

cc BI plus page 1-7 of report



OFFICE OF ARTS AND LIBRARIES
Old Admiralty Building
Whitehall
London SW1A 2AZ
Telephone 01-273 4400

From the Minister for the Arts

30 September 1983

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Michael,

SCRUTINY OF THE ROYAL OPERA HOUSE AND THE ROYAL SHAKESPEARE
COMPANY

Clive Priestley has this morning delivered advance copies of his covering report to Lord Gowrie and the Chairmen of the Arts Council and the two Companies. The report will be published on Monday, with the statement attached to Lord Gowrie's minute to the Prime Minister of 28 September.

... I enclose a copy of the report.

I am sending a copy of this letter and enclosure to John Gieve, Chief Secretary's Office.

Yours sincerely,

Mary Brown.

MRS M E BROWN
Private Secretary

FINANCIAL SCRUTINY
of the
ROYAL OPERA HOUSE
COVENT GARDEN LTD
and the
ROYAL SHAKESPEARE COMPANY

CABINET OFFICE
MANAGEMENT AND PERSONNEL OFFICE

September 1983

THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS
of the
ROYAL OPERA HOUSE
COVENT GARDEN LTD
and the
ROYAL SHAKESPEARE COMPANY

Report to the Earl of Gowrie
Minister for the Arts
by
Clive Priestley C B

COMPOSITION OF THE REPORT ON THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS OF THE ROYAL OPERA HOUSE, COVENT GARDEN LTD, AND THE ROYAL SHAKESPEARE COMPANY

COVERING REPORT	:	Chapters 1 to 5
ROYAL OPERA HOUSE VOLUME 1	:	Sections 1 to 12
ROYAL OPERA HOUSE VOLUME 2	:	Sections 13 to 19
ROYAL SHAKESPEARE COMPANY VOLUME 1	:	Sections 1 to 8
ROYAL SHAKESPEARE COMPANY VOLUME 2	:	Sections 9 to 15

CONTENTS

Page

Preface

1

Chapter:

1. The main conclusions and recommendations

3

Appendix: Targeted funding

8

2. Royal Opera House

11

Appendix: Possible ROH savings

29

3. Royal Shakespeare Company

30

4. Wider issues

51

5. Local authorities

61

Annex:

1. Value Added Tax and the entertainment industry

65

2. Business sponsorship of the arts

67

3. Greater London Council

71

4. City of Cardiff

72

5. City of Plymouth

73

THE FINANCIAL AFFAIRS AND FINANCIAL PROSPECTS OF THE ROYAL OPERA HOUSE, COVENT GARDEN LTD, AND THE ROYAL SHAKESPEARE COMPANY

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Preface

1. The Rt Hon Paul Channon, MP, then Minister for the Arts, invited me in February 1983 to make a special financial scrutiny of the financial affairs and financial prospects of the ROH and RSC. Being then Head of the Rayner Unit (now the Efficiency Unit), I undertook these exercises with the consent of the Prime Minister.

2. I now submit my report. After this introduction I provide summaries of my main findings, conclusions and recommendations. Attached to this summary is a separate report on each company, each report consisting of two volumes. Volume 1 contains the reports of my central team of consultants and myself on the management of the company and its financial affairs and prospects; Volume 2 contains the reports of my assignment officers on selected areas of expenditure. Although the scrutinies were commissioned by, and I am reporting to, the Minister for the Arts my recommendations are in part addressed to him for consideration by the Government and in part to the Companies in respect of certain features of their management of their own affairs.

3. I was assisted in the conduct of the scrutiny by nine people. The team included three consultants, Mr David Allen, formerly an Economic Adviser in HM Treasury and the Rayner Unit, now an independent consultant; Mr John Ashworth, of Coopers & Lybrand Associates on exchange for an official of the Management and Personnel Office working for his company; and Mr Ian Trumper, FCA, already on secondment to the Rayner Unit from Deloitte Haskins & Sells. The remaining members of the scrutiny team were six assignment officers from one of my divisions in the Management and Personnel Office. Time being at a premium, we all covered both companies during the same period of examination. The cost of consultancy fees and travel expenses totalled £32,100. The cost of the MPO staff and the consultants on secondment, including an allocation for overheads, amounted to £100,100.

4. My main aim in deploying a team of this size was to provide in the reports a "top-down" assessment by the consultants and myself of overall organisation for and conduct of financial management in each company; and a "bottom-up" assessment of selected blocks of fixed and variable costs by the assignment officers (see the reports in each Volume 2 by Mrs Giorgina Soane, on costumes, Miss Pearl Iley on sets, Mr Peter Standley on the stage crew, Mr Stephen Penfold on storage and related matters, Mr David Clegg on transport, travel and the extra costs of touring in the UK and Mrs Bridget Howard on press, publicity, marketing, merchandising, and sponsorship). The method of working is more fully explained in the prefatory note which begins each of the separate reports.

5. I am grateful to my colleagues for their hard work. I am grateful also for the counsel which I received from the specialist advisers appointed by Mr Channon. These were Mr Peter Diamand, CBE, a former Director of the Edinburgh International Festival and now with the Orchestre de Paris; M Hugues Gall, formerly with the French National Opera in Paris and now Director of the Geneva Opera; and Mr Michael Haines, of Thomson McLintock and Co., a practising accountant who is also keenly interested in the performing arts. While the advice of Messrs Diamand and Gall appears the more obvious in the report (see their observations on the question of the level of the ROH's artistic achievement in Section 12, Annex 1 of

the ROH report) Mr Haines gave me unstinting help and advice, both in writing and face to face which I found very valuable. I am also indebted to Mrs Daphne Loasby, of the University of Reading, for advice on certain matters considered in this covering report and in each of the Company reports.

6. Finally my colleagues and I are grateful to all those consulted and interviewed in the course of the scrutiny for their generous and patient assistance. We had full access to the Companies. Discussion at all levels within them was open and frank. We were well received by the Arts Council; selected local authorities; selected performing companies at home and overseas; and representatives of Equity, the Musicians' Union and NATTKE. And we received helpful comments from specialist journalists and from others who have been associated with the world of the performing arts. Although it is usually considered invidious to single out individuals, I am bound to say that the exercise owed much to the help of Sir Claus Moser, Sir Denis Forman, Sir John Tooley, Mr Richard Wright, Mr Adrian Doran, Mr David Pilcher, Mr Norman Morrice, Mr Anthony Russell-Roberts, Mr Peter Wright and Mr Christopher Nourse (Royal Opera House); and to that of Sir Kenneth Cork, Mr Geoffrey Cass, Mr Trevor Nunn, Mr Terry Hands, Mr David Brierley and Mr William Wilkinson (Royal Shakespeare Company).

7. I am grateful for the assistance my colleagues and I received in connection with our foreign visits to the senior staff of La Scala, Milan, and the Italian Embassy; to the Intendant of the Deutsche Oper, in Berlin, and the West German Embassy; to the Director of the Staatsoper, Vienna, and the Austrian Embassy; to the senior staff of the National Opera and the Comedie Francaise, Paris, the Ministry of Culture, and the French Embassy; to the General Manager of the New York Metropolitan Opera; to the Cultural Relations Department of the Foreign and Commonwealth office; and the British Council.

I am greatly indebted to the Chairman of British Telecommunications for letting me complete this exercise after I left Whitehall; and to the secretarial and typing services of the Management and Personnel Office, in particular to my former secretary, Miss Jean Sullivan, and the Word Processing Unit; and to Miss Jenny Gore and Miss Pauline Long of British Telecommunications who also helped with the secretarial work.

C Priestley
28 September 1983

A (pages 3-7)

CHAPTER 1

THE MAIN CONCLUSIONS AND RECOMMENDATIONS

1. This chapter summarises my conclusions and recommendations. Chapters 2 and 3 summarise the main findings, conclusions and recommendations in respect of the Royal Opera House and the Royal Shakespeare Company respectively. Chapter 4 deals with some wider issues, such as funding through the Arts Council.

THE ROYAL OPERA HOUSE

2. The overall conclusion of my examination of the financial affairs of the Royal Opera House (ROH) is as follows:

(1) In 1982-83 the ROH and its three performing companies incurred a deficit after funding (including £0.45 million of supplementary grant) of £0.22m. This is projected to accumulate to £1.16 million by the end of 1983-84 and approaching £3 million by end 1984-85, with the annual deficit after funding in 1984-85 being £1.8 million.

(2) The problem of the deficit is not temporary nor is it new, the seeds having been sown in 1981-82. There has been a ratchet increase in the ROH's funding requirement which is the consequence of expenditure rising faster than the general level of price and wage inflation (particularly in the two ballet companies and in the overtime working throughout the ROH); a drop in attendances at opera and ballet performances at Covent Garden; and an annual Arts Council (ACGB) grant which although broadly keeping pace with movements in the Retail Price Index over the past four years has not kept pace with the more appropriate Average Earnings Index, to reflect the labour intensive nature of the ROH's activities*.

(3) There is nothing which the Royal Opera House can do this year significantly to reduce the forecast end-year deficit of £1.16 million; and even over the next two years, whilst the financial situation can and must be stabilised, only limited economies can be achieved to reduce the funding requirement unless the House is required to lower substantially its artistic sights, to try and withdraw from commitments necessarily entered into in planning ahead and to change its nature. I recommend that the Government should provide additional funds to write-off the forecast accumulated deficit at 31 March 1984 of £1.16 million; and in 1984-85 should raise the base level of grant to the budgeted funding requirement of £12.35 million (an increase of £1.8 million on present projections) although the precise level of funding in 1984-85 will need to be decided in the light of a detailed assessment of the budget for that year.

(4) Whilst the currently projected levels of expenditure and funding requirement are primarily a reflection of the ROH's artistic objectives and programmes the scrutiny has identified some areas where savings can be found over the next two to three years and which, once achieved, would reduce the annual funding requirement of the House by £0.6 million at 1983-84 prices. A large part of the savings will flow from the reform of work practices of stage staff and changes in the balance of opera programmes to increase their net contribution to the revenue of the House. Lesser savings will flow from certain changes in staffing levels; reducing the cost of Royal Ballet Touring; and reducing the Royal Ballet budget for guest artists. A summary of the savings is at Chapter 2, Appendix 1. Although in some cases

*The Arts Council assessed the full needs of the Royal Opera House at £12.9 million in 1983-84.

they may necessarily involve changes in artistic directions they should not seriously detract from the general excellence and international standing of the House and its constituent performing companies.

(5) Not all of the savings will be easy to achieve and all will take time, given in particular the long lead time in the planning of artistic programmes and, where they involve the reform of working practices, the need for careful union negotiations. I **recommend** accordingly that the ROH should be required to achieve the targeted annual savings of £0.6 million by the end of 1986-87, although a start should be made now.

(6) In order to enable the ROH effectively to plan future programmes of work within available resources and to control in-year expenditures, I **recommend** that the ROH and its performing companies should strengthen their financial management organisation and systems. There must be clear lines of authority, responsibility and delegation for incurring costs and achieving results. Responsibility must lie with those managers whose decisions or actions absorb resources. Artistic endeavour must be maintained in equilibrium with financial resources. These strengthened financial arrangements should provide the basis for the funding authority (whether Government direct or the Arts Council) to be able to "target" future levels of grant. I make recommendations on "targeted" funding below (paragraph 4) which will provide a more stable financial framework within which both the ROH and the Government can better plan and control the use of resources and the calls upon public funds.

(7) I **recommend** also that in the present financial climate the Royal Opera should no longer tour in the UK, believing that such tours are not an effective use of the public funds currently available to the arts. The Royal Ballet, on the other hand, should continue to be enabled to tour in the UK and undertake Tent seasons in Battersea Park (London) and elsewhere. Recognising the relatively high extra cost of ballet performances outside the House, I recommend that their costs should be separately identified and specifically negotiated and funded.

(8) Alternatives to increasing the level of funding, if retrenchment proved necessary, have been considered. The annual funding requirement might be reduced by £0.5 million through changes at the margin involving reducing the number of dancers in the Royal Ballet; reducing the size of the chorus; abandoning all Royal Ballet touring; reducing the Sadler's Wells Royal Ballet to a smaller experimental group; and abandoning all operas which are unable to cover their variable costs. Such changes would however involve a diminution in standards which, apart from anything else, could jeopardise box office revenue and at the end of the day be financially self-defeating. I do not recommend such changes.

(9) Two further alternatives, which would also change the nature of the Royal Opera House, are to move the Royal Opera onto a "Festival" basis with around half the present number of opera performances and gear ROH's fixed support services to meet the requirements of ballet; and to disband the Sadler's Wells Royal Ballet. The most certain reduction of funding requirement, of around £1.7 million, would flow from disbanding the Sadler's Wells Royal Ballet, which is broadly equivalent to the present annual deficit of the ROH after funding. The Festival opera is more uncertain but could produce savings of around £1 million. I do not recommend either course. They would write off the substantial investment of public funds that have been made over the past 37 years; would reduce the value for money to be

had from the very substantial grant that would still remain to be paid to the truncated ROH; and, in the case of the SWRB option, would deprive the provinces of the benefits of ROH companies.

THE ROYAL SHAKESPEARE COMPANY

3. The overall conclusion of my examination of the financial affairs of the Royal Shakespeare Company (RSC) is as follows:

(1) In 1982-83 the RSC incurred a deficit after funding of £0.655 million. This was reduced by supplementary funding to £0.190 million, which was carried through into 1983-84. It is projected to grow to £0.7 million by the end of 1983-84 and to £1.7 million by the end of 1984-85.

(2) As in the case of the ROH, the RSC's financial problem is not temporary. The gap between what the RSC earns at the box office and by other means and what the Government provides through the ACGB is too wide, if the RSC is desired to provide its present range of products at their current quality and to remain accessible at the box office. Moreover, price increases are double-edged. They may bring in more income; equally, they may keep people away.

(3) There was a damaging drop in attendance in 1981-82 at Stratford. The RSC's response to this was to invest more money in 1982-83 productions, a decision which paid particular attention to the need to restore Stratford, which has a larger earning capacity than London, to prosperity and to open the first season at the Barbican Centre with attractive productions. This decision by the RSC is applauded by the ACGB as exemplary.

(4) There was a substantial recovery at the box office in 1982-83, at the price of cost surges in the production and stage operating departments. Stage operating costs were already at risk owing to expensive working practices carried over from the Aldwych Theatre and by the requirements of the first Barbican Season.

(5) There was also a surge in the cost of theatre operations, in the Barbican Centre which, regardless of economy measures, will be more expensive to run than the Aldwych, but which also has a greater earning capacity than the Aldwych.

(6) Certain improvements and economies can be made in the planning of the season, the management of productions into performance and stage operating costs. These might amount to some £0.15 million by 1986-87 at 1983/84 prices.

(7) There are no minor savings to be had which equate with the difference between the funding requirement as I assess it and the provisional grant offer of £3.6 million for 1983-84*. A number of measures could be contemplated in the direst of straits but they are vexatious rather than effective, namely dispensing with the bands (about £0.25 million a year), and closing the two small theatres (about £75,000 a year).

(8) The only way of bridging the present financial gap is to close the RSC's Barbican operation. The capital cost of doing this would be some £0.235 million; the saving achieved would be some £1.2 million in 1984-85. I do not recommend implementation of this option.

*The Arts Council assessed the full needs of the RSC in the current year (1983-84) at £4.5 million.

(9) Generally speaking, I regard the RSC as palpably underfunded. I **recommend** that the accumulated deficit at 31 March 1984, budgeted to be £0.7 million, should be written off and that public funding in the current year (1983-84) should be set at £4.5 million. Funding for 1984-85 should be £4.9 million subject to an examination of the detailed budgets. Funding for 1985-86 and after should be consistent with the formula outlined below.

FUNDING POLICY

4. The policy for the national companies should take into consideration the pressing need to establish conditions of financial stability for the foreseeable future (meaning for three years ahead each year) and the general public interest in value for money as much as for high quality. My strong recommendation is that the companies should be funded on the basis of criteria which are clearly understood and at a level which is fair to the company and to the taxpayer. To this end I **recommend** that:

- (1) The provision of grant should take into account the composition and relative malleability of fixed and variable costs.
- (2) In Year One the base level of grants for the three years ahead should be targeted at particular expenditures by the Government and set on the basis of an assessment of the companies' levels of activity and financial forecasts. Thereafter, at the end of each year the Government should target the base level of grant to take effect three years hence.
- (3) Targeting should differentiate between, for example, the fixed costs of the "performing" element of the Company i.e. the chorus, dancers, orchestra, directors and producers etc; a proportion of new production costs, taking account of agreed goals for sponsorship from private funds; touring costs; and those costs which it is decided should be funded by reference to the Company's own ability to generate box office income. Targeted funding should be further limited by linking payroll and certain other costs by reference to the Average Earning Index and the Retail Price Index as appropriate.
- (4) The targeted grants will provide the framework within which both the Company and Government can plan their future expenditures. They are not fixed commitments. Each year the forward targets should be reviewed and refined but, subject to special circumstances, any alterations should be capable of being absorbed by the contingencies built into the financial plan.
- (5) Every three years there should be a detailed review of the future financial needs of the Company which should reassess levels of activity and the base fixed costs. For example, the review should consider the size of the chorus and orchestra, the number of dancers, front of house staff, administrative support staff, and minimum and maximum touring commitments.
- (6) For the reasons I discuss more fully in Chapter 4, either a specific grant for the Companies should be earmarked in the Government's general grant-in-aid to the ACGB or the Companies should be directly funded by the Government.

5. The Appendix to this chapter contains an example of how a funding arrangement along these lines would operate in practice, calculated on the basis of the 1983-84 budget figures for the ROH.

6. When the Government approaches the end of the three-year period it should obtain the advice of independent persons on the level at which funding should be set during the following period. This will ensure there would be no suggestion, however insulting it may be to the Minister and officials concerned, that the assessment had been made on any but fair and objective grounds.

7. My advice is that the Minister for the Arts should, having taken counsel with the Chairman of the Arts Council, appoint no more than two or three people of suitable artistic, financial and business experience and standing to make an assessment for him. The review might be led by the Chairman or Secretary-General of the Arts Council. The assessment should be based on such factors as those my colleagues and I have used in this scrutiny, namely consistency of activity with articles of association or charter, policy and objectives; quality of artistic achievement; quality of financial management and control; and one or more selected functions or activities.

CHAPTER 1, APPENDIX

Targeted funding

1. I have recommended in Chapter 1 (paragraph 4) that the funding of the Royal Opera House and the Royal Shakespeare Company should be targeted on particular revenues and expenditures and be formulated in such a way as to provide financial stability over a three year period. In this Appendix, I offer an example of this recommended approach for the Royal Opera House.

2. I recommend that in setting the targeted funding of the Royal Opera House it should be recognised that in the short term the permanent cadres of the Royal Opera, the Royal Ballet and the Royal Opera House orchestra are immutable; there is a need for the Sadler's Wells Royal Ballet to tour and to perform in London for the maximum number of weeks consistent with their physical capacity; the Royal Ballet and Royal Opera touring and new productions costs are expenditures which can vary substantially from year to year; there is a financial necessity for a contingency fund to cover adverse variances in box office revenue and variable expenditures; and the box office is unable wholly to support the balance of costs if seat prices are not to exceed what the market will bear. A possible formula for 1983/84 would be as follows:

A Targeted Budget 1983/84

	Notes	Grant £m	Targeted Subsidy %
SWRB (net cost)	(1)	1.47	100
Touring (opera)	(2)	0.40	90
New Productions	(3)	0.19	30
Theatre overheads (heat, light, etc)	(4)	1.30	100
Royal Ballet (fixed)	(5)	1.58	100
Royal Opera (fixed)	(6)	1.30	100
ROH Orchestra (fixed)	(7)	1.48	100
Contingency Fund	(8)	0.68	100
% of Box Office	(9)	3.16	48% of box office
Targeted funding		<u>11.56</u>	

Notes:

(1) The whole of the net cost of the SWRB should be funded, excluding new production costs which are included in (3) below. In 1983-84 the funding requirement was equivalent to the £1.34 million basic fixed costs of dancers, staff and orchestra plus £0.13 million of variable costs. In appraising the bid in future years, account should be taken of projected movements in the Average Earnings Index, given the dominant influence of the wage-related fixed costs, and the minimum number of touring weeks and Tent performances.

(2) Opera touring is included in the example but the report has recommended that this should cease in future years. In years when the Royal Ballet tours, it would be separately identified and funded as for the Royal Opera in the example. A target of 10% of the net costs of touring is fixed for private sponsorship.

- (3) New production costs exclude in-house labour; and a target is fixed for the ROH to cover 70% of these expenditures through private sponsorship.
- (4) The whole of the **non-payroll** fixed expenses associated with the running of the theatre complex (rent, rates, heat and light) should be funded.
- (5) The whole of the **basic fixed costs** of Royal Ballet dancers, staff and expenses should be funded. Once the base level is agreed, future funding is linked to the Average Earnings Index, but subject to the recommended special triennial review of costs.
- (6) The whole of the **basic fixed costs** of chorus, resident singers, music staff, producers and opera management should be funded. This excludes overtime and extra sessions. As with the Royal Ballet, once the base level has been agreed it should be linked to the Average Earnings Index, but subject to the special triennial review.
- (7) The whole of the **basic fixed costs** of the ROH orchestra (which excludes overtime and extra sessions) should be funded. As with the Royal Ballet and Royal Opera, this expenditure should be linked to the Average Earnings Index in subsequent years, but subject to the recommended triennial review.
- (8) The whole of a contingency fund equivalent to 5% of total forecast box office receipts (including SWRB touring) and total forecast variable expenditure should be funded.
- (9) All other expenditures, which include the cost of the production departments, stage staffs and general administration should be met by house receipts (excluding touring) and a grant support of £0.48p for every £1 of house box office revenue. Increases in these costs will be limited in future years by reference to the Average Earnings Index., and the Retail Prices Index as appropriate.

3. In working up the above example, the starting point was, of necessity, the projected funding requirement of the Royal Opera House in 1983-84. The 48% support of box office is therefore calculated as a residual. The assumption is that the 1983-84 base level of funding should be as bid, taking into account my conclusion that significant reductions could not be achieved in the short run. But the important point is that there should be an agreed formula whereby the Royal Opera House is clear as to the amount of grant support which it can expect to receive to combine with its self-generated income to cover the non-targeted costs of the House.

4. The targeting of funding on the expenditures at (1) to (8) in the table provides for financial stability. The linkage to House receipts at (9) provides for stability but at the same time offers an incentive for the House to maximise receipts and to minimise those costs incurred in support of the heartland of the performing companies which are not the subject of specific targeting. The Government on the other hand is protected against increases in payroll costs over and above the Average Earnings Index; and has the additional protection of a cut-off on that proportion of the grant which is box office-related.

5. The formula set out above should be applied to the 1984-85 budget, again treating the grant support of box office as a residual. This will be the base on which future funding is calculated and against which the recommended £0.60 million target saving is made in subsequent years.

6. The intention would be that in subsequent years elements (1) to (4) would be renegotiated annually against the bids received from the Royal Opera House, with an eye to movements in general wage and price inflation. Elements (5) to (7) would be linked to the Average Earnings Index, with a final decision to be made on the precise link (eg prospective or retrospective), although I prefer the "prospective" linkage with if necessary some mechanism for adjustment. Element (8) would be a calculation to be worked out in the light of projected total box office (including Royal Ballet and SWRB touring) receipts and projected variable expenditure, although one would be looking for this to increase at somewhere between the Retail Price Index and the Average Earnings Index. Element (9) would be fixed at 48% (or whatever the ratio decided for 1984/85) with the amount of grant deriving from this element having an upper limit on the increase of no more than the Average Earnings Index.

7. I would expect this formula approach to take a couple of years to work up into a fully operational system of fixing the grant. Once this is achieved, however, the Companies should be expected to provide a three year forecast of their budget. The maximum grant provision in years two and three would be that flowing from the target formula and considered by the Government in the light of its public expenditure plans. Although the grant would be negotiated annually, the rolling three year forward projection would provide a framework within which both Government and the Companies can better plan the use of resources and likely demands upon public funds.

8. I have recommended that there should be a special triennial review of the Companies' activities and financing. This would provide the opportunity for a regular independent and critical reassessment of the Companies' base level of funding.

9. The annual grant should be paid in two parts: a "fixed" amount and a rolling guarantee. The purpose of the guarantee element is to withhold a proportion of the grant until approval of the final accounts as the targeted grant is based upon estimates. The size of the guarantee needs to be carefully assessed; it needs to be large enough to be effective and impose some spending restrictions but not to lead the Companies into serious cash flow difficulties. It will be necessary to set up contingency arrangements to release guarantees should this be the case. I believe that in the case of the ROH the guarantee element could be the same as the contingency fund and for the RSC 5% of the annual grant. This is similar to the system currently operated by the ACGB. Any unspent element should be permitted to be carried forward to the subsequent year, thus discouraging end-year spending. There should however be restrictions imposed on the use of these reserves. In particular they should be used to support variances in income and/or such annually variable expenditures as additional touring and additional new production costs. Any action which needs to be taken on the accumulated reserves or deficiencies should be considered and reported upon at the triennial review.

CHAPTER 2

ROYAL OPERA HOUSE

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

1. The Royal Opera House at Covent Garden dates back to the 18th century. It was only in 1946 however that it became a House with a resident opera company and ballet company; and in 1956 that it took under its wing a second ballet company whose primary function was to tour the provinces.

2. The three performing companies - the Royal Opera, the Royal Ballet and the touring Sadler's Wells Royal Ballet - have, in their relatively short lives, achieved great national and international standing. They are categorised as "national companies" and "centres of excellence" by the Arts Council; and the maintenance of the highest standards in the production and presentation of opera and ballet is an essential policy of the Royal Opera House.

3. An assessment of the artistic achievements of the three companies is at Volume 1, Section 12. This is based upon consultations with Arts Council representatives and others at home and abroad. Whilst some consulted were sharply critical, views were generally favourable. The Royal Opera and Royal Ballet are held to be amongst the world's handful of great companies in their respective fields; and the reputation of the Sadler's Wells Royal Ballet is high, with the Company playing consistently to good houses in the provinces. The Chairman of the Arts Council viewed Covent Garden as a great opera house which deserved support. The Music Director and Chairman of the Music Advisory Panel of the Arts Council felt that there was no question of an endemic failure with the Royal Opera, although there may have been in recent months too little "inspirational electricity". The Dance Director and Chairman of the Dance Advisory Panel believed the Royal Ballet companies to be generally excellent and doing marvellous work of a high and creative standard.

FINANCIAL AFFAIRS AND PROSPECTS

4. I believe it is a great credit to all those associated with the Royal Opera House and its constituent companies, over the years, to have achieved such levels of excellence. But these standards of achievement have also required significant and increasing levels of public subsidy. Over the last ten years the Arts Council grant to the Royal Opera House has risen from £1.75 million in 1972/73 to £10.45 million in 1982/83 - a 500% increase compared with a 270% increase in prices generally. Mr Anthony Bliss (General Director of the Metropolitan Opera House, New York) described an international opera company - in cost terms - as "a dinosaur living in the twentieth century". The Arts Council Report on Opera and Dance noted how the standard classical ballets required large casts, elaborate sets and substantial orchestral accompaniment - all of which make for big costs. And when the opera and ballet companies are expected to tour, the costs multiply.

5. In the early years of the Royal Opera House, overseas tours by what is now the Royal Ballet made sufficient profit substantially to balance the company's books. In fact, such was the dollar earning capacity of the ballet company that on its return from the highly successful visit to New York in 1949 it was welcomed home by the Chancellor of the Exchequer. Economic circumstances have so changed however that there are no longer profits of any significance to be had from overseas

tours; around 55% of the Royal Opera House expenditures are now met from the public purse; and in 1982/83 there was a deficit **after** funding of £0.22 million, which is projected to accumulate to over £1 million by the end of 1983/84 and approaching £3 million by the end of 1984/85.

6. In 1982/83, the Royal Opera House, its three performing companies and the support departments of stage, orchestra, production etc spent £18.97 million, of which 75% was on salaries and fees. It earned through the box office and private sponsorship £8.37 million. The funding requirement therefore was £10.6 million of which £10.38 million was met by Arts Council grants, with the remainder being carried forward to 1983/84. A summary of the expenditures and income of the Royal Opera House in 1982/83 is as follows:

	1982/83 £ million	% of Total Expenditure
EXPENDITURE		
1. Royal Opera		
Fixed	1.27	
Variable	<u>2.65</u>	
Sub-total	3.92	20.7
2. Royal Ballet		
Fixed	1.46	
Variable	<u>1.17</u>	
Sub-total	2.63	13.8
3. Sadler's Wells Royal Ballet		
Fixed	1.36	
Variable	<u>1.03</u>	
Sub-total	2.39	12.6
4. ROH Orchestra	1.59	8.4
5. Production Departments	1.63	8.6
6. Stage	2.39	12.6
7. Marketing	0.54	2.8
8. General and Theatre Admin	3.59	18.9
9. Other	0.31	1.6
TOTAL EXPENDITURE	<u>18.99</u>	<u>100.0</u>
INCOME		
1. Box Office (incl touring)	6.67	35.1
2. Private Funding	0.69	3.6
3. Sundry	1.03	5.5
TOTAL INCOME	<u>8.37</u>	<u>44.1</u>
FUNDING REQUIREMENT	10.6	<u>55.9</u>
		<u>100.0</u>

7. The level of public subsidy is not high compared with European Houses who have up to 85% of their expenditures supported by Government grants; and in the USA, the tens of millions of dollars of private sponsorship are encouraged by means of generous tax concessions. The Director of the Grand Theatre in Geneva (M Hugues Gall) who is also General Secretary of the International Association of Opera Directors commented to the scrutiny team that the Royal Opera House is viewed by European Houses as a model in terms of its organisation and management - "with lower subsidy and fewer people, how can they do it?" Volume 1, Section 11 describes the team's findings in respect of selected Opera Houses overseas.

8. The cost of the Royal Opera House may appear small in international terms but nationally it is the largest single recipient of Arts Council grants. In 1982/83 it accounted for around 11% of the Arts Council's total grant-in-aid. Some outside observers have asked "If the English National Opera can manage on a grant of £6.37 million⁺, why can't the Royal Opera House?" It is important to recognise however that the Royal Opera House is unique amongst grant recipients in having to support an opera and two ballet companies.

9. The **Sadler's Wells Royal Ballet** accounted for around £1.73 million* (16%) of the Royal Opera House's £10.6 million total funding requirement in 1982/83. The net costs of the **Royal Ballet** on the other hand are difficult to disentangle because of the various support services which it shares with the Royal Opera (eg orchestra, stage staffs, production departments and marketing) and whose costs are not allocated out to the Companies. A **preliminary** estimate of the Royal Ballet's demands upon these shared resources suggests that £2.65 million[†] (25%) of the Royal Opera House grant goes to finance the direct and indirect costs of the Royal Ballet's activities.

10. When the approximate costs of the two ballet companies are netted out, around £3.78 million of the Royal Opera House funding requirement goes to support the Royal Opera (including its demands on shared resources) and £2.45 million to support theatre and administrative overheads (eg front of house, box office, accommodation, finance and personnel departments).

11. A summary assessment of the financial results of the Royal Opera House is at Volume 1, Section 3. Detailed analyses of the expenditures and incomes of the Sadler's Wells Royal Ballet, Royal Ballet and Royal Opera are at Volume 1, Sections 4, 5 and 6 respectively. The results of a "bottom-up" look at selected departments are reported in Volume 2, with the main conclusions summarised at Volume 1, Section 7.

12. The analysis of financial results at Volume 1, Section 3 addresses itself in particular to the question of how the House has moved from a situation in 1979/80 where, after a substantial uplift in grant, it was able to carry forward a surplus, to one in 1983/84 where it is forecasting a deficit.

13. The first outward signs of a deterioration in the financial situation occurred in 1981/82 when the Company's funding requirement exceeded the annual grant by £0.32 million. In 1982/83 the differential between the rates of growth of expenditure and income (including annual grant) although small at 2.8 percentage points was sufficient, given also the underlying deficit position from 1981/82, to cause the funding requirement to exceed the annual grant by £1.05 million. In 1983/84, whilst expenditure is increasing at a lower rate and self-generated income (including

+Including GLC subvention

*This includes £0.3 million of overheads borne centrally by the Royal Opera House.

† This excludes Royal Opera House expenditure on theatre and central administrative overheads.

sponsorship) is projected to increase at a faster rate than expenditure, the funding requirement is projected to exceed the annual grant by £0.94 million* (excluding deficits carried forward from 1982/83). Although this is a revised forecast on the basis of the first few months activities, even this could be optimistic bearing in mind, in particular, that no contingency reserve is provided for in the 1983/84 budget.

14. The adverse situation in 1983/84 is a mirror image of that prevailing in 1982/83, which in turn reflected the beginnings of a deterioration in 1981/82. A problem for 1983/84 is that the Arts Council in computing the grant allocation make no allowance for the 1982/83 £1.05 million shortfall of grant against funding requirement. As will be described below, there has been a ratchet increase in the House's basic funding requirement not so far recognised in the level of annual grant; and the situation can only be recovered **substantially**, in the absence of additional subsidy, by a drastic reduction of activities and a realignment of artistic objectives. Even then the financial improvement could take a number of years to achieve.

15. The present financial situation can be summarised as the consequence of expenditures rising faster than the general level of price and wage inflation; a drop-off in attendances at opera and ballet performances at Covent Garden; and an annual Arts Council grant which although broadly keeping pace with movements in the Retail Price Index has not been linked to the more appropriate Average Earnings Index.

16. One of the causes of expenditures rising faster than inflation in recent years is the additional touring activity of both the Royal Opera and Royal Ballet. In 1981/82 the Royal Opera undertook its first UK tour for 17 years when it visited the refurbished Palace Theatre in Manchester. This added £216,000 to the Royal Opera House basic funding requirement (after allowing for the supplementary grant from the Arts Council to cover part of the costs of the tour). Although the Royal Opera did not tour in 1982/83 a similar order of magnitude of additional net costs was incurred through a relatively heavy touring and Tent season (six weeks) by the Royal Ballet. In 1983/84 the Royal Ballet will not tour, but the Royal Opera will once again visit Manchester at a forecast net cost (after supplementary Arts Council funding and private sponsorship) of around £200,000.

17. Even after allowing for the costs of touring, however, expenditures of the Royal Opera House have been growing at a faster rate than can be accounted for by the effects of inflation generally. Between 1979/80 and 1982/83, expenditure (net of Royal Ballet and Royal Opera touring) increased by 50% compared with a 37% increase in the Retail Price Index and 45% increase in the Average Earnings Index. If expenditure increases had been held in line with movements in the Average Earnings Index (which is the more appropriate comparator given the labour intensive nature of the Royal Opera House's activities) total expenditure would have been around £575,000 lower in 1982/83 than was actually incurred.

18. The 50% increase in **aggregate** expenditure over the period conceals an even greater underlying rate of increase in basic costs and of particular items of expenditure. The reports on each of the performing companies (at Volume 1, Sections 4, 5 and 6) and on selected Departments in the House (at Volume 2) identify some of the major cost increases over the period 1979/80 to 1982/83 as follows:

- (1) The wages bill of dancers in both the **Royal Ballet** and **Sadler's Wells Royal Ballet** has increased by the order of 80%. This reflects in particular a 60% increase in basic pay, which includes a once-for-all increase of 17% to bring hourly rates of dancers into line with choristers in line with the Albery report; a change in the grade mix of dancers (SWRB only); and an increase

*This figure allows for the 1% reduction in grant announced by the Government in July 1983.

in the **number** of and **differentials** paid to dancers on individually negotiated salaries.

(2) The weekly touring costs of the **Sadler's Wells Royal Ballet** have increased by 70%, with the biggest increases occurring in 1980/81 and 1981/82. This has reflected in particular the introduction of bigger ballets into the repertory, affecting wardrobe and stage staff costs; and a 73% increase in the nationally negotiated basic subsistence allowance plus the introduction of a 25% supplementary subsistence payment in certain cities.

(3) The **Royal Ballet's** expenditure on guests has increased by £173,000 (270%). This reflects an increase in the number of guests as the Director's "no guest" policy has eased; more performances by dancers who are paid on a performance fee basis although to all intents and purposes they are a part of the permanent company; and, to a lesser extent, increased fees.

(4) The basic fixed costs of the Royal Opera (chorus, resident singers, music staff, producers and administrators) have risen by 51% although savings on variable costs (in particular, new productions) have meant that the total cost of the Royal Opera has increased by only 38% over the period.

(5) The basic payroll cost of the Royal Opera House orchestra has increased by 45% (in line with earnings in the economy generally) but the cost of extra sessions/overtime has increased by 138%, the greater part of which occurred in 1980/81 and 1982/83.

(6) The basic payroll costs of stage staffs and electricians increased by 45% over the period but overtime costs rose by 84%. This substantial increase in overtime costs is explained by management as reflecting an increased intensity in the rehearsal/performance schedule; and the straight jacket on work planning imposed by NATTKE agreements.

(7) In the production wardrobe department, basic costs have risen by 69% whilst overtime has barely changed; in the running wardrobe department basic costs have risen by 58% and overtime by 64%. A similar picture emerges in those parts of the production departments responsible for scenery-building, props, wigs and armoury, with basic costs having risen by 55% and overtime by 69%.

19. An interesting feature of the above is that of the three performing companies it is the two ballet companies who have increased their expenditure over the past four years by substantially more than the rate of inflation. It is notable also how expenditure on overtime has increased over the period, with the budget for overtime by stage staffs also having been seriously exceeded in the past four years.

20. These increases in expenditure are not easily reversible. They bear partly on the basic wage costs of the Royal Opera House and thus can only be directly off-set by reductions in the numbers of dancers, production staff, wardrobe staff etc. And even where the increases occurred in the "variable" costs (eg touring costs, overtime) they can only be substantially off-set by reduced levels of activity or fundamental changes in trades union agreements.

21. The adverse financial effects of an increase in the base operating costs have been compounded by the fact that it has not been possible to finance that growth through the box office and other self-generated income. The income of The Royal Opera House (House receipts, touring receipts, private funding and sundry other income) has increased by 40% over the period 1979/80 to 1982/83 as against the

50% increase in aggregate expenditure. Comparisons between the years are however complicated by, for example, the fact that in 1979/80 there were 24 more performances (by visiting companies) in the House than 1982/83; and in 1982/83 a visit by the Ballet de L'Opera de Paris only managed to average £9850 income per performance compared to £17500 for the Royal Ballet.

22. A major problem has been the level of attendances for Royal Opera and Royal Ballet performances at Covent Garden. The down-turn began in 1981/82, continued into 1982/83 and whilst expected to improve somewhat in 1983/84 will still be down on the levels enjoyed in the late 1970s. Between 1980/81 and 1982/83 attendances at **opera** performances fell from 94% of capacity to 84%; and at **ballet** performances from 90% to 87%. There was an even higher rate of decline in receipts as a percentage of capacity revenue, through increases in party discounts on ticket prices. If attendances at opera and ballet in 1982/83 (financial year) had been maintained at around the 90% mark, the income of the Royal Opera House would have been some £500,000 higher.

23. There is no hard explanation of the decline in box office attendances. But, with seat prices up by over 50% over the period (compared with a 37% increase in the Retail Price Index and a 45% increase in average earnings) and the recession in the economy generally, some fall-off in attendances is to be expected. The Royal Opera House have responded in 1983/84 by holding seat prices at their 1982/83 levels for many of the seats. An upturn in attendances is projected, especially for opera, and House receipts per performance for opera and ballet are currently forecast to rise by 12%.

24. The substantial real increase in seat prices over the past four years is damaging not only to the Royal Opera House income but also to its accessibility. With an **average** ticket price in the range £10.50 to £25.30 (depending on the price schedule) and a top price of around £20 to £50 (depending on the price schedule), the cost of a family visit to an opera or ballet performance is out of the reach of many people; or even if within their reach is difficult to make a regular event. It is notable that when the Royal Ballet performed in the Tent (a 1200-seat Big Top) in Battersea Park for three weeks in 1982/83 (top seat price of £9.00 compared with £16.50 at the Royal Opera House) the Company played to 93% capacity on average compared with 87% in the House. It has to be added however that the Tent also has a family atmosphere about it.

25. At the same time that Royal Opera House expenditure has been growing faster than it could generate income through the box office and private sponsorship, the Arts Council annual grant (excluding supplementary grants to cover tours or losses) has since 1979/80 merely kept pace with **price** inflation. The Royal Opera House is however labour intensive with 75% of its expenditure going on wages for the permanent cadre of performers and support staff and on fees for visiting performers. If, instead, the annual grant had kept pace with the Average Earnings Index, the basic grant in 1982/83 would have been £450,000 higher at £10 million; and there would have been around £800,000 of unused "guarantees" from previous years to more than finance the deficit after annual funding.

26. This does not alter the fact that there is a fundamental deficit in the Royal Opera House's financial affairs. But around one third of the underlying deficit after allowing for the **annual** grant can be said to be associated with the fact that the Arts Council grant does not reflect the labour intensive nature of the House's activities. The remainder derives from a mixture of falling attendances, a ratchet increase in basic wage costs and a higher level of touring activity of the Royal Opera and Royal Ballet than was previously the norm.

27. I have considered what can be done to reverse the adverse financial situation. By the end of 1983/84, the task will be to eliminate an accumulated deficit of £1.16 million and to reduce the projected 1984/85 funding requirement by £1.8 million*. If the Royal Opera House were set the target of achieving this by the end of 1984/85 it would mean finding total savings of £2.96 million which represents around 13% of total expenditure and 30% of self-generated income. As will be described below, I have concluded that this is impossible to achieve either over so short a period as 12 months or over a longer time-scale without seriously undermining the purpose, objectives and levels of activity of the performing companies.

The Scope for Economies

28. Before describing the conclusions of the Reports at Volume 1 on the individual performing companies and at Volume 2 on the selected support services, I shall consider two areas which outside observers tend to look to as offering scope for substantial economies: guest artists and new productions.

29. In 1983/84 expenditure on **opera guest artists** is budgeted at £1.97 million which represents 36% of the Royal Opera's direct expenditure and 10% of the total expenditure of the Royal Opera House. This seemingly large level of spend can be explained as follows:

(1) A proportion of these expenditures are incurred in lieu of having a permanent cadre of resident singers. The difficulty in building up a resident company is one of persuading a sufficient number of artists of international talent to restrict themselves to a contract with a single company. There is in addition greater flexibility in casting in response to artistic requirements provided by the use of guests.

(2) International artists who have established eminence in the world of opera ("star guests") appear in only one third of all opera performances; and when they do, the seat price schedules are adjusted upwards to reflect the quality of the performance. The Director of Finance (Royal Opera House) has demonstrated that the higher fees paid to these artists are nearly always covered by additional box office revenue.

(3) The scope for reducing the level of fees paid to international artists is limited by the fact that the Royal Opera is operating in an international market; previous attempts at operating a cartel with other Houses have invariably failed although there is in any case a reasonable measure of agreement between the Houses; and the Royal Opera already pay lower fees than many other Houses.

30. With regard to **new productions and major revivals**, expenditure by the three performing companies in 1982/83 was £732,000 (including in-house labour costs). This expenditure was incurred in staging 11 new productions and five major revivals; represents 3.9% of the Royal Opera House's total expenditure; and was reduced to £542,000 after private sponsorship. Behind the aggregate expenditures however will be a whole range of costs for particular new productions. Some one-act ballets will cost just a few thousand pounds; others involving more spectacle and people will cost tens of thousands (eg VALLEY OF THE SHADOWS - £36,000; TEMPEST - £79,000); and a full length ballet will cost up to £200,000 (eg ISADORA - £193,000; SWAN LAKE (SWRB) - £150,000). New productions of opera, being full-length and big cast works will tend to cost in the order of £150-200,000. There will however be exceptions to this with modern opera works tending to have a budget of around £100,000. There will also be the occasional "economy production" (eg SONNAMBULA

* The 1984/85 budget includes a £620,000 contingency reserve; and the level of grant is projected to rise by 3% as against forecast fixed cost increases of 5.4%

- £28,000); and some productions will be hired in or shared with other companies. Moreover, the Royal Opera House policy is to try and cover the costs of new productions net of in-house labour by private sponsorship.

31. The reports at Volume 2, Sections 13 and 14 have considered how these costs arise. They do not identify any wilful extravagance although the absence of agreed criteria for designs could, it is said, be leading to unnecessarily high standards in some areas. For example, an average cost per opera costume of £600 appears high and some costumes can cost up to £1000. Similarly an underskirt top layer costing £140 (Donna Anna in DON GIOVANNI) appears excessive both to the lay outsider and to those in the commercial theatre who might spend less than that on a complete costume. But it is not just a question of standards which determine these seemingly high costs. The costumes have to be built to last for a number of years before refurbishment; and sets may have to be manhandled and stored for 20 years or more.

32. Recommendations are made in Sections 13 and 14 to ensure tighter budgetary controls; greater management controls over designers, their designs and the timing of their submission; and for easing the peaking of work-loads and therefore overtime working. A potential level of savings is not identified but these recommendations are important in terms of achieving even the smallest savings in the present financial climate. The contribution which such savings on new productions can make towards eliminating the annual deficit after funding of approaching £2 million must however be seen in perspective.

33. If a significant dent is to be made in the deficit of the Royal Opera House it is necessary to look for savings in the heartland of the performing companies themselves. In 1982/83 the Royal Opera, Royal Ballet and Sadler's Wells Royal Ballet Companies and the Royal Opera House orchestra spent on their budgets £10.53 million, which represents 55% of the total expenditure of the Royal Opera House. The reports at Volume 1, Sections 4, 5 and 6 have identified some scope for savings but the opportunity for making a substantial contribution to the elimination of both the accumulated deficit and the annual deficit after funding is limited in the face of the artistic objectives and levels of activity aimed for.

34. Each of the Company reports has a summary of recommendations and conclusions. The main points bearing upon the scope for economies can be identified as follows:

A. Sadler's Wells Royal Ballet (Section 4)

(1) The SWRB is the most active of the ROH companies in terms of the number of performances; has an essential function in touring the Royal Ballet heritage and its own unique identity in the provinces; reaches the biggest regional audience of all touring companies; and has the greatest breadth of repertory of touring companies.

(2) The expenditure of the SWRB (£2.69 million), its capacity to generate income through the box office (£0.96 million) and its funding requirement (£1.73 million) are broadly comparable to those of other touring ballet companies taking into account differences in nature and size.

(3) The exceptional expenditure compared with other companies is in the basic rates of pay of dancers (eg 50% greater than the London Festival Ballet). The report concludes that this reflects under-payment of dancers in other companies rather than over-payment in the SWRB. It is recommended however that, for the future, increases in basic pay must reflect more

closely what the Government is prepared to finance or the box office is able to support. In addition there needs to be tight budgetary control over the salaries of dancers on individually negotiated salaries.

(4) The complement of dancers, staff and orchestra is irreducible (save for perhaps £10-20,000) given the repertory, orchestral requirements, level of activity and standards aimed for. In fact a good case can be made, if sufficient finance were available, for five extra dancers (extra wage cost: £70,000). Moreover, staff costs are currently being held down (by around £50,000) as a result of dancers doubling up as ballet staff.

(5) Reduction in the number of weeks touring (as this year) to effect economies of £15,000 per week (net of box office revenue) is unacceptable. It undermines the *raison d'etre* of the Company; deprives regional audiences of a valuable ballet company; and leads to the fixed resources of the company (dancers, staff and orchestra) being under-utilised and, as a consequence, reductions in the value for money from the main body of grant. It is **recommended** that the Company returns to its traditionally higher level of touring. It is argued however that the additional costs should be found from within the existing budget through, **for example**, less publicity expenditure; occasional abandonment of Monday evening performances; and greater moves, where possible, from the present three-programme to a two-programme week.

B. The Royal Ballet (Section 5)

(1) The Royal Ballet is a national asset which has made and continues to make an essential contribution to ballet in this country and world-wide; has an immense heritage of ballets to preserve whilst at the same time actively creating new works for the future; and is the main single source of ballet in London in terms of the number of performances and the audience reached.

(2) A reduction in the size of the permanent company of dancers would, amongst other things, undermine the qualities of the Company and could only really be achieved at Principal/Soloist level, given the repertory. A reduction cannot be recommended but in the present financial climate may have to be considered - 10% less dancers could produce savings of around £100,000.

(3) As with the SWRB a tighter budgetary control must now be established over the basic pay of dancers (which has risen by 60% over the past four years) and over individually negotiated salaries (the cost of which to the Company has risen by 179% over the past four years).

(4) Staffing levels are not excessive but should be reviewed with a view to possible savings of £20,000 (7%).

(5) The budget for guest artists has grown dramatically (270%) over the past four years and around half the present budget of £318,000 is consumed by just two dancers. Reductions in this budget would be extremely difficult to achieve before the 1984/85 season but recommendations are made which should ensure greater control and ultimately lead to savings.

(6) The costs of touring the Royal Ballet are felt to be excessive compared with the SWRB, even taking into account differences between the two companies. Recommendations are made to bring the relative costs more closely into line with a view to a target saving of 10% (£10,000 per week) of expenditure. In a normal year of, say, two weeks touring this would mean £20,000 less expenditure.

C. The Royal Opera (Section 6)

(1) The Royal Opera is an international company, and one of the handful of the world's leading opera companies; has achieved an acknowledged excellence in musical performance and stage presentation and is said to be more consistent in maintaining the highest standards than any of the world's leading companies; and is unique in this country in its overall original language policy and in consistently attracting guest artists of international eminence.

(2) Total expenditure of the opera company has increased by 38% over the past four years compared with a 60% increase in earned income with a consequent 57% reduction in net operating costs.

(3) There is no real scope for reducing the basic fixed costs of the opera company (38% of the Company's total direct expenditure) without damaging standards although the present level of use of resident singers, as covers, should be reviewed with a view to possible savings.

(4) The basic cost of the orchestra is irreducible given the standards expected of it and the demands made upon it save for possible marginal savings from equating the workload of each player more closely to the 14 session fortnight.

(5) The cost of overtime and extra sessions by the chorus is projected to increase to 27% of basic costs in 1983/84. It is recommended that the target should be the 12% level that has prevailed in previous years at a possible saving of £80,000.

(6) There is no scope for reducing the cost of guest artists without losing revenue at the box office and damaging standards, but the cost of 'supers' (at £518,000 in 1983/84, an increase of £177,000 on 1982/83) should be reviewed with a view to reductions through changes in the balance of repertory. The cost of supers in 1984/85 is currently forecast to reduce to the lower levels of 1982/83.

(7) The cost of Royal Opera tours in the UK is excessive relative to the benefit that can reasonably be derived. Such full-scale touring should no longer be undertaken saving £445,000 in net costs, after box office revenue but before supplementary grant.

35. It should be recorded that whilst the reports point up areas of activity where economies might be sought and achieved, more generally the examining officers have described performers and staff as having immense dedication to the achievement of the highest standards; devoting long hours to the Companies for very often relatively low financial reward; and showing no wilful extravagance. Staffing levels are on the whole tight and the levels of expenditures are determined in the main by the artistic objectives and programmes.

36. On the basis of the above, the conclusion to be drawn is that there are few readily identifiable savings in the heartland of the performing companies, which in total approach the magnitude of the Royal Opera House deficit. Leaving aside Royal Opera touring, the most optimistic circumstances might provide for savings in the performing companies of around £200,000. This would require the targets for reducing Royal Ballet touring costs to be feasible saving £20,000 in two weeks touring; opera programmes to be more commercially balanced to reduce the cost of chorus overtime by say £80,000; a reduction in Royal Ballet guest artist payments by, say, £50,000; a favourable outcome to reviews in staffing levels saving up to

£40,000; and a favourable outcome to the review of resident singers as covers saving, say, £10,000. I believe however that it should be a target to be aimed for over the next three years, with the base for comparison being 1984/85. In addition savings of £25,000 are identified in the report on storage policy. Savings on the variable costs of touring the Sadler's Wells Royal Ballet should be used to finance additional touring activity of that Company, rather than go towards reducing the Royal Opera House deficit.

37. There are no Royal Opera tours planned for 1984/85 in the UK and the Royal Ballet has only two weeks UK touring. For the future, however, the Royal Opera should not be expected to tour out of its main grant; and any Royal Ballet touring should be separately funded. The report on the Royal Ballet endorses touring by that Company and the Royal Opera House's plans for an annual Tent season for ballet in Battersea Park. The costs of such activities are not capable of being absorbed by the Royal Opera House however and should only be engaged in if special funding is made available.

Management structure and systems

38. Although the scope for direct and relatively early savings in the three performing companies is limited and uncertain, the scrutiny team, in their various reports, make recommendations for changes in planning/budgeting procedures. These are aimed at securing a greater degree of healthy tension between artistic objectives and financial reality.

39. The main recommended change in the management accounting system is to convert the three performing companies into separate cost centres, each under a Chief Executive, and to create a fourth cost centre for the theatre/central administration overheads under the present Director of Administration. The objective is to ensure that those who are responsible for determining costs, through artistic decision-making, are fully aware of and accountable for these costs. At the moment the management accounts are geared more to the needs of those who have day to day management responsibility for the various parts of the House. This means, for example, that whilst the activities of the Royal Opera and Royal Ballet determine the costs of the production departments or the extra sessions of the orchestra or the overtime of the stage staffs these costs are neither borne by the Companies nor identified to them.

40. The Board of the Royal Opera House have for a number of years been discussing ways in which artistic and financial responsibilities can be brought more closely together. A number of innovations were made under the previous Chairman of the Board's Finance Sub-Committee (Sir John Sainsbury), including improved financial reporting; and the recently appointed Chairman of that Committee (Sir Denis Forman) has recommended a shift to the cost centre system of management accounting - although his preferred solution is that all costs (including the overheads of the theatre itself) should be borne by the three performing companies ie three cost centres as opposed to the four which I recommend.

41. Volume 1, Section 9 of the report considers the detail of the recommendation for four cost centres. In the case of the performing companies, the main change will be to transfer the costs of the orchestra, production departments, stage staffs and marketing department to the Companies' budgets and to make them accountable for those parts of the expenditures which are determined by their activities.

42. These changes will have the greatest bearing on the forward planning of the Companies' activities. The Chief Executives of the Companies will be responsible for

the budgetary bids; and the Finance Department will monitor and control the overall forward budget, requiring the Chief Executives to make adjustments as necessary. The heads of departments (orchestra, technical, marketing etc) in association with the Finance Department will be responsible for advising the Chief Executives of the likely cost of their demands on the departmental resources; and for monitoring and controlling the costs in-year. In the case of the Royal Opera it is recommended also that budgets should be attached to each production, covering the full costs (direct and indirect) of that production; and that a Production Controller should be appointed with the responsibility of containing costs within the available resources. The General Director of the Royal Opera House will hold ultimate responsibility within the Administration, with clearly specified lines of responsibility down to his Chief Executives and the Finance Department.

43. The recommended cost centre approach will impact mainly on the management of the affairs of the Royal Opera and Royal Ballet as the greater part of the costs of the Sadler's Wells Royal Ballet are already allocated out to it. The report on the Sadler's Wells Royal Ballet (Volume 1, Section 4) contains recommendations for relatively minor changes to the system of accounting. The main budgetary/planning recommendation however is that the timing of the planning of tour venues and programmes should be sufficiently advanced to tie in with the budgetary timetable for the year ahead. At present, programme planning is usually only completed at around the beginning of the financial year by which time it is too late to undertake analyses of ways of reducing costs other than through the rather crude process of cutting back on the number of touring weeks. In addition the present budgetary arrangements tend to place the management of the SWRB in a responsive rather than active role with the main budgetary planning responsibility seeming to rest with the Finance Department.

44. The move to establish the Royal Opera and Royal Ballet as cost centres will better enable the companies to plan and operate more effectively within their budgets. It will not solve the immediate financial problem and will, in fact, cost money to implement (perhaps £100,000). As Sir Denis Forman has expressed it, "No amount of planning or control can reverse the fact that the Opera House is currently on a course that demands more resources than are available to it".

Opera and ballet planning

45. The reports on the Royal Opera (Section 6) and Royal Ballet (Section 5) contain a number of recommendations of a planning nature which should effect savings within the next two years or so. It is recommended in particular that the two companies should adopt a pattern of longer runs of performances of fewer productions. This will have the benefit of:

- (1) Reducing stage time currently taken up in rehearsals and so providing the opportunity for more matinees.
- (2) Reducing rehearsal sessions for the orchestra and chorus and as a consequence extra sessions/overtime.
- (3) Reducing the pressure on stage and production departments and therefore overtime.

46. Extending the runs of performances has been considered by the Royal Opera House as a means of achieving savings and is reported in Volume 1, Section 8. A preliminary estimate by the Finance Department of potential annual savings is £125,000. I recommend that this should be a target to aim for.

Repertory selection

47. Another area where forward artistic planning with an eye to budgetary requirements can have a financial effect is in repertory selection, though this probably bears more upon the Royal Opera than the Royal Ballet. The Finance Department have estimated that if the repertory were planned within some overall constraints on how many operas with a low rate of net contribution to revenue can be accepted in a season, extra net revenue of £200,000 to £400,000 might be generated (see Volume 1, Section 8). The range reflects assumptions as to the proportion of low net contribution operas that are removed from the repertoire in the season. There is also uncertainty about the extent to which they can be substituted for by high net contribution operas. I **recommend** that £200,000 should be the target to aim for, at least initially.

Corporate planning

48. Any repertory-type changes of this nature need to recognise the length of the planning process. The Royal Opera begins to plan its seasons three to four years ahead and to contract guest artists two to three years ahead. The Royal Ballet is beginning to look several years ahead but more in terms of performance/rehearsal slots rather than specific ballets. It only needs to firm up its ballet programmes one year before the beginning of the season to fit in with the annual budgetary process. The Royal Ballet could therefore begin to plan for longer runs of performances from the 1984/85 season. The Royal Opera on the other hand whilst it could make some sort of a start then could more realistically only be expected to make significant planning changes from 1986/87 season onwards.

49. This long lead time in the artistic planning process affects also the scope for achieving economies through the juxtaposition of heavy opera and ballet performances. A forward look at the financial effects of say two major choral operas close together or a heavy opera followed by a heavy ballet within the constraints of a corporate financial plan could enable artistic changes to be made which will reduce chorus, orchestral, stage department etc overtime.

50. The report at Volume 1, Section 9 recommends that in the light of the move towards the creation of four cost centres and taking into consideration the long lead time on artistic planning a five year corporate plan should be prepared. The projected forecasts of income and expenditure would be used to control more tightly the financial effects of artistic planning and so help to achieve savings in expenditure and increases in income of the magnitude referred to in paragraphs 36, 46 and 47 above.

Management responsibilities

51. The above changes in the artistic planning and budgetary arrangements will take a number of years to introduce and perfect. It will require **simultaneously** changes in management responsibilities. The Chief Executives of the four cost centres will need to be identified and appointed; and a clarification of the responsibilities of senior management currently at the centre of the Royal Opera House will be required. In addition the Board, who have ultimate responsibility for the financial affairs of the Royal Opera House, will need to reflect the changes in the organisation of the Administration. The reports at Volume 1, Sections 4 and 5 recommend that a member of the Board should be given special responsibility for each of the two ballet companies. The report at Volume 1, Section 2 recommends that the Chairman of the Board's Finance Sub-Committee should hold the position of Deputy Chairman of the Board.

Financial targets

52. Whilst the above changes will not impact upon the immediate deficit problem, it will provide the opportunity for financial targets to be set for the future. The Royal Opera House Administration should as a priority examine in detail the cost implications of more financially orientated repertory planning and longer runs of productions. Meanwhile, and recognising the preliminary nature of the estimates, a tentative target should be set for the Royal Opera House to reduce its funding requirement by £325,000 during the period 1984/85 to 1986/87. This will be over and above the target of annual savings of £225,000 referred to in paragraph 36 above; and the base for comparison will be 1984/85.

Stage staff

53. An additional area where savings should be sought, but which the scrutiny has not quantified, is in the work practices and overtime arrangements of stage staffs. This is a most complicated area in which certain costly work practices have accumulated over time, often in the process of buying out an even more costly practice. Many of the overtime payments in this area derive from a technically over-ambitious opera and ballet programme for the stage facilities available. Earlier recommendations will have some effect here. At the same time however some of the NATTKE restrictions on, for example, minimum length of overtime call, fixed team sizes, automatic replacement of absentees, and "one-job, one-call" are, to the outsider, excessive. They can involve eight hours at double time being paid to staff for a job lasting just a couple of hours; a team of seven electricians having to be called in for an overtime call of eight hours at double time when only one is needed on stand-by; and a Saturday night "get out" prior to a Bank Holiday having to be paid at double time when the team working on the Monday could have managed the task if they were not restricted to working only on that days performance.

54. Volume 2, Section 15 details the costs and work practices of stage staffs and electricians. It is recommended there that the House agreement and working arrangements be renegotiated with NATTKE. The senior management of the Royal Opera House are very much aware of this need and have over the years negotiated cost saving changes. The management are looking to Phase 2 of the redevelopment programme (see Volume 1, Section 10) as the spring board for such changes.

55. I recommend that this is a nettle to be grasped now and that work practices should be renegotiated before the commencement of the redevelopment programme in 1986. This should include a look at whether the present two shift system of working is the most effective either cost-wise or in terms of the physical burden which it places on staff. How much of the present £631,000 overtime costs for stage staffs and electricians can be saved through such changes is not known (although, for example, reducing the minimum night call from eight hours to four hours, as at the Royal Shakespeare Company, could save £44,000 a year). There will always be an overtime need given the operations of the House. Moreover the staff have grown accustomed to high levels of overtime, regarding the payments as part of their basic wage. I recommend however that the Royal Opera House management should aim to reduce costs by around £150,000.

Redevelopment programme, phase 2

56. The need for economies in the use of stage staffs in advance of the redevelopment programme is all the more important if the redevelopment programme is not going to add to the running costs of the House and therefore the funding requirement at the end of this decade. Volume 1, Section 10 reports on the second phase of the redevelopment programme. The capital cost of that programme will not be a charge against the annual funding requirement of the Royal Opera House and is the subject of a separate financial report to the Ministers. There will be an impact ---

on the running costs of the House, however, guestimated at around £300,000. A working assumption of the redevelopment proposals is that such additional expenditures will be off-set by economies elsewhere, including around the stage area. No detailed analyses of the costs and likely economies have been undertaken although studies are now planned. It is **recommended** that such analyses should be regarded as a priority; that the results be reported to the Government; and that the Government and the Royal Opera House agree on funding implications, if off-setting economies cannot be found.

Theatre and general administrative overheads

57. A broad area of Royal Opera House expenditure not considered in detail by the scrutiny team is theatre and general administrative overheads. This comprises general administration and finance, front of house (eg catering staff, ushers, firemen, box office), House management and maintenance (eg cleaners, maintenance engineers) personnel department, and House running costs (eg rent, heating, telephones). A general overview of these expenditures is at Volume 1, Section 3. In 1982/83 the budget amounted to £3.6 million, of which 50% were payroll costs. In the period 1979/80 to 1982/83 the total expenditure on theatre and administrative overheads increased by 42% overall, but the payroll element increased by 53%. It is **recommended** in Volume 1, Section 9 that these expenditures should be brought within the cost centre controlled by the Director of Administration, Mr Richard Wright. It is further **recommended** that a "scrutiny" of these costs should be undertaken, with the greatest emphasis being on the payroll costs of £1.8 million.

Earned and sponsorship income

58. The preceding paragraphs have concentrated primarily on the scope for reducing expenditure in order to bring the funding requirement more into line with the grant available. The scrutiny has considered also whether there is greater scope for raising more income either at the box office or through private sponsorship.

59. As mentioned previously, there has been a fall-off in attendances at Covent Garden which has probably added in the region of £500,000 to the funding requirement of the Royal Opera House. The Finance Department are projecting an upturn in attendances for 1983/84 but this will not be sufficient to bring them back to the levels of the late seventies. This is an area which is potentially volatile and not easily under the control of management although earlier references to a change in the balance of repertory is one tool at the Board's disposal.

60. The reports on the performing companies (Volume 1) have considered the scope for more performances at Covent Garden as have the Finance Department in the "options paper" at Volume 1, Section 8. There is little or no scope for improvements here except through more matinees, already discussed. The only alternative is for more ballet performances outside the House ie on tour or in the Tent in Battersea Park. These would involve expenditures which far exceed the revenues generated. The report on the Royal Ballet (Volume 1, Section 5) endorses the plans for such outside performances partly to enhance accessibility and partly to increase the cost effectiveness with which the resources of the Royal Ballet are utilised. They are not however a means of raising net additional income and, as recommended previously, should only be undertaken if special funding arrangements are agreed.

61. I believe that the scope for raising more revenue requires a positive marketing drive. The Royal Opera House Board have recently decided to set up a Public Affairs Committee. The report at Volume 1, Section 7 recommends that the Committee should have the role of determining a marketing plan for the Royal

Opera House and its constituent companies. The plan would address such questions as "Which are the priority market segments to pursue and what price structure and discount schemes should be adopted?" It should also set targets for, eg ticket sales, sponsorship revenue and income from sales of merchandise; and take a positive lead in giving the Company a stronger market orientation. The Committee should co-opt a non-Board member with professional marketing experience.

62. Any turn-around in the revenue side of the House's financial equation can be achieved neither quickly nor with certainty. In considering the future financial prospects of the House and its funding requirement additional income cannot be relied upon. It can only be seriously considered in the light of forward plans for the repertory (already discussed) and of experience with the proposed positive marketing drive. The Chairman of the Board believes that there might be some scope for increasing sponsorship income although the Finance Department already look to covering the cost of new productions (net of in-house labour costs) through sponsors.

The Retrenchment Alternative

63. Bringing together what has been said above:

(1) On present projections, if the Royal Opera House is to be expected to live within its annual grant and write off its accumulated deficit in 1984/85 it would need to find economies in expenditure or revenue increases of £2.96 million.

(2) The scrutiny has pointed up some areas where economies might be found but those which can be achieved quickly would merely scratch the surface of the deficit.

(3) Looking ahead two to three years, it would be reasonable to set a target reduction of £600,000 in the annual funding requirement; and for further reductions in the years beyond if, for example, a positive marketing drive can be made to pay dividends.

(4) Savings over and above those in (3) would require a lowering of the present international standards and a change in artistic direction.

64. I have concluded that the pursuit of the present artistic policies, standards and levels of activity will require an increase in the base level of grant for 1984/85 and future years, and the accumulated deficit to be written off. If, in the present economic climate, and given the competing claims on public expenditure, the Government is unable to agree to such increased commitments, then the only route open to the Royal Opera House is dramatically to lower its artistic sights.

65. The lowering of artistic sights might include, for example, reducing the size of the Royal Ballet by 10% (saving up to £100,000 on wage costs); reducing the chorus by 10% (saving up to £80,000 on wage costs); abandoning all operas which fail to recoup their variable costs (saving £100,000, or more, taking into account the repertory changes implicit in paragraph 63(3) above); reducing the Sadler's Wells Royal Ballet complement of dancers by 30% to become as in the early 1970s an Experimental Group (saving £200,000 on wage costs alone but not allowing for lost box office revenue); and abandoning all UK touring by the Royal Ballet (saving £60,000, assuming the normal level of two weeks and that economies already suggested are achieved). This package alone could save around £540,000 a year in addition to the £600,000 referred to paragraph 63(3). It would mean however a diminution in standards. Moreover around half the savings would flow from depriving regional audiences of the two Royal Ballet companies. In the face of falling standards, the box office would eventually suffer and eat into the potential savings.

It would require only an 8% reduction in box office receipts to eradicate the benefits of the expenditure savings.

66. I have also considered, with the assistance of the Royal Opera House Finance Department, two yet more draconian measures (Volume 1, Section 8). These are:

(1) The Royal Opera Company should move onto a "Festival" basis giving just two short seasons of opera a year, reducing the number of performances to 70 and taking full advantage of commercially oriented repertory planning. The stage and orchestra would be geared to meet the requirements of ballet, supplemented during the opera seasons; and the chorus engaged only for the opera seasons. A very preliminary estimate of the savings to be had from such a change is £1.0 million per year, although included in this would be a part of the savings identified in paragraphs 46 and 47 above. No allowance is made for redundancy payments etc. Apart from the preliminary nature of the estimate there are uncertainties surrounding, for example, the box office supporting a higher number of Royal Ballet performances and different style Royal Opera Company; and a satisfactory outcome to union negotiations. If the Government felt this to be an avenue to proceed along it would be necessary for a detailed financial analysis to be carried out and the Government might wish this to include a consideration of the need for two separate opera companies in London (the Royal Opera and the English National Opera).

(2) Disband the Sadler's Wells Royal Ballet at a direct saving of £1.43 million per year and possibly £0.3 million per year of the Royal Opera House overheads. These savings assume that the Royal Ballet will not be required to undertake more than its present two weeks touring by way of substitution; and make no allowance for redundancy payments and other dislocation costs such as trying to keep the Company together during a period of run-down.

67. I do not recommend either of these two options or the slightly less draconian measures in paragraph 65 above. They would represent a complete reversal of artistic policy; write off the substantial investment of public funds that has been made over the past 37 years to establish the national and international standing of the opera and ballet companies; and, whilst it cannot be measured, there would be a reduction in the value for money from the very substantial grant that would remain to be paid to the truncated Royal Opera House. Moreover, the option to disband the Sadler's Wells Royal Ballet would mean that the tax payer in the provinces will be deprived of a company which brings to him the qualities of the Royal Ballet - a quality which he is helping to finance.

CONCLUSION

68. I recommend that:

(1) The Government should write off the accumulated deficit at end - 1983/84. At the time of writing this report, the deficit was forecast to be £1.16 million, but might in the event reach £1.25 million.

(2) The forecast base level of the grant for 1984/85 should be increased by £1.8 million from £10.55 million to £12.35 million to match the projected funding requirement. The precise level of the funding requirement in 1984/85 will need to be assessed in the light of a detailed knowledge of the ROH budget for that year and consistently with the formula outlined in Chapter One.

(3) Over the period 1984/85 to end -1986/87 the Royal Opera House should be required to achieve a target reduction of £0.6 million on the new base level of annual funding, or more if an early return to the traditionally high level of attendances can be achieved. This target allows for £100,000 of extra costs which are likely to have to be incurred in the early years to implement the recommendations to improve management and financial accounting. The details of the savings are at Appendix 1. In subsequent years, further savings should be possible.

(4) The Royal Opera House should reform its management and accounting systems along the lines described in this report to improve forward financial planning and to create a yet tauter tension between artistic objectives and financial realities. These reforms will assist the Royal Opera House Management in achieving the savings identified at (3) above as well as ensuring greater control over budgets in the future.

(5) Whilst automatic increases in grant can never be guaranteed, the criteria for determining the annual grant should be as described in Chapter 1 of this Covering Report (including a targeting of grant on particular expenditures and, as a general rule, linkage of certain elements of expenditure to the Average Earnings Index). This will establish a more stable financial environment and provide the financial framework within which the Royal Opera House can better plan their programme of work and use of resources.

(6) The touring of the Royal Opera should be abandoned; and the Royal Ballet's touring should be separately identified and specifically funded taking into account the need to plan such tours, say, two years ahead. The report on the Royal Ballet (Volume 1, Chapter 5) recommends that the Company should be enabled to tour and undertake Tent seasons in Battersea Park, London, seeing them as a valuable means of improving public accessibility to the Company.

CHAPTER 2, APPENDIX

POSSIBLE ROH SAVINGS

		Savings (1983/84 prices) £
SWRB:		
(1)	Less publicity expenditure)	[<u>30,000</u>] - to finance extra
(2)	Occasional abandonment of Monday) evening performances)	touring
(3)	2-programme week)	
(4)	Staffing)	20,000
Royal Ballet:		
(5)	Reduced staffing levels	20,000
(6)	Reduce costs on use of guest artists	50,000
(7)	Reduce touring costs	20,000
(8)	Longer runs of fewer productions	25,000
Royal Opera:		
(9)	Reduce use of resident and guest singers as covers	10,000
(10)	Reduce chorus overtime and extra sessions	80,000
(11)	Longer runs of fewer productions	100,000
(12)	More commercially based season/ higher net contributions	200,000
ROH:		
(13)	Outside gang and storemen	25,000
(14)	Production departments	not quantified
(15)	Stage/NATTKE work practices	150,000
(16)	Review theatre & administrative overheads	not quantified
(17)	Tighter budgetary control	not quantified
GRAND TOTAL		<u>700,000</u>
LESS: cost of implementing management and financial accounting recommendations		<u>100,000</u>
NET TARGET SAVINGS		<u>£600,000</u>

Notes: It is further recommended that the RO should no longer tour in the UK. Based on the 1983/84 budget for the tour to Manchester this will save £455,000 of funding in those years when the RO would otherwise have been expected to tour.

CHAPTER 3

ROYAL SHAKESPEARE COMPANY

SUMMARY OF MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

1. The Royal Shakespeare Company (RSC) operates under a Royal Charter first granted in 1925. The purposes which the Charter specifies include promoting the dramatic heritage of William Shakespeare by presenting his works to the highest artistic standards at the Royal Shakespeare Theatre (RST) in Stratford, in London and elsewhere; promoting Shakespearean drama, literature and knowledge at home and abroad; and promoting dramatic art at home and abroad by developing the skills and experience of the RSC's employees, by means which include the production of dramatic performances of all kinds.

2. The current RSC operation is, apart from the originating genius of Shakespeare himself, the product of the generosity of the Flower family in Stratford, begun in the last and continued into this century. Sir Fordham Flower and Mr (now Sir) Peter Hall decided in 1959 to extend the range of the RSC's work in and from Stratford; to obtain for it a second home in London; and to convert it from an operation wholly funded by box office revenue and having a substantial reserve into an institution partly funded by public money through the Arts Council. More recently the RSC has been deeply influenced by the artistic direction provided by Mr Hall from 1960-1968 and in succession to him by Mr Trevor Nunn. Performers of good and often outstanding quality have played and continue to play their part. Now, in terms of overall managerial and financial policy, the RSC is under the control of an effective combination of six people - two laymen, Sir Kenneth Cork, Chairman of the Council, and Mr Geoffrey Cass, Chairman of the Finance and General Purposes Committee; the two Joint Artistic Directors, Mr Nunn and Mr Terry Hands; and two administrators, Mr David Brierley, General Manager, and Mr William Wilkinson, Financial Controller.

3. The RSC is working this season on a six-point pattern of activity:

(1) and (2) A group of actors and actresses is formed in Stratford as the "first-year" company in a company that will stay together for two years. They work both in the main house, the RST (332 performances), and in the second house, The Other Place (TOP) (155 performances), for ten months, from April to the following January. The Stratford season generally includes five new Shakespeare productions in the RST and in TOP smaller, more intimate productions of Shakespeare, other classics and contemporary and experimental work.

(3) At the end of the Stratford season, the first-year company makes a seven-week visit to Newcastle-upon-Tyne, repeating its main and second house work in the Theatre Royal and the Gulbenkian Studio (University of Newcastle) (86 performances). It also undertakes an intensive programme of extra-mural work in schools, colleges etc. (This visit is funded separately from the principal RSC activities by the Arts Council, the County Council of Tyne and Wear and the box office.)

(4) and (5) The company then moves to London, becoming the "second-year" company. The RSC's London base moved in 1982 from the Aldwych Theatre to the Barbican Centre in and operated by the City of London; this

was a striking movement eastwards from the normal theatre-land of the West End. The second-year company works in the main house, the Barbican Theatre, and in the second house, The Pit (customarily about 360 and 340 annual performances respectively), for 11 months, from April until the following March; it repeats but also adds to the successes carried forward from the Stratford repertoire.

(6) The RSC has revived this year at the Arts Council's request its small-scale tour. A company of 18 performers under the direction of Miss Sheila Hancock OBE (Mrs John Thaw) will visit a total of 22 locations between 10 October and 28 January. (This tour is also funded separately by the Arts Council, a commercial sponsor - this year the National Westminster Bank - and the box office.)

4. Details of the RSC's Charter obligations, the form of its government and management and the way in which it carries out its main policies and objectives are given in Sections 1 - 3 of the main report on the RSC.

PERSONNEL

5. The RSC needs to combine the work of individuals and groups of individuals. The most obvious distinction between the component groups may seem to be that between performers and supporting staffs (1982-83 data):

Type	Number
Performers	144
Musicians	34
<u>Artistic directorate, designer</u>	<u>18</u>
Administration	35 (including heads of production & other depts)
Production departments	89
Stage departments	124
Theatre management & operation	128 (including front-of-house)
Publicity	18
The Other Place	8
The Pit	14
Touring, Newcastle visit	16
<u>Miscellaneous</u>	<u>33</u>
Total	<u>661</u>

6. However, the distinction between "performers" and "supporting staffs" is not the most important distinction between the staff of the RSC. The Company has set its face against "star billing" for its performers and presents them as an ensemble. In so far as it exists at all, the "star" function rests in effect with the Joint Artistic Directors and the remainder of the Associate Directorate.

7. The senior JAD, Mr Trevor Nunn, is also the Chief Executive. This means that the artistic, creative function is at the helm as well as in the engine room and that the task of the Administration and the rest of the RSC is to work in support of the artistic function. It gives rise to the formidable strength of the RSC as a performing company and as a business enterprise which, ultimately needs to succeed at the box office or go under, but also to some weaknesses which the Company recognises and will correct.

8.. The personnel of the RSC are discussed at various points in the main report, notably in my observations in Section 6 on various aspects of management and financial management and in the reports of the assignment officers which appear in Sections 9-15.

FINANCIAL AFFAIRS AND PROSPECTS

9. Mr Ian Trumper reports in Section 4 on the causes of the deficit after funding in 1982-83 and on the prospects for the years 1983-84 and 1984-85. And in Section 7 he outlines the options available for reducing the deficit in those years. As in the case of the Royal Opera House, there are no easy answers.

Income, expenditure and deficit

10. The composition of income and expenditure in 1982-83 was as follows:

Income	£000	%	Expenditure	£000	%
Box office	4201	87.4	Performers, directors, stage mgt	2611	30.9
Overseas tours, TV	231	4.8	Stage operating	1745	20.6
Sponsorship	124	2.6	Production costs	1669	19.7
Vending	193	4.0	Theatre operating	1654	19.5
			Royalties	82	1.0
Other income	55	1.2	Publicity	352	4.2
			Administration	309	3.7
			Pensions, prof charges	<u>37</u>	0.4
	<u>4804</u>			<u>8459</u>	

11. There was thus an expected difference between income and expenditure - the "funding requirement" or "deficit before grant" - of £3.665 million. The Arts Council (ACGB) grant was less than this, however, being set at £3 million. This created a deficit of £0.665 million after funding. Together with the RSC's accumulated deficit of £0.386 million brought forward from earlier years, this amounted to an aggregate deficit of £1.041 million by the end of the 1982/83 financial year.

12. The accumulated deficit of £1.041 million was reduced by a supplementary grant provided by the Government through the Arts Council in January 1983. The supplementary grant, of £0.85 million, brought the total down to £0.191 million, which was carried through to 1983-84.

13. Taking account of forecasts of ACGB grant, the reduced deficit is estimated by the RSC to rise by some £0.5 million to £0.701 million by 31 March 1984 and by a further £0.991 million to £1.682 million by 31 March 1985. Mr Trumper is in broad agreement with the RSC's estimate for 1983-84; regards that for 1984-85 as (necessarily) somewhat more speculative; but is satisfied that the present problem is the result of a long-established defect in the RSC's finances. This is underfunding,

which simply means that too low a proportion of RSC expenditure is grant-aided. It is also satisfied that the deficit can be removed only by a substantial reduction in the RSC's fixed costs. These are substantially the costs of and expenses of the artists, production departments, stage departments, theatre operating departments, and artistic and administrative staff, and account for 90% of total costs. Such a reduction would mean closing the London end of the RSC's operations. This and other options which are less effective are discussed later in this chapter. The alternative to reducing fixed costs is to fund them at a level which is shown to be necessary in the light of evidence produced by this scrutiny and thereafter is validated in the way proposed in Chapter 1 of this covering report.

Composition and causes of the deficit

14. Between 1981-82 and 1982-83 the RSC's expenditure increased by 25%. The distribution of the increase and the performance of the main components of expenditure against budget are shown in the following table:

Cost increases 1981-82/1982-83 and comparison of budgeted with actual expenditure, 1982-83

Item	1981-82 £000	% of all costs	1982-83 £000	% of all costs	%ge increase 1981-82/ 1982-83	Budget variances
Artists' salaries & expenses	2377	35.1	2611	30.9	9.8	31
Production costs	1130	16.7	1669	19.7	47.7	(164)
Stage operating costs	1364	20.1	1745	20.6	27.9	(164)
Theatre op'g costs	1203	17.7	1654	19.5	37.5	(183)
Publicity	334	4.9	352	4.2	5.4	23
<u>Royalties</u>	<u>70</u>	<u>1.0</u>	<u>82</u>	<u>1.0</u>	<u>17.1</u>	<u>21</u>
<u>Totals</u>	<u>6478</u>	<u>95.5</u>	<u>8113</u>	<u>95.9</u>	<u>25.2</u>	<u>(436)</u>

15. It will be seen that over four fifths of the increase of 25% in expenditure occurred in the areas of production costs, stage operating costs and theatre operating costs. The table also shows that the RSC spent £75,000 less than budgeted on artists' salaries and expenses; publicity; and royalties, but £511,000 more than budgeted on production costs, stage operating costs and theatre operating costs, making a total adverse variance from budget of £436,000.

16. The distribution of the deficit before funding in 1982-83 as between the different theatres and locations of the RSC was as follows:

Location	£000	Deficit as % of operating expenditure
RST, Stratford	1219	
TOP, Stratford	30	
Total Stratford	<u>1249</u>	32
Barbican Theatre	2460	
The Pit	(9)	
Total London	<u>2451</u>	61
Total RSC	<u>3700</u>	46

17. The causes of the deficit after funding in 1982-83 were as follows:

(1) A marked decline in box office revenue at Stratford in 1981-82 when increased seat prices met sharp audience resistance. This caused the RSC to limit price increases in 1982-83, and, indeed, to reduce the top price from £12 to £11.50.

(2) The Company's belief that they had failed to invest enough in the look of productions in 1981-82 and previous years caused the increase in total expenditure of £1.672 million (25%), to include a deliberate, post-budget decision by the Finance and General Purposes Committee and the Council to spend more than allotted on the look of productions (both sets and costumes), so as to offer the public more attractive productions at Stratford and to get the first year to operating at the Barbican off to a good start.

(3) The long-established underfunding of the RSC by the Arts Council, despite step increases in grant in recent years.

(4) The bringing forward from 1981-82 of an accumulated deficit of nearly £400,000.

18. I now consider the main elements in these contributory causes in turn, beginning with the combination of box office revenue and underfunding. In each case I conclude by considering the prospects for the future, in the light of both Mr Trumper's assessment and my own reading of the omens.

Box office revenue and underfunding

19. The RSC is very dependent on box office revenue which, at £4.2 million, accounted for 87.4% of the income which it earned itself in 1982-83. Other sources of income, while valuable, do not begin to compare with its importance. For example, sponsorship income accounted for only 2.6% of all income. Income earned at the box office accounts for nearly half (49.8%) of expenditure. The significance of box office revenue and other earned income (note (1) below) in the finances of the RSC is shown by the following table, which is based on Section 4 of the main report (Table 4 and Annex 3). The table shows the proportions of the RSC's expenditure covered from 1978-79 by box office revenue and other earned income; the consequential funding requirement (or "deficit before grant"), ie the amount of expenditure left over to be met by the Government through the Arts Council; and the proportions of expenditure actually covered and not covered by Arts Council grant.

PERCENTAGES OF RSC EXPENDITURE COVERED BY BOX OFFICE REVENUE etc

Year	Box office income	Other earned income	Total	Funding req't ('Deficit be-for grant')	ACGB grant	Not covered by ACGB grant	Accumulated deficit carried forward
	%	%	%	%	%	%	£000
1978-79	51.5	4.7	56.2	43.8	41.0	(2.8)	(234)
1979-80	54.3	4.8	59.6	40.4	39.0	(1.4)	(295)
1980-81	55.4	7.5	62.9	37.1	40.4	3.3	(105)
1981-82	47.2	10.2	57.4	42.4	38.3	(4.1)	(386)
1982-83	49.7	6.8	56.5	43.5	43.5(2)	-	(191)
1983-84 (budget)	50.1	6.1	56.2	43.8	38.4	(5.4)	(691)
1984-85 (budget)	49.0	7.1	56.1	43.9	34.5	(9.2)	(1682)

Notes

(1) "Other income" includes catering, bars, publications and cloaks; overseas tours, TV; and sponsorship. Sponsorship increased from £25,000 in 1978-79 to £124,000 in 1982-83 (ie from 0.6% of expenditure to 1.5%).

(2) ACGB grant was set at £3 million in 1982-83, ie 35% of expenditure, but was increased by a supplementary grant of £0.8 million to cover:

(a) the elimination of the accumulated deficiency of £0.386 million and

(b) a further contribution of £0.464 million towards the year's total costs. The residual deficiency on that year, £0.191 million, was carried forward to 1983-84, as shown.

20. This means that any widening of the gap between box office revenue and operating costs will call for a disproportionate increase in funding, as Mr Trumper explains in Section 4, paragraph 24.

21. The gap between revenue and costs widened markedly in 1981-82 because of a fall in box office income at Stratford. This was the culmination of a trend over several years before. Whereas in 1978-79 there were nearly 500,000 paid admissions to the RST, by 1981-82 this had fallen to some 370,000; and whereas in the former year the RST had filled 93% of its seating capacity and taken 91% of the maximum possible earnings at the box office, in 1981-82 these proportions fell to 74% and 70% respectively.

22. By contrast, paid admissions to the Aldwych rose from 68% of seating capacity (58% of earning capacity) to 82% of seating capacity (70% of earning capacity). Of the small houses, TOP improved markedly over the period (82% of seating capacity rising to 92% and 86% of earning capacity rising to 92%) while the Warehouse (the precursor of The Pit) also achieved a rise from 59% of seating capacity to 82% and from 55% of earning capacity to 71%.

23. The result of this in cash terms was that box office income at the RST Stratford fell back from £1.987 million in 1980-81 to £1.835 million in 1981-82, a drop of 7%, and that box office revenue for the RSC as a whole increased by only 2% (plus £52,000).

24. This poor result occurred at a time when - the RSC argue - owing to underfunding, the price of admission to the RST was relatively high and the price of admission to the Aldwych Theatre was nearly 25% dearer than that at the National Theatre and dearer than in many commercial theatres.

25. The RSC did not believe that it would be sensible to try to recover more income by increasing seat prices to a level higher than it seemed likely that the market would bear. The Company increased the average price of admission in 1982-83 from £5.21 to £5.72. This was nearly 10% more than in 1981-82 and was above the increase in the Retail Price Index, but at a lower rate than the increase in operating costs (24.7%). This differential was due to the RSC's wish to avoid scaring the Aldwych audience away from the Barbican, but instead to offer a sort of "loss leader", and similarly to be gentle with the potential audience for Stratford after the setbacks of 1981-82.

26. The question of underfunding is extensively discussed in the Cass/Brierley memorandum, to which both Mr Trumper and I refer in our contributions to the main report (its purpose is explained in Section 3); I also refer to the comparison between the RSC and the National Theatre in my observations in Section 6, Part 1. I do not build too much on the RSC/NT comparison; I have not discussed the issues with the NT in detail; and there are in any case differences as well as similarities between the two. Nonetheless, aiming off for the danger of failing to compare like with like, I believe that there was a striking difference between the proportions of expenditure which were covered by grant in the two cases in the year cited (1980-81), ie 65% in that of the National Theatre, 38% in that of the RSC. (Both levels compare interestingly with the high percentage subsidy for the Comedie Francaise and 90% for the Schiller-Theater in West Berlin.)

27. Although it has in recent years uprated the level of grant increase to the RSC above the level of inflation, the Arts Council for its part regards the funding of the RSC as insufficient (Section 4, paragraph 7 ff and its Annex 1). The reason for the low level of funding is partly historical. For 20 years, until the recent supplementary grant, the funding of the RSC lay under the shadow of a qualification entered by the Treasury when the RSC was first grant-aided to the effect that if the RSC came to London and operated at a "national" level, it should not have the same size (or rather scale) of grant as the National Theatre. That qualification now no longer applies but its effect is still felt because the base for funding has never been established to the intellectual satisfaction of both the RSC and the ACGB.

28. It may well be thought that there is a paradox here. The Government has indicated by means of the supplementary grant made available to the RSC through the ACGB that, subject to the findings of this scrutiny, it wants the range of product provided by the RSC; and the ACGB is an enthusiastic supporter of the RSC (Section 3, Annexes 2 and 4 and Section 4, Annex 1). My findings are that, subject to the correction of a number of faults which are not endemic, the RSC is well managed; that its financial affairs are well conducted within the rules of the game as it is played (see covering report, Chapter 4); and that providing the present range of work at something like the present level of quality undeniably means a certain level of fixed and variable costs (see below). In terms of the comparison with the funding of the National Theatre, the uprating of the RSC's grant represented by the Government's subsidy through the ACGB in 1982 had the effect of raising the level of the RSC's subvention from 50% to 56% of the NT's subvention. The RSC believes

that, taking account of the differences between them, a subvention of 70% of that received by the NT would be right. Had such a ratio applied in 1982, it would have meant that the RSC would have obtained £4.581 million from the Government, rather than £3.8 million.

29. The RSC argues that as long as it is underfunded, it is led into the sort of circle of cost-cutting, reducing revenues, increased deficits and increased prices which caused the crisis in 1981-82. I sympathise with this argument.

30. The future course of box office revenue is obviously difficult to predict. As a matter of general principle, it would always be necessary to accept that a performing company would have its ups and downs and that, provided it showed that it did deserve support, it should to some degree be shielded from the worst effects of variations in earned income. In the year 1982-83 there was a palpable recovery in box office income. The budget prediction for the year was somewhat gloomy, given the overall poor showing in 1981-82, but in the event the RSC earned £0.5 million more than expected: whereas paid admissions at Stratford had been at 74% of capacity in the previous year, they were at 86% in 1982-83. Capacities of the two theatres in the Barbican were at encouragingly high levels, 86% in the Barbican Theatre and 89% in The Pit; and the RSC earned nearly £70,000 more than expected in the Barbican's first year, which suggests that in a full year of operation the Barbican presence would do well.

31. In the current year (1983-84) the RSC has increased seat prices between 6% and 12.5% at Stratford and by 18.5% at the Barbican Theatre; the latter increase compensates for the suppression of an increase from Aldwych prices for the opening year of the Barbican Centre. The RSC's budget prediction for income in 1983-84 was cautious, assuming 74% of earning capacity at Stratford and 72% in London. So far, however, the 1983-84 season has gone well, achieving an earning capacity of 81.8% at Stratford and 79.8% in London; by early September the RSC's box office takings were £0.1 million above expectation although with the potentially weakest part of the year still to come. The RSC estimates that, despite its lowish estimate of the level of paid admissions, box office income will nudge forward to account for just over half of costs (50.1%), owing to increased prices.

32. No predictions have yet been made about the detailed level of box office income in 1984-85, but the critical factor is how much expenditure is likely to be covered by such income. It would be reasonable to work on the assumption that it will not be more than 50%. If the RSC's forecast of its increased costs (ie 11% in 1983-84, 13% in 1984-85) is anything like accurate, the proportion of costs covered by income would be likely to fall.

33. It might be argued that seat prices should move upwards in step with unavoidable and reasonable increases in costs. It would be right for this to happen to the extent that informed predictions of market reaction justified it; indeed, it might well be right to increase the price of some seats at the Barbican considerably; but in setting seat prices it will always be essential not to obstruct public accessibility at the box office.

Directorial, company, stage management and band salaries and expenses

34. At £2.611 million, these costs accounted for 30% of all expenditure in 1982-83. They increased by nearly 11% as compared with 1981-82, but the RSC spent £31,000 less on them than budgeted. They comprise the payroll costs of the Stratford and London first-and-second-year companies, stage management teams in both places, the artistic directorate, designers and the band. The main elements are as follows:

Item	Stratford £000	London £000	Total £000
Performers	827	907	1734
Stage management	100	115	215
Other expenses	13	20	33
JADs & other Associate Directors	291		291
Music and Designers and voice directorates	41		41
Non-resident Associate Directors	2		2
Fees for other non-resident staff	51		51
Other expenses	92		92
NHI and expenses	79	73	152
Totals	149	1115	2611

35. I consider matters affecting the payment of the Joint Artistic Directors in Chapter 4 of this covering report. The details lies in Section 2 of the main report (paragraph 17 ff) and Section 6, Part 2.

36. As already noted, the Associate Directors are in effect the RSC's "stars". They wield a very considerable influence over the affairs, fortunes and day-to-day working of the RSC. I have no comments on their pay (or on that of designers) but I have recommended the Governors to keep the size of the directorial cadre under review. I would expect, too, the Directorate as a whole, under the leadership of the Chief Executive and with the assistance of the General Manager, to bring into a better equilibrium than now the twin imperatives of artistic and financial operating policies (see below).

37. The average basic wage paid to an actor at Stratford has increased from £114 in 1978-79 to £200 pw in 1982-83 (plus 75%) and in London from £113 pw to £193 pw (plus 71%). This compares with an increase of 76% in the Equity Minimum Rate over the same period.

38. The RSC's provision for the pay of actors in 1983-84 was set at £1.46 million (22%, £0.26 million above that for 1982-83) (Section 4, paragraph 54). This was in response to pressure from Equity to raise the minimum rate in the RSC pay range from £110 pw to £120 pw; this has knock-on effects throughout the scale to the normal maximum of £375 pw.

39. I comment on the general issue of actors' pay in Section 6, Part 2. I conclude that although the RSC's performers are not highly paid in absolute terms, they are relatively well paid in comparison with large parts of a profession which suffers more than most from the laws of supply and demand; and that, given the size of their pay as a component of the RSC's budget (22%), the Company will always have to exercise a firm control over it. The ACGB's rules for client

companies refer to the observance of Government pay policy. Although there is a specific "pay policy" within the range of the Government's economic policies, no doubt both it and the Company would expect future settlements to take account of the generally low levels of current settlements in the industrial, commercial and public sectors and the Company itself to have a pay policy which is clear enough to be taken into account in deciding the scale of future policy subsidy.

40. As Mr Trumper explains (Section 4, paragraph 87), the RSC has budgeted for a 16.7% increase in 1983-84 in the salaries and wages covered by this sub-section of the report. This raises the spend to £3.047 million, or 32.5% of the total cost of the RSC. I would expect increases to be held at a much lower level than this in future years.

Production costs

41. Production costs comprise expenditure on and through the departments which make and paint sets and properties (the Scenic, Property and Paint Workshops) and which make costumes and wigs (Wardrobe and Wig Departments). These have been the subject of detailed examinations by Mrs Giorgina Soane ("Dressing the performer") and Miss Pearl Iley ("Dressing the stage"), given in Sections 9 and 10 of the main report.

42. Relevant expenditures increased by 47% (the largest percentage increase) between 1981-82 and 1982-83, from £1.13 to £1.669 million. The variance of actual from budgeted expenditure was also the largest in the year, at £164,000.

43. The RSC shows both strength and weakness in the production area. On the plus side, there can be little reasonable doubt that the RSC's decision to increase the level of its investment in the visual quality of its productions turned out to be a courageous and sound business decision; even if it had not been rewarded with success at the box office, as it appears to have been from the results in 1982-83, I would regard it as a churlish response to blame the RSC for a well thought-out decision, taken in good faith. As it happens, this response to what has been aptly called within the RSC the "net income imperative" (meaning the need to maximise net revenue and minimise the need for subvention) seems to have gone a long way towards helping the Company to pull off the marked recovery at the box office in 1982-83, quite apart from being a justifiable preparation for the move to the Barbican where it would be necessary to consolidate the Aldwych audience and to build up a new one. It is a policy which has the specific approval of the ACGB, whose attitude towards it is consistent with their attitude towards the question of investment in new productions by the Royal Opera House, Covent Garden Ltd (see ROH report, Section 3, Annex 1 and Section 12).

44. Mr Trumper agrees with the RSC that there is a correlation between reduced investment in physical production and reduced box office (Section 4, paragraph 45). He notes that in 1981-82 production costs at Stratford represented nearly 8% of the RSC's total costs and that the level of paid admissions there was 74% of capacity; in 1982-83 spending on productions increased by a fifth (to 9.2% of total costs) and paid admissions went up to 86% of capacity. Spending in London increased yet more, by two fifths, and paid admissions in the first year of the Barbican totalled 86.5% of capacity. As Mr Trumper explains (Section 4, paragraph 43), 1982-83 is the first season when all the productions in the RST Stratford were expensive; the first season in the Barbican simultaneously attracted a large investment; and the same policy has been continued into the current season.

45. On the minus side, I do not think that once the overall policy is set, there is a clear enough understanding of or a firm enough attempt to secure a correct

balance between the artistic and the logistic imperatives. I have discussed the issues in Section 6, Part 5 (Planning the season etc) and also in my observations on the reports by the assignment officers in Section 6, Parts 9 to 11.

46. Of course, the RSC is at the mercy of imponderables outside its control (eg the reluctance or inability of those whom it wishes to employ as directors, designers or performers to make up their mind whether or not to accept the offer made until late in the day). Nevertheless, I regard the planning cycle as starting some months later than it need and the control of particular productions into performance as capable of being tightened up (although also attended by the interplay of such imponderables as the inability of designers to shake themselves free of other assignments as soon as they had imagined). The besetting problem of lateness - in decision-making on the content of the new season and at such subsequent critical moments as the submission of set models and costume designs - leads to a cycle of peaks and troughs in the production departments, summarised by Mr Trumper in Section 4 and by me in relevant parts of Section 6.

47. Examples of this cycle include £42,000 for non-productive time in the production wardrobe in 1981-82; in the same year overtime accounted for more than a fifth of the production wardrobe's total payroll costs (Section 4, paragraph 36). In 1982-83, overtime in the production departments accounted for £155,000 and non-productive time for £64,000. It is impossible to say how much of that cost of £219,000 could have been avoided. Some overtime working will always be needed; some non-productive time may be unavoidable; and staff welcome overtime as a supplement to their earnings. But I agree with Mr Trumper's estimate that savings of some £50,000 might be achievable if peaks of work were smoothed out (Section 4, paragraph 37).

48. Other extra costs may prove more or less avoidable. The annual cycle of moving productions from Stratford to Newcastle and then to London had already imposed a cost on the RSC over and above the initial costs of making sets for the RST. The stage in the Barbican Theatre has different dimensions from the RST stage in Stratford, with which the Aldwych stage was broadly compatible. This has meant that the Scenic and Paint Workshops have had to put more effort than before into adjusting productions for the Barbican; Mr Trumper estimates that this may cost on average £15,000 at 1981/82 prices per production.

49. Such additional work, combined with lateness, can mean that the Scenic Workshop is unable to do all the new work on new productions at Stratford. Together with the fact that the Workshop is in any case unable to do steelwork, this has led the RSC to contract out some 30% of the work on new productions at Stratford and all the Barbican main stage sets for new productions in the current season.

50. While sympathetic to the RSC's problems, to its nature as a performing company and to its production staff, Mrs Soane and Miss Iley conclude that the variations between budgeted and actual expenditure in 1982-83 give cause for concern. For its part, the RSC takes the view that a substantial part of what the assignment officers regard as "overspending" was in fact due primarily to the RSC's policy decision that more attractive productions were a box office necessity and that, after the initial budgets had been set, more money should be allotted to increase the box office appeal of productions and, in particular, to open the Barbican theatres with exciting work. This decision was approved by the Finance and General Purposes Committee and the Council. My conclusion is that that policy decision was justified but that the assignment officers have correctly drawn attention to circumstances and practices in managing the season and productions into performance that should be put right, as well as to the need for a regular scrutiny of such policies as that on the overall quality of and detailed expenditures on

costumes. The RSC have conceded that this is so and have undertaken to see to (Section 6, Part 5).

51. For the future, the RSC has consolidated the increased level of spending on physical production in the budget for 1983-84, in which production costs will rise by some 6.3% to £1.774 million. The RSC will be lucky to hold to the budgeted cost of productions in the current season. In the preliminary budget for 1984-85, production costs are set to rise by another 16.8%. This means that by the end of 1985, production costs will have risen by some 80% in three years, the largest jump occurring in 1982-83. I regard this level of increase as somewhat contentious. Before signing it up, I should like to see an analysis of the results for this year, showing the proportions of expenditure attributable to productive time, non-productive time and overtime and a commentary by the Chief Executive, General Manager and Financial Controller.

Stage operating costs

52. "Stage operating" costs comprise the salaries and expenses of the stage and stage properties crews, stage electricians, sound engineers, casually employed "showmen" and the maintenance wardrobe and wigs staff. At £1.7 million in 1982-83, stage operating costs accounted for a fifth of the RSC's expenditure, just under the cost of the performing company and of stage management. In recent years the gap between the costs of stage operating on the one hand and company and stage management on the other has been narrowing and the former is now likely to exceed the latter.

53. Between 1981-82 and 1982-83, stage operating costs went up by over a quarter (27.9%) and there was an adverse budget variance of £164,000. Stage costs as a whole have gone up by 127.5% since 1978-79. The London theatre has always been more expensive to operate than the Royal Shakespeare Theatre owing to the fact that at the Aldwych changeovers between performances were invariably done at night, not the following morning as at Stratford. This practice has been carried into the Barbican, but RSC management intends progressively to negotiate changes in working practices - the need for which is acknowledged by the Union, NATTKE. Moreover, the Barbican has 44 stage staff as compared with 36 at Stratford. Since 1978-79, costs in London have increased by nearly a third from 11.3% of total RSC costs to 14.1%. The upward trend in London costs accelerated by nearly a third in 1981-82 and by more than a third in 1982-83. The move to and dealing with technical problems with the stage equipment in the first year of operation in the Barbican helps to explain the further jump in 1982-83, but there are certain underlying factors which give cause for concern, as Mr Trumper points out (Section 4 paragraph 59). Apart from the practice of "the night call" the Barbican has almost a third as many staff again as Stratford although there are fewer changeovers because productions have longer runs in London than in Stratford and there are no matinee to evening changeovers.

54. Wage settlements over the last five years have been made at an average percentage increase of 8% in Stratford and 8.2% in London. These rates of increase are not as great as those at the English National Opera, the National Theatre, the Royal Opera House or theatres in membership of the Society of West End Theatre. The rise in costs is due, rather, to the cost of overtime and of casual staff. In 1982-83 overtime at £170,000 amounted to more than basic wages; and in the 1980-81 pay negotiations, the RSC agreed to supplement the holiday pay of staff of one year's standing with the average overtime earned in the previous year. As Mr Trumper observed, this was a substantial concession, amounting to an addition of 5% to the staff cost (Section 4, paragraph 61). The total cost of showmen in 1982-83 was £0.207 million, compared with a budgeted £0.1 million.

55. The irony is that while the workload resulting from RSC activity (eg larger and more complex productions, some including a fair amount of water), requires even more overtime to be undertaken, there is a limit to what the crews in Stratford and London can or will take; and the wage cost of casual staff employed to supplement the permanent crews has increased sevenfold since 1978-79 to the level noted above.

56. Stage operating costs represented a peculiarly knotty group of fixed and variable costs. The stage crews are relied upon in important measure to make it "right on the night". Their work often involves much physical effort and strain; it can cause injury. And if they choose, a stage crew in any theatre can make life very difficult for management, even to the point of preventing the show going on, although it should be said that the indications are that industrial relations within the RSC are generally good, and that the use of strong-arm tactics is rare. In the RSC there is the added issue of a difference in pay rates, working conventions and length of working week as between Stratford and London. The Stratford crew who still work a six-day week naturally wish to move to a five-day week like their London colleagues. But the RSC needs to abate the apparently inexorable rise in the cost of stage operating.

57. Mr Peter Standley, the assignment officer who examined the stage departments, has made recommendations which I endorse. These are set out in his report (Section 11) and are summarised by me in Section 6, Part 10. They include a number of recommendations about the planning and timing of work before and after it reaches the stage department; and as regards volume of spend, the negotiation out of treble-time payments and additional leave for Sunday working as part of any agreement to a five-day week at Stratford and, in London, the abandonment of overnight production changeovers, in-year compensation for early over-spending and reviews of the use of casuals and the size of the electrics department.

58. It is difficult to quantify the savings which might be achieved as a result of these difficult measures and the RSC should not be pressed to achieve the impossible. But I believe that RSC's aims should be to decelerate the rate of increase in spending in what remains of 1983-84 and in 1984-85; and by 1985-86 to have begun to achieve a 10% saving in real terms in stage operating costs which will be fully achieved in 1986-87.

59. The RSC has in fact budgeted for a very small increase in stage operating costs in 1983-84 (3.2%). This is an earnest of its good intentions and it is important that the Company should be encouraged to hold as closely to it as common sense allows. I should conclude with the same point with which I end Section 6, Part 10. It is, certainly, necessary for both the Company and the staffs concerned to recognise the constraints on expenditure and the need to make every pound go a long way. To the degree that it is necessary as well as just and desirable for the RSC to narrow the gap between pay and conditions in Stratford and London, however, I think it right to recognise that we are here dealing with an important matter bearing on the RSC's financial future prospects: it would be a mistaken economy either to require the RSC to operate its stage department at a level below what was shown to be practicable or in such a way as to ill-reward staffs whose loyalty has been high in the past and deserves to be recognised.

Theatre operating costs

60. These costs comprise expenditures on maintaining and running the four theatres and on "front of house" (including box office, programme sellers and attendants). They cover a fifth of the RSC's staff and in 1982-83 amounted to £1.653 million, some 19% of all RSC expenditure. This compares with an expenditure of £0.72 million in 1978-79 (17.7%) and, more pointedly, of £1.203 million in 1981-82

(also 17.7%). There was an increase of £0.421 million in 1982-83 (plus 37.4%) and adverse variance from budget of £0.183 million.

61. Theatre operating costs divide between Stratford and London as follows:

Stratford £000			London £000		
1981-82	1982-83	% increase	1981-82	1982-83	% increase
606	765	26.2	525	845	60.9

62. It will be seen that whereas costs at Stratford increased by 26% between 1981-82 and 1982-83, those in London increased by 60.9%. The departure from budget at Stratford is due to building maintenance work of £33,000 and of office equipment (box office computers) of £55,000. The increase in London is attributable mainly to the higher cost of operating in the Barbican than in the Aldwych theatre, in particular to the cost of electricity in an "all electric" theatre, most of whose ancillary accommodation has no natural light. The adverse variance at the Barbican was due to building maintenance (£22,000) and electricity (£34,000), and to non-recurring costs of £19,000 arising from the move from the Aldwych to Barbican.

63. Although the RSC paid a peppercorn rent in 1982-83, service charges to the Barbican Centre amounted to some £0.285 million. A rent of £60,000 is chargeable in 1983-84, rising to £120,000 in 1984-85. Total charges will be upwards of £315,000 in 1983-84 and of £400,000 in 1984-85 (Section 6, Part 6, Annex 4). This means that the Barbican Centre will always be much more expensive to run than the Aldwych, although also possessing a higher box-office potential by virtue of its 1,160 seats compared with 1,000 at the Aldwych.

SUMMARY OF REASONS FOR THE DEFICIT AFTER FUNDING IN 1982-83

64. Mr Trumper summarises the reasons for the deficit as follows (Section 4, paragraph 81 ff):

(1) The increase in expenditure outstripped increases in box office revenue, Arts Council grant and the Retail Price Index. Total operating costs rose in the period 1978-79/1982-83 by 107%, compared with increases in box office income of 100% and in grant of 79%.

(2) Production costs were increased after budget to attract custom back to Stratford and into the Barbican. The increase was substantial, 56.8%, ie £1.669 million compared with £1.045 million. Increased investment in production appears to have contributed well to an increase of 31% in box office revenue, but it had financial implications for most categories of cost, ranging from increase in the number of actors to increased stage crew overtime.

(3) Another principal cost increase was thus in stage operating. Costs here went up by 28% between 1981-82 and 1982-83 and caused an adverse budget variance of £159,000. Retrenchment is possible but will take resolution and time to achieve.

(4) Theatre operating costs jumped by 37% between 1981-82 and 1982-83, producing an adverse budget variance of £183,000. This is attributable chiefly to the additional cost of operating in the Barbican.

FUTURE FINANCIAL PROSPECTS AND OPTIONS FOR REDUCING EXPENDITURE

65. The fundamental problem with the RSC's finances is that the Company is under-funded to carry out its existing range of activities at the current level of quality (Section 4, paragraph 98 ff). This is because such a high proportion of costs is in the category of fixed costs; because most of these are salaries and wages; because in the case of the most obvious of these, actors' salaries, the RSC is in competition with other theatres; and because the base from which the Company negotiates settlements is lower than that of certain other theatres.

66. In addition, the policy to invest more in production values and the changes associated with operations in the Barbican Centre both increase the cost of future operations.

67. As things stand now the RSC will carry an accumulated deficit of £0.7 million into 1984-85 and will end that year with an accumulated deficit of £1.7 million. If the level of ACGB grant for 1984-85 were some £3.7 million, as seems possible, the RSC would cease to be viable and extensive measures of retrenchment become necessary. The various elements which need to be considered are as follows.

Cash flow and trading at a deficiency

68. Technical points connected with these matters are considered by Mr Trumper in Section 7, paragraphs 6-10, and need not delay this covering report. The one point which should be recorded here is that, if the RSC were wound up altogether, the ACGB would ensure that sufficient money was available to pay all creditors. This guarantee has enabled the RSC to continue to trade as a going concern pending the outcome of the scrutiny.

Minor retrenchments and increases in income

69. The detailed examinations undertaken as part of the scrutiny have shown that there are few savings to be had within the operations as they exist at the moment. It is clear that some are to be obtained in smoothing out peaks and troughs of work in the production departments and also in stage operating, but it is difficult to put a firm value on these. Mr Trumper speaks of £50,000 in the production departments and I advocate a 10% saving in real terms in stage operating by 1986-87 but - while well worthwhile and tactically important - neither of these adds up to much compared with RSC's total deficit. Similarly, although I advocate a regular review of policy and expenditure on sets and costumes, I would not expect any savings achieved as a result to be substantial compared with deficit. The same is necessarily true of relatively small expenditures reviewed by Mrs Howard, Mr Clegg and Mr Penfold in their examinations of publicity, marketing and merchandising; transport, travel and the extra costs of touring in the United Kingdom; and the cost of storage and the hire department. Here the purpose of the examination was much more to test the quality of management and administration than to look for economies, although the assignment officers have pointed to some, which, although small, are worth having.

70. The prospects for income at the box office have already been considered. It is evident that if other revenue accounts for only 12% of income, there would have to be really dramatic increases in sponsorship and in income earned through transfers to the West End, overseas transfers and TV (and new media) to have any marked effect on the deficit. The RSC have done well to double sponsorship income so far in 1983-84 but experience in this field, and in the others already mentioned, indicates clearly that there are no easy pickings to be had and that it would be unrealistic to bank on sizeable increases.

71. That brings us inevitably to the question of retrenchments, which, although severe in themselves, do not appear to cut into the main body of the RSC. These are ceasing the Newcastle visit; closing TOP and The Pit; dispensing with the band; and attempting a general scaling down in activity and expenditure.

72. The Newcastle visit is costed and funded separately from the RSC's main operations. Although ceasing it could become necessary for other reasons if either Stratford or the Barbican closed, there is no financial advantage here and this course can be discarded. I draw attention to my observations on the cultural, recreational and economic value of the visit to the North East and its professional value to the Company in Section 3 of the main report.

73. Both the small theatres cause additional costs but, after income is taken into account, this reduces to some £76,000 in 1982-83 (main report Section 3, paragraph 18ff). I regard both small theatres as now well established as an intrinsic part of the RSC, as explained in the main report, and as being a good part of the attraction of the RSC for actors. It is possible that savings of a relatively minor kind could be achieved by reverting to the earlier practice of staging small-cast productions in TOP and The Pit and the RSC must be at pains to ensure that it avoids trying to get a quart out of these pint pots, but I do not estimate that economies in either case would be substantial. And if both main theatres were retained, there would be a high opportunity cost attached to each unused small theatre and in the case of the Barbican actual charges to the Barbican Centre associated with The Pit. Although I could not say that it was impossible, I would not regard it as a readily viable proposition for another operator to run either theatre.

74. The Stratford and London bands cost some £0.25 million in 1982-83. I consider them in Section 6, Part 6. Under draconian measures of retrenchment the band would go to the wall, but I do not recommend the dissolution of either or both bands as an isolated economy measure. It would damage the quality of RSC productions; be out of keeping with the RSC policy for improved production values; and unfairly discriminate against a loyal and long-established group of employees.

75. A general saving equivalent to the size of the accumulated deficit of £0.7 million by end-1984 could be achieved on paper by an 8% scaling-down of activity and expenditure. Having considered with numerous RSC personnel the question of a 10-15% decrease or increase in expenditure, I am satisfied that although the RSC would not cease to exist if required to make such a saving it would not be able to offer the same range of products as now; that income would be put at risk; and that this would not be a sensible treatment of the investment which has so far been made by the Government in the RSC.

Major retrenchments

76. It is clear that the only options which can produce savings approximate to the deficits as accumulated by end-March 1984 and end-March 1985 are the closure of either the London operation or "Festival" seasons in London and Stratford (Section 7, paragraphs 16 ff).

77. The option which produces greater savings is the closure of the Barbican Theatres by end-November 1984. This would have the effect of reducing the difference between income and expenditure, and therefore the need for subvention, by £1.2 million, from £4.7 million to £3.5 million. It would bring the operating deficit to within the anticipated grant of some £3.7 million currently forecast by the Arts Council and would have reduced the anticipated accumulated deficit to £0.494 million by end-March 1985.

78. The capital cost of this course would be in the region of £0.235 million, including rent for accommodation in the Barbican Centre between December and March of £0.111 million, redundancy payments (£70,000) and costs associated with the closure and evacuation of £55,000.

79. Closing Stratford is a more expensive option. It produces fewer savings, because the RSC owns the freehold of its properties in Stratford, the RST is cheaper to operate than the Barbican, has a greater earning capacity and is subject to less restrictive working practices. The "close-down" costs are in the region of £0.3 million, including redundancy payments of some £0.2 million and other costs of £85,000. Moreover, it would be necessary to replicate in London a proportionate part of the production departments which are based in Stratford. An estimate of the cost of this is £0.46 million.

CONCLUSION ON FINANCIAL AFFAIRS AND PROSPECTS

80. My general conclusion is that the financial affairs of the RSC are well ordered and that the Company is not wilfully extravagant. The three main areas in which it is possible to improve on present performance are as follows:

(1) Although I recognise that both planning the season and managing productions into performance are attended by imponderables, some of which are outside the Company's control, it is necessary to tighten up both the planning of the season and the management of productions into performance. It is impossible to attach a figure for savings to this, but the effect would be generally beneficial.

(2) It is necessary to even out the peaks and troughs of work in the production departments. These give rise to both non-productive time and overtime some of which is difficult to justify. A minimum saving here would be in the region of £50,000 a year.

(3) It is necessary to accelerate the reform of working conventions in stage operating in London. I suggest as a target the achievement of a saving of some £100,000 - £150,000 in real terms no later than the financial year 1986-87.

81. I recommend that the RSC should give assurances on these three matters and that the grant for the year 1986-87 assumes that the Company has reduced costs in real terms by £150,000 (1982-83 prices).

82. The budget for 1983-84 forecasts a funding requirement of £4.1 million. The Company considers this to be a "survival" budget. It is an incentive to the RSC to maximise box office revenue, although the Company would like to reduce some ticket prices. The budget also means that the pay of certain categories of staff remains depressed. The ACGB grant offer of £3.6 million for 1983-84 has since been reduced by 1%. Although I consider that the Company should continue to work in a climate of financial stringency a grant of the order indicated by the ACGB perpetuates the fault of under-funding and deprives the RSC of the conditions of stability to which I think that it is entitled by its record of achievement as a national company and by its contribution to the tourist trade.

83. The Company's box office income is already high as a proportion of operating expenditure and I do not believe that it can be much increased. Although the RSC has done well with sponsorship this year, doubling the amount received in 1982-83, it is unlikely that private funding could - in the foreseeable future - make such a contribution to RSC's revenues as to reduce the requirement for funding from

the Government by more than a small fraction. The same is true of income and from transfers, TV and new media.

84. **I recommend** that the Government should endorse the RSC's present pattern of activity, namely a main and a small stage in both Stratford and London; the visits to Newcastle; and the small-scale tour; and, as a corollary to this, that public funding should be increased as outlined below.

85. My **recommendations** as to the scale of the Government's investment in and support for the RSC, are as follows:

(1) Although the disparity between them is wide and will remain a justifiable grievance unless now narrowed, it is unnecessary to look to a direct comparison between the RSC and the National Theatre in deciding on a sensible funding base for the RSC. The principal necessity is to decide on policy towards the RSC; to decide as a matter of urgency how it will be funded in 1983-84 and in 1984-85; and, in the light of the policy so decided, to come to a settled view on the pattern of funding in and after 1985-86.

(2) In the light of the evidence produced by the scrutiny, **the Government's policy** towards the RSC can reasonably be as follows:

a. to confirm that the qualification of 1962 (paragraph 27) does not now apply;

b. to confirm that the RSC has long operated, is now operating and is expected to continue to operate at a level of national and international excellence consistent with its standing as a "national" company;

c. to endorse the RSC's "six-point" pattern of activity as currently but not unalterably expressive of the level of operation; and

d. to decide on an appropriate ratio between the proportions of expenditure to be covered by box office income and other income in the light of the formula outlined in Chapter 1 of the covering report, paragraph 4.

(3) **With regard to the current year (1983-84)**, the objective should be to bring the financial affairs of the RSC into balance and to set its financial prospects on a firm footing. The year should therefore see the start of a two-phase process of getting the funding base right for the longer term. Subject to the qualification noted below, the grant for 1983-84 should be set at £4.5 million. This should comprise three elements:

a. The funding requirement before grant of £4.1 million (ie 43.8% of expenditure) should be met in full.

b. The accumulated deficit should be cancelled, at a cost of £0.19 million. The object of this is to restore the RSC's reserve for repairs at Stratford, which has been depleted by the company to help narrow the gap between the funding requirement and the grant actually paid. It is in principle undesirable to make a business enterprise drain necessary reserves in this way. In the particular case of the RSC it risks a serious increase in cost to Government later, as the Royal Shakespeare Theatre, which combines structures over 50 and 100 years old, requires a sensible repair and maintenance programme. Work which needs to be

undertaken includes repointing at an estimated minimum cost of £0.1 million and refurbishments costing £0.25 million.

c. There should be a supplement of some £0.209 million to come to the £4.5 million mentioned above. The object of this should be to give the RSC additional room for manoeuvre, but it is subject to the qualification noted below.

The difference between the sum of the full funding requirement, the accumulated deficit and the further supplement on the one side and the ACGB grant reduced by 1% (£3.564 million) on the other is £0.936 million. This is the amount which is needed now. It might be paid in instalments between 1 November 1983 and 31 March 1984; the size of the last instalment should be settled in the light of progress with box office income towards the end of the current financial year.

(4) **With regard to the year 1984/85**, the objective should be to build upon the more stable financial position in 1983/84 to decide in principle the future "targeting" of the grant, as discussed in Chapter 1. It is not yet practicable to use a "targeting" procedure for the 1984/85 grant. The RSC's financial position was too unstable in 1981/82 and 1982/83 to determine a base for future funding, because of the move to the Barbican; the decline in the box office at Stratford; and the policy to stage more complex productions. I **recommend** that the 1984/85 grant should be settled after an examination by the funding authority of the detailed budgets for that year. The preliminary budgeted funding requirement for 1984/85 is £4.717 million and I do not think that the result will come out at more than £4.9 million. In my judgement this level of funding is what is required in the interests of future stability. In recognition that the budget for 1984/85 necessarily comprises estimates about which there is still uncertainty, for example, some of the costs at the Barbican, I **recommend** that the grant has a "guarantee" portion set at 5% of the total, to be paid if required on agreement of the final accounts for 1984/85.

(5) The qualifications referred to above are these:

a. The RSC should continue its efforts to augment "other income", notably transfers to the West End, TV, overseas tours and sponsorship, but the Government should accept that such income is both difficult to predict and unlikely to increase much beyond its 1982-83 level of 4% of expenditure. The target already budgeted for 1984-85 is £0.45 million (ie 4.2% of estimated expenditure); this target might be increased to £0.45 million (4.6%), but should not be forced up any higher. Targets for later years might be increased by 0.5% of expenditure a year, but reviewed in the light of progress. In making this recommendation, I draw attention to the point I have made elsewhere, namely that the funding authority will need to be fair and even-handed in its attitude towards the contribution to be made to companies' finances by sponsorship. There is also the important consideration that, as shown in Section 6, Part 3 of the main report, sponsors tend to fund the marginal rather than the central costs of the RSC and that increased sponsorship does not necessarily decrease the funding requirement.

b. The RSC should give the assurances noted in paragraph 81 above with regard to the reducible costs of production and stage operating, ie it should undertake to save £150,000-£200,000 per annum by 1986-87.

(6) With regard to the year 1985-86 and later years, the Government will no doubt wish to indicate now that it will treat 1985-86 as "Year One" under the arrangements outlined in Chapter 1 of this covering report (paragraph 4), unless enough progress is made in the near future to enable 1984-85 to be so regarded. Once the immediate problems of 1983-84 are out of the way, the Government and the RSC should agree on the base level for 1985-86 in the light of the "targeting" suggested in Chapter 1. The targets should cover both box office and other income on the one hand and expenditures on the other.

(7) The Government and the RSC may wish to use as the basis for their discussion the budget formula set out in the Appendix to Chapter 1, which draws on the experience of the scrutiny team.

(8) Alternatively, the Government might, consistently with my recommendations for periodic review of both the ROH and the RSC, seek the advice of independent persons in assessing the RSC's proposals.

86. If the Government were to decide that the nation could not afford the additional funding recommended above and that it was necessary to hold to the level of grant provisionally offered by the ACGB, I conclude that the RSC would not be able to operate as at present. It would then be necessary to retrench expenditures severely. The only option which would produce enough reductions in net operating costs to allow the RSC to function within box office income and public funding would be the closure of the Barbican end of the Company's operations. The capital costs of this option would be in the region of £0.25 million.

87. I do not think that retrenchment is the right answer. It would waste much of the investment the Government has made in the RSC in the past; be a stunning blow to the Barbican Centre in its early years; and lop off a fruitful branch of the leisure industry in London.

GENERAL ASSESSMENT

88. Naturally, the view taken of the RSC by outsiders is not universally admiring. I have been at pains to assemble adverse criticisms and suggestions and to put these to the RSC in the shape of Mr David Brierley, the General Manager, and Miss Sheila Hancock, the director of this year's small-scale tour. The result is given in Section 5 of the RSC report ("Common criticisms"). I conclude there that the RSC's underlying strength is considerable, that it is capable of responding effectively to well-founded criticism and that a lot of the criticism offered to me is unfair or misguided.

89. The view taken by the ACGB is favourable. The assessments by the Drama Panel and the Regional Advisory Committee, bar a few minor points, amount to a strong endorsement of the RSC's work (Section 3, Annexes 2 and 4). The assessment of the Finance Department is that the RSC's financial management is sound; that its decision to spend more on productions in response to box office decline was not only wise but exemplary; and that the RSC is underfunded (Section 4, Annex 1).

90. Although this report is about the financial affairs and financial management of the RSC, it would be disingenuous as well as unjust not to close by saying that the Company is doing work of fine quality; is demonstrating to the admiration of its audiences not just an impressive virtuosity but also the power of a great Company to exalt as well as to entertain; and is proving its capacity and potential as a business enterprise in the vanguard of the performing sector of the leisure industry.

91. As a customer of the RSC, but with a heightened awareness due to the scrutiny, I have been to see three productions in the current repertoire at RST Stratford, one at TOP, one in Newcastle, four at the Barbican Theatre and one in The Pit; I have seen two productions twice, MUCH ADO ABOUT NOTHING and ALL'S WELL THAT ENDS WELL (seen for the second time in New York). I will not attempt a commentary which others are better qualified to give, but I regard the standards of performance and production achieved as generally well up to and in some cases beyond the level to be expected of a national company. The response of audiences of which I have been a member, whether in Stratford, Newcastle or London, has been warm, enthusiastic and occasionally demonstrative (for example in the case of the current CYRANO DE BERGERAC). As a Briton I was proud to see how the Broadway audience received ALL'S WELL.

92. My general assessment of the personnel of the RSC is favourable also. I have offered some criticisms and suggestions, especially with regard to the planning of the season and the management of productions into performance; compared with the overall strength of the RSC these are of a relatively minor and achievable kind. I end the exercise with a sense of admiration for a company which, while no more perfect than any other organisation, has the great strength of imaginative creativity, intelligent enthusiasm, painstaking commitment to quality and a willingness to work very hard, at all levels, to achieve the desired result. One member of staff told me, in the course of discussing funding, that, "We feel as if we have done something awful, but no-one will tell us what it is". My advice is that the Government should now settle the affairs of the RSC on a foundation which consolidates its past investment and enables the RSC to go on from strength to strength.

CHAPTER 4

WIDER ISSUES

1. In this chapter, I deal with certain aspects of public funding, including funding through the Arts Council; wages and salaries; tax relief and business sponsorship; and more generally the performing arts.

The ROH - a national institution?

2. In recommending a higher level of funding for the ROH I am conscious that the ROH is a institution which attracts controversy. This is captured in a nutshell in a letter whose author said that she and her husband and their three children would dearly like to see the Royal Ballet at Covent Garden but that it was beyond their means. She wondered how it could be right for a company supported by public funds to be so far out of reach of ordinary families.

3. The logic of the fact that Government has funded the Covent Garden Companies for over a generation and that the Arts Council regard a national opera house in London offering opera and ballet at an international level as an essential part of the provision for the Arts in Britain (ROH Report, Section 3, Annex 1) is that the nation, in the form of the central Government, and the arts funding authority, wants the Royal Opera House to continue. Indeed, the Arts Council believes that the ROH is under-funded, no less than the ROH itself (ibid). On the other hand, there is a body of assorted arguments, which run to the effect that Covent Garden is too expensive to be accessible to ordinary people; that seats are made available to the wealthy through public subsidy; that allotting £10 million to the ROH out of the Arts Council's budget depletes the money available to other companies, which are accessible to the less wealthy; that opera is not a customary and generally accepted form of entertainment in Britain; that the ROH's links with the Establishment enable it to exert an undue influence on the Government; and that in any case the level of the ROH's artistic achievement does not match the level of its pretensions.

4. While the reference to a £10 million subsidy is strictly accurate, the argument about its scale neglects the fact that the ROH provides more than 500 performances a year by not one but three active and productive performing companies (namely the Royal Opera Company, the Royal Ballet and the Sadler's Wells Royal Ballet) and the supporting services necessary, whether of production or administration.

5. Of those three companies, the touring ballet, SWRB, perhaps demonstrates in one of the most effective ways available the function of public subsidy in making a performing art accessible to the public. The Royal Ballet is accessible in its Tent seasons and on tour, much more so than when it is performing at Covent Garden. The Royal Opera Company is relatively inaccessible, except through the Proms season, TV and radio or on its visits to Manchester; it will be even less accessible if my recommendation for ending the provincial visit is adopted.

6. Although I recommend in my report on the ROH a substantial increase in its work of "out-reach" I do not see how the Royal Ballet or the Royal Opera Company can be made much more accessible at the box office without a further increase in public funding. Such an increase would have to be **over and above** the increase in funding which I recommend later to correct the under-funding which I believe exists at present. I do not consider that it would be realistic to make such a recommendation in present circumstances. For the future, however, the logic of

funding the Royal Ballet and the Royal Opera Company cannot find a completely practical expression as long as the box office is effectively closed to the majority. It will be necessary to consider the case for additional funding on its merits and in the financial circumstances of the time.

7. The comments of Mr John Manduell, Sir Isaiah Berlin, Mr Diamand and M Gall (ROH Report, Section 12, Annexes 1-3) point up the case for an international opera house at the summit of a nation's musical life, as a medium in which the genius of the past and the present can express itself and the genius of the future can be formed; as a setter of standards; and as to some degree an expression of a nation's intellectual and aesthetic self-confidence. Sir Isaiah Berlin observes that:

"Like all major arts, opera is today, no less than yesterday, intrinsic to the culture of a developed society. This clearly profits by, but does not necessarily need, a native tradition - such a tradition has no real roots in the USA, or Switzerland, or Scandinavia, where excellent work is done. The absence of a strong operatic tradition in England seems to me sad but irrelevant" (ROH Report, Section 12, Annex 3).

8. The principal answer to the "Establishment" argument lies in the fact that the Government commissioned this scrutiny, the report of which will be publicly available. The Chairman and members of the Board of Directors of Covent Garden, like anybody else in any comparable situation, have used all the influence they have and have lobbied for their corner with vigour and determination; their successors will no doubt do so in future. M Hugues Gall's corrective comment on the "official" function of Houses in capital cities is useful here (ROH Report, Section 12, Annex 1, paragraph 14). But measures which would have the incidental effect of abating the suspicion with which the ROH is regarded can and should be taken. I have made recommendations in Section 2 of the ROH report which would widen the scope of the Board's representation; would increase their ability to reach out to and for new audiences; would lead them to bring into equilibrium the artistic and financial imperatives in their policy; and would ensure that they exercise the ultimate authority that rests with them for all aspects of the management of the ROH and in particular, within the context of this scrutiny, for living within a sensibly devised budget. I am satisfied that the Board live in a continual stress of soul over the ROH's finances but that they fully accept that they need to surpass anxiety, and to contrive and compel a steady adherence to budget, once this is fairly established.

9. I have also recommended that the Secretariat which the Civil Service has provided to the Board since 1947 should be replaced by one formed by the ROH's permanent staff. This implies no adverse criticism of the existing Secretariat or their predecessors, but simply that an institution with an annual turnover of close on £20 million should itself be capable of finding a competent Secretariat.

10. On the question of the level of artistic achievement I have had put to me arguments on both sides of the case. The issues are discussed in Section 12 of the ROH report.

11. Adverse criticism focused on the opera. The ROH is disposed to concede that its visual standards could be higher, but is proud of its musical standards. The Arts Council; Mr Haines, who has been going to Covent Garden for over 30 years; and others have had some tart observations to make. They are mitigated by those of Messrs Diamand and Gall. Taken together, criticisms do not add up in my judgement to a case for sweeping changes in personnel at Covent Garden. Indeed, I regard some of the criticisms put to me as less than completely fair and objective, but opera and ballet seem to be particularly emotive subjects, arousing intense feelings. In my view, the dominant messages which emerge are that there is no endemic

failure at Covent Garden; that it, like other Houses, has its ups and downs; that the Board, the Administration, and the Directorate, should take seriously criticisms which are made seriously; and that none of them need be or appear defensive or close-minded in doing so.

12. I conclude that it would be reasonable for the Government to continue to fund the ROH and that it would be prodigal and short-sighted to cancel the investment which has occurred since funding began. But I acknowledge that because of its relative inaccessibility at the box office the Royal Opera Company will need to find yet further measures of "out-reach"; and I observe that increasing the accessibility of the products of Covent Garden to the general public would be an excellent subject for further business sponsorship, following on the pattern already established.

Aspects of public funding

13. There are three fundamental questions about the public funding available to the ROH and the RSC: what is the function of subsidy? Should the grant-in-aid continue to be conveyed to the Companies through the medium of the Arts Council or directly from Government? On what basis should grant-in-aid be calculated?

14. As I see it, the function of subsidy is to preserve and promote the activities of the Company on behalf of the nation and to make it as accessible as possible to the public at the box office.

15. The two Companies are undoubtedly regarded by the Arts Council, along with the two other members of the "big four" (the English National Opera and the National Theatre) as being in a special category. They are "national" companies; they are regarded as centres of excellence and as standard setters; they are established to operate in repertoire with five companies in three main Houses and on tour; they are looked to for steady output of new work; they are also looked to to undertake national and - not least by the Foreign and Commonwealth Office and the British Council - international touring, underpinned by a strong central repertoire: hence the Royal Ballet's tour of the USA and the Far East during 1983, the Royal Opera Company's visit to Los Angeles in 1984 and the RSC's planned visit to a series of European countries, also in 1984.

16. Successive Governments and the funding authority have wanted the RSC and the three performing companies of the ROH to exist and to thrive, regarding them as important national assets, providing a good range of generally high quality products which is essential to the preservation of the heritage and the creation of the future in their respective art forms and important culturally to Britain both at home and overseas. Indeed, there is no doubt in the Arts Council's mind that, on the basis of experience so far, it would not be allowed by the Government to make substantial decreases in the funding of the Company if the effect was to impinge seriously upon the shape of the ROH and RSC and their artistic policies.

17. Nonetheless, the Arts Council acknowledges that the two Companies are under-funded to undertake that desired range of work, although not more comparatively more under-funded than any of its other clients. And it finds itself unable to bring funding up to the right level because that would mean robbing Peter to pay Paul.

18. Apart from the question of the disposition of the grant-in-aid made available to the Arts Council by the Government, there is also the effect of other pressures on the Council's policies, particularly perhaps at present the needs of the Regional Arts Associations.

19. There is a rough justice in this. All must bear a fair share of the burden when public expenditure is under restraint. No one suggests that either Company should have a blank cheque. But I think that the justice is too rough. There is something unreal and wasteful about treating the Companies as if they were on all fours with the Arts Council's other clients, to whom I intend no discredit or disrespect in saying that they - the national companies - are not. If the Government says that it wants the range of products now delivered by the Companies, broadly at the level of current quality but with an emphasis on the importance of constancy in the search for excellence and economy, it is logical either to earmark parts of the grant-in-aid to the Arts Council as being specifically and inalienably for the Companies, as recommended by the Select Committee on Education, Science and the Arts in the last Parliament,* or to make a direct grant to the Companies through the Office of Arts and Libraries.

20. Of the two funding routes noted in paragraph 19 I myself would prefer the second - direct grant - as more logically and completely expressing the purpose of the change I recommend, but provided the first - "earmarking" - has the effect of recognising and safeguarding the national companies' special standing and function that may be preferable as being more consistent with existing practice.

21. The danger which has always been pointed to when the question of the funding route is raised is that the "arm's length" principle would be breached. The argument has run that there should be a clear division between the source of funds and the means of their distribution; and that the distributor, in the shape of the Arts Council, should also be debarred from artistic interference. Furthermore, the Arts Council should not intervene in matters of day-to-day company management; a former Chairman of the Arts Council has argued with force and clarity that the principle on which the Council should work is that of "back us or sack us" (by which I assume that he means, "withdraw our grant").

22. I subscribe to the principle underlying the "arm's length" method. But I doubt whether it is actually at serious risk from the changes I recommend. An interference with grant, artistic policy or day-to-day management inspired by party political considerations would be repugnant; and it would get its own political reward in Parliament and elsewhere. Perhaps more important, it would be ludicrous. Equally, an intervention inspired by belief in the superiority of one's own taste or insight would very likely be or seem absurd. It would attract a predictable response in Parliament and elsewhere.

23. It is in fact easily possible to secure the observance of the "arm's length" principle while either earmarking grant-in-aid for the Companies or funding them direct. I have recommended (Chapter 1, paragraph 4) on financial grounds a formalisation of arrangements for grant-in-aid to the national companies.

24. My proposals recognise their importance to the nation and their function as centres of excellence. It will ensure that the "arm's length" relationship on artistic matters is maintained. The Government itself should not go in for formal artistic assessment. What it needs is merely a knowledge and understanding of their artistic objectives. The national companies are so visible that the funding authority will be quickly aware from the public and critical response to them whether they are, over time, achieving their artistic aims.

25. It will be clear from the foregoing that I do not recommend that the task of the triennial assessment should be added to the tasks of the Arts Council as an agent of Government. The Council necessarily has continuous commitments, explicit or implicit, to its varied clients and it would not lighten its burden if, in addition to looking after them, it had to take on the substantial job of evaluating the national

*Public and Private Funding of the Arts, Session 1981-82, recommendation 17.

companies. There is also the consideration that the assessment of a business of the size of a national company is neither a process in which the Arts Council is well versed nor one which conforms either to a long-standing interpretation of its function as a grant-distributor or to the capacity it has available to undertake it.

26. In addition, the national and some of the other leading companies stand in a different relationship to the Council from most of its clients. In terms of artistic firepower, the advantage rests with them, not the Council. And the Council acknowledges with refreshing modesty that the national companies are led by people with national if not international reputations.

27. If the Government decided to retain the services of the Council as the funding route, I would **suggest** that the Council should not be used as the assessing agency at the end of each three year period. The assessors should be independent persons, as recommended above, although one of their number should be either the Chairman or the Secretary General of the Council as noted above.

28. I also **suggest** that the Council should, if remaining the funding route, reconsider the purposes for which members of its staff attend company meetings as assessors or representatives. The opportunity cost of this arrangement seems high. The Council sends an assessor from the Finance Department to all meetings of the Board of Directors and the Finance Sub-Committee of the ROH and representatives from the relevant professional departments to those of the Opera and Ballet Sub-committees; similarly, an assessor attends meetings of the RSC's Finance and General Purposes Committee, Council and Governors. These add up to many meetings a year, 12 in the case of the RSC alone.

29. If the Government decided to use the Office of Arts and Libraries as the funding route, I suggest that the Council's assessors and representatives should be withdrawn. In so far as the Council needed to supplement its knowledge of the affairs of the companies derived from attending performances and press and other criticisms, I **suggest** that it and the companies should agree with the Office of Arts and Libraries on an economical and effective means of doing so. This might, for example, take the form of a single meeting a year between senior lay and professional members of the Council and the Company in question for an exchange of information and views on achievement judged against plan.

Foreign practice

30. The purpose of visits made by members of the scrutiny team to Berlin, Milan, New York, Paris and Vienna was to obtain another perspective on British practice, not to undertake a detailed comparison of the ROH and RSC with foreign counterparts. In the event, visits concentrated on opera and a report is contained in Section 11 of the ROH document. The Foreign and Commonwealth Office provided me with some useful notes on the Bolshoi and Kirov Ballet companies.

31. The main point of interest to be noted here is that the ROH is midway between a European and Soviet pattern of funding and the American model, represented by the Metropolitan Opera. The following table includes the Grand Theatre of Geneva, M Gall's House:

Sources of funding (%)

	Box Office %	Central/ Local %	Business sponsorship/ Individual donations etc %
ROH	38	55	7
New York	65	4	31
Berlin (Opera)	15	85	-
(Theatre)*	8	92	-
Milan	17	79	4
USSR	Nominal	Substantial	-
Geneva	40	60	-

32. Another point of interest is the high level of fixed costs. These vary from 73% in Paris, 76% in London to 80% in Berlin, Milan and New York. The level for the Bolshoi and Kirov is not known.

Salaries and wages

33. These are discussed in their place in the separate reports on the ROH and the RSC and there is little that needs to be said about them here, save what follows.

34. First, in two organisations which are necessarily labour intensive (ROH, 1035; RSC, 625), the cost of salaries and wages is a substantial part of their fixed costs, while overtime is a substantial part of variable costs. And, as I note below, guests' fees in the opera and ballet companies are a controversial item. It is therefore important and reasonable to look to the Board of the ROH and the Council of the RSC to make pay settlements consistently with the general level of settlements now being achieved elsewhere in the economy. Fixing the level of funding for three years ahead as proposed above would undoubtedly do much to help with this.

35. Secondly, however, I hope that the basis on which funding is settled will recognise the fact that one of the most substantial subsidies available to the Companies is the willingness of some staff to work long hours for modest or low wages. Staff with "industrial muscle" are usually paid reasonably or well; some others are less fortunate; and nothing in my report should be read as proposing that any existing salary or wage levels or differentials should be set in concrete forever.

36. Thirdly, there is a particular issue in the RSC, namely the pay and conditions of the Chief Executive and Joint Artistic Director, Mr Trevor Nunn, CBE and his co-joint director, Mr Terry Hands. (Mr Nunn is on unpaid sabbatical leave this year.) Objections have been made to me that the level of their salaries (£47,640 and £34,500 respectively) is excessive, and it is improper for them, or indeed people like them, to make substantial additional earnings from transfers of productions from the subsidised to the commercial theatre and to earn in their own right in the commercial theatre while employed in the subsidised theatre.

37. I consider the first of those issues in RSC Report (Section 6, Part 2). I need not repeat the detail here. I conclude that the RSC Governors are right to set these pay levels. There is no reason in principle why high value should not be set on merit in the subsidised theatre, especially one of the importance and standing of the RSC. The two Joint Directors have a remarkable and fitting talent, as may be seen in their work on stage. And I have no reason to disbelieve what others have told me, that they could earn more in the commercial theatre, especially abroad.

*Funding of the West German theatre by government (Federal, Land and Local) is at 83%.

38. As for the second objection, such facts as I can make available within the bounds of normal confidentiality are these. First, in negotiating a West End transfer, the RSC would be guided in its application for fees by its estimate of the risk being taken by the investor and by the trend of its negotiations with the Company or the individual backers concerned. Its judgement is that, within the limits of prudence and common sense negotiations are a matter of horses for courses. Normally, it would aim for a return to the RSC of some £50,000.

39. Secondly, as a matter of normal practice, the RSC additionally requires a payment for the Director concerned as part of any contract negotiated with a commercial theatre for the production of a play originated in the RSC by that Director. Thirdly, between 1966 and 1981, Mr Nunn undertook no work outside the RSC, although his contract with the Company allowed him three months in every 12 to do so; he has since undertaken work in the commercial theatre, notably CATS in the West End (now strongly established in the USA) and IDOMENEO at Glyndebourne. Fourthly, between 1970 and 1980 Mr Hands undertook assignments in opera houses and theatres at home and abroad, including Covent Garden, Genoa, Milan, Paris and Vienna; he did so with the RSC's full backing and encouragement, the Company always being interested in the extension and refreshment of talent.

40. I do not think that, on the basis of the data available to me, it can reasonably be argued that the Joint Artistic Directors of the RSC or the RSC itself are at fault. Indeed, I would not wish to leave the point with that negative slant upon it. My judgement is that the RSC and therefore the public are fortunate to have Messrs Nunn and Hands in their service; that the policy of allowing them to operate in other sectors of the theatre is entirely sound; that it is right that a Director should enjoy an extra return on his work where this can reasonably be obtained; and that both Messrs Nunn and Hands have contributed to the economic life and the good name of the country by their work in the West End and abroad.

Local authorities

41. Chapter 5 below contains a note on the local authorities consulted during the scrutiny. I note in passing the paradox that within their native places, London and Stratford respectively, the ROH and the RSC receive little or no subvention from the local authorities (the Greater London Council and the County and District Councils of Warwickshire and Stratford-upon-Avon), but there is a possibility that the GLC, which does fund the English National Opera, and the National Theatre, would be interested in assisting "out-reach" from Covent Garden.

42. The RSC is the tenant of the Corporation of the City of London in the Barbican Centre. The City is to be congratulated on its gift of the Centre to the nation and the RSC on the brilliance and distinction of the contribution it has made to the success of the Centre in its first year. The financial terms of the relationship between the Corporation and the RSC, although attended by several marks of generosity, will need careful management if the balance is not to be tilted against accessibility at the box office and the viability of the RSC's operation in the Centre put at risk. As indicated above, my colleagues and I would regard a solution to the RSC's current financial problems which involved ending its operations in the Barbican Centre as a damaging loss to the performing arts in London and very serious blow to the Centre in its infancy.

43. Outside London my colleagues and I have visited authorities which are associated with the Companies in one way or another - the County Council of Tyne and Wear and the District Council of the City of Newcastle-upon-Tyne because of the RSC's annual visit to the North East, the Greater Manchester Council and the District Council of the City of Manchester because of the Royal Opera Company's visits to Manchester. Records of our discussions are given in Section 6 of the RSC

report and Section 18 of the ROH report. The details need not be repeated here, but there are three impressions which I should record:

- (1) The firm belief of the authorities visited in the value of performing arts of a high quality and their commitment to their provision. I was particularly struck by the readiness of Tyne and Wear CC to consider increasing its contribution to the RSC visit to Newcastle, should this become unavoidable (RSC report Section 3, Annex 3).
- (2) The open-mindedness of the Greater Manchester Council and the City of Manchester about the good sense and the opportunity cost of continuing with the Royal Opera visits to Manchester, compared with the benefits of diverting the resources involved to building up provincial opera companies (ROH report, Section 18, Annexes 1 and 2).
- (3) The good opinions held by senior officials of the local authorities of ROH and RSC staff, based on co-operation with them (ibid).

Tax relief and business sponsorship

44. I draw attention to the note on VAT at Annex 1 and to the record of my discussion with the then Director-General of the Association for Business Sponsorship of the Arts (Mr Luke Rittner) at Annex 2; and to the discussion of sponsorship in the ROH report (Section 3, Annex 3) and the RSC (Section 6, Part 3 and Annex 6). The main points to be made here are as follows:

- (1) The case against totally removing VAT from the price of admission to theatres is appealing but not strong. Nonetheless, it is for consideration whether it could be levied at a lower rate in order to assist the theatre in difficult times or simply returned to it in the grant.
- (2) The range of tax reliefs available to companies appears adequate save the impediment to gifts in respect of capital works. The Government will no doubt wish to consider this issue in the review of tax reliefs indicated in the manifesto before the recent general election.
- (3) The range of reliefs available to persons could be extended with advantage by raising the threshold on individual gifts.
- (4) The Arts Council attaches increasing importance to business sponsorship of the arts and to performing companies' efforts to obtain it. The ROH achieved substantial private funding for Phase I of the redevelopment scheme at Covent Garden and continues to do reasonably well; the RSC is doing well this year, on the basis of a single member of staff. The Arts Council needs to be even-handed as between different performing companies in its application of its new policy on sponsorship; both it and the Government will wish to recognise that business sponsorship is now the aim of a more and more sophisticated field of applicants and that if all are winners the prizes may be, as in the Caucus Race, very small.

The wider issues

45. Although my commission was to examine only the affairs of the ROH and RSC, some thoughts on the wider picture, based on the work done by my colleagues and me in those Companies and on our discussions with representatives of many others, may be helpful. I therefore conclude with a few observations on the two Companies and on the performing arts more generally.

46. It is right to begin with a word about the realpolitik of the subsidised, performing arts. I do not think, and do not want to give the impression that I think, that all is for the best in the best possible of all worlds. The fact that my colleagues and I have come to have, overall, high regard for the two companies does not mean that we have no criticisms of them or that I am unconscious of the political way companies can behave, and believe that they must behave. At bottom, companies, including the ROH and RSC, do not believe that they can continue to produce first-class shows on the combination of box office revenue and subsidy available to them and this necessarily as they see it conditions their behaviour.

47. Companies understand that they are on the edge of a much larger world of spending. They cannot help contrasting their own struggle for survival with the larger sins of other parts of the public sector. One leading and successful businessman associated with a performing company has described his and his colleagues' view of what large parts of government and the public sector do like this:

"There are certain imperatives in public funding which must be well known to the Scrutiny: panic spending before the end of the financial year; illicit tuck-aways to make it appear that the cupboard is bare; the re-christening of old forms of expenditure with new names to chime with new Government policies; budget demand 30% above expectation, 50% above necessity and 1% above what the Treasury will actually give - and so on."

48. Against that general background, the company may well conclude that, if it is at the edge of a dirty game, its interest is in playing by the actual not the theoretical rules. The same businessman continued:

"Similarly there is a psychological imperative for all grant-in-aid bodies and it is that you must never operate within the financial limits set. If you do, your grant will be progressively reduced and your coat will be cut according to a diminishing supply of cloth and soon you will have no coat at all. You must always require more money than is on offer, or very soon they will have you over a barrel."

49. The basic questions now to be decided are whether the Government does regard the ROH and RSC as important enough to fund at a sufficient level and whether a fair funding regime can be established in order to provide both conditions of stability and a sensible discipline for investment, production and consumption. My strong recommendation is that the Companies should be funded on the basis of criteria which are clearly understood and at a level which is fair to the Company and to the taxpayer. I believe that direct funding or earmarking is very well suited to this purpose.

50. Secondly, I raised with Sir Isaiah Berlin whether the main argument for having a national opera house in London operating at an international level, was that it provided an expression of national will or identity. In his reply (ROH report, Section 11, Annex 3), Sir Isaiah makes the point that:

"Advances in the arts in general and opera in particular are brought about by, at most, handfuls of individuals. I really do not think that "national will" plays a part in this sphere. When something marvellous is achieved - the ballet of Ashton, de Valois, Fonteyn; the acting of Olivier, Gielgud, Richardson, Edith Evans - it is a source of immense pride. These phenomena are not always founded on a native tradition, but on inspired efforts .. it is the level, not the national quality of artistic achievement that is a source of satisfaction and pride, on the part of the public .. unless there is such a "centre of excellence" [as at Covent Garden], standards cannot but decline".

The scrutiny has repeatedly demonstrated the force of Sir Isaiah Berlin's reference to individuals. The spring of artistry and achievement is the particular man or woman, or the group of men and women animated by shared ideas and aims. The whole enterprise of a performing company needs the separate and collaborative effort of able individuals. My colleagues and I regard neither Company as perfect. Both are human, capable at once of superb achievement and, like the rest of us, falling flat on their faces. But it would be a gross injustice to them if we did not make plain our conviction that in the ROH and RSC the nation has two assets of great actual and potential value. This value is due to the gifts of genius, past and now refreshed, including the paramount genius of William Shakespeare; skill, invention and inspiration among directing staff; a brilliance of performers, which by turn amuses, exalts and moves; the hard work of production, other "behind the scenes" and administrative departments; and the contributions made by lay people, whether as Directors, or Governors or in such capacities as "Friends", both in Britain and in the USA.

51. If the nation now effectively depleted its subsidy to the Companies, it would waste much of its own earlier investment and lessen the future provision of opera, ballet and drama, including the work of its greatest playwright and poet. This would be astonishing in the USA where the generosity of the Friends of both the ROH and the RSC and their pride and affection for the Companies are evident; incomprehensible and laughable in Europe; and no doubt productive of at least a sardonic grin in the USSR, whose investment in the Bolshoi and Kirov companies is "vast" (ROH report, Section 11, Annex 6).

52. The case for the ROH, the RSC and other companies does not rest simply on their achievement on stage, excellent as that can be and often is; they are not simply consumers of the public good. Apart from their contribution to Britain's good name abroad and to the tourist trade at home, they contribute to employment, both within themselves and through the multiplier effect. They are part of the service sector and the leisure industry to which the Government rightly attaches increasing significance as a sector of the economy. They are also contributors to the Exchequer.

53. The performing arts companies, generally speaking, are making a distinguished contribution to recreation and entertainment in the UK, as well as giving it credit abroad. It is right to build on success. And because the nation will need the amusement, inspiration and sustenance the performing arts can give it for as far ahead as we can see it is just and wise to invest in them. In this regard I was struck by what was said to us in the special circumstances of West Berlin about the function of opera. The Intendant of the Deutsche Oper affirmed that opera "was not only an intellectual medium, it was also a contributor to social health and recreation: in the scheme of aesthetic things and enjoyment of and response to life, opera was one of the "green things" as valuable to the mind and spirit as open air and the countryside are to the body". It does not need the special circumstances of West Berlin to make that true, nor is it true only of opera.

CHAPTER 5

LOCAL AUTHORITIES

"You only have to spend a season playing Shakespeare in Stratford-upon-Avon, in the heart of Warwickshire, to know incontrovertibly that those plays were written by a man who had actually lived in Stratford and who had walked the Warwickshire lanes." (Donald Sinden, A TOUCH OF THE MEMOIRS, Futura Publications 1983, page 84; quoted with the permission of the author and the publisher)

1. It was necessary to consult certain local authorities, because of their association with either or both of the ROH and RSC, or because of their interest in and provision for the performing arts.
2. Most consultation was done face-to-face and is recorded in texts agreed with the local authorities concerned, annexed to relevant sections of the two reports:

RSC Report, Section 6 (Part 4) Annexes 1-4

Warwickshire County Council
Stratford-upon-Avon District Council
Stratford Town Council
The City of London (owner of the Barbican Centre)

RSC Report, Section 3, Annex 3

Tyne & Wear County Council
City of Newcastle-upon-Tyne District Council
(relevant mainly to the RSC's annual visit to Newcastle)

ROH Report, Section 18, Annexes 1 and 2

Greater Manchester Council
City of Manchester District Council
(relevant in each case mainly to the Royal Opera Company's visits to Manchester)

3. My consultations with the Greater London Council and with the Cities of Cardiff and Plymouth are also recorded in agreed texts and are in Annexes 3-5 to this covering report being of general rather than specific interest.

4. There are a few other matters which require comment here.

THE LICENSING FUNCTION

5. The Royal Opera House is not licensed by the GLC as, by virtue of Letters Patent, it is exempt under the provisions of Schedule 12 to the Local Government Act 1963.

6. The GLC, which is the licensing authority for the Barbican Theatre, regards the arrangements there as satisfactory in respect of safety and related regulations.

7. The Stratford-upon-Avon District Council is the licensing authority for the Royal Shakespeare Theatre and has no outstanding requirements in respect of it (but the building and some of the RSC's other properties in Stratford are in need of repair and refurbishment, see RSC Report, Section 6, Part 7).

LOCAL AUTHORITY FUNDING

8. Funding by authorities of a size which enables them to fund is as follows (1982-83 data):

Authority	ROH	RSC	Remarks
Warwickshire CC	N/A	Nil	The RSC has not sought a grant, and none is likely to be volunteered
Stratford DC	N/A	£1,700	Also statutory rate relief of £7,590 (offset by RSC property rates of £6,800)
GLC	Nil	Nil	£1.7m for ENO and NT
City of London	Nil	Peppercorn rent	£60,000 rent in 1983-84, £120,000 in 1984-85
Tyne & Wear CC	Nil	£49,000	
GMC	N/A	N/A	£50,000 in 1983 for ROC visit
City of Manchester	Nil	N/A	

9. The GLC does not intend to fund either the ROH or the RSC in addition to the ENO and the NT, whose own GLC subvention may in future be varied. However, the GLC is willing to discuss "out-reach" possibilities with either company.

10. The relationship between the City of London and the RSC is touched on in Chapter 3 of this covering report and in Section 6, Part 4 of the RSC report.

11. Local authorities accustomed to dealing with officers of the ROH (GMC) and RSC (Tyne & Wear, City of Newcastle) have a high regard for their professionalism. The GMC satisfied itself in discussion with the General and Assistant Directors of the ROH that their estimates of the cost for the ROC's visit to Manchester in 1983 were accurate and fair.

THE LESSONS OF EXPERIENCE

12. Local authorities in the North East (Tyne & Wear CC and Newcastle-upon-Tyne District Council) and in the North West (Greater Manchester Council and Manchester District Council) are alike in having put a considerable investment of resource and effort into widening local recreational and cultural opportunities.

13. The former have established a good working relationship with the Royal Shakespeare Company, whose annual visit to the Theatre Royal, Newcastle, to the Gulbenkian Studio in the University of Newcastle and to a community circuit is, in my view, an exemplary use of professional skill and of public money, whether from the local authorities or the touring budget of the Arts Council.

4. Authorities in the North West have established a relationship with the Royal Opera House which is one of mutual respect but is also marked by a growing conviction on both sides that to take the Royal Opera Company to the Palace Theatre, Manchester, regularly is not a viable proposition in terms of the burden it imposes on the resources of the ROH, local authorities or the Arts Council.

15. Equally, there is the conviction that the opportunity cost of the Manchester visit is very high and that better use could be made of the money involved perhaps to build up Opera North, as the opera company for Northern England.

16. I draw attention to the view of the question of Royal Opera Company touring expressed by the GMC and the City of Manchester, whose openmindedness is to be applauded. Their view coincides with that of my colleagues and me that regular touring by the ROC is intolerably expensive and that if the object is to increase regional provision the money could be better spent on the regional companies. Efforts to build up strong regional centres of the performing arts, with a combination of resident companies and visiting national and other companies, seem to have made good headway and to be wholly admirable. They are excellent objects for regional business sponsorship, but the Association for Business Sponsorship of the Arts is more hopeful about this in Scotland than in England and Wales (see Annex 2 of this covering report).

17. Some regret was expressed to me about restrictions to the pattern of regional activity by national companies. For their part, however, the Tyne & Wear County Council are well content with the RSC's Newcastle visit, whose duration (six to seven weeks) they think just right, and do not regard their area as a strong claimant for small-scale touring. As the RSC's "6-point" pattern of activity is now well established, I would think it a pity to disturb it, and the pattern of touring by the Royal Ballet and SWRB is similarly conditioned by practice and, in the case of the RB, by limitation to the number of theatres which can take it.

THE MULTIPLIER EFFECT

18. The RST's importance to the economy of Warwickshire and the West Midlands more generally is dealt with in Section 6 of the RSC Report, Part 4.

19. The RST provides some 250 jobs in Stratford. It is high among the reasons why tourists and others visit the town. The theatre attracted an estimated 458,000 visitors in 1982. Many of these spent in local shops, restaurants, hotels etc. The RST itself buys goods and services locally.

20. The economic significance of the RSC's annual visit to the North East is dealt with in Section 3 of the RSC Report and its Annex 3.

21. The importance of the RSC to the success of the Barbican Centre has already been touched on (in Chapter 3 of this covering report).

22. A common sense interpretation is that the effect on the tourist trade and on the local economy more generally of closing down the RST Stratford would be very severe and that recovery would take several years. Naturally, ceasing the RST's visit to Newcastle is in a different order of things but it would hurt the region's prospects of attracting inward investment and deprive the local economy of a number of modest but nonetheless important contributions. Ceasing the RSC's presence in the Barbican would undoubtedly be a severe blow to the Centre in its infant years.

23. The multiplier effect of the Covent Garden companies was not discussed with any local authority. Common sense again suggests, however, that similar effects of those noted above would follow from job losses among the ROH's 1000 staff and from depleting the multiplier action of its presence in London and its touring work.

ANNEX 1

VAT AND THE ENTERTAINMENT INDUSTRY

Scope of VAT: Note by HM Customs and Excise

1. VAT is a tax on consumer spending. It is chargeable by businesses on their supplies (either as part of the price or as a separate charge) and paid over quarterly to Customs & Excise. Businesses can deduct the VAT charged to them by their suppliers from what they pay over so they themselves are not taxed - their accounting is in VAT - exclusive terms.

2. VAT is chargeable at 15% on all supplies except for items which are specifically zero-rated (taxed at 0%) or exempt (no tax chargeable but non-deductible on related purchases, so the business making exempt supplies is treated like a private consumer or an organisation which is not in business). Very broadly, zero-rating is reserved for essential items figuring largely in family budgets eg food, house prices, fuel and power, passenger fares, children's clothing, while exemption mainly applies to "intangibles" such as financial services, insurance, rents and betting and gaming.

The entertainment industry

3. Virtually all forms of entertainment are subject to VAT except radio and TV. There are two main arguments against VAT. First theatre and music promoters have pressed for live performances (at least) to be zero rated. It is the consumer who pays. The effect of zero-rating **if passed on in ticket prices** would be to reduce prices by about 13% and might consequently increase sales to the benefit of the industry.

4. In other EEC Member States five countries have a reduced rate of VAT for the arts and entertainment generally; France has a reduced rate for the arts only; and in some countries, notably Germany, certain state-subsidised bodies are exempt. Such an exemption is enshrined in the EEC Sixth Directive on VAT, albeit it in imprecise and qualified terms. However, the Directive also contains a specific provision which permits Member States not to implement this exemption for the time being, so that it is effectively optional. It would require a unanimous vote of the Council of Ministers to remove Member States' right to continue to tax the arts.

5. Second, subsidised arts organisations argue that it is absurd for government to hand out grants with one hand and take money away in taxation with the other.

6. The Select Committee on Education, Science and the Arts recommended in a report in the 1981/82 session that "cultural services which are in the public interest" should be exempted from VAT by 1985 and, in the meantime, should be subject to a reduced rate.

The case against VAT relief

7. The Government considered the Select Committee's recommendations, but in its published reply it rejected them, as it considered that the objective of sustaining the varied and high standards of cultural activities in the United Kingdom could be more efficiently secured by means of direct assistance in the form of grants than by the introduction of a VAT relief. A major consideration was also that VAT is an important revenue-raising tax on consumption which depends for its success on a

broad base and a relatively low rate. Existing reliefs are in the main limited to essential items of significant and continuing expenditure in the budgets of ordinary families. Even so only about 50% of consumer expenditure is taxed, the proportion increasing slightly with income. Many interest groups argue cases for relief, and singling out a discretionary item of expenditure such as entertainment would not be justifiable when many areas of essential expenditure, and nearly all forms of discretionary expenditure are subject to the tax. Since the tax was introduced ten years ago, successive Governments have resisted efforts to reduce VAT liability, knowing that to give way in one area would only make it harder to defend the rest.

8. To define an area for VAT relief in the entertainment sector would be very difficult. Such criteria as "the public interest" might not stand up long against the test of tax litigation. It could be argued that singling out the subsidised sector would be to give to them that have. Outside this sector value judgements cannot be avoided. If theatre why not cinema? If 'serious' music why not pop concerts? If art exhibitions, why not admissions to stately homes and gardens? If all these, why not football matches and other spectator sports enjoyed by the less well-off as well as the middle classes?

9. There are, however, such distinctions in other Member States. There may be long-standing precedents for special treatment of the arts, or a general acceptance that tax systems operate fairly arbitrarily.

10. The cost of VAT relief depends on where the line is drawn. For the theatre alone zero-rating would cost about £25 million, for the field recommended by the Select Committee around £100 million (1981-82 figures). However, the introduction of a new zero-rating for the entertainment industry would be contrary to the terms of the EC Sixth Directive.

11. In its reply to the Select Committee's Report, the Government rejected the claim that it is illogical to subsidise bodies while subjecting them to VAT. This could lead to the conclusion that VAT relief should be restricted to these bodies which receive a subsidy, which would be seen by other cultural bodies as highly discriminatory. In any case, a system of grants is a more efficient way of helping the arts than a relief from VAT, since a VAT relief would apply assistance thinly across the board irrespective of how deserving a body was of support, whereas grant assistance can be directed where the effect is most beneficial. In addition, the stimulus to ticket sales produced by lower prices would only be as effective in economic terms as direct subsidy if the negative price elasticity of tickets was around unity - quite a high figure considering that a change in the public's spending on entertainment involves a change in patterns of leisure activity. It might well be the case that the problems being experienced by, for example, West End theatres has more to do with the effects of the recession on discretionary spending than with ticket prices.

ANNEX 2

BUSINESS SPONSORSHIP OF THE ARTS

1. This section is based on a discussion with Mr Luke Rittner, then Director of the Association for Business Sponsorship of the Arts (ABSA) in London on 24 May 1983 and on the ABSA's evidence to the Select Committee on Education, Science and the Arts on 1 April 1981 (Minutes of Evidence, Volume II). It also takes account of other discussions, for example with Mr A E Frost, CBE, Finance Director of Marks & Spencer plc, a member of the Arts Council; Miss Jane Jacomb-Hood, sponsorship officer of the RSC; and Sir Francis Sandilands, Commercial Union Assurance Company, a Director of the ROH.

General

2. The ABSA announced on 27 May 1983 the results of its first quantitative survey of corporate arts sponsorship in the UK. These showed that, whereas in 1976 corporate sponsorship had amounted to no more than £0.7 million, "sponsorship is now accepted as the norm" (Mr Rittner):

- (1) A sample of 63 ABSA members was as spending £7.2 million.
- (2) Further statistical analysis showed a minimum level of £12.5 million being spent by business on the arts in 1982. This is well above what has until now been considered the approximate level of sponsorship, namely an estimated £7-8 million.
- (3) The survey also pointed to a maximum possible level of £14.5 million.

3. The ABSA is pleased with these results, but hopes that it will in future be able to bring more medium and small companies into sponsorship. For their part, performing arts companies, especially the small ones, have greatly improved their efforts to attract sponsors during the period of the ABSA's operation (Mr Rittner); those companies are now so concerned about the need to build up funding that they realise they must encourage every reasonable source. There is still some way to go in achieving this, especially among performers, some of whom have philosophical objections to the involvement of money other than box office revenue or public subsidies. But the success of such companies as the New York City Ballet in attracting sponsors shows what can be done with the help of performers.

ROH and RSC and self-help

4. It appeared from the ABSA evidence to the Select Committee that neither the ROH nor the RSC needed the ABSA, although they came to it for advice, and that they were "self-supporting in the way of asking for contributions" (Evidence, pages 285 and 286). Mr Rittner confirmed that, having people engaged full-time on sponsorship, the ROH and RSC did not need the ABSA, which in any case dealt with actual or potential sponsors, rather than with performing companies. Otherwise:

- (1) Perhaps because the **ROH** had sought to expand sponsorship, potential sponsors tended to the view that Covent Garden had all the private money it needed. The general ROH attitude was described to me as being somewhat unfortunate here; not all sponsors like being given the impression that they were lucky to be associated with Covent Garden; this was debilitating and made the Friends' job of attracting new sponsorship a hard one. The ROH also had the problem that its high social prestige was not necessarily a

positive factor in attracting sponsorship. The Proms, supported by Midland Bank, represented the sort of thing that firms might wish to put big money into, ie funding accessibility to the less well-off. Some firms were now worried about being too closely identified with an organisation which was so overtly exclusive. The ROH could help itself by means of various forms of "out-reach", for example lunch-time workshops or small concerts; the orchestra playing in poorer parts of London; and some of the performances or concerts being in the parks (on the New York Central Park pattern, see Section 11, Annex 1).

(2) The RSC had put much effort into attracting sponsorship but had yet to be rewarded with substantial success.

(3) The problem for both companies in considering the future prospects for sponsorship was that the money they needed, especially the ROH, was large; that big money was not to be had easily; and that each had yet to consolidate a reservoir of sponsors to succeed one another in giving. This problem needed an up-to-date approach; the success of Glyndebourne, which had a queue of sponsors, shows that it is not insoluble.

(4) Both companies were probably asking reasonable sums of sponsors, but what any company actually got rarely had anything to do with what it needed.

The good sense of developing continuing relationships with a particular sponsors in preference to single, once-for-all donations

5. Industrial and business organisations receive applications from a multiplicity of potential clients and may choose to sponsor a variety of clients in the broad fields of art and culture; charitable work; recreation and sport, although sport is now getting an expensive form of sponsorship. Many firms wish to show themselves even-handed in their dealings with applicants and may choose not to enter into an extended relationship with clients, so that they can fund a succession of different bodies.

6. There is therefore safety in numbers and it is sensible for the ROH and RSC as potential clients to spread their net as wide as they can. It is also sensible to go for the sponsorship of both particular productions and of such functions or services as education.

7. The attractions of opera, music and ballet to the potential sponsor of the arts are greater than those of the theatre and the visual arts. One important reason for this is purely timing. As the programme for opera is known so far ahead, it is possible to get a sponsor for a production to be staged in 1986 now, whereas the RSC's programme would not be settled that far ahead.

The likelihood that business sponsors would sponsor either contemporary British opera or experimental work in opera, ballet or theatre

8. Sponsors are very cautious about investing shareholders' money in new ventures or things out of the ordinary. The RSC was unable to find a sponsor for NICHOLAS NICKLEBY and has had a lot of trouble attracting business sponsorship for this year's small-scale tour. The problem is that a sponsor knows roughly what he is paying for in respect of an established opera; with the theatre it is much less easy to predict what he will find himself associated with.

ax-relief

9. The ABSA informed the Select Committee in 1981 that the tax laws seemed to provide enough incentive to sponsors and that taxation relief for companies was pretty adequate (Evidence Volume II, pages 279 and 281).

10. A payment in sponsorship of the arts may qualify for tax relief in one of the four ways set out below.

a. Covenanted payments

11. Many performing and other arts companies are established as charities. In such cases:

(1) An annual payment **by a company** under an irrevocable covenant or disposition, covering more than three years, is deductible in calculating total profits for the purposes of Corporation Tax. The company makes the covenanted payment under deduction of Income Tax, but the charity claims repayment of the tax deducted from the Board of Inland Revenue.

(2) A similar payment **by an individual** qualifies for income tax relief at the basic rate. The relief is effectively obtained by the tax payer deducting tax at the basic rate and keeping it when he makes the payment. Income tax relief at the higher rates, and for the investment income surcharge, is allowed to individuals in respect of charitable covenants subject to a ceiling relief on payments of £3,000 pa. (In order to pass on this relief to the charities themselves, covenantors need to increase their net giving since tax continues to be deducted at the basic rate only from the annual payments.)

b. Business expenses

12. To qualify for relief in calculating tax on business profits, a sponsorship payment must be of a **revenue** nature and be incurred wholly and exclusively for the purpose of the trade. This means that:

(1) **Capital** payments are ruled out. No deduction is allowable for any lump sum donation towards the building or modernisation of a theatre or the purchase of equipment.

(2) The **business purpose** must be the sole purpose for which the payment is made. Expenditures are not admissible if they are made for a dual purpose, eg promoting the donor's business and promoting a charitable for benevolent object - but the expenditure does not cease to be deductible if, incidentally, it benefits such another party as a charitable body despite its sole object being business promotion.

c. Capital Transfer Tax

13. Gifts may qualify for certain exemptions from the charge to CTT on gratuitous transfers of property by individuals and close companies:

(1) The first £3,000 of gifts by an individual in any one tax year is exempt as are gifts made by an individual to any one person if, in all, they do not exceed £250 in any one year.

(2) Outright gifts to charity are exempt, whatever the value, if made more than a year before the donor's death; otherwise they are exempt up to a cumulative total of £0.2 million for each donor.

(3) There is an unlimited exemption for gifts or bequests to certain national institutions concerned with the preservation of the national heritage (eg the British Museum or the National Trust) or to certain other bodies, such as universities and local authorities.

d. Capital Gains Tax

14. A gift of chargeable assets to a charity, or to the national heritage or other bodies referred to in paragraph 13(3) above is not charged to CGT but is treated as giving rise to neither gain nor loss.

15. The ABSA does not regard the corporate tax laws as unreasonable or as preventing companies from giving, but the blocking of capital donations (paragraph 12(1) above) is regrettable. A comparison is often made with the tax rules of the UK and the USA. In fact, corporate tax laws are similar. Whereas charitable giving earns substantial relief in the USA, it is restricted to £3,000 in the UK (paragraph 13(1) above) and it is highly desirable that the threshold for relief should be raised well above that limit.

Sponsorship and the development of territorial and local identity

16. I discussed with Mr Rittner the question raised with the Select Committee (Evidence Volume II, pages 289 and 293), namely how sponsorship is developing in Scotland and Wales and in the provinces of England and whether it was likely that, on present evidence, say, Scottish Opera and Ballet, WNO, Opera North and the Royal Exchange Theatre, Manchester, among others, would attract and keep a sizeable territorial, regional or local sponsorship.

17. Mr Rittner replied that the only evidence of such a development was in Scotland, where sponsorship had developed strongly, having increased by 30% since 1981-82. Scotland had a very strong sense of national identity and of pride and it was fortunate that Glasgow, the home of Scottish Opera, was also the headquarters of several banks and insurance companies. The same sort of national loyalty might develop in Wales, but seemed less probable in the English regions.

C Priestley

ANNEX 3

GREATER LONDON COUNCIL

1. This is based on an informal discussion with Mr L E Peterken, Controller of Operational Services, on 7 June 1983.
2. The relevant policy of the GLC is to assist in the funding of two of the "big four", namely the National Theatre and the English National Opera. These institutions attract a grant from the GLC of £725,000 and £975,000 respectively in the current financial year. The GLC may wish to consider at some future time the balance between the funding it wishes to make available to the two national companies on the one hand and to "community" and other local theatre groups on the other; for the present, however, the policy is to fund the NT and ENO at much the same level as in 1982. There is no intention to contribute to the funding of either the RSC at the Barbican or the three companies at Covent Garden.
3. The GLC is not averse, however, from assisting with the work of "out-reach" by any of the four companies which are the subject of this scrutiny. It has in the past promoted performances by the ballet companies in its public parks and would be very willing to do so again in future. The GLC is committed to increasing public accessibility to the arts as witnessed by, for example, the way in which it has opened up the non-auditorium spaces in the Royal Festival Hall to the public. It would therefore be interested in discussing with the companies further measures of "out-reach", whether on a large or a small scale, which would promote public interest in and accessibility to the art forms represented by each.

The GLC as Licensing Authority

4. The GLC is the Licensing Authority in respect of the Barbican Theatre. The Royal Opera House, Covent Garden, is not licensed by the Council as, by virtue of Letters Patent, it is exempt under the provisions of Schedule 12 to the London Government Act 1963.

The use of the Barbican Theatre for public entertainments is subject, therefore, to the Council's technical requirements and rules of management.

So far as safety and related regulations are concerned, the arrangements are satisfactory. The Barbican is a modern building and the Council monitored it 'in the build' right the way through.

C Priestley

ANNEX 4

CITY OF CARDIFF

1. This section is based upon an exchange of letters with the Chief Executive of the City of Cardiff, Mr H T Crippin, embodying the views of the General Administrator of the New Theatre, Cardiff, Mr Peter Lea.
2. The City finds it difficult to make many specific comments about either the **Royal Opera House** or the **Royal Shakespeare Company** as neither has visited Cardiff since 1980. There is no doubt about the excellence of either although this is only to be expected, with such large amounts of funding. If grass roots evidence is anything to go by, there always seems to be some evidence to support an element of luxury existing in these Companies that is not possible in provincial theatres which are continually striving to cut corners to save on subsidy.
3. Asked to enlarge on this point, the City responded by saying that there is no doubting the quality of productions from both companies and that it is foolish to suggest that a certain level of expenditure is unnecessary. However, the standards set are never likely to be matched by other companies appearing at the New Theatre, as their budgets are always so much smaller. Where a suggestion of "luxury" arises is very often in the large number of staff carried on tours and in some cases the very expensive properties and scenery used. It may be that these elements are justified, but the General Administrator is of the opinion that it should be considered of extreme importance that a close watch should be kept on any waste of expenditure.
4. The second main point raised on behalf of the City is the question why the **Royal Shakespeare Company** for many years toured in any major way only to Newcastle and thus deprived other areas of the United Kingdom of its excellent product. The City asked whether it would not be fairer to spread touring around the county on a four year cycle or at least give other areas some opportunity to present the RSC at other times during the year. Another possibility is that if a particular production in the RSC's repertoire is a great success, some provincial theatre managements might join together to formulate a tour and assist with the financial requirements to set it up.
5. It would also help places like Cardiff if **Sadler's Wells Royal Ballet** had a more definite touring arrangement, ie they only visit the same theatres one in a three year cycle, so that all again share something from the large amount of funding made available to it.
6. These points have been made "on many previous occasions" in the past respectively to the RSC and to the ACGB.

C. Priestley

ANNEX 5

CITY OF PLYMOUTH

1. This is based on and closely follows a letter from the Chief Executive and Town Clerk, Mr A Forbes Watson, dated 12 May 1983.

Value of scrutiny

2. The City's officers agree that the Companies concerned, as national companies and representing "centres of excellence", should be scrutinised from time to time. Although their costs are not strictly the concern of any particular local authority, it is necessary to keep such companies under review.

Does the country need national companies?

3. The basic question is not so much whether the companies should be subsidised but whether, as a nation, the United Kingdom should have such national companies as the ROH and the RSC.

4. The City's officers answer in the affirmative. Nationally, there are many diverse policies like employment, environment, transport, housing and leisure together with the cultural and arts policies and programme. Each contributes to the basic fabric of society. Once this is accepted, the overriding importance of the ROH and RSC in and to the field of arts must be accepted.

Should such companies be subsidised at all?

5. If the companies are not subsidised, the product will either be priced out of many people's range or move towards an eventual demise. In certain foreign countries, particularly those in the Eastern Block, substantial subsidies are payable to comparable organisations. And there is perhaps very little difference between the subsidy given to the ROH and RSC by the nation and to the Theatre Royal, Plymouth, by the City Council. This highlights the point that, although much subsidy and support goes into the national companies, subsidy is equally important for the role of local authorities; there is also some interdependence between the national companies and provincial theatres, for example, the City regards the Theatre Royal as a venue and focal point for the arts from which the national companies can draw and through which they can consolidate their touring work.

Avoidance of deficit financing

6. The City could never be too enthusiastic with deficit financing being accepted as a matter of practice because it becomes far too easy for companies, particularly in the artistic field, to rely upon this arrangement. It believes that if some system of specifically targeted funding could be evolved, and further discipline applied in the arts field, companies and related bodies would find it easier to work and plan within targeted resources.

7. Local authorities are under stringent constraints from central Government as to the amount of money that they can allocate from their local resources towards funding visits by the national companies. As there appears to be no immediate prospect of contributions in general being raised, it might be desirable for central Government to consider further discipline being applied on the basis of target funding or, having made certain assumptions on that basis, accepting a higher level of funding to such companies from its own resources.

Level of funding for national companies

8. With regard to the funding of the ROH and RSC, etc the City could not specify a figure, but believes that there must be a balance between artistic quality, objectives and touring policy on the one hand and the cost of meeting these objectives on the other. It would be interesting to establish the effect of a 10 - 15% variation upwards and downwards in funding on the quality of product produced. The City also thinks it important to bear in mind that the national companies are largely paid for by the taxpayer who should have the opportunity to see them, not just the London public.

Reconciliation of artistic planning with annual budgeting

9. The City accepts that reconciling artistic planning with annual budgeting is difficult, but it is something that local Government has become accustomed to and is having to apply even tighter. It is not beyond the realms of possibility for the Arts Council and the national companies to work out some broad resource parameters, so that such companies over a three to four year period can submit plans and stick to the available resources.

C Priestley