at Margam Park near Port Talbot. The organisation was awarded £28,000 by the Arts Council in May 1998 towards a feasibility study into the setting up of a National Centre for Photography, followed by an award of £75,000 from the Arts Council in December 2000 towards project development. In April 2003 the Arts Council awarded the project £2.4 million towards estimated total project costs of over £4 million. Ffotogallery and its project partner, Neath Port Talbot County Borough Council, then experienced a year's delay in securing a capital contribution from the Heritage Lottery Fund and difficulties in securing anticipated European funding through WEFO, which is not yet forthcoming. Ffotogallery anticipates the need for increased revenue funding from the Arts Council following the eventual completion of the capital project, which the Arts Council has already committed to doing, and Neath Port Talbot County Borough Council has also given a commitment to provide annual revenue support towards the proposed National Centre for Photography.

was with the project proposal for Ffotogallery to relocate from Cardiff to Port Talbot (Case Study L). The Arts Council carries out its own sensitivity analysis on an exceptional basis because it considers the effort and expense of doing this not to be worthwhile in the majority of cases.

- 2.24** It is part of the Assembly Government's strategic agenda to ensure that theatres and performance spaces improved and equipped through Lottery capital funding have sufficient revenue so that these cultural assets can be fully used. As part of its assessment of project risks, the Arts Council's officials and its external assessors review applicants' business plans for the robustness of their future revenue and marketing projections, including the implications for future revenue funding from the Arts Council. The completion of a major capital project often has revenue impacts for the arts organisations that run these facilities, as visitor numbers and income may increase but often so will running costs. For those organisations that are revenue-funded clients of the Arts Council this can mean an increased demand on the Arts Council itself for revenue grant support, if the organisation's running costs increase more than its income.

- 2.25** Among the fifteen projects examined in detail by the Wales Audit Office (Appendix 2) were examples where, following the completion of major capital projects, organisations' running costs have actually increased or are anticipated to increase or where their income has been less than anticipated, illustrating the ways that such pressures have been managed by the parties involved. In the case of Theatr Mwldan, Cardigan (Case Study G), the theatre's income increased more than projected after it was reopened in September 2004, but then declined to lower than anticipated levels. The Arts Council did not increase its revenue funding support for the venue as a result but is supporting the theatre by providing funds from its Arts Outside Cardiff programme, which will be consolidated with the annual revenue grant to the organisation from April 2008.

- 2.26** In the case of Ruthin Craft Centre (Case Study M), also a revenue client of the Arts Council and owned and managed by Denbighshire County Council, the planned £4.3 million refurbishment and extension of the craft centre, to create a nationally important venue for contemporary craft and applied art, is expected to increase its running costs when it reopens in 2008. In recognition of the centre's strategic importance for the



## Case Study M: Ruthin Craft Centre

Ruthin Craft Centre opened in 1982 and is owned and managed by Denbighshire County Council. It is a revenue client of the Arts Council and also a regular recipient of grants from the Arts Council for specific arts projects. In June 2003 the Arts Council awarded the craft centre £10,000 towards a feasibility study into the proposed redevelopment of the centre to support its longer term development as a strategically important venue for the Arts Council. This was followed in July 2004 with a £138,000 capital grant award from the Arts Council to develop the project, and in March 2005 by an award of £60,000 directly from the Assembly Government to support the project's development. In December 2005 the Arts Council awarded £3.1 million towards the £4.3 million project to extend and refurbish the building to create a national centre for contemporary craft and applied art. Other funding contributions include a further £675,000 from the Assembly Government (the former Department for Enterprise, Innovation and Networks and Visit Wales), £480,000 from Denbighshire County Council and £10,000 from Ruthin Town Council. The existing craft centre building closed in December 2006 and redevelopment work began on site in April 2007, nearly six months later than originally scheduled because of delays securing partnership funding. Ruthin Craft Centre plans to open again in summer 2008 in a new building, housing larger exhibition galleries, an expanded craft retail gallery, an education space, two craft residency studios, six craft workshops and a restaurant. In recognition of Ruthin Craft Centre's strategic importance, the Arts Council plans to increase its core revenue funding of the centre before the completion of the capital project, to enable the centre to appoint staff and develop its programme prior to reopening.

Arts Council, as one of a Wales-wide network of galleries and a centre of excellence in the field of applied art, the Arts Council plans to increase its core revenue funding of Ruthin Craft Centre before the capital project is completed, in addition to contributing £3.1 million in capital grant towards the centre's reconstruction.

- 2.27** In the case of Oriel Mostyn, Llandudno (**Case Study N**), an established revenue grant recipient of the Arts Council, the current refurbishment of the art gallery and its extension into neighbouring premises gives rise to the possibility of increased demands by the gallery for revenue funding support from the Arts Council after the capital project is completed in 2009, particularly as the gallery will be closed for the duration of the building works, affecting its own income generation. Following its assessment of Oriel Mostyn's business plan for the project (drawn up by a consultant contracted by the gallery in 2005), the Arts Council has given a commitment to increase Oriel Mostyn's annual revenue funding and continues to monitor the gallery's financial standing.

### **The Arts Council is developing its assessment and management of capital programme and project-specific risks**

- 2.28** The Arts Council's main sponsor, the Assembly Government, and the Department for Culture Media and Sport require it to have robust risk management arrangements for its own operations. The Arts Council's overall system of internal control includes risk management processes. The Arts Council has a corporate Risk Management Policy and its staff and members have to ensure that the activities, policies and procedures of the Arts Council are conducted in accordance with the policy. The Arts Council's Corporate Risk Register identifies and categorises high-level risks, assesses their potential impact and likelihood of occurrence, and sets out actions to mitigate them.
- 2.29** The Corporate Risk Register includes a number of high-level corporate and financial risks relating to the management of Lottery capital funds, covering financial, capability and construction risks. However, it contains no specific entries for risks relating to the day-to-day operations of the central Capital

## Case Study N: Oriel Mostyn, Llandudno

The Mostyn Art Gallery was first established in 1901 to show the work of the Gwynedd Ladies Art Society, making it the first gallery in the world built specifically to exhibit the work of women artists. It closed when the building was requisitioned for use as a drill hall in the First World War and only reopened as an art gallery in 1979. Oriel Mostyn is regarded by the Arts Council as a key venue in the regional network of galleries throughout Wales and is one of its established revenue grant clients. In 1995 the Arts Council awarded Oriel Mostyn £4,000 towards the costs of a feasibility study for the development of the building adjoining the gallery. In February 1999 the Arts Council awarded a further £9,000 towards a second feasibility study into the possible purchase of the next-door building, followed in July that year with a £320,000 award towards the purchase of the adjacent building and the development of a project to create improved gallery space, educational workshop space, shop and cafe. However a three-year delay occurred with the anticipated purchase of the adjacent building, during which time the expected selling price of the building increased. In September 2002 the Arts Council therefore awarded Oriel Mostyn a supplementary capital grant of £45,000 towards the planned purchase. In the event, this supplementary grant was not needed as Oriel Mostyn failed to purchase the adjacent building, being outbid by a property development company who planned to convert the upper floors of the building into dwellings. Oriel Mostyn, advised by the District Valuer, then entered discussions with the property developer about the possibility of leasing the ground floor for the proposed gallery extension and secured a 125-year leasehold in April 2004. In February 2005 the Arts Council awarded Oriel Mostyn a capital grant of £140,000 towards detailed design work on the project. In November 2005 the Arts Council deferred an award to Oriel Mostyn in response to an application in for funding towards the main building works, because it considered further work was needed in a number of areas, notably on evaluating project costs, developing the business plan and on fundraising. In June 2006 the Arts Council awarded £2.6 million towards the £3.0 million estimated total construction cost of the project, and taking its overall funding contribution to £2.9 million. Work began late in 2007 and is scheduled for completion in spring 2009, including complete refurbishment of the main art gallery building's terracotta façade, cast-iron canopy and top-lit galleries, built in 1901.

Unit in managing the Lottery-funded capital programme. At the time we began our examination, the Capital Unit had not undertaken a risk assessment of its capital grant appraisal and project funding activities, nor did it carry out a formal assessment of financial or operational risks to the Arts Council that arise from the management of its capital programme. The Arts Council is now developing its identification and assessment of risks at capital programme level, to link more systematically with its overall corporate risk management procedures.

- 2.30** In 2006-2007, the Arts Council also improved its risk management processes for major capital projects by introducing standardised risk register documents for each project where the Arts Council's capital grant is for £100,000 or more, formally to identify project-specific risks and to record relevant risk management actions planned or in place. The project risk register is compiled at the

pre-tender stage of project development and is used as a dynamic document for the construction phase of the project, up to and including post-completion project evaluation. In our view the risk register should be initiated, at least in outline form, at project registration stage, notwithstanding that not all registered major projects go forward to full capital grant funding for development and construction. This would ensure that the risk register covered the full life-cycle of each proposed project, whether successful or not in securing capital grants, and provide the Arts Council with a means of reviewing and analysing risk factors that militate for and against success in different circumstances.

- 2.31** For its major capital grants, the Arts Council's processes for assessing applications and monitoring projects (Figure 3) are geared to thresholds relating to the amount of funds it awards to major capital projects. In doing this, the Arts Council treats financial materiality





Oriel Davies  
Source: Arts Council of Wales

(the monetary size of its capital grant awards) as a proxy for financial and operational risk. However, given that individual major capital grants in the eight years 1999-2000 to 2006-2007 have been from £50,000 to £8 million per award, with an average of £800,000 in total awards per project, there may be a case for the Arts Council to review the level of its existing thresholds, which would seem to be set too low and reflect an over-cautious approach. The impact of this would be to lessen the internal administrative burden for the Arts Council in processing grant applications and awards.

- 2.32** Furthermore, there may be a case for the Arts Council to develop a more explicitly risk-based approach to its assessment of grant applications and monitoring of projects, not driven by simple financial materiality at all. Such an approach would focus on identifying key risks relevant to different projects and arts organisations, and actions to manage these risks, and would handle projects along three

or four main procedural routes according to an overall risk rating (for example, low, medium, high, very high) rather than simply the size of its capital grant contribution. This approach could be based on the Arts Council's existing or revised project assessment criteria (Figure 4 and Figure 5), which are already sufficient to identify key project-specific risks. It would be no less proper than using simple financial thresholds, but involve a more project-specific and applicant-specific assessment of grant applications.

## The Arts Council takes adequate steps to protect and control its financial exposure on major capital projects

### The Arts Council requires applicants to accept standard and specific grant conditions and to agree legal contracts

- 2.33** The Arts Council's approach to safeguarding its investment once a grant has been agreed is to set conditions to the grant. As well as standard general conditions of grant the Arts Council also sets specific grant conditions for applicants, in grant letters, to ensure that particular issues and concerns relating to individual projects are made explicit. The Arts Council does not make grant payments until the recipient organisation has formally confirmed its acceptance of the grant offer and any additional grant conditions. The Arts Council places legal charges on buildings for all its major capital projects and agrees formal legal contracts with applicant organisations for all grant awards over £500,000. The Arts Council also formally approves project plans prior to their construction to make sure they are consistent with grant conditions and legal agreements.

## Case Study O: Bethel Chapel Community Arts Centre, Llanishen, Cardiff

The Arts Council awarded £151,000 in 1996 to the Wales United Reform Church for the construction of a new-build community arts centre on the site of the former Bethel Chapel at Llanishen, Cardiff. The organisation set up to run the centre experienced increasing difficulty maintaining the level of arts activity set out in the original grant application and the arts programme folded in summer 2002. As the building was no longer being used for the purpose for which capital grant funding was awarded, the Arts Council entered discussions with the United Reform Church to discuss a way forward, including possible action to reclaim a proportion of the original funding. In early 2003 the Arts Council agreed to give the United Reform Church the opportunity to deliver the project as originally envisaged. But in late 2004, arts activity at the centre was virtually non-existent. The usual course of action in such cases would be for the Arts Council to ask the grant recipient to sell the Lottery-funded asset (the building) and to use the proceeds to repay an appropriate proportion of the grant. However, the United Reform Church held that it was not liable for any repayment, and to complicate matters the building was still being used as a thriving community centre and a place of worship. The Arts Council has taken formal action to write-off the grant.

**2.34** Grant recipients are contractually bound to notify the Arts Council of any changes to the objectives and purpose of the project and the Arts Council can withhold payment or institute claw-back if grant conditions are not followed. Where the grant recipient defaults, the Arts Council's conditions specify that the grant offer lapses forthwith, with no further amounts payable and amounts already paid becoming immediately repayable in full. Defaults include the recipient ceasing to operate as a going concern or changing the purpose or ownership of a project after completion. Should projects fail, the Arts Council requires recipient organisations to verify inventories to safeguard against losses of residual assets.

**2.35** Organisations offered grants over £500,000 also have to sign a legal contract to abide by grant conditions and to agree not to change project plans without first notifying the Arts Council and securing their agreement. The Arts Council can withhold payment of a grant instalment or claw back part or the whole of the grant if the contract terms are broken. Negotiating legal contracts with applicants can be protracted, so if the Arts Council needs to make grant payments before the legal contract is signed it protects its position by requiring the grant applicant to sign a formal 'side letter' agreeing not to depart from

grant conditions and to continue to negotiate the contract in good faith. The Capital Unit's budget in 2007-2008 for professional fees relating to arranging legal contracts is some £30,000, though spending on legal fees since 1999 has been as high as £70,000 in a single year. Ten out of the fifteen projects examined in detail by the Wales Audit Office involved full legal agreements covering capital grants. For 2006-2007 the total cost to the Arts Council for legal fees on individual projects was £41,100.

**2.36** The Arts Council generally applies its right to recover grant payments where the grant recipient defaults, either during project development, as in the case of the Wrexham Theatre project ([Case Study A](#)), or after project completion. Concerning certain bodies with charitable status (schools and Methodist chapels), the Arts Council has acted on a case-by-case basis, taking account of legal, practical and client-relations considerations. For example, the Arts Council has not sought grant recovery action in relation to Bethel Chapel Community Arts Centre ([Case Study O](#)), where meaningful arts activity slowly ceased following capital grant. On the other hand, the Arts Council is actively pursuing recovery action in relation to payment of capital grants totalling £800,000 to Brolli



### Case Study P: Broli Cymraeg, Flintshire

The grant recipient, Broli Cymraeg Trust Ltd, is a community-based charity set up to promote education through the performing arts. In 2004 the Arts Council reviewed its provision of revenue-funding to a wide range of organisations, concluding in the case of Broli Cymraeg that the organisation was no longer delivering the activity for which it was revenue funded. The Arts Council also decided that Broli Cymraeg was in breach of the conditions under which it had been awarded capital grant support, and is now actively pursuing recovery of its grant payments, totalling £800,000.

Cymraeg, a community-based charity dedicated to education through the performing arts (Case Study P), where the arts activity on which the capital grant was conditional has also ceased.

### The Arts Council caps its major capital grant awards and insists on cost reviews when cost pressures subsequently arise

**2.37** As major capital projects proceed through development to construction there is a risk that project costs may increase because project specifications may change, because construction contract tenders may be higher than pre-tender estimates, or because unforeseen problems may be encountered during building works. As already noted (paragraph 2.12), as a result of its progressive introduction of the requirement for applicants for grants over £100,000 to develop their plans to formal architectural standards and thereby achieve greater cost certainty, the Arts Council has, over the last five years, virtually eliminated the occurrence of supplementary applications from grant recipients towards increased costs.

**2.38** The Arts Council manages cost escalation risks by capping its own capital grant awards, thereby transferring these risks to other funding partners and grant recipient organisations themselves. The Arts Council has also, together with other funding partners, insisted on cost review or 'value engineering' exercises to contain costs within budget on particular projects. These can arise during formal review at RIBA 'stage D' or 'stage E', or at tender stage. Aberystwyth Arts Centre (Case Study J) is an example, prior to the progressive introduction of the 'stage D' and 'stage E' process from 1999, where a detailed review of the design and costs of the project was undertaken following receipt of construction tenders. On the other hand, the Wrexham Theatre project (Case Study A) is an example where escalating project costs, problems with contractors and local concerns about future running costs all led to the abandonment of the project by the grant recipient (Wrexham County Borough Council).

**2.39** Other examples where reviews have been undertaken to reduce or validate increases in estimated project costs include Soar Ffrwdamos Community Centre, Newport Theatre and Arts Centre and Galeri Caernarfon. In the case of Soar Ffrwdamos Community Centre (Case Study F), in February 2004, following submission of the 'stage D' application, the Arts Council awarded the project £820,000 towards total project costs then estimated at £1.9 million, agreeing with the applicant (Valleys Kids) that the 'stage E' application would be submitted following receipt of tenders for the construction contract. The lowest tender for the £1.4 million construction work element, received by Valleys Kids in October 2004, came in some £160,000 (12 per cent) higher than expected. Valleys Kids then had to look for cost savings to keep the project within

## Case Study Q: Riverfront Theatre and Arts Centre, Newport

This £13.5 million new-build project was predominantly funded by the Arts Council (which provided £8.2 million, in three successive awards) and by the grant applicant, Newport City Council (which provided £4.7 million). Newport City Council intended the building to help with the longer term regeneration of the riverfront and city centre areas. The process of designing the combined theatre and arts centre began in 1998, towards which the Arts Council contributed £270,000 in project development funding. In July 1999 the Arts Council awarded a major capital grant of £6.5 million towards the construction of the new building. Further detailed design work then led to increases in estimated total project costs. After reviewing the design proposals and related costing, the Arts Council agreed to award an additional £1 million towards the project in 2000, partly to safeguard the architectural quality of the proposed building works. When construction tenders were received in August 2001, all the construction cost tenders were significantly in excess of the pre-tender estimate. This resulted in detailed discussion and negotiation by the applicant (Newport City Council) with the contractor and another cost review exercise. Following this, the Arts Council awarded a further supplementary capital grant for £725,000 towards the project in March 2002. Construction of the complex, containing a 400-seat auditorium, a 150-seat theatre, a dance studio and a range of community facilities (artists' studios, art gallery, recording studio and café), began on site in April 2002. During construction, the remains of a medieval ship (dating to around 1465) were discovered, which resulted in a six month excavation and consequent delay to the planned completion of the centre by nearly a year. The discovery also resulted in a redesign of the building works, with the addition of a basement display area relating to the archaeological find. The Arts Council made it clear that the unanticipated costs of the excavation, removal, conservation and interpretation of the ship were outside the scope of the Arts Council's grant awards, and the Assembly Government contributed funds for this expenditure. The building was completed and opened in October 2004, almost a year later than originally planned.

budget. Meanwhile, increases in anticipated costs for other project elements increased total project costs to an estimated £2.6 million. The Arts Council promptly engaged professional advisors to examine and comment on project cost estimates and on the tender documentation relating to the application. As a result of this cost review Valleys Kids agreed an approved schedule of cost saving measures with its main funding partners (the Arts Council, WEFO and the former WDA) and, in response to a subsequent application from Valleys Kids, the Arts Council awarded further funding of £265,000 towards the project in December 2004.

**2.40** In the case of the Riverfront Theatre and Arts Centre, Newport (**Case Study Q**), increases in estimated project costs during detailed design and construction led to successive reviews of project costs and of the amount of Arts Council funding. In this case the Arts Council agreed to two supplementary capital grant awards to the project (an extra

£1 million in 2001 and an extra £725,000 in 2002), in addition to its original £6.5 million grant award in 1999. This reflected the strategic importance for the Arts Council's capital programme of having a major arts facility in Newport and its wish to support a quality, landmark building.

**2.41** In the case of Galeri Caernarfon (**Case Study R**), when tenders were received for the construction element of the project in April 2003 they were more than £2 million (45 per cent) above the pre-tender cost estimate of £4.4 million. A subsequent value engineering exercise identified potential construction cost savings of £900,000. The Arts Council had anticipated that an application for supplementary funds was likely, as its original £2.1 million grant had been awarded much earlier, in December 2001, and before confirmation of partnership funding amounts, other than the contribution from the local authority, Gwynedd County Council, of the sale of the land to the grant applicant. As the construction of an arts venue in Caernarfon



## Case Study R: Galeri Caernarfon, Creative Enterprises Centre

The grant recipient is Cwmni Tref Caernarfon, set up in 1992 to pursue social, economic and environmental projects for the benefit of Caernarfon and its environs. In 1999 the Arts Council contributed nearly £100,000 towards the development of the project, in two successive capital grants. In June 2001 the Arts Council first considered a grant application from the organisation for the construction of a creative enterprise centre, including an auditorium, rehearsal space, an exhibition space and office space for creative enterprises. The project's aim was to bring arts to the community and the community into the arts. The Arts Council deferred its decision on the basis that further business planning and market research was needed. In December 2001 the Arts Council awarded £2.1 million towards the project, estimated at that time to cost some £5.7 million for design, construction and equipment procurement. Other bodies gradually confirmed their funding over the next 18 months, with major contributions offered by WEFO (Objective 1 funds) and by the local authority from the Local Regeneration Fund, and minor contributions coming from the former WDA and the former Wales Tourist Board. After initially pursuing a traditional procurement route and developing detailed design proposals during 2002, Cwmni Tref Caernarfon decided early in 2003 to proceed with a design and build contract, partly in order to be able to meet the March 2004 deadline for the drawdown of Local Regeneration Fund money awarded to the project. When tenders for the building works were returned in April 2003, the lowest tender received was £2.1 million over the pre-tender construction cost estimate of £4.4 million. Following a meeting with Arts Council officials and their professional advisors, Cwmni Tref Caernarfon then entered negotiations with its preferred contractor to identify potential cost savings, without adversely affecting the functional suitability of the building. This exercise resulted in savings of £900,000 being identified, but still confirmed a significant shortfall in overall funding for the now £7.5 million project. In October 2003 the Arts Council awarded a supplementary capital grant of £880,000 towards increased project costs, taking its total contribution to £2.9 million. At this time the contributions of other major funding partners stood at £2.2 million from Gwynedd County Council's Local Regeneration Fund allocation and £1.3 million from WEFO's Objective 1 money. Building work on the site began in September 2003 and was completed in January 2005, three months behind the planned completion date of November 2004. The new facility opened to the public in March 2005, and was officially opened on 1 April 2005, 10 years after the proposal for a creative enterprises centre was first presented to the Board of Cwmni Tref Caernarfon.

was a strategic priority for the Arts Council, it made a supplementary capital grant award towards the project for nearly £880,000 in October 2003, taking its total contribution to almost £3 million.

### **The Arts Council's monitoring of major projects during construction is proactive and proportionate, but with scope for greater integration with funding partners**

**2.42** The Arts Council monitors capital projects during construction through regular reports obtained from grant recipients and through periodic visits to construction sites by Arts Council officials and their professional advisers. Within broad thresholds, the level of reporting and frequency of visits in each case are determined by the physical and financial scale of the projects and particular construction or completion risks. The Arts

Council's monitoring of major capital projects during construction is designed to detect risks and problems before they materialise rather than having to manage difficulties later. The details of the Arts Council's monitoring requirements are set out in grant conditions and legal contracts.

**2.43** The Arts Council's grant conditions require that the client reports regularly on physical progress, on quality in accordance with the building specification, and on costs. For projects where the grant is less than £100,000, the Arts Council simply requires a project progress report, including a full income and expenditure return for the project, within six weeks of project completion. For projects over this threshold, the Arts Council requires copies of a range of documents from the grant recipient organisation on a regular basis during the construction phase, including

minutes of monthly design team meetings, progress reports and financial reports. The Arts Council's largest capital grant contribution to a single project is its £10.3 million in total capital grants towards the over £100 million Wales Millennium Centre. In this case the Arts Council and the two major funding partners, the Assembly Government and the then Millennium Commission (now the Big Lottery Fund), agreed on integrated project monitoring arrangements with a single set of professional advisors to assist with detailed project monitoring during the construction phase of the project.

**2.44** Arts Council officials and their professional advisers also visit projects during the course of construction on a periodic basis. For major capital building projects, the Arts Council requires that Capital Unit officials undertake regular site meetings to projects throughout the construction period, supported as necessary by external professionals. The frequency and duration of visits depend on the nature and complexity of individual projects, and the matters arising at any moment in time. For major capital projects where the Arts Council's capital grant is over £500,000, project monitoring visits are undertaken at least quarterly. The Arts Council informs its main funding partners in advance about the incidence and timing of its planned visits to grant recipients.

**2.45** For projects where its capital grant is over £500,000, the Arts Council also requires grant recipients to provide it with fully revised business plans six months before scheduled practical completion. This allows time for any emerging difficulties concerning the financial or operational viability of facilities to be identified and addressed before construction is completed. This now standard requirement was not in place, however, when in 1997 the Arts Council awarded its single largest capital

grant, its main £8.3 million award towards the construction of the Wales Millennium Centre. Consequently, before the completion of this new and exceptionally large project with no prior track record of operation, the Arts Council engaged professional advisors to review the Wales Millennium Centre's evolving business plan in 2003 and 2004.

**2.46** We found that the Arts Council's main funding partners on major capital projects each had their own project monitoring requirements and procedures and acted independently in requesting information from grant recipients. While all major funding bodies required broadly similar information of their grant recipients, this was not necessarily required from grant recipient organisations at the same time or in the same format, presenting these organisations with a significant administrative burden. Not surprisingly, we found that grant recipient organisations would appreciate simpler forms and more synchronised processes for submitting regular information returns to their major funding bodies for project monitoring purposes. In our view there would be benefits in this, for grant recipients in terms of reducing administrative effort and for funding bodies in terms of improving the consistency and comparability of reported information. Additionally, there is scope to make greater use of electronically available, standard reporting templates for submitting information returns to funding bodies.

**2.47** From our detailed project examination and visits to arts organisations, we noted that the Arts Council's officials and its professional advisors visited projects during construction more frequently than other major funding partners, such as WEFO and the former WDA and Wales Tourist Board. This is because the Arts Council prefers a 'hands-on' and 'face-to-face' approach to project monitoring and problem solving. Overall, we found that Arts



Council officials and their professional advisors were effective in reviewing project costs and in identifying potential problems through project monitoring. We also noted that their observations were generally regarded by grant recipients as helpful. For 2006-2007 the total cost to the Arts Council of its external monitoring of individual projects was £17,900.

**The Arts Council's post-completion project monitoring is tailored to particular circumstances, but should focus more consistently on the ongoing financial standing of capital grant recipients**

**2.48** The Arts Council formally requires, through its capital grant conditions, that recipients of capital grants complete a standard project evaluation document immediately on completion of their capital projects. The Arts Council also requires grant recipient organisations to self-certify ongoing compliance with grant conditions, and actively monitors compliance through a programme of visits to those organisations after project completion. The Arts Council's Capital Unit analyses the information from grant recipients' reports and its own project monitoring visits and raises matters of concern. Matters arising may be taken to the Capital Committee and full Council for consideration and action.

**2.49** Post-completion monitoring procedures are different for capital grants over £100,000 and those between £2,000 and £100,000. Monitoring practices for projects where grants exceed £100,000 are, where necessary, tailored to the precise circumstances of and risks relating to particular projects. Exceptionally, in the case of the Wales Millennium Centre the Arts Council's post-completion monitoring of its total £10.3 million capital grant investment in the project includes the Arts Council's Chief Executive attending the Board of the Wales Millennium

Centre as an observer, in addition to the Arts Council's standard post-project monitoring arrangements.

**2.50** The Arts Council's Capital Unit monitors how well its major capital grant recipients are complying with grant conditions after the project has finished through self-certification by grant recipient organisations. The Arts Council's conditions of grant stipulate a post-completion audit report from grant recipients. The Arts Council also requires annual self-reporting by grant recipient organisations, on standard capital audit report forms, for a period between five and 50 years, depending on the nature of the capital project funded; 50 years for new-build projects, 25 years for building refurbishment, 15 years for public art and five years for equipment purchases. The Arts Council's monitoring of arts organisations is broader than the specific work undertaken by the Capital Unit after the completion of capital projects and includes monitoring activity undertaken by arts development officers and financial monitoring officers, as well as annual reviews.

**2.51** The Arts Council's capital audit forms require that, among other things, grant recipient organisations provide the Arts Council with information about ongoing levels of arts activity at the facilities that have benefited from its capital investment. However, the forms do not explicitly require information about the ongoing financial viability of grant recipient organisations. Where organisations that have received major capital grants are also revenue clients of the Arts Council, Capital Unit monitoring officers rely on financial monitoring information gathered and maintained elsewhere within the Arts Council for assurance about the ongoing financial health of these organisations. However, where recipients of capital grants are not its revenue clients the Arts Council relies on these organisations to self-report on its capital

audit forms any matters of financial health or organisational capacity that the Arts Council should be made aware of. In our view, the Arts Council's post-completion project monitoring would be more rounded and robust if, for high value and/or high risk projects at least, its capital audit forms requested information about the ongoing financial standing of organisations and updates to key business plan projections for a reasonable period following project completion.

**2.52** There is an incentive for organisations to report on their projects since the Arts Council's ultimate sanction for non-compliance with reporting requirements is to seek recovery of capital grant, in full or in part. In recent years the vast majority of organisations (100 per cent in 2006-2007) have completed and submitted their project completion reports in the specified time. Regarding capital audit report forms, in 2004-2005 380 out of 411 (92 per cent) of relevant organisations, and in 2005-2006 410 out of 438 (94 per cent) of organisations, returned the forms sent to them by the Arts Council. However, for 2006-2007 the completion rate fell to 349 out of 454 (77 per cent). According to the Arts Council, this was because Capital Unit officers were unable to do as much chasing up of returns due, owing to overriding priorities related to internal review and reorganisation with the Arts Council.

**2.53** Officials of the Arts Council's Capital Unit also conduct a programme of post-completion project monitoring visits each year, planned to cover all grant recipient organisations and venues over a cycle of years. Organisations that are considered particularly at risk or that fail to return capital audit report forms are specifically targeted for visits under this programme. For the two years 2004-2005 and

2005-2006, this post-completion monitoring programme involved visits to some 60 organisations a year. The planned programme for 2006-2007 was suspended due to internal review within the Arts Council of monitoring procedures for both its capital and revenue grant clients, and by subsequent internal reorganisation within the Arts Council due to be completed by October 2007.

**2.54** Within the Arts Council's Capital Unit, capital project monitoring officers have a range of responsibilities, covering projects under construction as well as completed projects. The Arts Council is currently reorganising its client monitoring arrangements, to integrate its monitoring of revenue-funded organisations with its monitoring of capital projects into a common programme, managed by a single Arts Funding Unit. While this is welcome, in that it should provide the Arts Council with more internally joined-up review of its clients, there is a risk that the experience and expertise of Capital Unit officials may not be adequately maintained under the new arrangements. The Arts Council needs to ensure that its existing 'intelligent client' capability concerning capital projects is appropriately maintained and developed, given the size of the Arts Council's future capital programme for the five years 2007-2008 to 2011-2012 (£16 million overall, an average of £3.2 million a year) and its ongoing and long-term capital project monitoring interests.

### **The Arts Council should evaluate more systematically the benefits and impact of completed projects**

**2.55** A limited amount of assessment of the impact of capital funding for arts and arts-related projects has been undertaken in Wales, by and on behalf of various bodies. In April 2005, the then Culture, Welsh Language and





Sport Committee of the National Assembly published the results of its policy review of the contribution of arts and sport to community regeneration, which highlighted certain arts organisations, such as Valleys Kids ([Case Study F](#)). Individual arts organisations have also commissioned their own reviews. For example, in 2004, Aberystwyth Arts Centre commissioned Cardiff Business School to carry out an economic impact review of the arts centre, in part to support its application for Arts Council funding towards building creative arts business units next to the centre ([Case Study J](#)), and is undertaking an update of that study in late 2007. Theatr Mwdan ([Case Study G](#)) also commissioned an independent post-project review of its capital project.

**2.56** The Arts Council's Capital Unit has also carried out reviews of the effectiveness of its capital grant support for particular types of project and types of arts organisation, to improve its overall targeting of resources within its capital programme and thereby seek to achieve greater impact from its investment in capital facilities across Wales. As well as identifying areas for procedural improvement and for making changes to capital programme policies and priorities (Paragraph 1.42 refers), these reviews have also addressed the impact that capital grant awards have had on grant recipients and on users of arts facilities. For example, the Capital Unit's 2005 review of capital grants to multi-user venues (such as community centres, village halls and church halls) found that these had proved to be relatively poor value for money in terms of impact and longer-term benefit, as arts activity tended to fail at the expense of non-arts activity at the less well-managed venues. On the other hand, the Capital Unit's 2007 review of capital grant awards to dance organisations found that Lottery funding has

had a wide and immediate impact on the management, development and delivery of arts activity for those organisations, with capital funding in new, improved or refurbished facilities enabling them to increase their audience, increase participation, and raise the profile of the dance sector in Wales.

**2.57** While these reviews are individually informative, they are piecemeal and not part of a coherent, Wales-wide programme of research and evaluation. In our view, the Arts Council's post-completion project monitoring would be enhanced if the Arts Council itself actively promoted, sponsored or undertook a co-ordinated evaluation programme, assessing, on a consistent basis, the longer-term impacts and realisation of benefits from those major capital projects it funds. This would help the Arts Council refine its future capital programme priorities and funding decisions and inform the direction and targeting of its future strategic capital investment in arts facilities around Wales.

## Appendix 1 - Main study methods

- 1 A programme of semi-structured interviews with the Arts Council's main stakeholders and partners, including:
  - officials in the Assembly Government responsible for arts policy and strategy development and for sponsorship of the Arts Council;
  - officials in the UK Department of Culture, Media and Sport responsible for wider Lottery distribution policy and for supporting the Accounting Officer for the National Lottery Distribution Fund in his oversight of the Council's lottery distribution activities; and
  - officials in the former WEFO, the former WDA and the former Wales Tourist Board, bodies that jointly fund major arts capital projects with the Arts Council.
- 2 A programme of semi-structured interviews with Arts Council officials, including:
  - senior officials in the Arts Council with overall responsibility for managing the Council's capital grant and revenue grant programmes and for deciding on grant applications;
  - officials on the Arts Council's central Capital Unit responsible for assessing capital grant applications, administering grant awards and monitoring capital projects; and
  - the chair of the Arts Council's Capital Committee.
- 3 A review of documents held by the Arts Council, including:
  - systems and procedures documentation relating to the management of the capital programme and the appraisal, monitoring and evaluation of grant awards to major capital projects;
  - project files for 15 major capital projects, chosen to be representative of different geographical areas of Wales and of different types of capital expenditure ([Appendix 2](#)); and
  - Capital Committee minutes and papers for the five years from 2002 to 2006, inclusive, covering a wide range of capital grant awards to different organisations and projects.
- 4 A programme of visits to seven organisations that have received major capital grants towards building projects ([Appendix 2](#)), chosen to:
  - be geographically dispersed across Wales and be representative of different types of project; and
  - include past, current and proposed major projects.



## Appendix 2 - Summary of 15 major capital projects examined by the Wales Audit Office

- 1 The Wales Audit Office examined in detail 15 projects that had received or been awarded capital grants from the Arts Council (ranging from £200,000 to £10 million) for a variety of major works completed since 1999 or in progress. These projects were selected to be geographically spread across Wales and to be representative of different types of capital project (eg, new building construction, building improvement and refurbishment works) and different types of arts activities (eg, arts centres, theatres, galleries).
- 2 The Wales Audit Office also visited the arts organisations responsible for managing seven of these 15 projects, highlighted in bold in the following table, and interviewed officials from other main funding partners in Wales (WEFO, the former WDA, and the former Wales Tourist Board).

Project	Location	Total Arts Council Grant £m	Status 31 March 2007	Main Funding Partners	Description
Wales Millennium Centre	Cardiff	10.3	Completed	<ul style="list-style-type: none"> <li>■ Welsh Assembly Government</li> <li>■ Millennium Commission</li> </ul>	A new-build, multi-purpose, arts and entertainment centre, housing arts organisations and leisure, retail and commercial space. The Wales Millennium Centre opened in November 2004, at a total construction cost of over £100 million.
Wrexham Theatre	Wrexham	4.6	Cancelled	<ul style="list-style-type: none"> <li>■ Wrexham County Borough Council</li> </ul>	A new-build project for a theatre and performing arts centre, with a total project cost estimated at £6.3 million, abandoned by Wrexham County Borough Council in December 2003 (Case Study A).
<b>Torch Theatre</b>	Milford Haven	4.5	Under construction	<ul style="list-style-type: none"> <li>■ Wales Tourist Board</li> <li>■ Welsh Assembly Government Department for Enterprise, Innovation and Networks</li> <li>■ Visit Wales</li> <li>■ Pembrokeshire County Council</li> </ul>	A project to upgrade and extend the theatre building and purchase new equipment, at an estimated total construction cost of £5.4 million (Case Study H).

Project	Location	Total Arts Council Grant £m	Status 31 March 2007	Main Funding Partners	Description
Ruthin Craft Centre	Ruthin	3.1	Under construction	<ul style="list-style-type: none"> <li>■ Welsh Assembly Government Department for Enterprise, Innovation and Networks</li> <li>■ Visit Wales</li> <li>■ Denbighshire County Council</li> </ul>	The refurbishment and extension of a nationally important centre for contemporary craft and applied art, with construction estimated to cost £4.3 million. Due to complete in summer 2008 (Case Study M).
Oriel Mostyn	Llandudno	2.9	Under construction	<ul style="list-style-type: none"> <li>■ Oriel Mostyn</li> </ul>	The refurbishment and extension of the art gallery, due to be completed in spring 2009 for an estimated total construction cost of £3 million (Case Study N).
Galeri Caernarfon	Caernarfon	2.9	Completed	<ul style="list-style-type: none"> <li>■ WEFO</li> <li>■ WDA</li> <li>■ Gwynedd County Council</li> <li>■ Wales Tourist Board</li> </ul>	A newly-built creative enterprises centre costing £7.5 million that opened March 2005 (Case Study R).
<b>Aberystwyth Arts Centre</b>	Aberystwyth	2.7	Completed	<ul style="list-style-type: none"> <li>■ The University College of Wales Aberystwyth</li> </ul>	A major redevelopment of the largest arts centre in Wales, completed in 2000 at a total construction cost of £4.3 million (Case Study J).
<b>Ffotogallery</b>	Port Talbot	2.4	Development	<ul style="list-style-type: none"> <li>■ WEFO</li> <li>■ Neath Port Talbot County Borough Council</li> </ul>	The relocation of this gallery of photography from Cardiff to Port Talbot, to create a National Centre for Photography in Wales as part of the redevelopment of Margam Castle and Country Park (Case Study L).
<b>Theatr Mwldan</b>	Cardigan	2.3	Completed	<ul style="list-style-type: none"> <li>■ WEFO</li> <li>■ WDA</li> <li>■ Ceredigion County Council</li> </ul>	The expansion and refurbishment of the existing theatre building and the creation of a new media centre to house creative businesses. The theatre and media centre became progressively operational between January and June 2004, at a total construction cost of £6.9 million (Case Study G).



Project	Location	Total Arts Council Grant £m	Status 31 March 2007	Main Funding Partners	Description
Oriel Davies	Newtown	1.4	Completed	<ul style="list-style-type: none"> <li>■ The Gwendoline and Margaret Davies Charity</li> <li>■ Powys County Council</li> <li>■ Wales Tourist Board</li> </ul>	A two-phase redevelopment and refurbishment of the gallery, at a total cost of £1.7 million. Phase 1 was completed in December 2002 and Phase 2 in September 2004.
<b>Soar Ffrwdamos Community Centre</b>	Penygraig	1.1	Completed	<ul style="list-style-type: none"> <li>■ WEFO</li> <li>■ WDA</li> <li>■ Wales Tourist Board</li> <li>■ Rhondda Cynon Taf County Borough Council</li> </ul>	The refurbishment and upgrade of the community centre (a former chapel) completed in April 2006 at a total construction cost of £2.3 million (Case Study F).
<b>Tŷ Newydd Writers Centre</b>	Cricieth	1.0	Completed	<ul style="list-style-type: none"> <li>■ WEFO</li> <li>■ Gwynedd County Council</li> <li>■ WDA</li> <li>■ Heritage Lottery Fund</li> </ul>	The refurbishment and upgrade of the centre buildings, completed in March 2006 at a total project cost of £2.4 million (Case Study E).
Butetown Artists Studios and Bayart Gallery	Cardiff	0.8	Completed	<ul style="list-style-type: none"> <li>■ Cardiff City Council</li> <li>■ CADW</li> <li>■ Cardiff Bay Development Corporation</li> </ul>	The refurbishment of the building to provide upgraded artists studios and a new art gallery, completed in December 2001 at a total construction cost of £1.1 million (Case Study I).
<b>Theatr Powys</b>	Llandrindod Wells	0.7	Completed	<ul style="list-style-type: none"> <li>■ Powys County Council</li> </ul>	The total rebuilding of the theatre (destroyed by fire in 2000), completed in November 2006 at a construction cost of £1 million.
Glynneath Training Centre	Glynneath	0.2	Completed	<ul style="list-style-type: none"> <li>■ Neath Port Talbot County Borough Council</li> </ul>	An extension to the community training centre's existing building to provide a dedicated arts centre (the Fane Arts Centre) that opened in October 1999 at a total cost of £350,000.

## Appendix 3 - The Arts Council's action in relation to the Audit Committee's recommendations concerning procedures for managing Lottery-funded capital projects following the failed Cardiff Centre for Visual Arts project

- 1** In November 2001 the Auditor General reported on the Arts Council's involvement in the failed Centre for Visual Arts, Cardiff (the arts centre closed in November 2000 after only 14 months in operation). This led to the National Assembly's Audit Committee taking evidence from officials and former officials from the Arts Council between November 2001 and May 2002, before making eleven wide-ranging recommendations on Arts Council procedures relating to Lottery-funded capital projects in their own report of June 2002. These recommendations covered three broad areas – project appraisal, monitoring and evaluation.
- 2** The Assembly Government formally responded in December 2002 to the National Assembly Audit Committee's report. The Assembly Government and the Arts Council welcomed and accepted all the recommendations made by the Audit Committee. The response stated that the Cabinet was confident that the Arts Council's procedures were now more thorough and responsive to any difficulties should they occur, with the overall emphasis being on the prevention of difficulties but with strategies to tackle difficulties should they occur.
- 3** The Arts Council had introduced revised assessment and monitoring procedures for Lottery-funded projects in 1999, partly as a result of its experience with the Centre for Visual Arts. The Arts Council developed these procedures further in response to internal review following the failure of the Centre for Visual Arts project and, subsequently, following external audit scrutiny. These revised procedures were intended to prevent problems similar to those experienced with the Centre for Visual Arts happening with future Lottery-funded projects, acknowledging that, while it was not possible to eliminate risks altogether, they could be managed effectively.
- 4** The Audit Committee stated that, despite assurances by the Assembly Government and the Arts Council, they would wish to satisfy themselves that Arts Council's improved procedures were working. The Audit Committee asked the Auditor General to test the adequacy and effectiveness of the Arts Council's revised procedures. The Auditor General undertook to monitor the Arts Council's implementation of the Committee's recommendations and to undertake a follow-up examination of the Arts Council to assess the extent to which the lessons arising from the Centre for Visual Arts project had been learnt<sup>14</sup>.

<sup>14</sup> Letter from the Auditor General/PS to Audit Committee Clerk, 11 December 2002; the Auditor General Forward Programme 2004-2005, October 2003; the Auditor General Memorandum to Audit Committee, February 2004.



Audit Committee Recommendation	Arts Council Action	Paragraph
<p>i) As part of the independent review that it has commissioned of its procedures, the Arts Council examines the adequacy of its assessment of risk in lottery projects. In particular, a rigorous scrutiny of the key risks underpinning the financial viability of projects, including the visitor numbers forecasted for new arts attractions, should be an intrinsic part of the assessment of all lottery applications.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- applicants for capital grants over £100,000 required to submit formal risk analyses for capital and revenue aspects of projects;</li> <li>- external assessors appointed to evaluate all major lottery projects in excess of £100,000, and some projects under £100,000 if considered necessary following project risk assessment; and</li> <li>- financial viability is assessed as part of an examination of the applicant's business plan.</li> </ul> </li> <li>■ From 2002, implemented closer and more comprehensive monitoring for capital projects over £100,000.</li> <li>■ From 2006, introduced standardised risk registers for projects over £100,000.</li> <li>■ From 2007, is more systematically integrating its internal risk assessment processes at capital programme and overall corporate levels.</li> </ul>	<p>2.22</p> <p>2.14, 2.23</p> <p>2.14, 2.24</p> <p>2.43, 2.49, 2.50</p> <p>2.30</p> <p>2.29</p>
<p>ii) That the Arts Council ensure that adequate contingency plans are in place in the event that risks to the financial viability of the project materialise.</p>	<ul style="list-style-type: none"> <li>■ Since 1999, applicants required to present different scenarios in their business projections planning individual projects (where funding is provided at its optimum level, where it may be reduced by 25 per cent and where it may be reduced by 50 per cent) and to have contingency plans based on these scenarios.</li> </ul>	<p>2.21</p>
<p>iii) Properly document its consideration of such fundamental issues as the relationship between entry charges and visitor numbers on projects to which it proposes to award lottery grants.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- for projects over £100,000, an external assessor evaluates the business plan, artistic programmes and the forecast of visitor numbers of the projects;</li> <li>- for grants over £500,000, revised business plans submitted six months prior to practical completion, allowing difficulties to be considered and solutions found;</li> <li>- decisions on Lottery funded capital projects may be deferred, to allow applicants to deal with issues raised before grant award; and</li> <li>- external assessors' reports are shared with the applicants, to obtain their feedback and facilitate meaningful discussion about required action.</li> </ul> </li> </ul>	<p>2.14, 2.24</p> <p>2.45</p> <p>2.12</p> <p>2.15</p>
<p>iv) Assess its general record keeping policies to ensure that adequate records are maintained of the Council's key decisions and deliberations about lottery projects.</p>	<ul style="list-style-type: none"> <li>■ Since 1999, project file documentation has been improved and project files are monitored and reviewed to ensure timely follow-up action.</li> </ul>	<p>1.39, 1.40, 2.10</p>

Audit Committee Recommendation	Arts Council Action	Paragraph
<p>v) Monitor closely any changes to the nature of the attractions to be offered by projects to which it awards lottery grants, to ensure that the possible revenue consequences of changes introduced after lottery grants have been approved are properly examined.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- applicant is required to inform Arts Council of any proposed changes to the project purpose, for Arts Council approval prior to their implementation;</li> <li>- Arts Council can withhold payment or initiate claw-back procedures if grant conditions are not followed; and</li> <li>- Arts Council regularly conduct site visits to monitor projects in the course of construction.</li> </ul> </li> </ul>	<p>2.34</p> <p>2.34</p> <p>2.43</p>
<p>vi) Not only draw weaknesses identified by its independent assessor to the attention of the applicant but that, as part of its monitoring of the project, take positive and early action to ensure that the applicant has addressed these concerns.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- the grant applicant receives a copy of the assessor's report, to agree factual accuracy and clarify any other concerns raised, before the Capital Committee formally considers the application; and</li> <li>- the applicant may make agreed changes to the project as a result of the assessor's report, to eliminate any problems or weaknesses.</li> </ul> </li> </ul>	<p>2.15</p> <p>2.16</p>
<p>vii) Review its scrutiny arrangements to ensure that the need for such items such as IT equipment are fully recognised and properly costed at the lottery grant application stage.</p>	<ul style="list-style-type: none"> <li>■ Since 1999, applicants for major capital projects required to submit a cost plan, which is reviewed by a Quantity Surveyor and an artistic assessor to check that the specification and costings are appropriate for each project.</li> <li>■ Since 2002, applicants for capital grants of £100,000 or more have been required to progress project development to RIBA Stage E before funds are released, to obtain more accurate estimates of project costs.</li> </ul>	
<p>viii) Ensure that for any project of this scale that the business plan includes a full-scale risk assessment process complete with realistic and fully developed contingency plans.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- applicants for capital grants over £100,000 required to provide a risk register for the construction element of their project; and</li> <li>- applicants' contingency plans externally assessed, along with business plan.</li> </ul> </li> </ul>	<p>2.22</p> <p>2.21, 2.23</p>
<p>ix) Impress upon successful lottery applications, at the outset of each project, that they should not change the original plans without the full prior knowledge of the Council.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- standard conditions for grants over £100,000 require applicants to notify Arts Council of proposed changes to original plans;</li> <li>- legal contracts with successful applicants for capital grants over £500,000 require applicants not to change project plans without Arts Council agreement; and</li> <li>- failure by the applicant to follow contract terms could result in Arts Council withholding or clawing back its funding.</li> </ul> </li> </ul>	<p>2.34</p> <p>2.35</p> <p>2.34, 2.36</p>





Audit Committee Recommendation	Arts Council Action	Paragraph
<p>x) Specify clearly, at the outset of each project, the information to be provided by the lottery applicant and how frequently it should be provided. These requirements should be set out in a legally binding agreement between the Arts Council and the applicant. If an applicant fails to adhere to this requirement, then funds should be withheld.</p>	<ul style="list-style-type: none"> <li>■ Since 1999:               <ul style="list-style-type: none"> <li>- standard terms and conditions of grant and legal contracts have made it clear that funds could be withheld or funding clawed back; and</li> <li>- applicants are required to provide the Arts Council with minutes of monthly design team meetings, which are reviewed by the external project monitor.</li> </ul> </li> </ul>	<p>2.34, 2.35</p> <p>2.43</p>
<p>xi) Review its procedures to ensure that prompt action is taken to safeguard its interest in any residual assets when a project that received a lottery award fails.</p>	<ul style="list-style-type: none"> <li>■ Since 1999, the Arts Council has placed legal charges on all buildings on all major capital projects and required asset inventories to be maintained.</li> <li>■ Since 2002:               <ul style="list-style-type: none"> <li>- agreements between the Arts Council and its clients stipulate more clearly that the Arts Council may require repayment or claw-back of all or part of capital grant; and</li> <li>- if a project were to fail, grant conditions require asset inventory lists to be verified immediately to safeguard against losses of residual assets.</li> </ul> </li> </ul>	<p>2.33</p> <p>2.34, 2.35</p> <p>2.34</p>