



Cyngor Celfyddydau Cymru  
Arts Council of Wales

National Assembly for Wales  
Public Accounts Committee  
PAC(4)-28-14 ptn4

29 October 2014

Mr Darren Millar AM  
Chair  
Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

*Dear Mr. Millar*

Public Accounts Committee hearing 13 October 2014 – additional questions

Thank you for your letter of 23 October on the above. I'm pleased to attach answers to the additional questions that the Committee wished to ask.

If I can be of further assistance, please don't hesitate to contact me.

*Yours sincerely  
Nick Capaldi*

Nick Capaldi  
Chief Executive

Plas Bute, Caerdydd CF10 5AL  
Ffôn: 0845 8734 900  
Ffacs: 029 2044 1400  
Minicom: 029 2045 1023  
Ebost: gvybodaeth@celfcymru.org.uk  
Gwefan: www.cyngorcelfyddydau.cymru.org.uk

Bute Place, Cardiff CF10 5AL  
Tel: 0845 8734 900  
Fax: 029 2044 1400  
Minicom: 029 2045 1023  
Email: info@artswales.org.uk  
Website: www.artscouncilofwales.org.uk



Supported by  
The National Lottery  
Cwmegys gan  
Y Loteri Genedlaethol



WEDDING: HOWS R PHEG & PLAIL  
DYSTYGLU IN FIDURFF

Swyddfeydd Lleol/Local Offices:

Caerdydd/Cardiff, Bae Colwyn/Colwyn Bay, Caerfyrddin/Carmarthen  
Rhif Elusen Gofrestredig/Registered Charity Number: 1034245

Arts Council of Wales  
Public Accounts Committee Monday 13 October 2014  
Additional Questions

1. The annual report notes that cuts to grant-in-aid, and cuts to Local Authorities could have consequences on the arts infrastructure in Wales. Is the Arts Council likely to become the sole funder of key arts projects which could then limit its other objectives?

This is a risk, but a risk that Council has anticipated. It has agreed, as a clear statement of policy, that it won't 'make good', or replace, cuts in partner funding (including local authorities). Indeed, in many cases Welsh Government funding cuts mean that the Arts Council is also itself having to reduce funding to key arts projects.

If a local authority funding partner withdraws support completely, then the Arts Council could, potentially, be left as the sole funder. However, as the Arts Council has committed to not replacing lost funding, this shouldn't translate into an additional funding burden and wouldn't limit investment in other Arts Council objectives.

Should the Arts Council find itself in the potential position of sole funder, we'd look with particular care at whether or not an organisation would:

- a. remain financially viable and sustainable on a reduced revenue base;
- b. be able to maintain the quality of activity; and
- c. be able to demonstrate that (the presumably reduced) activity/outputs still represented value for money

It's important to note that there are a small number of revenue funded organisations (RFOs) where we are already the sole revenue funder. These are Wales' national companies – Literature Wales, National Dance Company Wales, National Theatre Wales, Theatr Genedlaethol, and Wales Millennium Centre. (The exceptions are BBC National Orchestra of Wales, which is jointly funded by the BBC, and Welsh National Opera, whose activity in England is funded by Arts Council England.) This reflects a long-standing unwillingness to invest local taxpayers' funds in organisations that are deemed to have a national and international remit.

Although slightly beyond the remit of this question, we'd wish to draw to the Committee's attention nationally significant arts organisations currently in local authority ownership and management. Examples would be Flintshire County Council's management of Clwyd Theatr Cymru, and Cardiff Council's ownership of St. David's Hall.

Flintshire County Council 'inherited' funding responsibility for Clwyd Theatr Cymru – one of the country's most important theatre producers – during a previous round of local government reorganisation. The Council has been a steadfast supporter of the theatre over many years. However, as budget pressures bite, the challenges for a medium sized Welsh local authority such as Flintshire become more pronounced. Once Flintshire has accounted for its statutory responsibilities, and those areas over which it has no discretion, the Council's room for manoeuvre is significantly reduced.

Financial pressures are no respecter of size, and similar challenges are faced by even the largest local authorities. Cardiff Council invests significantly in the funding and management of St. David's Hall, an unique facility and Wales' national concert Hall. In both of these cases the financial burden falls entirely on the 'home' authority, although their benefits are enjoyed by taxpayers across a much wider geographical area.

Such examples of genuinely national provision are relatively rare, but the underlying issues are becoming urgent. We'd therefore like to suggest that a bespoke funding arrangement for national provision is examined as part of the negotiations around the implementation of the Williams Review.

2. The Arts Council receives funding from, and reports to, Welsh Government, the UK National Lottery as well as managing charitable donations. How does the Arts Council reconcile these different reporting roles while remaining ultimately responsible to Welsh Government?

We account, and report separately, on our General Activities (which includes Government grant-in-aid) and our Lottery Activities. We're therefore required to report and account separately for the funds we receive, and we have appropriate arrangements in place to ensure we produce two sets of published financial accounts. Our Chart of Accounts enables accurate analysis against the relevant funding streams. We also submit an annual return to the Charity Commission.

Our General Activities accounts are audited by the Auditor General for Wales. Responsibility for the audit of our National Lottery distribution sits with the Comptroller & Auditor General and the National Audit Office (the C&AG's audit team). He arranges for Wales Audit Office to undertake the audit on his behalf, to ensure consistency of scrutiny across both of our funding functions.

The financial directions for Lottery Distributors are issued by the UK Government's Department for Culture, Media and Sport (DCMS). The Welsh Ministers issue our Lottery Policy Directions, which set out how we must operate in respect of Lottery Distribution activities. These were most recently updated in October 2012.

*Managing Welsh Public Money* provides the framework that sets out the terms and conditions under which we operate. Welsh Ministers provide our grant-in-aid funding, and specify how we're able to use this funding. Details of our annual funding, and the expectations that the Welsh Government has of us, are set out in the Annual Remit Letter from our Minister.

Our General Activities Account contains details of all our non-Lottery activities. These accounts are produced in the format prescribed by the Charity Statement of Recommended Practice (SORP). In the event that a funder or donor provides funds for a prescribed purpose, they're treated as restricted funds.

Note 15 in our 2013/14 Accounts contains details of restricted funds, including two amounts which have been bequeathed to the Arts Council of Wales. As a charity we have to ensure we comply with the requirements of the Charities Acts, and follow guidance issued by the Charity Commission.

3. **The original intention of the National Lottery was that it would be additional to government spending, and that it would not be used to replace government funded activities. How do you ensure that this is achieved?**

Council considers these matters as part of our budget setting processes each year. We often talk of a single strategy supported by multiple sources of funding. By ensuring that Lottery funding complements – but does not replicate – Government funding we believe that we're able to enhance the value of taxpayers' investment.

The DCMS has defined the principle of 'additionality' as not allowing Lottery funding to "become a substitute for funding that would normally fall into mainstream Government spending"<sup>1</sup>. This is the key distinction that informs Council's deliberations.

This means that grant-in-aid funds are used to support:

- ongoing year-round activities of our RFOs
- strategic grants and contracts for projects or initiatives (typically those which build strategic partnerships with other agencies that lever new resources into the arts)
- research, advocacy and public events that are part of our routine programme of activity

And Lottery funds are used to support:

- our open to application funding programmes
- Capital projects and public art
- Film development and production
- time-limited developmental projects

Our Lottery funding guidelines state very clearly that applications must be for activity that is additional – applicants must explain how this is the case.

**4. Do you intend to follow the lead by the Arts Council England to use lottery funds to fund activities previously funded by grant-in-aid?**

At this moment in time, 'no', although given the year-on-year cuts in Welsh Government funding, Council will probably wish to keep this question under review.

The issue was last discussed at a Council meeting earlier this month. Council reaffirmed that it didn't plan to follow the lead of Arts Council England.

---

<sup>1</sup> <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmcomeds/196/19611.htm>

We're aware that Arts Council England is now funding a significant proportion of its National Portfolio Organisations (England's equivalent of our RFO portfolio) from Lottery funds. This is not a policy that Council wishes to replicate.

In a limited number of instances Council has, in previous years, concluded that a specific organisation or particular aspect of funding would be more appropriately funded through the Lottery.

Examples would be where we're delegating a funding responsibility (such as with Ffilm Cymru); where we're self-evidently funding programme development rather than year-round costs; or, where we're addressing an inconsistent approach to policy (such as where we've aligned support for festivals with other areas where funding is time-limited to specific projects).

Council has chosen not to follow England's recent change in funding policy because:

1. We adopt a more cautious interpretation of the funding flexibility allowed by Lottery legislation
2. Lottery funding has enhanced the value of grant-in-aid by enabling us to significantly extend the range and amount of activity that we have been able to support. In particular we've been able to extend high quality arts opportunities more widely across Wales, often reaching into localities that were previously less well served by established organisations. We want to maintain our ability to fund this activity; an ability that would be diminished if established organisations took a greater proportion of the funds
3. There can be no guarantee that levels of Lottery funding will remain the same. They may well decrease (given the impact of higher ticket prices and the growth of online competitors). Should that happen the pressures inherent in 2 above become more acute, to the potential detriment of the arts across Wales

5. **Given that certainty over grant-in-aid is limited to one year, what medium and long-term planning is it feasible for the Arts Council and its grant recipients to carry out?**

The annualised grant-in-aid funding basis undoubtedly does affect our ability to plan ahead. However, we have, for some years, prepared medium term financial projections, covering both main funding streams.

In the case of our grant-in-aid, planning is informed by our annual Remit Letter which typically contains details of funding for "year 1" along with an indication of funding for the following year (sometimes two years).

We have greater flexibility with our Lottery funds, where we aren't restricted to operating on an annualised basis. However the nature of the Lottery means we have less predictability in terms of income.

Our arts development strategies will typically take a five year view. We believe in long term planning and value of more extended partnerships that can deepen and mature.

We have therefore sought, with the support of our Welsh Government sponsor division, to use sensibly the year-end flexibility that does exist.

When appropriate, we have submitted a business case to carry forward funds beyond the normal 2% limit placed on non-Lottery funds. Used judiciously, this helps us mitigate the disruption of unexpected shocks (such as an in year funding cut) and enables us to "smooth" the impact of funding across two years.

This has allowed us to plan for, and respond to, initiatives we know will extend beyond one financial year, or where we anticipate a cost "spike" in the following financial year. It can also help avoid year-end pressure where supply and demand may affect prices.

The main benefit, we believe, is that it has given us a degree of flexibility in our dealings with the arts organisations and with delivery of our strategic initiatives. Many of our strategic initiatives involve other partners and are subject to external factors which can affect timing. Year-end flexibility helps overcome these practical issues without detriment to the project.

A number of the organisations we fund necessarily have to work on planning and booking horizons that extend beyond one year. Being able to have an indication of financial settlements beyond the immediate next year would help them to plan and operate more effectively. However, the fact that we're unable to make firm commitments other than on an annualised basis continues to create uncertainty.

6. How has the Arts Council considered collaborating with other Welsh public bodies, and with grant providers across the UK, to save costs?

There have been a number of examples where we've collaborated with other organisations. In all cases we seek to strike the right balance between making best use of resources whilst also ensuring, when applicable, that our own identity, priorities and accountabilities are maintained.

Examples include:

- our Pension scheme – which dates back to our predecessor organisation, Arts Council of Great Britain - is a collaboration between the Arts Council of England, Creative Scotland and three other smaller organisations. It enables us to pool specialist expertise, pension administration and to deliver a cost effective solution
- the Public Sector Broadband Aggregation project, where we take advantage of a pooled approach to IT infrastructure managed on a collective basis across the public sector in Wales
- Academi Wales and the Welsh Government's *Eliesha* programme of learning which we used for a range of training and professional needs. We've also collaborated with Big Lottery on specialist joint training
- we have signed up to the Welsh Government's *National Procurement Service*. This provides us with access to some of the established framework agreements, the opportunity to join new agreements as they're developed, whilst still allowing us the flexibility to select our own suppliers when they offer us with better value for money or more tailored solutions



- the UK Arts Councils network allows us to collaborate on joint projects that deliver enhanced benefits to Wales. Current examples where Wales is a net beneficiary include the Cross Border Touring scheme and the Family Friendly Arts Campaign
- we will be partnering with the Welsh Government and other public bodies on joint survey and research work

The WGSB Directors of Resources Group has worked on a collaborative basis for some time. The Group seeks to share and promote best practice and new initiatives; to explore opportunities to collaborate where appropriate; and to share solutions for management of common risks, business continuity and succession planning arrangements. A recent example is the reciprocal arrangement by which representatives of the Audit Committees of the Arts Council and HEFCW attended each other's meetings.

7. Would sharing accommodation or staff with another public body be feasible?

We currently lease offices in three locations – Cardiff Bay, Colwyn Bay and Carmarthen. In the case of the latter, we relocated to a smaller office accommodation, renting office space from Carmarthenshire Association of Voluntary Services. We'll review other office facilities as the leases expire or come up for renewal.

The nature of our quite specialised work makes it less practical to share staff. "Back office" activities are where most organisations look to achieve savings. However, having automated a number of our administrative processes and implemented previous programmes of cost reduction, current overall costs are relatively minor. For example, the combined cost of our Finance, ICT, Facilities and HR functions is approximately 0.8% of our total grant-in-aid expenditure.

We have well-established processes for reviewing business efficiency. We balance the ongoing need to identify savings against potential loss of flexibility and responsiveness, cost of arranging outsourcing, of administering and managing the arrangement, and the impact on our internal controls. This is, however, an area we keep under review.

8. Are you satisfied that the Council has sufficient capacity, in terms of skills and experience, to undertake its governance role fully, and is not unduly encumbered by conflicts of interest?

Members of Council are appointed by our Minister. They are recruited through an open appointments process conducted according to Nolan rules. Council members bring specific expertise and knowledge to the oversight and development of our activities. Appointments are usually for a three year term renewable a maximum of twice, dependent on review. This allows time for members to become familiar with our work whilst also enabling the rotation of members.

Council's expertise and authority is enhanced on its Committees through the involvement of independent non-executive members. For example, our Audit Committee includes two independent members and the Committee's meetings are intended by representatives of our internal auditor, Deloitte, and the Wales Audit Office. The Committee's scrutiny is informed by a comprehensive Corporate Assurance Framework.

All members (and staff) are required to adhere to our Code of Best Practice. This helps ensure that roles and responsibilities of members and officers are clearly defined. It also contains the standards of propriety expected of members and staff. It is a system which, to date, has worked well.

The very highest standards of propriety and probity, both actual and perceived, are expected of members at all times. Members of Council, as Charity Trustees, are precluded from pecuniary gain direct from the Arts Council. The only remunerated position is that of Chair, an arrangement endorsed by the Welsh Government and formally approved under Charity legislation and by the Privy Council.

Declarations and potential conflicts of interest are meticulously noted and recorded. Members and staff are required to complete an annual Declaration of Interest statement and to ensure changes are promptly notified. Declarations of interest are a standing item at the beginning of all Council and Committee meetings and any funding decision meeting.

Council's authority depends on its ability to attract significant individuals with the highest quality of knowledge and expertise on the arts in Wales. This means that such individuals might well be active in the arts.

Council members must absent themselves as a matter of course from discussion of any funding decision in which they have an interest.

General discussions of policy and strategy are more a matter of discretion. If an interest that has been declared is sufficiently substantial as to cause reasonable doubt in the minds of the public about the individual's ability to make an impartial decision, the meeting Chair may rule that the individual concerned should take no part in the discussion. In such a case the minutes of the meeting will note the point at which the individual concerned left and re-joined the meeting.

A comprehensive Annual Governance Statement is included in our published annual accounts.

9. The Committee notes there has been criticism in some sections of the media of some awards by the Arts Council of Wales. What process do you use to formulate and publicise your awards criteria?

We expect to be held to account for our actions and funding decisions. And over the past eighteen months there have been a very small number of critical stories placed in the media. In each case we have corrected inaccuracies and/or explained the fuller context for the work in question.

Given that we fund 69 RFOs and process around 1,300 funding applications each year we receive very few complaints. And in an independently conducted survey (which included both successful and unsuccessful applicants) nearly 80% of respondents felt our application process to be fair.

Funding programmes reflect the priorities and objectives in our arts strategies. These strategies are subject to extensive public consultation. Funding programme guidelines and criteria are set out in full on our website. They emphasise quality, financial viability, track-record and organisational competence. We also provide telephone advice and face-to-face funding surgeries. Our funding advice sessions take place across Wales.

The demand for funding routinely outstrips the available funds. Sometimes this means that we have to turn down good applications for no other reason than the lack of funds. This means that funding is allocated to those applications that present the most persuasive case for support.

10. Do you select target groups, and if so how do you ensure that awards to target groups are effective?

In terms of target groups, we predominantly focus on sections of the population, or community groups, who are under-represented as beneficiaries of our funding. These are typically attendees or participants who are in the lower socio-economic category groups.

We publicise these targets in our arts strategies and our funding guidelines and we try to support those projects that we believe are best placed to deliver the desired outcomes. We measure our progress against the evidence that's collected through the independently compiled annual Adult and Children Omnibus Surveys. These measure participation using standard socio-economic categories.

According to the Omnibus Survey, between 2006 and 2013 adult participation has increased by 9.8 percentage points. Between 2008 and 2013 participation by children and young people has increased by 3.1 percentage points. There have been encouraging increases in participation amongst the most disadvantaged socio-economic groups, narrowing the gap with their better off comparators.

We also target particular groups of people in a more focused and specific way and conduct detailed research and evaluation as an integral part of the project. An example of this approach would be our *Reach the Heights* programme, evaluated independently by Arad Consulting.

*Reach the Heights* was a Welsh Government-led initiative aimed at reducing the number of young people in Wales aged 11-19 years who were not in education, employment or training (NEET), or who were at risk of being so. The part of this programme managed by the Arts Council between 2010 and 2013 reached 8,784 participants, of whom around 500 had declared disabilities. Most participants had no qualifications.

As a result of *Reach the Heights*, 196 participants gained formal qualifications, 896 embarked on further education and some 3,530 gained other positive outcomes. (The term 'positive outcomes' is not defined in Welsh Government reports; however, our final evaluation by Arad Consulting provided case studies and insights in participants' and arts organisations' own perceptions of what had been achieved.)

The Arad report concluded that our *Reach the Heights* programme had:  
"...clearly delivered against the goals of Arts Council of Wales'  
*Young Creators Strategy* and *Child Poverty and the Arts Agenda*.  
The programme has met key goals of '*widening participation in the arts and enabling young people to achieve their creative potential*' as well as '*supporting new, innovative ways of engaging our most disadvantaged and disaffected young people.*'

At a wider Welsh Government level the Programme has also contributed to key aims of the *Child Poverty Strategy* such as improving the skills of young people living in low income households."

**11. Does your award decision consider how likely it is that the recipient can eventually become self-funding?**

Yes, but the extent to which a grant recipient can become self-funding depends on the category and type of funding and the outcomes that we're trying to achieve through that funding.

There are two factors in-built to our funding programmes that reduce dependency on public support. The first is partnership funding, the requirement to demonstrate that public funds are not paying for the totality of a particular activity. The second is the competition for funds. We're never able to support **all** of the projects that come to us for support, no matter how good they might be.

For example, the average success rate across our funding schemes in 2013/14 was 65%, with success rates dropping to as little as 23% for particularly over-subscribed schemes. It would be a very unwise organisation that based its business strategy on ongoing Arts Council support.

That said, some individuals and organisations have applied more than once for support. In assessing these applications the 'additionality' criteria apply; we also look to see the extent to which funded activity will reach new audiences and/or whether a grant recipient has been able to develop new markets for their work.

The latter approach can be seen particularly in the awards that we make for training, professional development, touring and international exchange. In the case of training and development, the development of new skills will often be the impetus that improves the quality and marketability of a piece of work.

Our Touring support has a dual role – to bring high quality work to audiences across Wales, and allowing arts companies to develop their portfolio of work. For example, Clwyd Theatr Cymru's production of Dylan Thomas' *Under Milk Wood* is now touring internationally, earning a commercial return for the company and promoting the creative reputation of Wales overseas. Indeed, for those exploring international opportunities, this can be the springboard to establishing a more viable career independent of Arts Council support. Many of our most successful artists from Katherine Jenkins to Michael Sheen owe their early development to the funded arts in Wales.

In some instances, becoming self-funding is not an explicit outcome of our funding, although we're always encouraging artists and arts organisations to reduce their dependency on public funding. The obvious example here would be our RFO portfolio.

RFOs are our most important arts development partners, delivering high quality arts activity across Wales. We believe that an important aspect of public investment is the impetus to develop new audiences and to reach into places not previously touched by the arts. Some RFOs could undoubtedly become more self-funding and market orientated. But one of the principal functions of public funding is to address what the market fails to provide – the choice and quality of programme, the affordability of ticket prices, the ability to lever in other income and the ability to engage in cultural and social developmental activity such as work to engage under-represented communities. We do, also, expect RFOs to manage their affairs effectively, and in 2013/14 Arts Council revenue support represented just 27% to the RFO portfolio's total income.

12. If a recipient is unlikely to become self-funding does that indicate some will become permanently reliant on Arts Council grants?

No grant recipient can depend on being permanently reliant on Arts Council grants, for the reasons set out in 11 above. Without strong delivery against agreed outcomes, the Arts Council will not provide funding.

This applies even to our RFOs, our most established arts development partners. Our RFO portfolio is reviewed on a regular basis. In the early 2000s, Arts Council of Wales was funding well over 100 RFOs. That figure is now 69. All organisations are aware that public funding is not an entitlement – it has to be earned.

We have clear, published criteria that we use to guide our funding decisions. They reflect our priorities around quality, reach, relevance, impact, financial viability, value for money and organisational competence. We offer no guarantees about continued funding. If an organisation can demonstrate strong performance against these criteria then it is likely that it will be able to present a strong case for support. Proposals will then be considered on the individual merits of the application, and in comparison with the other projects that are also seeking support.

Nick Capaldi  
Chief Executive, Arts Council of Wales

29 October 2014