

Submission to the National Assembly for Wales Culture, Welsh Language and Communications Committee **Arts and Business Cymru**

1. Arts & Business Cymru (A&BC) is a well-regarded broker of relationships between arts and business organisations. A&BC has operated as an independent charity in Wales since 2011. Its activities were originally part of a UK membership organisation established in 1988, with a head office in London. The creation of the stand-alone organisation in Wales followed the ending of Arts Council England funding.
2. From 2011, A&BC's activities were funded through the Arts Council of Wales using Welsh Government funding. £50,000 was ring-fenced from within the Government's funding to the Arts Council, with a further £90,000 of Government funding routed through the Arts Council. In addition, the Arts Council has provided further support on a project basis through the Arts Council's Lottery-funded programmes.
3. Over the past three years, A&BC has received £430,000 of funding through the Arts Council.
4. In 2014/15 the Welsh Government agreed a two-year commitment of funding to A&BC provided under a joint arrangement between the Arts Division of the Welsh Government and the Department for Education and Skills (DfES). The Welsh Government told A&BC at that time that public sector funding pressures were requiring Government to reassess funding commitments. The DfES indicated that A&BC's activities were no longer a priority for support. This funding would therefore end at the conclusion of the two-year funding term.
5. The Welsh Government asked the Arts Council to assist A&BC in developing a different business model – one that would enable it to be less dependent on public subsidy.
6. An Arts Council business review completed in March 2015 captured the challenge but also the opportunity:
“[Arts & Business Cymru] has carried out an extensive range of programmes, schemes and initiatives – including new and expanding activity. However, the future funding of the organisation is, as ever, in a vulnerable position, especially looking beyond 2015/16.

The challenge to diversity income is one shared across the arts in Wales. We [the Arts Council] ask that arts organisations find ways to become less reliant on the public purse. Although they face the same stark realities as other organisations, the services that A&B Cymru offer have never been so relevant. Opportunity may come from the harsh realities.”

7. Reductions in Welsh Government funding have required all arts organisations – including the Arts Council – to become more financially resilient. This requirement has been emphasised in Welsh Government Remit Letters.

The current 2015/16 Remit Letter to the Arts Council from the Cabinet Secretary for Economy and Infrastructure contains an explicit statement of the Government’s position:

“The Welsh Government fully supports the need to preserve a stable core of public funding for the arts, even in times of economic austerity... reducing organisations’ dependency on public funding has to be a sensible and pragmatic response to current public funding pressures...

... I would expect to see the Arts Council provide, either itself or through appropriately tendered contracts with expert providers, advice and assistance covering a range of topics. These would include governance, skills analysis, business planning, fundraising, income generation, exploitation of intellectual property, maximising tax reliefs, internal audit, etc. Some of the organisations you fund could do significantly more to grow their commercial revenue. I would like you to challenge those organisations to up their game.”

8. We had already made it clear to A&BC that investment beyond the period of the two-year funding agreement could not be guaranteed.

Back in December 2015 we wrote to the A&BC Chair explaining the position:

“You’ll remember from previous conversations that we’ve both had with Welsh Government colleagues that we weren’t anticipating that the funding settlement announced last week [the Welsh Government annual budget announcement] would contain any specific financial provision for Arts & Business Cymru (A&B). This assumption has now been confirmed. This means that any future funding for A&B’s activities will need to be sought under a different arrangement....

...the business/service-related nature of the activities means that they will have to be competitively procured... we’ll invite interested parties to submit tenders as part of a public procurement process for one or more area of work. We hope, naturally, that A&B will see itself as one of those ‘interested’ parties.”

9. In spite of the loss of Government funding it was, in our view, important to try and help A&BC find a way of continuing some of its activities. On two occasions we provided financial assistance to enable A&BC to explore different ways of working. The first was in summer 2015. We agreed a tender specification with A&BC, and independent consultants Cultivate were appointed following a public procurement process.

10. Cultivate reported in October 2015. The report was informed by a survey of members of A&BC as well as those who were not. The Cultivate report identified many positives:
- “It was generally felt that it would be a significant loss to the arts sector if A&B Cymru did not exist... Overall from the research there was strong support from both the arts and business members for A&B Cymru and the critical role it plays in bridging these two sectors and bringing them together.”

Cultivate was less enthusiastic about some aspects of A&BC’s work, encouraging the organisation to develop new, innovative programmes of work that were distinctive and not duplicated elsewhere.

Cultivate also offered observations about the basis of the membership model:

“The issue for many organisations that adopt the membership model is that they are drawn into delivery mode, generating activity to demonstrate the value of the membership fees. This is often seen in terms of “packages” or different levels of membership with varying benefits. One could argue that if what is being offered is a “one-off” and clearly valued by those accessing it then the cost of should reflect the value irrelevant of whether or not one has paid a membership...”

11. Cultivate concluded:

“The issue for A&B Cymru, if it were to have a more strategic role, is how could it be afforded. If it were to focus on the areas which its members say is most relevant to their needs, i.e. brokerage, introduction, networking and developing a generation of new fundraisers, how could it do this without continuing the financial model that it currently has i.e. a mix of membership, public funding, trusts and foundations, and private sponsorship and donation? The answer has to lie in what it believes is the value of each of its programmes, their return on investment and their impact in achieving their mission, aims and objectives.”

12. In our view, the Cultivate report was fair and reasonable. A&BC did not.

13. Cultivate recommended that the Arts Council should provide one-off funding for a period of transition. This would ‘buy time’ and help A&BC to execute the necessary change. We agreed to provide £30,000 of transitional funding in March 2016 as a ‘stepping stone’ towards a new more sustainable future.

14. In addition, we provided a further grant of £25,000, also in March 2016, in response to A&BC’s request to commission its own consultants. A&BC appointed consultants MetaValue. We understand that this work has been progressing well, although we have been told that the company is likely to incur a higher than expected deficit at the year end. We have not received final information on the outcome of the MetaValue work.

15. As indicated above, the Arts Council launched a public procurement process in 2016 for the development of the first phase of a business transformation programme for the arts organisations it core funds, called “Resilience” (see **Appendix 1** for a description). A&BC did not submit a tender. A&BC did submit a bid to offer project-based consultancy services associated with the “Resilience” programme, but that bid was not successful. We met with A&BC and provided feedback on their bid. A&BC submitted a new bid for a second round of procurement and were successful.
16. A public procurement process is currently underway for the next phase of the “Resilience” programme. We have also issued a Prior Information Notice (PIN) for a wider programme of more innovative business development services. We would hope that these might be of interest to A&BC.
17. Finally, we have heard it suggested that we have withdrawn funding from A&BC. This is not correct. We understand that A&BC is anticipating accruing a deficit of c.£70,000 by the year end, and that there is an expectation that we should cover this. This is not how we work.
18. The Arts Council does not withdraw funding once it has been agreed unless there is clear evidence of fraud, poor performance or a failure to deliver the agreed programme of activity. We currently have one ‘open’ grant to A&BC (for the MetaValue commission). 20% of the grant remains to be paid on receipt of a final report from A&BC.
19. A&BC has known for some time that it must develop a different, more sustainable business model. And it has been aware for over two years that the previous Welsh Government grant funding arrangements would end. We believe that A&BC makes an important contribution to arts and business in Wales. We’ve told A&BC that we’d like to see this continue, but this cannot be at any cost.
20. We set out the need for change, and we told A&BC that through 2016/17 and 2017/18 we would be publishing tender specifications for a range of business development services. In the interests of quality, and value for money, we explained that these would be publicly procured on a competitive basis. Our advice to A&BC has been explicit and consistent. We have done what we said we would.

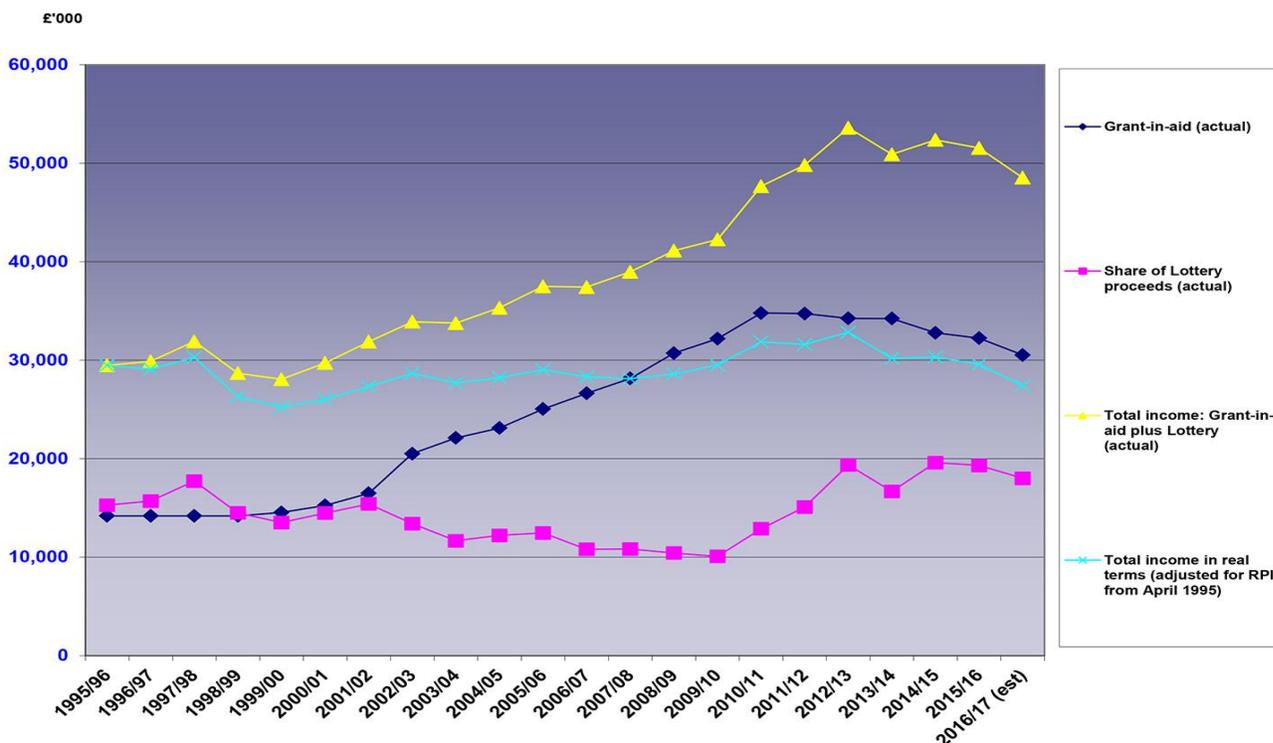
Appendix 1

The funding context

The pressure on public funding continues to affect opportunities for people to enjoy and take part in the arts.

The Welsh Government has announced a welcome increase in Arts Council funding for next year (+3.5%). This important reversal of funding is an important statement of commitment following an extended period of significant ‘real terms’ reductions

From 2000 there was more than a decade of sustained public and Lottery investment in our cultural life. However, the five years of funding cuts that followed have meant that the growth in Welsh Government funding in the 1990s and 2000s has been eroded. Indeed, combined grant-in-aid and Lottery funding – adjusted for inflation – is actually less than it was 21 years ago.



The squeeze on public funding is being exacerbated by lower than anticipated income from the National Lottery.

Our modelling of National Lottery ticket sales suggests that our income this year could be between 11 and 16% short of what the DCMS anticipated that we might expect to receive. This equates to a potential loss of income of around £2m. This more than cancels out the increased funding that we'll receive from the Welsh Government in 2017/18.

The public has raised £35bn for Good Causes since the start of the National Lottery. As the Arts Council of Wales, we have invested our share in over **11,621** projects in Wales, to a value of **£261m**. Other National Lottery distributing colleagues (Sport Wales, Heritage Lottery Fund and Big Lottery) have similarly impressive results to show.

But declining ticket sales for Camelot's main National Lottery game, the aggressive stance of competitor Lotteries (such as the Postcode and Health Lotteries) and the growth of online betting on Lottery results (Lottoland) are having a very significant negative impact.

National Lottery Good Cause funding is widely regarded as a vital and secure source of funding for culture, sport and civil society, particularly for smaller organisations who in this financial climate can find themselves vulnerable. Continuing reductions will seriously affect the capacity of many hundreds of third sector organisations who provide important services that benefit the public across Wales.

The Arts Council has sought to protect front-line investment into direct arts activity.

In response to funding pressures we've reviewed our business model and reduced our running costs. This has been a sustained campaign which has cut costs by around 17% since 2009/10. In 2015/16, our running costs were 7.3% of our total expenditure. We're currently working through a further series of cost-saving measures. Once complete, we'll have reduced our staff numbers by around 25% over the past five years.

If the arts in Wales are to continue to thrive, they'll need a strong, entrepreneurial leadership.

This means building a sector that is imaginative, innovative and able to capitalise on its public investment. The best organisations do this, but we're determined to bring all of our key organisations up to the standard of the best.

A key part of our strategy has been the recent launch of a new "Resilience" programme for our Arts Portfolio Wales (those significant arts organisations that receive annual arts funding). There are two aspects to the programme – the provision of expert diagnostic advice, and capital investment (if justified) to enable change and capacity building. This programme has the potential to be far-reaching and transformational. It challenges organisations to be better – in the quality of their work, the depth of their engagement and the durability of their financial stability.

Local authorities are also struggling to maintain their support for the arts.

The partnership between the Arts Council of Wales and Local Government provides the foundation of the arts in Wales. Between us, we have the potential to touch the lives of everyone in Wales. Local authorities bring to the table their local knowledge, broad range of responsibilities, and their citizen focused delivery. The Arts Council brings specialist expertise and a national and international perspective on arts practice and development. Together, we provide funding and investment that funds creative activity. It is a powerful combination.

However, funding reductions in local authority funding to the arts continued during 2015/16 – we estimate around a 13% reduction on the previous year. In some cases local authorities are simply reducing, or cutting, activity – others are taking more radical action, typically devolving their arts services and facilities to independent trusts or commercial operators.

Faced with diminishing resources, local government's future cultural purpose is increasingly shifting towards sustaining a strategic context rather than to directly running an arts team or an events programme. This means that authorities are trying to promote their cultural ambitions by providing a framework for collaboration and co-operation in which a range of other partners can help to achieve outcomes collectively.

Even under the current economic austerity, local authorities still control important cultural levers in terms of asset ownership (land and buildings) and statutory planning. Our challenge – at least in the short-term – is to work with local government to enable the creative use of public assets for social purposes in ways that don't drive up already hard-pressed revenue budgets. The Well-being of Future Generations Act, with its requirement to promote culture, is helping us in that task.

Appendix 2

About the Arts Council of Wales

The Arts Council of Wales was established by Royal Charter in March 1994. We're a registered charity whose trustees are the appointed Council Members. We are the country's official funding and development organisation for the arts.

Our principal sponsor is the Welsh Government. We also distribute funding from the National Lottery. We currently receive Welsh Government funding of £30.5m and expect to receive around £16m of National Lottery funding.

We work to make the arts central to the life and well-being of the nation.

Reflecting the priorities of the Welsh Government, we support and promote the important role that the arts play in Wales. We also help to show how the arts are able to make a real contribution to the enactment of the wider Government policy, including economic renewal, participation, the reduction of Child Poverty, Arts and Education and sustainable development.

We work to foster an environment in which the arts are able to flourish – an environment which:

- identifies and nurtures creative talent, wherever it's found in Wales, to its full potential
- encourages active participation
- supports and celebrates imagination, innovation and ambition
- nurtures creativity through the medium of Welsh and English
- enables artists to develop a professional career in Wales, and organisations to exploit new markets for their work
- inspires young people to develop their creative potential
- embraces equality and diversity
- finds new places and ways for people to participate in the arts
- develops the creative traditions of Wales and reinterprets them with contemporary relevance
- is international in outlook
- recognises the fundamental importance of sustainability

We provide a range of professional services:

- **we support and develop high quality arts activity** – we invest public funding, provided by the taxpayer, creating opportunities for people to enjoy and take part in the arts
- **we distribute Lottery funds** – through applications to our Lottery funding programmes we're able to invest in projects that develop new arts activity, supporting individuals, communities and organisations. Each year we receive around 1,500 applications
- **we provide expert advice about the arts** – through our Council, staff and National Advisers we have the largest concentration of specialist arts expertise in Wales
- **we share information** – we're the national centre of a network of information and intelligence about the arts in Wales. We also have strong international links in the UK and beyond
- **we raise the profile of the arts in Wales** – we're the national voice for the arts in Wales, making sure that people are aware of the quality, value and importance of the country's artists and arts organisations
- **we generate more money for the arts economy** – we manage initiatives such as "Collectorplan" (our scheme to encourage people to buy art); we secure European funding to grow the arts in Wales; and we host international events, opening up new markets for Welsh artists. We're also a partner with the Welsh Government delivering "Creative Learning through the arts", transforming creative education in Wales' schools
- **we influence planners and decision-makers** – the arts take place in many different settings. They can have a real impact on the quality of people's lives, and the places in which they live and work. The arts are frequently at the heart of initiatives for economic and social regeneration. Our job is to ensure that the contribution that the arts make to our ever-day lives is recognised, valued and celebrated
- **we develop international opportunities in the arts** – we develop partnerships with cultural organisations such as the British Council, we promote internationally the contemporary culture of Wales, and we encourage international exchange and collaboration between artists and arts organisations
- **we promote small-scale performances in local communities** – our "Night Out" scheme encourages local communities to promote high quality arts activity in their own area
- **we help a wider diversity of people to enjoy the arts** – for example "Hynt", our popular ticket access scheme, is enabling more disabled to attend performances in our key venues