

Progress on 15 major capital projects funded by Arts Council England



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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executive summary

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- 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.