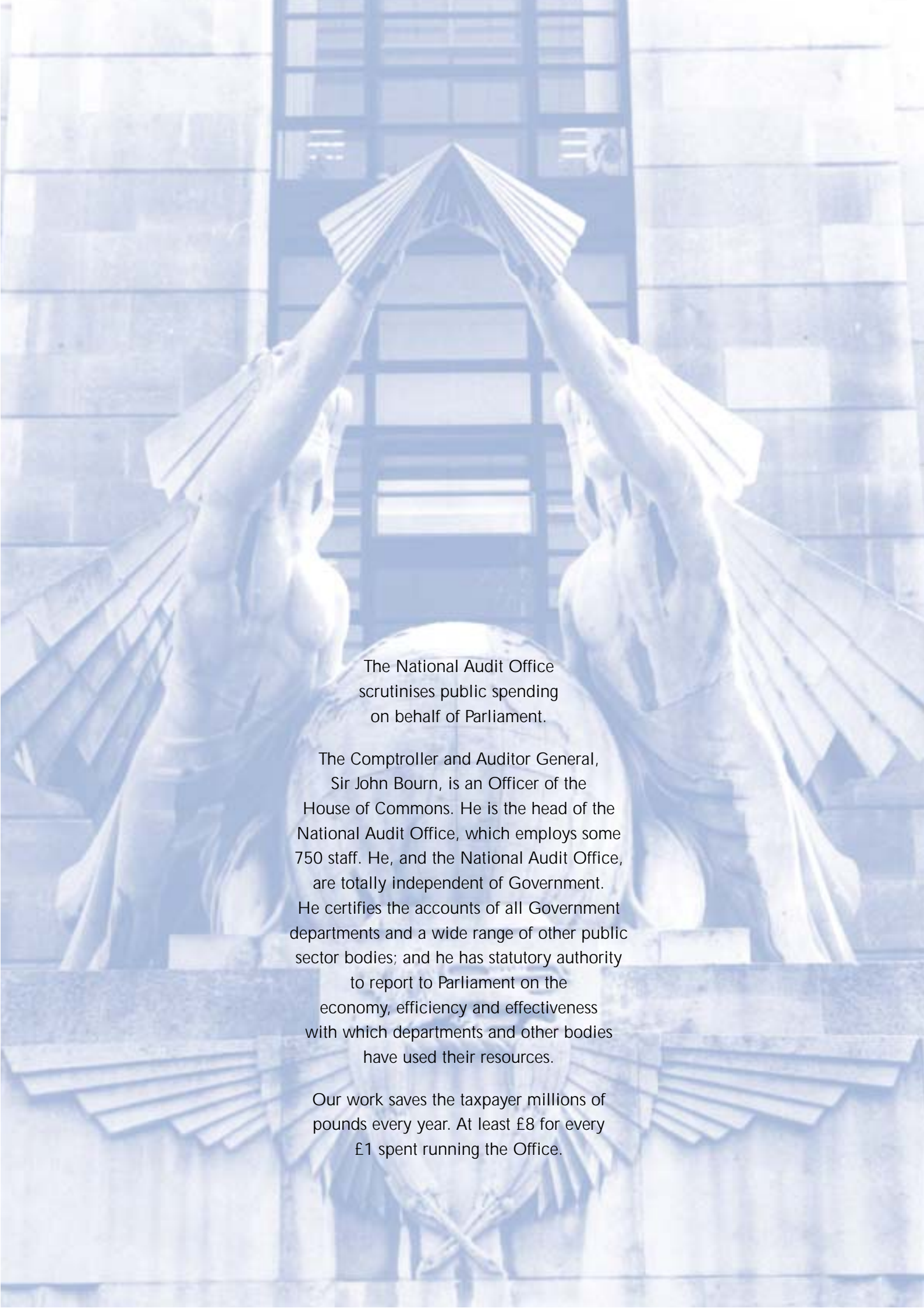


Progress on 15 major capital projects funded by Arts Council England

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 622 Session 2002-2003: 2 May 2003





The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General,
Sir John Bourn, is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
750 staff. He, and the National Audit Office,
are totally independent of Government.
He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the
economy, efficiency and effectiveness
with which departments and other bodies
have used their resources.

Our work saves the taxpayer millions of
pounds every year. At least £8 for every
£1 spent running the Office.

Progress on 15 major capital projects funded by Arts Council England



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 622 Session 2002-2003: 2 May 2003

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn
Comptroller and Auditor General

National Audit Office
1 April 2003

The National Audit Office study team consisted of:

Laura Brackwell, Sallie Danagher and
Jamie Hallums, under the direction
of Keith Hawkswell

This report can be found on the National Audit Office web site at www.nao.gov.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk



Contents

Executive summary

1

Part 1

Introduction

9

This report examines progress since the Committee of Public Accounts reported on the Arts Council in 1999

9

The Arts Council is the national funding body for the arts in England

12

The Arts Council operates within a framework laid down by the Department for Culture, Media and Sport

12

Under the first capital programme the Arts Council awarded 2,238 grants totalling £1.15 billion

12

The Arts Council now has a new capital programme

13

Part 2

Completing the projects

15

Four of the projects were completed 12 months or more late

15

Thirteen of the 15 projects were over budget, with lottery funding covering just over a third of the cost overrun

16

The Arts Council has taken steps to increase the likelihood of future projects being completed on time and within budget

19

Part 3

Funding for the projects

21

Ten of the 15 projects received supplementary grants

21

Twelve of the 15 projects achieved the required level of partnership funding but three did not

24

The Arts Council has taken steps to improve its arrangements for handling supplementary grants and partnership funding

26

Part 4

The projects in operation

29

The majority of the projects are delivering the intended benefits

29

Seven of the 15 projects have experienced financial difficulties

30

The Arts Council has taken steps to evaluate whether projects are delivering the intended benefits and to protect lottery funds

34

Appendices

1. Study methodology

35

2. Projects that have received awards for design or access

36

All photographs reproduced with the kind permission of the projects concerned.

Photographs of Shakespeare's Globe Theatre on the front cover and pages 2 and 28 by John Trammer.

Photograph of the Royal Opera House on pages 4 and 11 by Peter Mackertich.

Photograph of the Royal Exchange Theatre on pages 8 and 11 by Joel Fildes.

Photograph of Sadler's Wells Theatre on page 11 by Morley von Sternberg.

executive summary

In this section

Our main findings	1
Our main conclusions and recommendations	6

- 1 The arts is one of the good causes which benefits from the National Lottery. Arts Council England (the Arts Council) is responsible for distributing lottery funds to artists and arts organisations in England. The capital programme was the Arts Council's first lottery programme and by far the largest in terms of the value of the grants made. Overall 2,238 grants worth a total of £1.15 billion were made. Around half of this funding went to 28 major projects, each of which received over £5 million.
- 2 The Committee of Public Accounts reported on the capital programme in December 1999, focusing on 15 of the 28 major capital projects. The Committee found that the majority of the projects were not going according to plan. This report considers what has happened on the projects since the Committee reported. Specifically we examined:
 - whether the projects were completed on time and within budget (Part 2);
 - how the projects were funded (Part 3);
 - whether the projects are delivering the intended benefits and are financially stable now that they are operational (Part 4).



Our main findings

- 3 Most of the 15 projects are delivering the intended benefits in terms of, for example, the number and type of artistic activities and their audiences and the quality and fitness for purpose of the completed facilities. Two projects have closed but an evaluation by the Arts Council in June 2002 found that nine of the 13 operational projects were achieving or exceeding all of the envisaged benefits, with the other four delivering in part, and five of the 13 had met or exceeded their forecasts for visitor numbers within the timeframe originally envisaged (**Figure 1**). In addition, 11 projects had received awards for architectural design or disability access.

1 The achievements of the projects

Project	Delivering their intended benefits in full at June 2002	Delivering their intended benefits in full at June 2002	Meeting or exceeding their visitor number forecasts within the timeframe originally envisaged
Cambridge Arts Theatre		■	■
Dovecot Arts Centre		Project has closed	
Malvern Festival Theatre	■		■
Milton Keynes Theatre and Gallery	■		■
National Centre for Popular Music		Project has closed	
National Glass Centre		■	
Royal Academy of Dramatic Art	■		
Royal Albert Hall	■		
Royal Court Theatre		■	
Royal Exchange Theatre	■		
Royal National Theatre	■		
Royal Opera House	■		■
Sadler's Wells Theatre	■		
Shakespeare's Globe Theatre	■		■
Victoria Hall and Regent Theatre		■	

Source: Arts Council England



4 The National Centre for Popular Music and the Dovecot Arts Centre have closed due to financial difficulties.

- The National Centre for Popular Music in Sheffield ceased to operate as a visitor attraction in June 2000 as a result of difficulties caused principally by lower than expected visitor numbers. Mainly because the Arts Council does not have a legal charge on the building, it expects to receive only between £400,000 and £600,000 of the £1.85 million to be raised from the sale of the building (equivalent to between three and six per cent of the £11 million of lottery funding invested in the project).
- The Dovecot Arts Centre in Stockton-on-Tees closed in November 2001 as a result of financial problems arising in part from high operating costs. And, although the Centre exceeded its visitor number targets, box office and other income targets were not achieved. The Arts Council is currently working with regional stakeholders on a recovery strategy and plans for an alternative arts use for the building.

5 At the time of our examination the Arts Council had concerns about five other projects that, while operational, were experiencing financial difficulties because, for example, visitor numbers had been lower or maintenance costs had been higher than expected. The Arts Council is working with the National Glass Centre to develop a recovery plan to secure operational stability and with the Royal Academy of Dramatic Art to establish an action plan aimed at making it more financially secure in the longer term. The prospects for financial stability at the Cambridge Arts Theatre and the Royal Court Theatre have improved as a result of increases in the level of ongoing revenue funding they receive from the Arts Council. The Arts Council also expects the Victoria Hall and Regent Theatre's financial position to improve shortly.

6 In its 1999 report the Committee of Public Accounts was concerned that many of the 15 projects were behind schedule or over budget. The Arts Council took action to strengthen its financial and project management expertise and continued to monitor the progress of the projects and provide them with support. However, projects were already in difficulty and on some the position deteriorated. The reasons for projects not going to plan varied and in some cases problems resulted from unforeseen events, such as flooding. But some delays and cost overruns arose from the way in which work was carried out or managed. Our more recent examination found that:

- **on delays**, of the 13 projects now completed, four were finished 12 or more months later than originally planned. Since the Committee reported, the delays had increased on four projects and one had been completed earlier than expected.
- **on cost increases**, overall 13 of the 15 projects were over budget, with cost overruns ranging from 1.7 per cent to 58.0 per cent. Since the Committee reported, there had been cost increases on ten of the projects and a reduction on one (where the scope of the project had been cut back). The total cost overrun had risen from £52.4 million to £93.9 million. In some cases, the cost increases resulted in part from enhancements in the scope or specification of the projects. Five projects funded their cost increases themselves and did not seek supplementary grants from the Arts Council. Overall 35 per cent of the cost overrun was covered by additional lottery funding from the Arts Council.



7 In its 1999 report, the Committee of Public Accounts concluded that the Arts Council needed to take particular care before awarding extra money to ailing projects or relaxing stipulations about the level of funding projects should receive from other sources. Our more recent examination found that:

- **on additional lottery funding**, overall 10 of the 15 projects received supplementary grants in addition to their original lottery grant. Since the Committee reported, the amount of supplementary funding awarded by Arts Council had increased from £19.8 million to £32.5 million. Two projects had also received additional support from the Arts Council in the form of interest-free loans.
- **on partnership funding**, 12 of the 15 projects raised the required level of funding from other sources (usually 25 per cent or more of project costs). The remaining three projects failed to raise the required partnership funding and, as a result, the Arts Council funded a higher proportion of costs than it originally intended. Since the Committee reported, the position on some projects had improved but on others deteriorated so that overall the number failing to raise the required level of partnership funding had fallen from five to three. Overall the Arts Council provided £337.2 million (52 per cent) of the £649.6 million that the projects cost in total.

Figure 2 summarises the position on time, cost and funding for each of the 15 projects.

8 In designing its new capital programme which it launched in 2000, the Arts Council has drawn on its experience of the first programme and reflected the concerns expressed by the Committee of Public Accounts in its 1999 report. The Arts Council is looking to:

- strengthen its own project monitoring by introducing risk assessment and key stage reviews;
- encourage projects to use forms of contract that provide greater design and cost certainty and reduce the risk of disputes with contractors;
- make arts organisations better able to manage capital projects by improving their organisational and financial expertise.

These measures are designed to reduce the risk of delays and cost overruns and of the Arts Council having to award extra lottery funding in order to ensure that projects are successfully completed. The Arts Council has also taken action to evaluate more systematically whether projects are delivering the intended benefits and to protect the lottery funds it has invested in them.

2 Position on time, cost and funding for each project

Project	Total lottery funding received (£ million)	Delay over original scheduled completion date (months)	Increase/ (decrease) over original budget (£ million)	Supplementary grants received from the Arts Council (£ million)	Achieved required level of partnership funding?
Projects completed before June 1999					
Cambridge Arts Theatre	7.4	1	(0.9)	0.8	No
Malvern Festival Theatre	5.1	1	0.8	0	Yes
National Glass Centre	6.9	12	0.7	1.0	No
Royal Exchange Theatre	25.0 ^(a)	0	3.5	1.9	Yes
Dovecot Arts Centre ^(b)	7.5	4	1.6	1.2	Yes
National Centre for Popular Music ^(b)	11.4	0	1.7	0.3	Yes
Projects completed since June 1999					
Victoria Hall and Regent Theatre	16.5	13	8.7	1.6	Yes
Milton Keynes Theatre and Gallery	20.2	4	7.5	0.5	Yes
Royal Opera House	78.5	0	26.0	0	Yes
Royal Court Theatre	21.2	20	7.7	5.4	Yes
Royal Academy of Dramatic Art	26.1 ^(c)	1	(0.6)	2.5	No
Shakespeare's Globe Theatre	12.4	0	1.5	0	Yes
Sadler's Wells Theatre	47.3	12	22.2	17.3	Yes
Projects to be completed					
Royal Albert Hall ^(d)	20.2	0	12.8	0	Yes
Royal National Theatre ^(d)	31.6	The remaining work on the project has been rescheduled with the Arts Council's agreement and is now due for completion in March 2005.	0.7	0	Yes

Projects shown in order of completion.

(a) The project also received an interest-free loan from the Arts Council which is repayable between 2005 and 2011.

(b) The project is now closed.

(c) The project also received an interest-free loan from the Arts Council which has been repaid.

(d) The forecast position is shown as the project has not yet been completed.

Source: Arts Council England

Our main conclusions and recommendations

- 9 The 15 projects we examined were funded in the early stages of the National Lottery when both the Arts Council and the arts organisations concerned had little experience of handling major capital projects. And, due to their size and complexity, the projects were some of the most risky supported by the Arts Council. The fact that most of the projects have experienced further problems since the Committee of Public Accounts reported in 1999 illustrates the difficulty of steering projects back on course when things start to go wrong and the importance of getting projects right at the outset.
- 10 Our detailed comments on the measures taken by the Arts Council to reduce the likelihood of problems on its new capital programme are set out at the end of Parts 2, 3 and 4 of this report.
 - Figure 8 on page 19 covers the measures introduced to increase the likelihood of projects being delivered on time and within budget.
 - Figure 12 on page 27 covers the steps to improve the arrangements for handling supplementary grants and partnership funding.
 - Figure 16 on page 34 covers the action taken to evaluate projects and protect lottery funds.

11 In taking forward the new programme, we recommend that the Arts Council should particularly focus on the following areas.

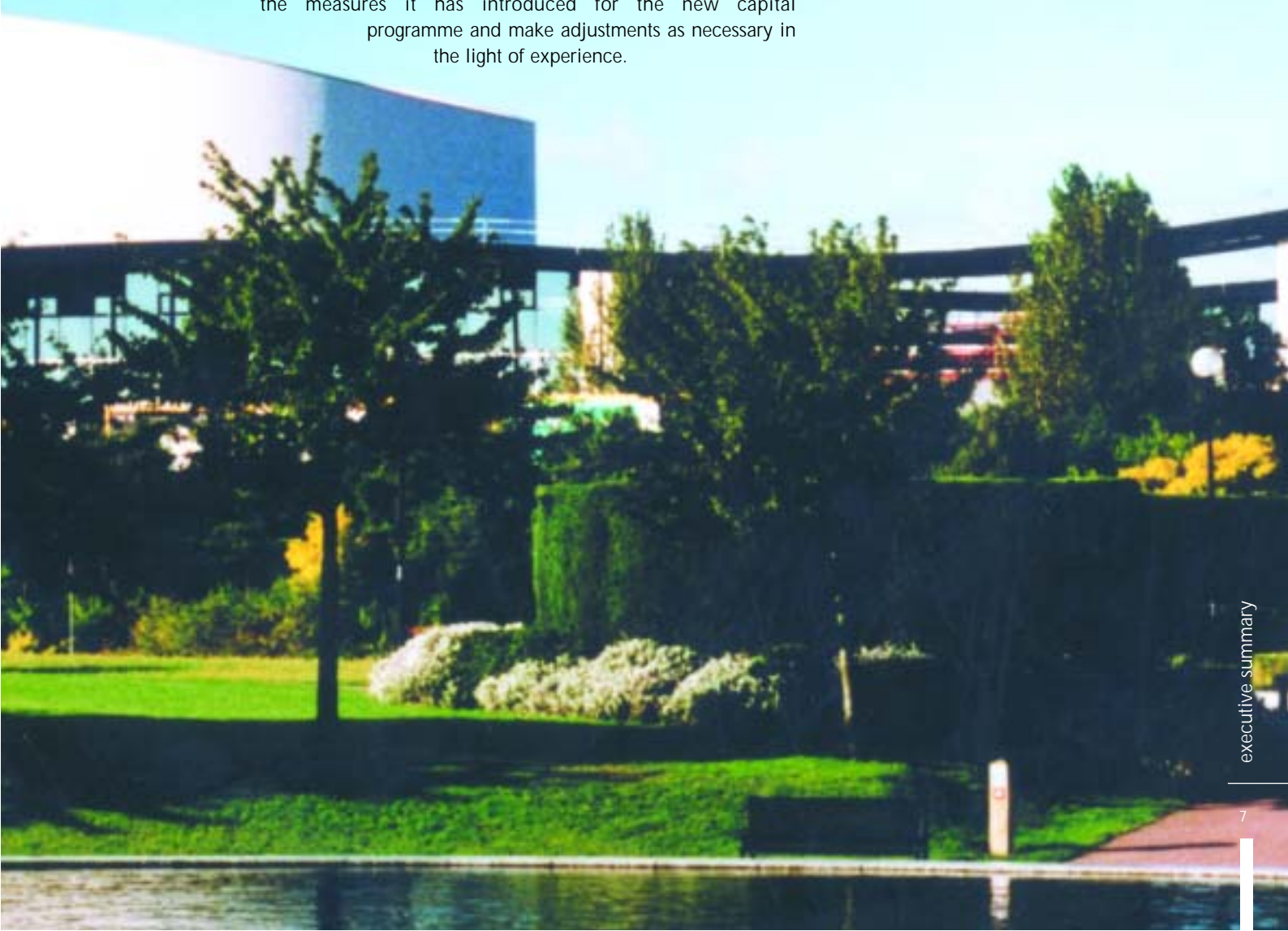
(i) In seeking to help grant recipients deliver projects to cost and time the Arts Council should ensure that its own experience and expertise is made available to projects. The Arts Council already provides guidance and training to grant recipients on a range of matters relating to the planning, procurement and delivery of their projects. This could be taken further by preparing written guidance on the contractual issues that can arise in relation to the procurement and management of projects, as dealing with the construction industry is an area which represents a major challenge for grant recipients.

(ii) The Arts Council should encourage and facilitate contact between grant recipients (perhaps some kind of mentoring scheme) so that those with experience of capital projects can share their knowledge to support new projects.

Both (i) and (ii) above would be going with the grain of the work the Arts Council is already doing to build the capacity of arts organisations to manage major projects.

(iii) The Arts Council should be prepared to stop funding ailing projects which consistently fail to progress satisfactorily or which are not on a sound financial footing. And the Arts Council should apply without exception its policy of securing a legal charge on any asset funded with lottery money so that public funds are protected in the event of projects failing.

(iv) The Arts Council should monitor and evaluate the effectiveness of the measures it has introduced for the new capital programme and make adjustments as necessary in the light of experience.





Part 1

Introduction

This report examines progress since the Committee of Public Accounts reported on the Arts Council in 1999

- 1.1 The Committee of Public Accounts reported on the Arts Council's capital programme in December 1999¹. On the basis of a report by the Comptroller and Auditor General², the Committee considered the progress made on major capital projects funded by the National Lottery and how performance might be improved. Key points that came out of the Committee's examination were:
- the overwhelming majority of projects had not gone according to plan and when things went wrong it was members of the public who lost out;
 - the Arts Council needed to take particular care before awarding extra money to ailing projects or relaxing stipulations about the level of funding projects should receive from other sources.
- 1.2 The Committee's report focused on 15 of the 28 major capital projects that had each received a grant of £5 million or more and where significant progress had been made in terms of building work completed and grant paid. While the 15 projects represented less than one per cent of the total number approved, they accounted for 31 per cent by value of the grants made under the programme. Due to their size and complexity, they were also some of the most risky projects supported by the Arts Council.
- 1.3 This report examines what has happened on the 15 projects since the Committee of Public Accounts reported in 1999. Details of the projects are provided in [Figure 3](#). Specifically this report examines:
- progress in completing the construction of the projects (Part 2);
 - how the projects were funded (Part 3);
 - the performance and financial stability of the projects now that they are operational (Part 4).
- 1.4 The methods we used in this examination are described in Appendix 1. As well as reviewing files and interviewing staff at the Arts Council, we visited each of the projects to see the new facilities and discuss progress.

¹ Sixth Report, Session 1999-2000 (HC 129).

² HC 404, Session 1998-99.

3 The 15 projects examined by the Committee of Public Accounts

Project description at time of the award of lottery funding



Cambridge Arts Theatre

The refurbishment of the Cambridge Arts Theatre; renovation and repairs to the Festival Theatre; and a feasibility study of the creation of a three screen Cinematheque on the site of the existing Arts Cinema.
[Note: following financial difficulties the Festival Theatre and Arts Cinema were sold in 1998 to ensure the Arts Theatre's survival.]



Dovecot Arts Centre, Stockton-on-Tees

The creation of a new cultural building within the Stockton-on-Tees regeneration area to include a 300 to 600 seat performance space, a 250 seat theatre, a 120 seat cinema, several participation spaces and full trading facilities. The Centre would enable the continued provision of a wide range of high quality participatory arts activities and the presentation of a wide programme of drama, music, dance, comedy, cabaret, and media arts.
[Note: the Centre closed in November 2001 and the Arts Council is currently working with regional stakeholders on plans for an alternative arts use for the building.]



Malvern Festival Theatre

The upgrading of the facilities at Malvern Festival Theatre to transform it into a more unified centre for theatre and the arts. The complex comprises three auditoria - the 880 seat Festival Theatre, the 950 seat Elgar Hall and the 450 seat Shaw Cinema. The project would provide greatly improved facilities and allow an extension in the range of work presented so as to develop the tastes of the existing audience and attract new ones.



Milton Keynes Theatre and Gallery

The design, building and equipping of a new arts complex in the centre of Milton Keynes, comprising a 1,330 seat touring theatre designed to present professional dance, drama, music and light entertainment; and a mixed media gallery to meet the needs of exhibitions of a local, regional and national significance.



National Centre for Popular Music, Sheffield

The creation of a new technology-based visitor attraction celebrating the success and diversity of popular music from around the world. The Centre would provide a mix of changing exhibits and diverse facilities including interactive displays, soundscapes, a large area dedicated to educational activities, an outdoor public performance space, a children's area, a café and a bar.
[Note: the Centre ceased to operate as a visitor attraction in June 2000.]



National Glass Centre, Sunderland

Construction, fitting-out and operation of a new complex, incorporating temporary and permanent galleries housing major glass exhibitions, telling the Story of Glass, for which Sunderland is historically renowned, and space to let for glass manufacturing businesses and associated retail and support facilities. The building, which was the subject of an architectural competition and makes innovative use of glass, was also conceived as a visitor attraction in its own right.



Royal Academy of Dramatic Art, London

The Academy's centenary project was intended to enable it to achieve financial independence and continue as the foremost centre of excellence of its kind. The project included a capital element involving the purchase, redevelopment and refurbishment of premises, as well as relocation expenses while the work was carried out; and a financial element involving the repayment of the Academy's accumulated operating deficit and the creation of a trust fund to underwrite any future shortfall in annual income.
[Note: in the event the Academy was unable to set up the proposed trust fund because it had to divert receipts from fundraising to cover higher than expected construction costs and operating deficits.]

Royal Albert Hall, London

A 'masterplan' of 30 linked projects to redevelop and transform the Royal Albert Hall into a venue to meet the twenty-first century demands of audiences and artists; and to enhance the environment and ambience of a national monument. Also, increased financial viability would enable the Royal Albert Hall to invest directly in its cultural programme in order to fulfil its historic remit to 'promote the arts and sciences'.



Royal Court Theatre, London

The restoration of the 395 seat Royal Court Theatre (a Grade II listed building) and 60 seat Theatre Upstairs, and upgrading of facilities, including a new basement bar and restaurant underneath the road into Sloane Square. The project would provide improved disabled access for audiences and staff and include the installation of modern and more cost effective equipment. The project also included a closure plan to enable the Theatre to operate during rebuilding.

[Note: the project originally included the development of a second studio for the Young People's Theatre, but this element was removed in October 1996.]



Royal Exchange Theatre, Manchester

The refurbishment and alteration of the existing Royal Exchange Theatre to provide new facilities, including a studio theatre, and to upgrade the original auditorium. The project also included the purchase of a 25-year lease on the existing building and the purchase and modification of another building as an outside workshop and storage unit. Although the original aims of the project remained largely unchanged, the scope and value of the project was significantly increased in the aftermath of the Manchester bomb explosion in June 1996.



Royal National Theatre, London

A phased project (part of a larger 10-year redevelopment plan) covering a 'front of house' modernisation scheme, a 'rear of house' scheme and other minor projects. The plans included: enhancing foyers, facilities and the immediate environment; replacement of major items of plant and equipment and renovation of the fabric; investment in information technology; refurbishment of the car park; and a capital contribution to the South Bank Employers' Group to improve the local environment.



Royal Opera House, London

The redevelopment, restoration, refurbishment and extension of the Grade I listed Royal Opera House, thereby preserving it and enabling it to function in the twenty-first century. The project would also provide a home for the Royal Ballet at Covent Garden. The works included: improvements to the auditorium; restoration of the Floral Hall and completion of the Covent Garden Piazza; provision of offices, studios, physiotherapy facilities, rest areas and dressing rooms for the Royal Ballet; improvements to stage and technical facilities; and provision of a second auditorium and third performing space.



Sadler's Wells Theatre, London

The redevelopment of Sadler's Wells Theatre to seat 1,600, with first class facilities for national and international dance and lyric theatre companies; and the refurbishment of the Lilian Bayliss studio theatre to seat 160. The project would provide greatly improved facilities for audiences, artists and staff; a new lecture theatre, seminar and tutorial rooms to accommodate both expanded community and education facilities and a new arts technology development and training centre for professionals and teachers nationwide; full disabled access.



Shakespeare's Globe Theatre, London

The authentic reconstruction of the Elizabethan Globe Theatre of 1599 and a Jacobean indoor theatre designed by Indigo Jones in about 1617. The project would also provide facilities for audiences and performers. The theatres form part of a larger scheme, the Shakespeare's Globe Centre, which includes an exhibition centre and an education centre. *[Note: the Arts Council agreed that part of the lottery grant initially earmarked for fitting out the Indigo Jones theatre could be used instead towards the cost of the exhibition centre.]*



Victoria Hall and Regent Theatre, Stoke-on-Trent

The creation of two flagship venues within the new Hanley Cultural Quarter. Upgrading of the existing Victoria Concert Hall to modern standards with new front of house, improved disabled access, and improvements to auditorium, technical and backstage facilities. And the redevelopment of the disused Regent Theatre (a Grade II* listed Art Deco cinema-theatre) into a touring venue for ballet, opera, drama and musicals following restoration and major refurbishment, providing disabled access and improved public, technical and backstage facilities to modern standards.



The Arts Council is the national funding body for the arts in England

1.5 Arts Council England (the Arts Council) is the national body for the arts in England, distributing public money to artists and arts organisations. The operations and activities of the Arts Council are governed by a Royal Charter, which sets out the Council's objectives:

- to develop and improve the knowledge, understanding and practice of the arts;
- to increase accessibility of the arts to the public;
- to advise and co-operate with departments of government, local authorities, the Arts Councils for Scotland, Wales and Northern Ireland, and other bodies.

1.6 The arts is one of the good causes which benefits from the proceeds of the National Lottery. The National Lottery etc Act 1993 designated the Arts Council as the body responsible for distributing lottery funds to the arts in England. The Arts Council currently receives 11.85 per cent of the money generated by the National Lottery for the good causes, which in 2001-02 meant the Arts Council received £196.3 million. The Arts Council also receives an annual grant-in-aid (£251.5 million in 2001-02) from the Department for Culture, Media and Sport. The grant-in-aid money is used mainly to provide regular funding to arts organisations and one-off project grants, while lottery funds are used to support special programmes such as the capital programme.

1.7 The Arts Council's governing body (the Council) comprises 14 members plus the Chairman, who are appointed by the Secretary of State for Culture, Media and Sport. The current postholders were originally appointed for terms of between two and four years, and some are now serving a second term of two or three years. The Council is supported by a number of panels of individuals from the arts world, which provide advice on a variety of matters but which have no executive authority. The Council, with the approval of the Secretary of State, appoints the Chief Executive, who is designated Accounting Officer of the Arts Council by the Accounting Officer of the Department for Culture, Media and Sport.

1.8 The Arts Council was reorganised in April 2002 when it combined with the ten Regional Arts Boards to create a new single arts funding and development organisation with nine regional councils. Budgeted staffing for the new organisation in 2002-03 is 771 (whole time equivalents) but a new staffing structure (to be implemented fully from April 2003) has been announced and will reduce the total to 626. Further reductions beyond April 2003 are anticipated and have been notified to staff, but these have not yet been finally quantified.

1.9 In its 1999 report, the Committee of Public Accounts was concerned that the Arts Council had not had the appropriate financial and project management expertise. In its response³ to the Committee's report, the Arts Council highlighted the steps it had taken to strengthen its financial management function. As part of a restructuring, two new departments (Accountancy Services and Financial and Business Services) had been set up and qualified accountants recruited to senior positions. In addition the Capital Services Department was making greater and more extensive use of specialist external financial consultants in the assessment and monitoring of capital projects. At the time of our more recent review, the Arts Council was continuing to draw extensively on external expertise.

The Arts Council operates within a framework laid down by the Department for Culture, Media and Sport

1.10 The arrangements for the funding and accountability of the arts in England are shown in [Figure 4](#). The Arts Council is a non-departmental public body, working at arm's length from government. In its role as a distributor of National Lottery funds, the Arts Council operates within a policy and financial framework laid down by the Department for Culture, Media and Sport. Policy directions issued by the Secretary of State for Culture, Media and Sport in 1998 set out factors that the Arts Council must take into account in distributing lottery funds. And financial directions issued by the Secretary of State in 1999 set out the broad financial and management controls that the Arts Council is required to establish.

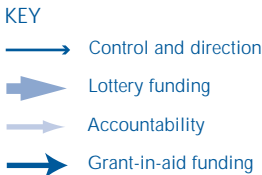
Under the first capital programme the Arts Council awarded 2,238 grants totalling £1.15 billion

1.11 Following its launch in 1994, the National Lottery more than doubled the funds available to the arts in England. The capital programme was the Arts Council's first lottery programme and has been by far the largest in terms of the value of the grants awarded. Grants were given to a wide range of organisations to fund a wide variety of projects. Overall 2,238 grants worth a total of £1.15 billion were made. Around half of this funding (£550 million) went to 28 major projects, each of which received over £5 million.

1.12 While it operates within the policy and financial framework laid down by the Department for Culture, Media and Sport, the Arts Council alone is responsible for deciding which applications for funding to support. In this task it is supported by its Capital Advisory Panel, which

³ *Treasury Minute on the Sixth Report from the Committee of Public Accounts, Session 1999-2000 (Cm 4688, March 2000).*

4



NOTE

1. The National Lottery Distribution Fund receives monies generated by the National Lottery for the good causes, allocates the money to the distributing bodies (including the Arts Council), and invests the funds until they are drawn down by the bodies for payment to grant recipients or to meet expenses.

Source: National Audit Office

currently has 11 members with expertise and experience in areas such as the arts and arts administration, business and finance, venture capital and property development, and architecture and disability issues.

1.13 Responsibility for the management of each funded project rests with the grant recipient, who is responsible for delivering it in accordance with the terms of the lottery award, although the Arts Council has a duty to safeguard National Lottery funds and to secure value for money in their use. It must therefore monitor projects to see that they are properly managed, adequately financed, built to an appropriate standard, and deliver the intended benefits. It must also confirm that problems and risks identified by its monitoring are properly addressed by the grant recipient.

The Arts Council now has a new capital programme

1.14 The Arts Council launched a successor to its original capital programme in 2000. The new programme has a budget of £176 million and, compared with the first programme, will fund fewer projects which will on average receive smaller awards. Applications can be made for grants of between £100,000 and £5 million to contribute towards the cost of buildings, equipment or public art commissions. Under the first of two funding rounds, 61 organisations were allocated funding totalling £90.5 million.

5 Actual or forecast completion date and delay for each project

Project	Original scheduled completion date	Actual or forecast completion date	Total delay (months)	Increase/ (decrease) in delay since June 1999 (months)
Projects completed before June 1999				
Cambridge Arts Theatre	November 1996	December 1996	1	-
Malvern Festival Theatre	February 1998	March 1998	1	-
National Glass Centre	June 1997	June 1998	12	-
Royal Exchange Theatre	November 1998	November 1998	0	-
Dovecot Arts Centre	August 1998	December 1998	4	-
National Centre for Popular Music	March 1999	March 1999	0	-
Projects completed since June 1999				
Victoria Hall and Regent Theatre	August 1998	September 1999 ^(a)	13	2
Milton Keynes Theatre and Gallery	June 1999	October 1999	4	1
Royal Opera House	December 1999	December 1999	0	0
Royal Court Theatre	May 1998	January 2000	20	6
Royal Academy of Dramatic Art	September 2000	October 2000 ^(a)	1	(9)
Shakespeare's Globe Theatre	October 2000	October 2000 ^(a)	0	0
Sadler's Wells Theatre	September 2001	September 2002	12	12
Projects to be completed				
Royal Albert Hall	December 2003	December 2003 ^(a)	0	0
Royal National Theatre	March 2000	The remaining work on the second phase of the project has been rescheduled with the Arts Council's agreement and is now due for completion in March 2005 (see paragraph 2.2).		

Projects shown in order of completion.

(a) The project comprised several discrete phases and the date shown is for the completion of the final phase.

Source: Arts Council England

Part 2

Completing the projects

2.1 This part of the report considers the progress that has been made in completing the sample of 15 capital projects examined by the Committee of Public Accounts. In particular, we examined:

- whether the projects were completed on time;
- whether the projects were completed within budget;
- what the Arts Council has done to increase the likelihood of future projects being delivered on time and within budget.

Four of the projects were completed 12 months or more late

2.2 A key risk with large and complex capital projects is that they run into problems which may result in delays in completion. When the Committee of Public Accounts reported in 1999, six of the 15 projects had been completed, compared with 13 at the time of our more recent examination. Work at the Royal Albert Hall has since the outset been scheduled for completion in late 2003. And, although the majority of the lottery funded work at the Royal National Theatre (mainly the first phase of the project providing improved front of house facilities) was completed on time by March 2000,

the Arts Council has agreed that the remaining elements of the second phase of the project to enhance backstage and technical facilities (and the associated funding) can be scheduled over a longer period extending to 2005. This fits with the operational needs of the Theatre and will also allow some non-lottery funded work to be completed sooner. Although their capital projects are not complete, both the Royal Albert Hall and the Royal National Theatre are operational.

2.3 Of the 13 projects now completed, four were finished on time (**Figure 5 opposite**). Five were delayed by between one and four months and a further four were completed 12 months or more later than planned. Since the Committee of Public Accounts reported, the delays had increased on four projects and one had been completed earlier than had been expected at that time. The largest increase was on Sadler's Wells Theatre where the Theatre re-opened as planned in 1998 but the completion of residual and remedial works took 12 months longer than anticipated.

Thirteen of the 15 projects were over budget, with lottery funding covering just over a third of the cost overrun

2.4 Along with delay, a key risk on large construction projects is cost overruns. When the Committee of Public Accounts reported in 1999, 13 of the 15 projects were forecast to be over budget. Our more recent examination confirmed that 13 projects were over budget (Figure 6), although the National Centre for Popular Music had replaced the Royal Academy of Dramatic Art among those over budget. The total cost overrun rose from £52.4 million (9.4 per cent of the total original budgets) to £93.9 million (16.9 per cent of the budgets), with increases on 10 projects.

2.5 In some cases (for example at the Royal Albert Hall and the Royal Opera House), the cost increases resulted in part from enhancements in the scope or specification of the projects. Five of the 13 projects that were over budget (Malvern Festival Theatre, the Royal Albert Hall, the Royal National Theatre, the Royal Opera House and the Shakespeare's Globe Theatre) funded their cost increases themselves and did not seek supplementary grants from the Arts Council. Overall 35 per cent of the cost overrun was covered by additional lottery funding from the Arts Council, with the remaining 65 per cent funded from other sources. Part 3 of this report considers those projects which received supplementary grants from the Arts Council.

6 Actual or forecast outturn against original budget for each project

Project	Original budget (£ million)	Actual outturn or forecast cost (£ million)	Total increase/ (decrease) over original budget (£ million)	Increase/ (decrease) in cost since June 1999 (£ million)
Projects completed before June 1999				
Cambridge Arts Theatre	11.4	10.5	(0.9) ^(a)	0
Malvern Festival Theatre ^(b)	6.8	7.6	0.8	0.4
National Glass Centre	11.9	12.6	0.7	0
Royal Exchange Theatre	30.7	34.2	3.5	1.6
Dovecot Arts Centre	8.0	9.6	1.6	0
National Centre for Popular Music	15.2	16.9	1.7	1.9
Projects completed since June 1999				
Victoria Hall and Regent Theatre	22.8	31.5	8.7	5.1
Milton Keynes Theatre and Gallery	28.1	35.6	7.5	3.2
Royal Opera House ^(b)	214.0	240.0	26.0	18.7
Royal Court Theatre	21.1	28.8	7.7	3.0
Royal Academy of Dramatic Art	30.8	30.2	(0.6) ^(a)	(2.3)
Shakespeare's Globe Theatre ^(b)	16.8	18.3	1.5	0.4
Sadler's Wells Theatre	38.3	60.5	22.2	5.7
Projects to be completed				
Royal Albert Hall ^(b)	57.7	70.5 ^(c)	12.8	3.8
Royal National Theatre ^(b)	42.1	42.8 ^(c)	0.7	0
TOTAL	555.7	649.6	93.9	41.5

Projects shown in order of completion.

(a) The reduction in cost is due to a reduction in the scope of the project.

(b) The project funded its cost increases itself.

(c) Forecast cost shown as the project has not yet been completed.

Source: Arts Council England

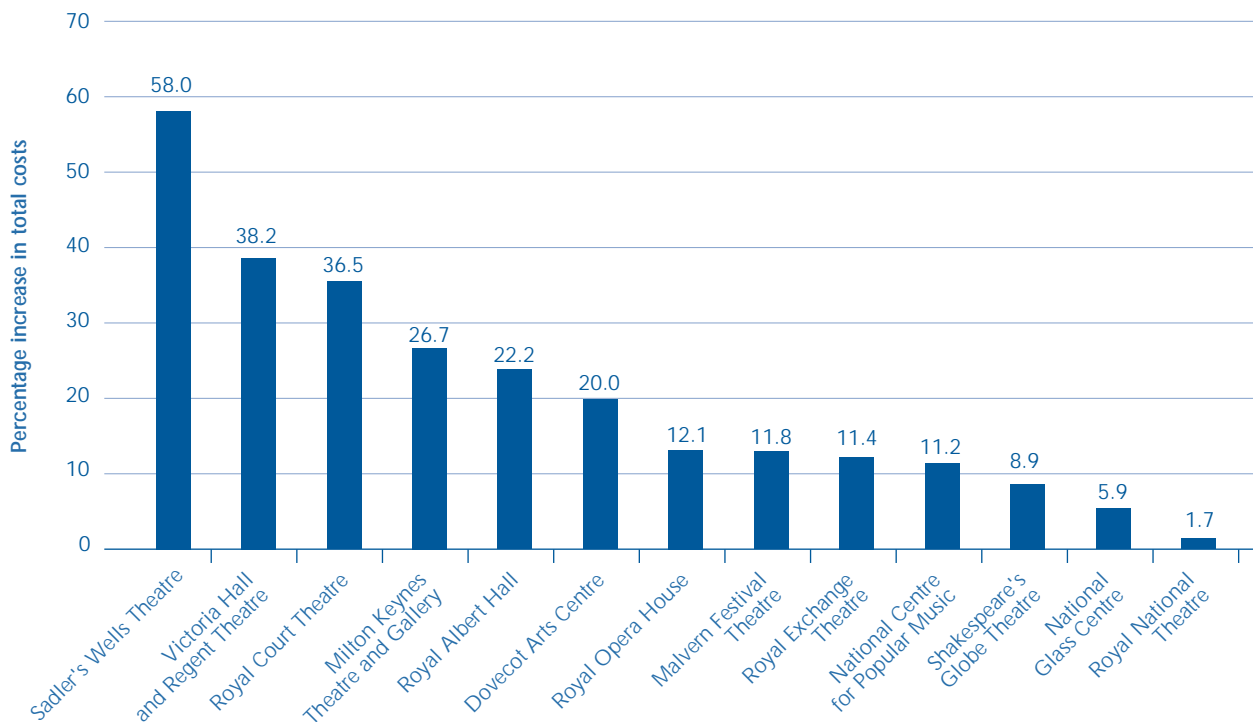
2.6 The cost overruns ranged from £700,000 at the National Glass Centre to £26 million at the Royal Opera House. However the largest overruns in absolute terms were not necessarily the largest in percentage terms (Figure 7). Six of the projects were 20 per cent or more over budget, including Sadler's Wells Theatre where costs increased by 58 per cent.

The two projects completed within budget were reduced in their scope

2.7 Total costs were less than the original budget for two of the 15 projects we examined - the Cambridge Arts Theatre by £2.2 million (7.9 per cent) and the Royal Academy of Dramatic Art by £0.6 million (1.9 per cent). In both cases this resulted from the scope of the project being scaled back. In its report the Committee of Public Accounts noted

that two of the three elements of the Cambridge Arts Theatre project had been abandoned as part of an Arts Council strategy to ensure the Theatre's long term financial viability. Since then the Royal Academy of Dramatic Art has also reduced the scope of its project as a result of financial difficulties (case study 1 on page 18). The Academy abandoned its plan to create a trust fund, the interest from which would have helped to fund the running of the Academy in the future. Dropping the trust fund meant that the project remained within the overall budget of £30.8 million, although the cost of the capital element overran by £5.4 million (21.8 per cent).

7 Percentage increase in actual or forecast outturn against original budget



Source: National Audit Office

Case study 1: Reducing the scope of projects - the Royal Academy of Dramatic Art

The project was originally expected to cost £30.8 million and comprised two parts:

- a capital element costing £24.8 million to remodel, renovate and refurbish the Academy's buildings;
- a financial element to eliminate £1.5 million of accumulated operating deficits and establish a £4.5 million trust fund (the income from which would support the Academy's operations in the future).

During the course of the project, the Academy's operating deficits continued to grow and, unknown to the Arts Council, the Academy extended itself further by taking out a loan to purchase a new building. Income from fundraising for the project was diverted to cover the Academy's operating deficit and by January 2000 no additional money had been raised towards the trust fund.

In November 1999 the Arts Council employed an independent consultant to advise the Academy on its fundraising strategy and to make recommendations. In the light of concerns about the level of funding that the Academy had raised, in January 2000 the Arts Council agreed that the trust fund element of the project could be abandoned.

Case study 2: Reasons for time delays - Royal Court Theatre (delayed by 20 months)

- Lease negotiations with adjacent properties affected by the works took longer than expected which delayed the start of the project by six months.
- Flooding damaged services in the Theatre's basement and caused a 10 week delay in the project.
- The Theatre had difficulty in engaging electricians and was outbid by other high profile projects during late 1999 in the run up to the millennium.
- The contractor responsible for installing the stage machinery in the Theatre ceased trading in December 1999.
- It was difficult to accommodate more than two contractors on site at the same time and its proximity to residential properties prevented significant overtime working to speed up completion.

Case study 3: Reasons for cost increases - Sadler's Wells Theatre (over budget by £22 million (58 per cent))

- The project had to be redesigned and restructured because the original design for the Theatre did not meet the planning restrictions placed upon a listed building.
- The building programme was disrupted, in particular as a result of problems with the flytower which delayed construction by around 15 weeks.
- The construction contractors worked overtime to achieve the scheduled opening date for the main theatre.
- The Theatre had to carry out essential remedial and completion works to be granted an annual entertainment licence.
- The Theatre had to provide additional facilities such as a crèche to meet the conditions attached to the granting of planning permission for the work.

The Arts Council has taken steps to increase the likelihood of future projects being completed on time and within budget

2.8 As illustrated by **case studies 2 and 3 opposite**, some problems on projects arise from the way in which work is carried out or managed, while others arise from unforeseen events (such as flooding).

2.9 In designing its new capital programme the Arts Council has taken steps to reduce the risk of delays and cost overruns, drawing on its experience of the first programme and reflecting the concerns that the Committee of Public Accounts raised in 1999. **Figure 8** sets out the measures introduced by the Arts Council to increase the likelihood of projects being delivered on time and within budget, together with our comments.

8 Measures to increase the likelihood of projects being delivered on time and within budget

Measures introduced by the Arts Council	National Audit Office comment
<p>Project monitoring - the Arts Council has introduced two particular initiatives to improve its monitoring of projects funded under the new capital programme.</p> <ul style="list-style-type: none"> ■ Risk assessment - the Arts Council is to undertake an assessment of each of the projects awarded funding to determine which represent the highest risk and therefore require additional monitoring. ■ Key stage review - at pre-defined key stages of a project, the Arts Council will review the project to ensure it is complying with the grant conditions and has made adequate progress. The Arts Council and the grant recipient will agree what is to be achieved in the next stage of the project. 	<p>The Arts Council monitors the progress of all the projects it funds and the organisations we visited were appreciative of the advice provided by Arts Council staff and the independent assessors it employed.</p> <p>The Arts Council's measures should work to mitigate some of the problems that emerge on capital projects. Setting clear milestones at which progress will be reviewed should help the Arts Council to identify at an earlier stage projects in difficulty and allow time for action to be taken to bring them back on course. The acid test will be whether the Arts Council takes prompt and decisive action to ensure good use of lottery funds, including terminating projects where they consistently fail to progress satisfactorily.</p>
<p>Management of contractors - the Arts Council now provides greater guidance to help projects assess and manage the risks associated with different types of contract. It seeks to ensure that projects obtain professional advice and technical support, for example by requiring them to involve the Commission for Architecture and the Built Environment (with whom the Arts Council has a service level agreement) and by providing them with funding specifically for this purpose. Although the Arts Council does not advise individual grant recipients directly, in the main it encourages them to use forms of contract that provide greater design and cost certainty.</p>	<p>Dealing with the construction industry represents a major challenge for grant recipients and a number of the projects we examined had been in dispute with contractors about cost claims or the need for remedial work to fulfil contracts. Managing contractors and handling disputes are areas where it would be useful for the Arts Council to identify lessons from projects funded under the first programme and draw on good practice from elsewhere to build up a core of expertise and provide guidance for projects in the future.</p>
<p>Supporting projects - the Arts Council has introduced new measures to support projects and make them better able to manage capital projects.</p> <ul style="list-style-type: none"> ■ Health check - with the assistance of external advisors, the Arts Council works with each organisation admitted to the new capital programme to identify their strengths and weaknesses and agree a plan setting out the actions and any technical assistance needed to help the organisation to put together a detailed application and development plan and to deliver the project to time and cost. ■ Capacity building - where the 'health check' identifies organisational weaknesses, the Arts Council may provide additional funds of up to £75,000 towards the cost of recruitment, consultancy support and training to help ensure the grant recipient has the capacity to undertake a capital project and to manage its subsequent operation. ■ Technical assistance - the Arts Council now awards organisations admitted to the capital programme additional funding of £50,000 to buy specialist advice on any aspect of the project (for example audience research, or financial or legal advice). The funding includes an element to cover the cost of advice on design and procurement matters that organisations are required to seek from the Commission for Architecture and the Built Environment. 	<p>The steps taken by the Arts Council reflect the importance of not awarding lottery money unless it is satisfied that the recipient has the organisational and financial expertise needed to manage the project and that the project is based on sound business plans. Some of the problems experienced by projects have been caused or aggravated by the fact that many arts organisations had little or no experience of managing major capital projects.</p> <p>The measures the Arts Council has introduced should promote better project management by building the capacity of grant recipients and enabling them to buy in specialist expertise where necessary. Some organisations we visited suggested that it would also be useful for the Arts Council to co-ordinate a mentoring scheme whereby organisations with experience of managing capital projects could share their knowledge with new projects.</p>



Part 3

Funding the projects

- 3.1 This part of the report considers how the 15 projects examined by the Committee of Public Accounts were funded. In particular we examined:
- whether the Arts Council provided the projects with supplementary grants in addition to their initial lottery funding;
 - whether the projects achieved the required level of partnership funding from other sources and what proportion of the costs were funded by the Arts Council;
 - what the Arts Council has done to improve its arrangements for handling supplementary grants and partnership funding in the future.
- 3.4 When the Committee of Public Accounts reported in 1999 it concluded that it was important that grant recipients did not come to see the Arts Council as a soft touch in awarding supplementary grants. The Arts Council had made 11 supplementary grants to eight of the 15 projects, totalling nearly £20 million and representing an increase of 6.5 per cent on the original £305 million of lottery funding. Since then the Arts Council has made a further nine supplementary awards to seven projects, totalling some £12.6 million (**Figure 9**). The Arts Council rejected one application for supplementary funding outright (from Milton Keynes Theatre and Gallery) and awarded less than the amount sought in two cases (to Sadler's Wells Theatre and the Victoria Hall and Regent Theatre).

Ten of the 15 projects received supplementary grants

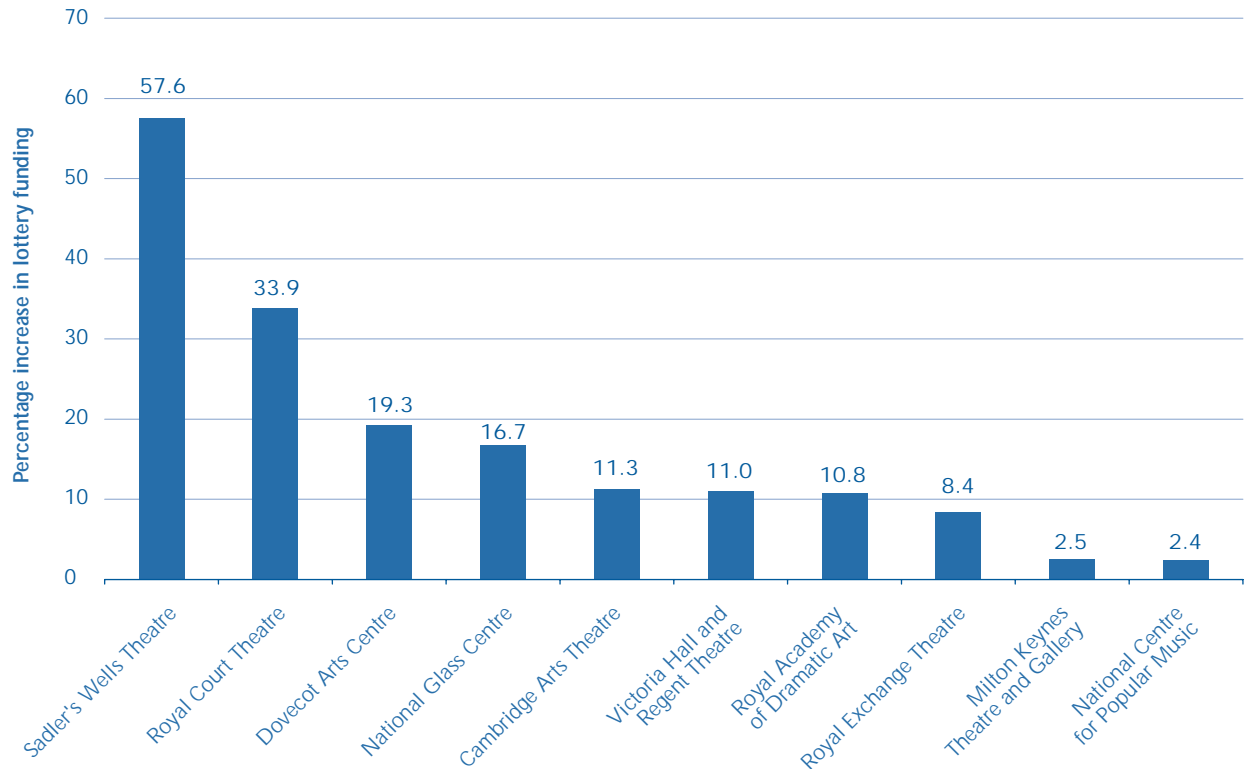
- 3.2 In the event of cost overruns or budget shortfalls, the Arts Council expects projects to resolve the problems themselves or in partnership with their stakeholders. However, the Arts Council is prepared to award supplementary grants where there is no alternative way of making good a financial shortfall and where it is satisfied that the funding is essential to the success of the project and represents value for money.
- 3.3 As the Arts Council confirmed in its response to the Committee of Public Accounts' report, any increase in the level of lottery funding is the subject of a new application and re-assessment by the Arts Council. In each case the Arts Council appoints an independent assessor to assist and it also draws on advice from other experts where appropriate in verifying the cost overrun or budget shortfall and its causes. In deciding whether to make a supplementary award, the Arts Council has to decide between giving additional support to protect the investment it has already committed or withholding funding and risk the project failing. If a decision is made to provide a supplementary grant, the Arts Council reflects the recommendations of its independent monitor about the project in the conditions it attaches to the award.
- 3.5 Overall the Arts Council made supplementary grants to ten of the 15 projects, worth a total of £32.5 million - an increase of 10.7 per cent on the amount of lottery funding originally awarded. Six of the ten projects received supplementary awards of over £1 million. The increases in lottery funding ranged from 2.4 to 57.6 per cent (**Figure 10 on page 23**).
- 3.6 Sadler's Wells Theatre received most additional funding, both in absolute and percentage terms. In all the Theatre received three supplementary grants totalling over £17 million. **Case study 4 on page 23** outlines the circumstances surrounding the third supplementary award in June 2001.

9 Original lottery grant and supplementary grants awarded to each project

Project	Original lottery grant (£)	Supplementary grants awarded before June 1999 (£)	Supplementary grants awarded since June 1999 (£)	Reason for supplementary grants awarded since June 1999
Cambridge Arts Theatre	6,640,000	750,000	-	
Dovecot Arts Centre	6,256,750	1,211,682	-	
Malvern Festival Theatre	5,087,640	-	-	
Milton Keynes Theatre and Gallery	19,671,485	500,000	-	
National Centre for Popular Music	11,085,000	-	270,000	To contribute to the cost of re-design and development of elements within the Centre aimed at improving its appeal and effectiveness as a visitor attraction.
National Glass Centre	5,951,000	950,000	46,000	To contribute to the cost of equipment lost from the main grant due to cost increases elsewhere on the project.
Royal Academy of Dramatic Art	23,602,285	144,588	2,400,000	To assist in paying off the Academy's capital debts, as part of a wider strategy (including additional fundraising and reductions in running costs by the Academy itself) aimed at securing longer term financial stability.
Royal Albert Hall	20,200,000	-	-	
Royal Court Theatre	15,803,505	3,022,345	2,332,182 (two separate awards)	To fund additional costs resulting from contractors' claims and completion works.
Royal Exchange Theatre overspend	23,057,250	-	1,926,918 (two separate awards)	To fund a projected due to claims from contractors and to fund further contractors claims following litigation.
Royal National Theatre	31,590,000	-	-	
Royal Opera House	78,500,000	-	-	
Sadler's Wells Theatre	30,000,000	12,000,000	5,275,500	To facilitate settlement of debts (including a bank loan) relating to the capital project and to fund necessary remedial works (see case study 4 on page 23).
Shakespeare's Globe Theatre	12,400,000	-	-	
Victoria Hall and Regent Theatre	14,886,000	1,269,000	365,000	The application was for £3.225 million towards additional capital costs and £365,000 for launch costs related to audience development. The Arts Council approved only the latter.
TOTAL	304,730,915	19,847,615	12,615,600	

Source: Arts Council England

10 Percentage increase in the lottery funding received by the projects



Source: National Audit Office

Case study 4: Supplementary grants - Sadler's Wells Theatre

The Theatre applied for further lottery funding of £7.1 million to cover construction and legal costs, to allow it to repay a commercial bank loan of £3.1 million, and to fund the completion of elements of the capital project.

The Arts Council assessed the Theatre's application for a supplementary grant and asked two of its independent assessors to make their own assessment. During the course of this process, the Theatre reduced its application to £5.7 million after deciding that it could fund the completion of non-essential works over a longer period.

In the event, in June 2001 the Arts Council approved a supplementary award of £5.3 million, despite concerns about the financial stability of the project. The grant was made on condition that the Theatre formally undertook not to request any further capital support from the Arts Council and that it would manage its operation for the next three years within the revenue grants already agreed. Key factors in the Arts Council's decision to award further funding were:

- without financial support the Theatre would have been forced into an insolvent liquidation and the building would no longer have been available for arts use;
- the Theatre risked not being granted further temporary licences unless safety works were carried out;
- the Theatre was a key strategic organisation for dance and the completion of the project was a high priority for the Arts Council.

Two projects also received loans from the Arts Council

3.7 In exceptional circumstances the Arts Council may provide additional support to projects by lending them money, as well as or instead of awarding a supplementary grant. For example, the Arts Council may make a loan if it considers that in the absence of other options the project would fail or that avoiding the need for a commercial loan would better protect the lottery funds invested in the project. However making loans exposes the Arts Council to the risk that the money may not be repaid if no or inadequate security is given.

3.8 Two of the 15 projects in our sample received interest-free loans from the Arts Council.

- In December 2000 the Arts Council approved a short term interest-free loan of up to £2.6 million to the Royal Academy of Dramatic Art to help avert cash flow difficulties on the project. Without cash input, the Arts Council anticipated that the Academy would become insolvent and the loan agreement included a requirement that the Academy work with the Arts Council in drawing up management changes needed to achieve long term financial stability.

The loan was secured by means of a charge against the anticipated proceeds of the sale of the leasehold on one of the Academy's properties to a developer and against the property itself. However, the Arts Council gave the loan before the Academy had signed the deal with the developer and before the developer had secured planning permission from the local authority.

Had planning permission been refused and the development agreement collapsed, the ability of the Academy to repay the loan of £2.6 million would have been threatened as the value of the property without planning permission was estimated to be just £1.6 million and the Academy was in financial difficulty. In those circumstances, the Arts Council would have had to decide between not exercising its charge and losing the £2.6 million loan; obliging the Academy to sell the property concerned and writing off the outstanding debt, likely to be in the region of £1 million; or forcing the Academy to sell additional assets to enable it to repay the loan in full but to the detriment of the lottery project as a whole.

In the event planning permission was obtained and the deal with the developer and repayment of the loan were completed in August 2001 (before the deadline of March 2002).

- In May 2001 the Arts Council agreed to provide an interest-free loan of up to £700,000 to assist the Royal Exchange Theatre in covering the cost of a negotiated settlement with its main contractor following litigation. The Theatre took up £545,000 of the loan in October 2001. The loan is repayable in four instalments between 2005 and 2011.

Twelve of the 15 projects achieved the required level of partnership funding but three did not

3.9 The Arts Council requires funded projects to secure 'partnership funding' from other sources to contribute to project costs and its payment arrangements provide for instalments of the lottery grant to be paid in arrears on production of certified claims at a ratio outlined in the grant offer. Of the 15 projects we examined, all but three (Dovecot Arts Centre, the Royal Academy of Dramatic Art and Sadler's Wells Theatre) were required to achieve partnership funding of 25 per cent or more.

3.10 At the time of the Committee of Public Accounts' report, four of the projects (the Royal Academy of Dramatic Art, the Royal National Theatre, the Royal Opera House and Sadler's Wells Theatre) were not at that stage achieving the required level of partnership funding but the Arts Council was confident that the funding would be raised. In the event:

- one of these projects plus two others failed to achieve the partnership funding required (Figure 11). As a result, on these three projects, the Arts Council ended up funding a higher proportion of the project costs than it originally intended.
- the remaining 12 projects raised the required level of partnership funding or more and the Arts Council funded the same or a lower proportion of the costs than it originally intended.

Overall the Arts Council provided £337.2 million (52 per cent) of the £649.6 million that the projects cost in total.

3.11 In its report the Committee of Public Accounts noted that the Arts Council had temporarily relaxed the timing of partnership funding requirements on four projects to help them overcome cash flow difficulties. The Committee was concerned that relaxing the timing of partnership funding meant increased risk for the Arts Council because the grant recipient might not succeed in raising the required amount of funding and the Arts Council could end up paying a greater proportion of the cost than it originally envisaged. In the event three of the four projects in question (the Royal Court Theatre, the Royal National Theatre and Sadler's Wells Theatre) caught up with their partnership funding, but the other (the Royal Academy of Dramatic Art) failed to raise the funding required and the Arts Council funded a higher proportion of the cost than intended.

11 Ratio of lottery and partnership funding for each project

Project	Funding ratio required		Funding ratio achieved	
	Lottery funding (%)	Partnership funding (%)	Lottery funding (%)	Partnership funding (%)
Projects that achieved the required level of partnership funding				
Dovecot Arts Centre	78	22	78	22
Sadler's Wells Theatre	78	22	78	22
Malvern Festival Theatre	75	25	67	33
Royal Court Theatre	75	25	73	27
Royal Exchange Theatre	75	25	73	27
Royal National Theatre ^(a)	75	25	74	26
Shakespeare's Globe Theatre	74	26	68	32
National Centre for Popular Music	73	27	67	33
Milton Keynes Theatre and Gallery	70	30	57	43
Victoria Hall and Regent Theatre	65	35	52	48
Royal Opera House	37	63	33	67
Royal Albert Hall ^(a)	35	65	29 ^(b)	71
Projects that failed to achieve the required level of partnership funding				
Royal Academy of Dramatic Art	77	23	86	14
Cambridge Arts Theatre	58	42	70	30
National Glass Centre	50	50	55	45

(a) Forecast ratio of lottery and partnership funding as the project has not yet been completed.

(b) This represents the lottery funding awarded by the Arts Council only; the Royal Albert Hall has also received lottery funding from the Heritage Lottery Fund.

Source: Arts Council England

Some projects funded cost increases by borrowing and one project sold an asset

3.12 The 15 projects we examined raised partnership funding in a variety of ways. All raised money from their local community or corporate sponsors. Most also drew on other sources of grant funding such as the European Regional Development Fund (in the case of the National Glass Centre), local government (in the case of Milton Keynes Theatre and Gallery and the Victoria Hall and Regent Theatre) or other distributors of lottery funds (in the case of the Royal Albert Hall).

3.13 Some of the projects (for example, the Royal Albert Hall) derived partnership funding from surpluses generated from their continued operation during the capital project. Others relied on borrowing to finance part of their partnership funding requirement. For example, Shakespeare's Globe Theatre took out a commercial loan to be serviced from future earnings. The Arts Council allows borrowing to count as eligible partnership funding provided it is guaranteed by an independent third party.

3.14 However two projects in our sample (the Royal Academy of Dramatic Art and the Royal Court Theatre) used borrowing to fund increased project costs. As both organisations already had accumulated operating deficits, the borrowing presented a particular risk to the Arts Council. In the event the financial difficulties were such that the projects required additional lottery funding from the Arts Council to enable them to repay their loans.

3.15 On one of the projects we examined (the Royal Court Theatre) the Arts Council agreed that, rather than raising money through fundraising or sponsorship from external sources, the organisation could sell the property it owned to meet a funding shortfall. The property had once housed educational workshops and was subsequently used to generate revenue and to secure bank overdraft facilities. Before awarding a supplementary grant of £1 million to the Theatre in January 2002, the Arts Council employed an independent assessor to review the Theatre's financial position. The assessment revealed a partnership funding shortfall of some £200,000 on previous grants. The

assessor considered that the Theatre would be unlikely to raise further partnership funding and with the Arts Council's agreement the property was sold for £410,000 in April 2002.

- 3.16 While selling an asset can meet an immediate funding need, there is a risk that the operation or viability of the organisation concerned may be adversely affected in the longer term if the asset provided useful facilities or was a source of revenue. The Arts Council has confirmed that it would not support the sale of assets if it considered such a sale would put at risk an organisation's viability. In the case of the Royal Court Theatre, the Arts Council was satisfied that the property was surplus to operational requirements and that half the proceeds were to be used to set up a capital reserve to support the project in the future.

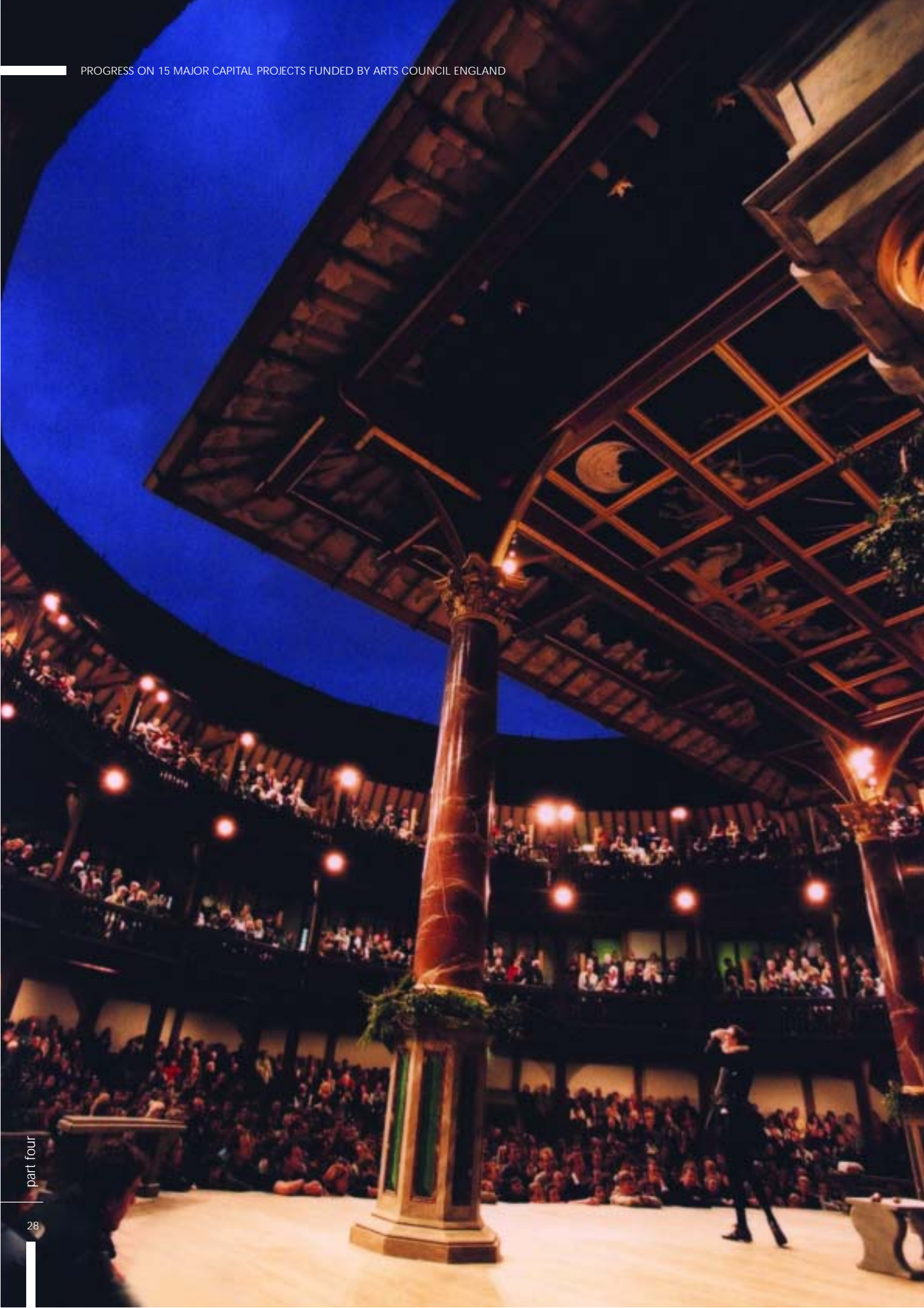
The Arts Council has taken steps to improve its arrangements for handling supplementary grants and partnership funding

- 3.17 When projects apply for supplementary grants or face difficulties in securing partnership funding, the Arts Council runs the risk of having to award extra unplanned amounts of lottery funding to ensure that the projects are successfully completed. [Figure 12](#) sets out the steps taken by the Arts Council to address this risk, reflecting the concerns that the Committee of Public Accounts raised in 1999, together with our comments.



12 Measures to improve the handling of supplementary grants and partnership funding

Measures introduced by the Arts Council	National Audit Office comment
<p>Guiding principles for supplementary grants - in March 2001 the Capital Advisory Panel approved a framework for policy and decision making on supplementary grants. The Arts Council would consider an application for a supplementary grant only when the full extent of the financial shortfall had been identified and cost certainty achieved for resolution of the problem. Four guiding principles would be used in assessing applications:</p> <ul style="list-style-type: none"> ■ the responsiveness of project stakeholders and partners to the identified problems; ■ the critical or strategic role of the project in regional or national arts provision; ■ whether the project continued to provide value for money; ■ the previous conduct of the project in estimating inflation and contingencies, procuring contracts, assessing and managing risks, managing the project and identifying savings. 	<p>Supplementary grants are a further and unplanned commitment of lottery funds and it is important that they are awarded only after applications have been rigorously assessed using clear criteria. Now that the Capital Advisory Panel has approved a policy framework for supplementary grants, the Arts Council needs to translate it into criteria that can be used in practice to assess applications for additional funding. It would also be helpful for the Arts Council to publish the framework to inform projects considering whether to apply for supplementary grants.</p> <p>Providing interest-free loans to projects (see paragraphs 3.7 and 3.8) also represents a further call on lottery funds. Loans cost the Arts Council in terms of the interest forgone and also expose it to the risk that the money may not be repaid if no or inadequate security is given. In deciding whether to make a loan, the Arts Council therefore needs to apply strict criteria in the same way as it would in assessing supplementary grants.</p>
<p>Contingency budget - the Arts Council found that the contingency budget of five per cent that it originally set for the first capital programme was inadequate and subsequently increased it. For the new programme it has undertaken a risk assessment of each individual project and, on the basis of this, has increased the overall contingency provision to seven per cent.</p>	<p>For the first capital programme as a whole, the Arts Council has awarded £58 million in supplementary grants to date and it has also set aside an additional £26 million for future contingencies. The need to increase the contingency budget for the first programme has been one of the contributing factors in reducing the funding available under the new capital programme, where the budget for the second round of awards has fallen from £88 million to £46 million.</p> <p>The total of £84 million for the first programme represents a contingency of nearly seven per cent, in line with the provision the Arts Council has budgeted for the new programme. Having a larger contingency at the outset should help to reduce the risk of the Arts Council having to draw at a later stage in the new programme on money intended for other purposes.</p>
<p>Flexibility in partnership funding - the Arts Council is to introduce more flexibility into its partnership funding requirements. It will consider very low levels of partnership funding under specific circumstances for applications from priority sectors, and in others will require projects to secure partnership funding of more than 25 per cent.</p>	<p>It is clear that some projects are in a better position to raise partnership funding than others thanks to, for example, their reputation or the presence of a high profile 'champion'. It would be useful for the Arts Council to publicise what has worked well for projects needing to raise funds from other sources.</p> <p>In deciding partnership funding requirements, the Arts Council needs to make a systematic assessment of what it is reasonable to expect each individual project to achieve. As well as considering what is the appropriate level of partnership funding, the Arts Council needs to remain vigilant about the sources of funding. For example, the Arts Council should keep a close eye on organisations that take out commercial loans to fund cost increases after projects have commenced (see paragraph 3.14), since such borrowing when a project is already experiencing financial difficulties brings risks to the organisation concerned and ultimately to the Arts Council.</p>



Part 4

The projects in operation

4.1 This part of the report considers how the 15 projects examined by the Committee of Public Accounts are performing now that they are operational and construction is more or less complete. In particular we examined:

- whether the projects are delivering the intended benefits;
- whether the projects are financially stable.

Two projects (the National Centre for Popular Music and the Dovecot Arts Centre) have closed.

The majority of the projects are delivering the intended benefits

4.2 In June 2002 the Arts Council commissioned independent assessors to evaluate all the projects awarded grants of over £5 million through the first capital programme that had been operational for at least a year. The evaluation was designed to assess the extent to which the projects were delivering the level and range of benefits envisaged in their original business plans and applications for lottery funding. Each evaluation considered four main aspects of performance:

- **artistic** - for example the number, type and range of artistic events and their audiences;
- **education and outreach to new audiences** - for example the number, type and range of educational and outreach events and their participants;
- **financial stability** - for example the impact of the project on recurrent income and expenditure budgets and on longer term financial stability and viability;
- **architectural** - for example the fitness for purpose of the completed building in terms of technical and physical standards and disability access.

4.3 Overall the evaluation found most projects were performing well and some had exceeded the targets in their original proposals, particularly in relation to audience levels and the number of productions and performances. Leaving aside the two projects which had closed, the evaluation found that of the projects we examined:

- nine projects (Malvern Festival Theatre, Milton Keynes Theatre and Gallery, the Royal Academy for Dramatic Art, the Royal Albert Hall, the Royal Exchange Theatre, the Royal National Theatre, the Royal Opera House, Sadler's Wells Theatre and Shakespeare's Globe Theatre) were achieving or exceeding all of the benefits and outputs identified in their funding application within the timeframe originally envisaged. **Figure 13** provides examples of the achievements of these projects;
- three projects (the Cambridge Arts Theatre, the Royal Court Theatre and the Victoria Hall and Regent Theatre) were achieving or exceeding most of the benefits and outputs identified in their funding application, but were not achieving some or all of the financial targets within the timeframe originally envisaged. In the case of the Royal Court Theatre and the Victoria Hall and Regent Theatre, the evaluation concluded that the shortfall against the original plan was marginal and expected the targets to be achieved shortly;
- one project (the National Glass Centre) was partly achieving its artistic, educational and architectural targets but was not meeting its financial targets.

Paragraphs 4.6 to 4.11 below consider in more detail projects which were not meeting their financial targets.

Eleven of the projects have received awards

4.4 Many of the projects we examined have received or been nominated for awards, for example for architectural design and disability access. A full list is set out in Appendix 2. The Arts Council's grant conditions require all building-related projects to comply with legislation relating to access for disabled people and to meet its own disability access standards which exceed

13 Examples of projects' achievements

Malvern Festival Theatre - artistic

The Theatre is now able to attract a range of high quality touring shows, including opera productions from European companies, and to present modern dance productions and innovative shows.

Milton Keynes Theatre and Gallery - education and outreach

The project has a wide-ranging programme of activities and events - in 2000-01 the Theatre held 317 education workshops and the Gallery held 65.

Royal Academy of Dramatic Art - architectural

The new facilities are performing to the technical standards required and have helped to strengthen the quality of the Academy's teaching. The building is now accessible to disabled students, staff and audiences.

Royal Albert Hall - artistic

Although the Royal Albert Hall project as a whole is not scheduled for completion until December 2003, it is in effect a series of smaller projects which are already delivering benefits. Between 1995 (when the project began) and 2001, audiences for events held at the Hall increased by 184,000 (22 per cent).

Royal Exchange Theatre - architectural

The project restored the Theatre following the bomb damage in 1996, upgrading the auditorium and providing a new studio theatre, better technical and backstage facilities, and improved public areas housing bars, catering and shops.

Royal National Theatre - architectural

The project has provided improved facilities and amenities for the Theatre's audiences and other users, including enhanced access for disabled people, and better technical and backstage facilities.

Royal Opera House - artistic

The Royal Opera House has expanded the range of seats available to the general public, especially to non-members who now account for 65 per cent of ticket sales. Reduced price seats are offered for all productions with the aim of attracting more diverse audiences.

Sadler's Wells Theatre - artistic

Although not fully complete, the project has provided the stage and technical facilities to enable the Theatre to deliver a range of programming, including presenting leading national and international large scale companies.

Shakespeare's Globe Theatre - education and outreach

The Theatre has one of the largest theatre-related education departments in the country with a wide range of workshops, lectures, courses and events. A total of 57,000 students attended courses in 2001-02, compared to an original projection of 35,000.

Source: Arts Council England

the standards set out in the Building Regulations 1991 (for example, in terms of the size of doorways and passenger lift cars). The Arts Council uses specialist disability advisors to assist in assessing funding applications and in some cases, such as at the Royal Academy for Dramatic Art, it has employed specialist disability monitors to provide advice to projects about meeting the standards.

forecasts within the timeframe originally envisaged but the Arts Council's evaluation concluded that all of these (except the National Centre for Popular Music which has closed) were on track to achieve their forecasts in due course. The forecast for the final project, the Royal Albert Hall, relates to performance in 2004 and the Hall is expected to achieve this.

Six of the projects achieved their visitor number forecasts within the timeframe originally envisaged

- 4.5 All of the projects included visitor number forecasts in the business plans which formed part of their original applications for lottery funding, although these sometimes involved a large degree of estimation into the future given the long construction periods. **Figure 14** shows that six projects met or exceeded their forecasts for visitor numbers within the timeframe originally envisaged (although Dovecot Arts Centre has since closed despite this). Eight projects had not met their

Seven of the 15 projects have experienced financial difficulties

- 4.6 In its 1999 report the Committee of Public Accounts was concerned that, despite the financial assistance provided by the Arts Council, the financial stability of some of the recipients of lottery funding remained open to question and as a result the organisations might not be capable of running the completed facilities effectively. Since the Committee reported, two of the 15 projects it examined have closed due to financial problems and, of the 13 that are still operational, the Arts Council has concerns about the financial position of five.

14 Performance against visitor number forecasts

Project	Forecast for visitor numbers	Visitor numbers achieved
Projects that met or exceeded their forecasts within the timeframe originally envisaged		
Cambridge Arts Theatre	156,000	166,000
Dovecot Arts Centre (<i>closed in November 2001</i>)	59,000	62,000
Malvern Festival Theatre	186,000	188,000
Milton Keynes Theatre and Gallery	250,000 - Theatre 41,000 - Gallery	371,000 - Theatre 41,000 - Gallery
Royal Opera House	585,000	642,000
Shakespeare's Globe Theatre	200,000	285,000
Projects that did not meet their forecasts within the timeframe originally envisaged		
National Centre for Popular Music (<i>closed in June 2001</i>)	400,000	80,000
National Glass Centre	75,000	65,000
Royal Academy of Dramatic Art	10,300	9,400
Royal Court Theatre	82,000	66,000
Royal Exchange Theatre	210,000	200,000
Royal National Theatre	636,000	609,000
Sadler's Wells Theatre	440,000	404,000
Victoria Hall and Regent Theatre	344,000 - Theatre 130,000 - Hall	328,000 - Theatre 134,000 - Hall
Projects with forecasts relating to future performance		
Royal Albert Hall	A 30 per cent increase (247,000) on 1995 attendances (826,000) by 2004	Increase of 184,000 (22 per cent) by 2001

Source: Arts Council England

Two of the projects have closed

- 4.7 The National Centre for Popular Music and Dovecot Arts Centre closed some two years after opening as a result of financial difficulties. **Case studies 5 and 6 on page 32** outline the events leading to the projects' closure.

Other projects are experiencing financial difficulties

- 4.8 At the time of our examination the Arts Council had concerns about five of the projects that, while operational, were experiencing financial difficulties. **Figure 15 on page 33** outlines the extent of the financial problems and the proposals to address them. Of the five projects, the Arts Council expects the Royal Court Theatre and the Victoria Hall and Regent Theatre to recover shortly.

- 4.9 The causes of the financial difficulties experienced by the projects include:

- lower than expected visitor numbers and problems in re-establishing audiences where projects closed during redevelopment;

- income generating activities (such as catering and the renting of commercial space) failing to generate a surplus, often as a result of a shortfall in visitor numbers;
- higher than anticipated maintenance costs;
- higher than anticipated capital project costs which have depleted revenue funds.

Two of the projects are in the Arts Council's recovery programme

- 4.10 Where projects do not deliver the intended financial and other benefits, the Arts Council may work with them to develop a long term strategy through its recovery programme. The programme aims to enable arts organisations faced with imminent insolvency to develop recovery plans, in conjunction with key stakeholders, in order to secure operational stability. The Arts Council seeks to help organisations analyse their problems and develop plans to overcome them, and provides funds for the implementation of recovery strategies.

Case study 5: Projects that have closed - the National Centre for Popular Music

The Centre opened in March 1999 but soon developed financial difficulties principally because visitor numbers were lower than expected - the Centre attracted nearly 66,000 visitors in its first six months towards an annual requirement of 400,000 needed to operate viably.

In November 1999 just over £1 million of the Centre's debts to unsecured creditors were paid off under a company voluntary arrangement⁴, approved by the Arts Council and funded in part through the final element of the original lottery grant of £291,000. The arrangement enabled the Centre to continue to trade as an alternative to going into liquidation.

The Arts Council's independent assessor provided the Centre with advice on its financial and operational difficulties and in May 2000 the Centre put forward a proposal for redevelopment, which outlined plans to improve the public facilities, introduce a club venue and upgrade the exhibitions and interactive provision. The Arts Council awarded an additional grant of £270,000 to fund the plans and earmarked a further £900,000 as a contribution towards the remodelling of the Centre. As a condition of grant, the Centre was required to develop a new business plan.

However, with visitor numbers and revenues still failing to meet expectations, the Centre decided to wind up operations to avoid personal liability and further losses to creditors. The Centre ceased to operate as a visitor attraction in June 2000.

Ways of securing a continuing arts or cultural use for the building were explored but in May 2002 the Centre advised the Arts Council of its intention to sell the building for £1.85 million to the regional development agency, which intends to use it for a creative industries centre. The buildings closed to the public altogether in June 2002.

The Centre is proposing a second company voluntary arrangement where unsecured creditors with claims of less than £1,000 will be paid in full. The Arts Council is the largest unsecured creditor but does not have a legal charge on the building as this was not a condition of grant. The Arts Council expects to receive between £400,000 and £600,000, equivalent to between three and six per cent of the £11 million of lottery funding invested in the project.

Case study 6: Projects that have closed - Dovecot Arts Centre

The Centre opened in January 1999 and within three months was experiencing financial difficulties. Although the Centre exceeded its visitor number targets, box office and other income targets were not achieved. Furthermore running costs were higher than anticipated and the Centre had started with a deficit as a result of cost overruns on the capital project. In the Arts Council's view, the organisation did not have the management capacity needed to operate the Centre effectively.

In March 2000 a company voluntary arrangement⁴ was negotiated to repay outstanding creditors. The arrangement was approved by the Arts Council and funded by the capital grant.

Following the company voluntary arrangement, the Centre failed adequately to meet the Arts Council's requirements, including producing a more cohesive business plan and recruiting senior management of the necessary calibre and experience. The Arts Council delayed paying instalments of the capital grant in an attempt to induce the changes it sought.

In August 2001 the Centre was assessed for the Arts Council's recovery programme (see paragraph 4.11) but, following negotiations with local stakeholders about what other funding might be available, in November 2001 the Arts Council decided it could not provide the level of funding that the Centre needed and therefore decided not to admit the Centre to the programme. The Centre ceased trading and took steps to have the Company wound up.

⁴ A company voluntary arrangement is a procedure whereby a company owing money comes to an arrangement with its creditors about payment of all, or part of, its debts over an agreed period of time. When an arrangement has been proposed, an insolvency practitioner reports to court on whether a meeting of creditors should be held to consider the proposal. The meeting decides whether to approve the arrangement, which needs the support of 75 per cent of creditors by value. Once approved, the arrangement binds all creditors given notice of the meeting, whether they voted for it or not.

15 Projects in financial difficulty

Project and the extent of the financial difficulties	Proposals to address the problems
Although the Cambridge Arts Theatre has exceeded its target for visitor numbers, the expected improvement in the Theatre's financial position has not materialised. The Theatre incurred a loss of £36,000 in 2001-02 and is forecasting a loss of around £72,000 in 2002-03.	The Arts Council's independent assessor considered that the Theatre was unlikely to be able to increase what he considered was its already high box office and trading income and would need to find ways of increasing overall grant funding or reduce its costs. The prospects for the Theatre's financial stability have improved as, following its general review of theatre funding in 2001, the Arts Council is to increase the revenue funding it provides to the organisation by £59,227 (60 per cent) between 2000-01 and 2003-04.
The National Glass Centre currently has an annual operating deficit of £110,000, which is not sustainable. Although the Centre is attracting a substantial number of visitors, it has not achieved its target for fee-paying admissions and operating costs have been higher than anticipated. The financial problems were compounded by both the glass manufacturer which occupied the building and the catering company that ran the restaurant on a franchise basis going into liquidation, with resulting bad debts for the Centre.	The Arts Council has admitted the Centre to its recovery programme (see paragraph 4.11) to help address its longer term financial viability.
At the end of 2001-02 the Royal Academy of Dramatic Art had an accumulated deficit of £4.1 million made up of the deficit on the capital project and shortfalls in operating income over a number of years.	The Arts Council provided a supplementary grant of £2.4 million (see figure 9) to assist the Academy in paying off its capital debts and a short term interest-free loan (see paragraph 3.8), since repaid, to help avert cash flow difficulties. The Arts Council also employed consultants to work with the Academy to establish a wide-ranging action plan aimed at stabilising the position and making the Academy more financially secure in the longer term.
The Royal Court Theatre has not performed as well financially as was predicted in its original business plan. Box office income has been lower and operating costs higher than anticipated. Rather than breaking even, the Theatre has incurred annual operating deficits despite higher than originally envisaged levels of public subsidy. By the end of 2001-02 the Theatre's accumulated deficit had reached £370,000.	The Theatre has introduced new marketing initiatives aimed at boosting attendances and box office receipts. More generally, the prospects for the Theatre's financial stability have improved as, following its general review of theatre funding in 2001, the Arts Council is to increase the revenue funding it provides to the Theatre by £397,042 (28 per cent) between 2000-01 and 2003-04. The Theatre is expecting to break even in 2002-03.
The original business plan of the Victoria Hall and Regent Theatre envisaged some operating losses in the early years following completion of the project but the Arts Council understands that these have been higher than forecast. (Detailed information is not available to the Arts Council as the Theatre's financial position is regarded as a commercially sensitive matter for the private sector operator.)	The Arts Council is satisfied that the Theatre's financial position is generally improving. As the Theatre is run by a commercial operator, the public sector is not bearing any of the losses.

Source: Arts Council England

4.11 Two of the 15 projects we examined are currently in the recovery programme.

- Due to financial difficulties the National Glass Centre has delivered its artistic and education and outreach programmes on a smaller scale than it originally intended. The Centre was admitted to the recovery programme in June 2002 and a strategy for stabilisation and recovery is being developed. The Arts Council made an initial award of £150,000 to provide the Centre with cash flow support until March 2003 while it develops the recovery plan, and has reserved a further £50,000 to provide technical support. The total cost to the Arts Council of recovering the project in the longer term is expected to be £800,000.
- Following its closure in November 2001 (**case study 6**), the Arts Council admitted Dovecot Arts Centre to the recovery programme in March 2002. The Arts Council is working with regional stakeholders on plans for an alternative arts use for the building to fit in with other regional activities and needs. The balance of the capital grant of nearly £56,000 will be allocated for this purpose. The Arts Council has also awarded £100,000 to the Centre to meet the costs of protecting the building and of setting up a new company. Further funding of £100,000 has been provisionally allocated to the project.

The Arts Council has taken steps to evaluate whether projects are delivering the intended benefits and to protect lottery funds

4.12 In the light of its experience of the first capital programme and reflecting the concerns that the Committee of Public Accounts raised in 1999, the Arts Council has taken action to evaluate more systematically whether projects are delivering the intended benefits and to protect the lottery funds it has invested in them. **Figure 16** sets out the steps taken by the Arts Council, together with our comments.

16 Measures to evaluate projects and protect lottery funds

Measures introduced by the Arts Council	National Audit Office comment
Research and evaluation - the Arts Council has commissioned independent consultants to undertake the first stage of an evaluation of the new capital programme in order to assess the extent to which the funded projects have between them contributed to meeting the programme's aims.	The Arts Council began evaluation work on the first capital programme in June 2001 but had no consistent baseline data against which to assess the impact of its capital funding. By commissioning evaluation work at an early stage of the new programme, the Arts Council has the opportunity to undertake a more rigorous evaluation and to take account of the results as the programme progresses.
Protecting lottery funds - under the new capital programme, the Arts Council attaches to all grants a funding condition that secures it a legal charge on any building constructed or redeveloped using lottery funding. This means that, should a project close or no longer be used for arts purposes, the Arts Council would be a secured creditor and therefore in a stronger position to maximise the return of lottery funds.	The 15 projects we examined were funded in the early days of the first capital programme when the Arts Council did not as a matter of course protect the lottery money it was investing by securing a legal charge on buildings it had funded. The importance of the action now taken by the Arts Council is illustrated by the fact that it sought legal charges retrospectively but these were not always secured. As a result, when the National Centre for Popular Music closed the Arts Council was unable to recover more than a small percentage of the funds it had invested (see case study 5 on page 32).
Sustainability of projects - the Arts Council has concluded that some projects funded under the new capital programme will not be financially viable without additional revenue support. It has therefore set aside £7 million from its capital budget to support organisations that are unable to secure the necessary revenue funding from other sources.	<p>As the Arts Council recognises, its interest in the capital projects it has funded does not end when construction is complete. If the projects are not financially stable, there is a risk that they may not be capable of running the completed facilities effectively. It is important that the Arts Council continues to keep an eye on the viability of projects so that it can consider whether to intervene where financial difficulties put at risk the delivery of the intended public benefits. Given the large number of projects that it has funded, the Arts Council should focus its efforts on those projects which have received the largest grants or which it regards as particularly at risk.</p> <p>More generally the Arts Council needs to satisfy itself that the recipients of capital grants have the capacity and expertise to manage their project beyond construction into operation. The different stages of a project may well require different skills. The Arts Council's new health check and capacity building arrangements (see figure 8 on page 23) are designed to help achieve this.</p>

Appendix 1

Study methodology

Background

- 1 The Committee of Public Accounts reported on the Arts Council's capital programme in December 1999¹, after taking evidence from the Arts Council and the Department for Culture, Media and Sport. On the basis of a report by the Comptroller and Auditor General², the Committee considered the progress made on major capital projects funded by the National Lottery and how performance might be improved.
- 2 The Committee's report focused on 15 of the 28 major capital projects that had each received a lottery grant of £5 million or more from the Arts Council and where significant progress had been made in terms of building work completed and grant paid. While the 15 projects represented less than one per cent of the total number approved, they accounted for 31 per cent by value of the grants made under the capital programme. And due to their size and complexity, they were also some of the most risky projects supported by the Arts Council.

Scope of this examination

3. This report examines what has happened on the 15 projects since the Committee of Public Accounts reported in 1999. We focused on:
 - progress in completing the projects - whether they were delivered on time and within budget;
 - how the projects were funded - whether they required supplementary grants from the Arts Council in addition to their original lottery funding and whether they achieved the required level of partnership funding from other sources;
 - how the projects are performing now that they are operational - whether they are delivering the intended benefits and are financially stable.

The methods we used

- 4 The main elements of our work were as follows.
 - We visited the 15 projects to view the new buildings and facilities. We interviewed senior staff in the organisations concerned to discuss issues relating to the construction and operation of the project and their relationship with the Arts Council.
 - We examined the Arts Council's monitoring records for the 15 projects to identify developments since the Committee of Public Accounts reported in 1999 and interviewed the lottery officer responsible for overseeing each project.
 - We analysed Arts Council data to update key information in the Committee of Public Accounts' report covering the final position on time, cost and funding for each project and how the position had changed since the Committee reported.
 - We reviewed the results of the work carried out by independent assessors for the Arts Council to evaluate the extent to which the projects were delivering the benefits identified in their original business plans and applications for lottery funding.
 - We interviewed senior staff in the Arts Council's Capital Services Department to discuss developments on the capital programme and how lessons from the first programme and the concerns of the Committee of Public Accounts had been taken into account in designing the new programme.

¹ Sixth Report, Session 1999-2000 (HC 129).

² HC 404, Session 1998-99.

Appendix 2

Projects that have received awards for design or access

Cambridge Arts Theatre	ADAPT Trust Millennial Awards 2001
Dovecot Arts Centre	Civic Trust Commendation 2001
Malvern Festival Theatre	Civic Trust Awards Commendation 2001
Milton Keynes Theatre and Gallery	RIBA Award for Architecture 2000
National Glass Centre	Millennium Product Award 2000 (one of eight buildings selected) Independent Newspaper 'Top 100 buildings of the 1990s' Galvaniser's Award of the Year GlassEx (Glass Industry Annual Award)
Royal Academy of Dramatic Art	Nominated for the Crown Estate Conservation Award Winner of the first ADAPT Trust Access Award
Royal Court Theatre	RIBA Award 2000 Concrete Society Award Civic Trust Award for Access The Royal Borough of Kensington and Chelsea Environmental Award Scheme for Access for Disabled People Royal Fine Art Commission Trust Building of the Year Award for Outstanding Architects
Royal Exchange Theatre	Civic Trust Commendation 2000
Royal Opera House	Civic Trust Award 2002
Sadler's Wells Theatre	Islington Access Awards 2000 Islington Society - Geoffrey Gribble Memorial Award 2000 Civic Trust Awards 2000 Royal Fine Art Commission 1999
Victoria Hall and Regent Theatre	Civic Trust Award 2000 (Victoria Hall) Bovis Royal Academy Awards 1997 (Victoria Hall) Civic Trust Commendation 2000 (Regent Theatre)