



Review of the governance of the Arts Council of England

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1 Summary of recommendations

1. The National Council should be reduced in size and it should meet roughly once a month.
2. The number of members is a matter for the Chair's preference, but I recommend 12.
3. The investment committee and the policy and strategy committee should be abolished and their functions assumed by National Council.
4. Regional chairs should continue to be members of National Council.
5. The Chair needs to consider the balance of skills and knowledge needed on the national and regional councils.
6. The new Chair should review the existing membership of National Council and ask people to step down if they do not fit the required membership and then recruit as necessary.
7. All members of National Council should receive modest payment as at English Heritage (also a charity), to reflect the workload, to increase the ability to attract practitioners of the arts and to facilitate management of the Board by the Chair.
8. The Chair should review with the CEO how finance reports into the new structure.
9. Regional councils should remain but be reduced in number from nine to five in line with the executive restructuring. They could also be renamed area councils. The effectiveness of a single northern area should be kept under review.
10. Area councils should review their own effectiveness annually (as should National Council).
11. Area councils should be given feedback about National Council discussions, particularly where their views are rejected.
12. Their terms of reference should be amended to make clear that the decisions of area councils during the National portfolio organisation process will be subject to review and possible change by National Council in the light of national criteria.
13. The Arts Council should have a stronger voice with full involvement in a formal process in who councils nominate to area councils, including that in London.
14. The Mayor's right to appoint to the London council should not be extended to other areas.
15. A national forum for relations with local authorities is unlikely to add value.
16. The Arts Council is right to be pursuing discussions with the Charity Commission about a relaxation of restrictions designed to prevent conflicts of interest. These should be for the Chair and Council to manage.

David Norgrove
October 2012

Scope

1. I was asked in May 2012 to review the governance of the Arts Council of England. My terms of reference are attached as Annex A.
2. The three main areas I was asked to consider were:
 - the size and the knowledge and expertise needed on the Arts Council's non-executive board (National Council)
 - the role of the Arts Council's regional councils, whether they should be retained, and if not, how the Arts Council can ensure that local intelligence and opinion inform its strategy and key funding decisions
 - how any changes recommended should be introduced, including advice on consequential amendments to the Arts Council's Royal Charter
3. I was also asked to advise on:
 - how best to handle possible conflicts of interest faced by members of National Council and regional councils
 - whether and what remuneration or payments should be made to members
4. I was asked to report by the end of October.
5. I would like to record my thanks to all those who gave so much time to helping my work in these past months. Everyone, without exception, was passionate about wanting the best for the arts and the Arts Council. My particular thanks go to Liz Forgan, Chair of the Council and to Ruth Alaile and Eleni-Anna Klein, who produced quantities of papers and numbers quickly and thoughtfully.
6. A list of the people and organisations I have met or spoken to is at Annex B.

Background: reasons for this review

7. The immediate impetus for this review is a major reduction in administration costs. The Arts Council's Grant in Aid funding is being cut by 29.6 per cent over the period 2012-2015, and it is required to reduce its Grant in Aid administrative expenditure by half, from £24 million to £12 million. The Arts Council also administers arts funding from the National Lottery, and has money allocated for administration of grants to museums and

libraries. These are not being cut, so the actual reduction in total administrative costs will be £12 million out of some £44 million, an amount equal to some 150 posts out of the current total of some 560 posts.

8. My terms of reference urge that a key objective of this review is to make a contribution to the Arts Council's administration cost savings by reducing the cost of Arts Council non-executive governance. Below I consider the cost savings that might be made by changes to governance.
9. Administrative costs need to be seen in the context of what the Arts Council is expected to do and the importance of its role. The Arts Council's funding represents on average around a third of the total income of the organisations it supports, as shown in Annex C. Administrative costs represented around 6.4 per cent of the Arts Council's total income in 2011/12 and will be around 5.3 per cent by 2014/2015 after the expected £12 million reduction. I cannot say whether either of these figures represents good value for money, and it has not been my role to scrutinise the Arts Council's efficiency, but there is clearly the risk that the trade-off may be struck in the wrong place: spending on administration can be reduced where fewer organisations are supported and the larger and safer they are. The more, the smaller and the riskier the recipient organisations are, the greater the need for Arts Council scrutiny, support and overhead costs. Large organisations can be as innovative as small ones, but the Arts Council needs to be able to support both small and large organisations. The board of the Arts Council and the Department for Culture, Media and Sport will need to remain alert to this.
10. There are other more qualitative drivers for this review.
11. Government offices for the regions have been abolished. The Arts Council's regions deliberately followed the government regions, so that rationale has now gone. This has provided an opportunity to think afresh about what is right for the Arts Council and the organisations it supports.
12. There are also a range of more personal issues. Some members of the executive feel that too much of their time is taken up in supporting governance activities that do not help the Arts Council or the arts. Some members of regional councils feel unclear about their role and authority, or that where they do have (or think they have) authority they are ignored or overridden. Members of National Council feel that the investment sub-committee has the real power, which is fine if they are members of it. I discuss these

issues in more detail in the following sections after a brief consideration of the background.

Background to the report

13. For a whole range of reasons The Arts Council has attracted controversy for much of its life.
14. Some are to do with the nature of the arts:
 - a diversity that stretches across the broad categories of music, theatre, painting and sculpture, and so on, with no objective means of judging how the balance should be struck between them
 - difficulty and disagreement on what is an art form
 - difficulty and disagreement about what constitutes good art
 - the fact that inevitably and rightly the Arts Council will support activities that sooner or later fail – it has to take risks
15. Some are about conflicting objectives in relation to any art form, in particular the extent to which public money should support excellence. This is opposed to perhaps less professional activities that involve more people, or well established activities compared to fostering those that are just starting.
16. Some are geographic. Most national organisations are in London, which gives them the need and opportunity for greater scale, but this also creates the demand for more subsidy. The result is tension about the scale of spending in London compared to the regions, exacerbated by the fact that the Arts Council's head office is in London. This has led to a governance issue that has given trouble since 1944.
17. Some are economic. Artistic activities tend to live on a financial edge, and perhaps that too is in their nature. Among other things, they tend to be labour intensive so their cost constantly rises compared to many other goods and services. The Arts Council decides the fate of many of its funding recipients: in 2010 it provided a third of the total income of the organisations that it funded. In nearly all cases it decides whether its funding recipients are to grow or shrink, even where the issue is not as severe as whether they can survive or not.

18. Then there is the question of support for the arts for their own sake as opposed to supporting them for their benefits in economic growth or regeneration or to help a particular social group.
19. Finally there are the people. People who make art are passionate about it, and thankfully that is also often the case for people who are interested in it. The issues set out here have usually been discussed at great length, and often in far more colourful terms.
20. The result of this is intense scrutiny of Arts Council decisions and difficulty for the Council in defending them in a way that can be done where there is a straightforward economic rationale, for example. A further result has been fairly frequent changes to the governance structure, particularly in terms of the central and regional balance.
21. However the main implication is the need for the Arts Council to be run by people with real personal credibility. It also needs to have a scale of governance that gives confidence to the artistic community through having people across the country that can represent and explain its decisions.

A brief history of the Arts Council's governance

22. Throughout its life the Arts Council has had a Chairman (now Chair) and a Secretary-General (now known as the CEO), though as in most organisations the balance of power between them has depended on their personalities.
23. The board of the Arts Council, known as the National Council, has had around 20 members throughout its life. A consultancy study in 1993 recommended that it should be reduced to 12, but this was not implemented and the minimum membership is now around 17.
24. The main structural change at the centre has probably been in the use of advisory panels. In the 1940s there were three: for music, drama and art. Others were added later: for literature, and later still for such things as diversity. These could have as many as 28 members, though around 15 – 20 seems to have been more usual. The panels were finally abolished around 10 years ago.

25. I was left with a few impressions about the central governance from having read the two main histories of the Arts Council.
26. The character of the membership of the Council and the panels has changed substantially over the decades. Until perhaps the 1960s they attracted, though in declining numbers, the great names of the different art forms, including Vaughan Williams, Olivier, Gielgud, Ashcroft, Henry Moore, and so on. This has not generally been the case in the past twenty years.
27. Their participation may not have been beneficial. Although without real evidence, my instinct is that they felt their participation would allow them influence over spending on particular projects. The processes for grant giving were no doubt less systematic than they are now. When Sir William Williams, the second Secretary-General, was asked why money was given here rather than there he replied: 'Because we chose not to'.
28. Some may feel that the result is bureaucracy, not passion: spread sheets, not 'biblical cadences'. But in any event it would be unacceptable not to have proper process and transparency.
29. Greater professionalism may have contributed to the change of membership, but it could also be that people felt they did not have enough influence over decisions at any time. There are a number of references to non-executives feeling either that the executives were taking all the decisions, or that the Chairman ignored them. So the dissatisfactions that I discuss later are not new. It may also be relevant that in the first 35 years of its existence the Arts Council almost never dropped a funding recipient.
30. There has been more change in regional structures over the years, with tensions that have never been resolved and may not be resolvable.
31. The Arts Council operated with 12 regional councils during the 1940s and early in the following decade (with costs including those at the centre of 20 per cent of the total budget). These were abolished in the 1950s to be replaced by Regional Arts Associations (RAAs), of which there were also 12 by the mid 1960s. The RAAs were 'fully autonomous, regionally inspired and directed agencies...with nobody in Whitehall knowing best.' The expectation was that the expertise of Arts Council staff would be replaced through the staff of Local Education Authorities. Local authorities certainly had the dominant voice.

32. Most Arts Council money continued to be allocated from the centre whether spent in London or the regions. In the 1960s two thirds of Arts Council grant in aid was spent in the regions, but 90 per cent was direct grants to local activities and only 10 per cent went to RAAs.
33. Problems over the degree of devolution to the regions continued throughout the 60s, 70s and 80s. 'The Glory of the Garden' report of 1984 promised greater devolution of money from the centre, but any devolution was offset by other centralisation, and relationships continued to be strained. The Wilding Report of 1989 described a situation of 'duplication and confusion'. 'Mutual resentment and suspicion are...rife....The fundamental cause of the trouble is a structural relationship in which two sets of people, independently managed, are trying to do the same thing.'
34. Wilding's solution was more devolution. This was not implemented, though the RAAs changed their names to Regional Arts Boards, spending around one sixth of the Arts Council budget.
35. At the turn of the millennium the Regional Arts Boards were brought under the wing of the Arts Council and renamed regional councils, in the face of considerable resistance. The price was that major institutions located in the regions were to be funded by the Regional Arts Boards, though I understand that the relationships with the Council and its powers were left unclear.
36. I discuss below how the regional councils have operated in the past five years, however the difficulty of operating a structure with autonomous regional bodies is clear.
37. The position of clients is also worth recording. The position of smaller clients has not been recorded in anything I have read, but the opposition of larger clients to being sponsored by regional bodies was reported by the Times in 1990:

'Regional committees in the past were characterized by favouritism, artistic interference and log-rolling by party politicians. For all its faults, they say, the Arts Council had an expert staff and understood the need for 'arm's length' handling of artistic freedom...'
38. I have also heard it said that many institutions see funding from London as a kind of kite mark of excellence.

39. I now turn to the current governance structure: how well it works and how it might change.

Central governance

40. A full description of the current governance is in Annex D. But in outline:
- a national council of 17 people including the Chair meets four times a year, plus one away day
 - there are four sub-committees, for performance and audit (five members plus up to three independent members, meeting four times a year), for investment (seven members, six times a year), for policy (five members, four times a year) and remuneration (six members, once a year)
 - nine regional councils with 15-20 members, meeting three times a year with one away day
41. The National Council has the usual roles of a governing body, governance, performance, investment, financial strategy and so on.
42. The performance and audit committee has audit oversight but it is also responsible for monitoring and evaluating performance 'across the breadth' of the Arts Council's business.
43. The investment committee approves or recommends frameworks for major investments and decides on spending above certain thresholds outside of the triennial reviews.
44. The Arts policy committee does what it says on the tin, in effect preparing issues for National Council or substituting for it.
45. The Remuneration committee carries out the usual functions of such a body and I do not discuss it further here.
46. This structure needs to be viewed against the background of the decisions made or endorsed by these non-executive bodies, and their work at and between public spending rounds (also relevant to the role of regional councils discussed below).

47. For the spending review period 2011/12 to 2014/15 the Arts Council expects to receive unrestricted programme Grant in Aid (GIA) of £1.45 billion, restricted programme GIA of £192 million and estimated programme lottery income of just under £1 billion. This gives a total of around £2.6 billion.

As with every spending review period the majority of this total funding (£1.4 billion) has been granted to the regularly funded organisations (arts and museums) in a major application based process that keeps all concerned at full stretch for three to six months near the beginning of the spending review period. The balance is deployed through a range of programmes: Grants for the arts, Capital, Strategic touring, Music hubs etc – throughout the four year period. Some of these programmes such as Capital result in a small number of large grants. In the current spending review the Arts Council expects to deploy £234 million into less than 100 grants, and others such as Grants for the arts in a large number of small grants. In the current spending review period a budget of around £200 million will be deployed into around 16,000 grants.

48. Whilst there will be changes to the total income and the percentage split between unrestricted and restricted GIA and lottery income at each spending review (for example: next time round is it likely that lottery income as a percentage of the total will increase) – the overall volume and process of financial decision making is likely to remain the same.
49. The current Chair instituted the committee structure in part as a response to the size of the full council and its difficulty in covering the agenda in what was then 6 – 7 meetings per year. The price is that the more significant decisions can be made in the committees, particularly the investment committee. I was told that everyone wants to be on that rather than on the other committees. Those who are on it feel the structure works well, although some others are less satisfied. I was also made aware of concerns that the strategy and policy committee adds no real value to discussions that are then repeated in the full council.
50. It must also be questionable whether a meeting can function effectively with 17 members plus executive staff (26 in all on the occasion I attended) and meeting only four times a year. Speaking from experience of another organisation with a similar structure, such a meeting risks giving limited opportunity to develop a conversation and coherence that runs from meeting to meeting, however well it is chaired.

51. The main argument against change in the size of membership is the need for the Arts Council to have a full range of people from different roles and art forms involved, as well as people from local authorities who bring both particular expertise and can then act as advocates for the Arts Council in their constituencies. The number is also increased by the very sensible inclusion of the chairs of the nine regional councils. The pressures have also increased as a result of the new responsibility for museums and libraries.
52. These are considerations to take seriously, but my own view is that a restructuring would strengthen governance. The overwhelming bulk of spending decisions are in practice taken by the executive where possible. For examples, at the time of the last spending round there were over 1300 applications to be considered, which came down to the award of around 600 grants. Non-executives can at best scrutinise only a few of these, acting as a long stop to pick up errors. Their main role has to be to ensure that the right executives are in place and that the best possible processes are followed. In other words, to bring to the organisation the same kinds of attributes as in other similar bodies, public or private. Similar arguments apply to non-financial issues, including maintaining contact with clients, encouraging them, monitoring them and stepping in when things go wrong.
53. I have found no organisations directly comparable to the Arts Council. The Welsh equivalent has 15 members on its National Council, Scotland 11, the Heritage Lottery Fund 15 and the National Trust, Sport England and English Heritage 12. Both Sport England and the National Trust told me that reductions in numbers on their councils had led to better meetings and improved attendance. English Heritage is allowed 17 under the terms of its statute but chooses to stay at the lower number.
54. I recommend that the number of members of National Council should be reduced, and that National Council should in future meet monthly. It should take on the full functions of the investment committee and the policy committee, and those should be abolished. The performance and audit committee should remain with its existing functions.
55. A smaller council would mean greater importance for individual members and increase the attractions of the role.
56. The optimal size of a board is very much for a chair to determine. My recommendation is that National Council should have 12 members including the Chair. The CEO and

deputy would attend ex officio, with others as necessary. Regional chairs should continue to be members. With five of these (see below) the weight of the regions would be maintained or in practice possibly increased.

57. With a smaller board it would clearly be ideal if individuals could bring a range of involvements and expertise. The Arts Council does not currently have a statement of what it is looking for in terms of those attributes nationally or regionally. I recommend that in future the Arts Council should systematically consider the balance of skills and expertise it needs at both national and regional level on its councils and aim to recruit accordingly. With smaller councils there will inevitably be gaps. These can be addressed in a variety of ways ('task and finish' groups for example), but losses in this respect will be outweighed by greater effectiveness.
58. I was asked to recommend the composition. This more or less writes itself, but there are bound to be gaps as noted above. The executives have prepared a possible composition (Annex F), which the new Chair will wish to consider. This does not currently include someone with experience of museums and libraries, which particularly for the former seems a gap that needs to be filled as the Arts Council learns a new area.
59. In regards to the implementation of a smaller council, there is no need to change the Charter. I also believe that to wait for existing members of National Council to retire would be too slow. I recommend that the new Chair considers how members of the existing National Council meet the needs of a new smaller council, and ask those who do not fit the criteria to stand down early. This would not be an unusual practice in other walks of life, and should not be seen as a reflection of individual competence, though no doubt it would be painful for some.
60. My conversations with other organisations confirm that a smaller council that meets more frequently would be more effective. A smaller number of non-executives who are more continuously involved across the work of the organisation should also, as in other organisations, allow them both to contribute more and to feel more highly valued. However the involvement of non-executives is an issue in every organisation with which I have worked. There are no magic answers. Satisfaction depends on the Chair, the executive, and on the willingness of non-executives to put in the time and effort.

61. Finally the point has been made to me that finance may not have its proper role in the new structure, with the finance department not reporting to the CEO but to his Deputy. Finance is critical in any organisation and I recommend that the Chair should consider with the CEO this aspect of the structure.

Regional Councils

62. There are currently nine regional councils meeting four times a year. Their chairs also sit on the National Council.
63. I set out earlier an outline of the history of tensions over regional independence and resentment about the dominance of London (which in practice coincides with scepticism about the size of spending on London operas and orchestras to a substantial extent).
64. The past ten years have probably seen closer integration and tighter control from the centre than at any previous time in the Arts Council's history. Yet since the time of Gerry Robinson's changes to the relationships with the Regional Arts Boards there has probably been less controversy than in earlier decades.
65. This may in part be due to the removal of the problem of two sets of independently managed people. His solution was greater devolution. We have in fact removed it by Arts Council control rather than the opposite.
66. My sense is that this has not led to a move away from spending and focus in the regions. Indeed many people have been complimentary to me about the engagement of the Arts Council executive with artists and organisations in the regions. As someone said in response to the 2011 stakeholder survey: 'One thing this bunch is doing very well is being more aware of the regions, because there's no doubt that the London lobby is enormous.'
67. There still are issues about the relationships between regional councils and the centre, now largely internalised rather than played out in public. In particular some members of regional councils (though not all) feel undervalued, and that their decisions are overridden by the centre, so that in fact they have no decision making power. Others feel their role needs greater clarity. I turn to these questions in a moment.

68. The first issue is whether the Arts Council needs a regional governance structure at all, and if so, what shape it should take.
69. The government's abolition of its own regional structure does not itself negate the need for that of the Arts Council. The Arts Council does not, for example, have its own version of local authorities with elected councillors.
70. The Arts Council has to have executives scattered around the country. It could not possibly function without them. (Ideas of working through major arts institutions in each region would be doomed to fail sooner or later through conflicts of interest and the pressures on people in those institutions.) Without a non-executive regional structure, governance would fall entirely on the National Council, which would inevitably have a very patchy knowledge of the arts scene around the country.
71. I am also influenced by the reaction of the Executive Board when I suggested abolition of the regional councils, which was mostly one of strong reluctance to consider it. Executives pointed to the way in which the regional councils had stopped bad spending decisions and to the value they attached to support from individual council members when there were issues with particular institutions. They said they also valued the work done by individual members outside the meetings.
72. I have also been told about the value of having regional council members advocating for the Arts Council after the triennial spending decisions have been made. The regional councils are also an important way for the Arts Council to connect to the world of local authorities, through local authority members of the councils (often themselves elected councillors), which is particularly useful now that the Arts Council has responsibility for grants to certain museum and libraries.
73. In terms of other organisations, Arts Council Scotland has no regional non-executive structure and Wales is moving towards reducing or abolishing theirs. However the people I spoke to in both places were clear from their experience that England needs such a structure. Sport England has regional champions and the HLF nine regional committees that they have decided to retain after a recent review. The National Trust has six regional advisory boards, reduced from 12 and then nine.
74. I conclude that a regional structure should remain, but the executive structure is to be reduced from nine regions to five hubs or areas. The pressures on the executive are such

that it seems unavoidable that the number of regional councils – perhaps in future to be known as area councils – should also be reduced. I recommend that the nine regional councils should be reduced to five area councils. The financial saving will be small at perhaps £10,000 per year. The main saving will be to an otherwise larger burden on a smaller number of staff.

75. This means that there will be only one area council for the huge and diverse area both sides of the Pennines, incorporating the whole of the north of England. It risks being seen as a product of southern ignorance, and there is already considerable concern about this. The justification needs to be made in terms of the structure of the executive rather than the non-executive, but the functioning of the northern council will need to be kept under review, with a willingness to split it if necessary.
76. I see no need for a change to the number of members or frequency of meetings. (Annex E sets out a possible composition for smaller regional councils, but in view of their substantially consultative nature I do not see this as essential.) See also below for discussion of the appointment of members by local authorities.
77. I turn now to the role of the area councils.
78. Regional councils have broad terms of reference that to a large extent mirror those of the National Council. They have particular roles to advise on plans for major structural change and on the Arts Council's long term strategy. They are also tasked with advising on progress against area plans and with advising on regional trends in relation to Grants for the Arts and other funding decisions made in the region. More specifically for present purposes they: 'are accountable for deciding on grants in their region...below a certain threshold (currently £800,000 per annum) to organisations applying to join the National portfolio', and they make recommendations about grants above that level, in both cases within agreed policy and investment frameworks. The terms of reference say 'regional councils have delegated authority from National Council to take decisions within these terms of reference.'
79. My discussions with regional council members suggest a fair degree of dissatisfaction with their role. Many, though not all, feel the meetings are too often rubber-stamping discussions of long, poorly-focused papers. They also feel their views are too often given only token consideration.

80. If, as I found, the executive value the input of regional council members there is clearly a need for a broader discussion about how the National Council and regional (or area) councils relate their agendas and outcomes. The National Council and executive should also find a mechanism to feed back more openly when the views of area council members are not followed.
81. There should at the same time be more regular – perhaps annual – discussions by area councils about how their council operates, its agendas, papers, decision making etc. This is good practice but particularly useful for councils whose purpose has a substantial consultative element.
82. I recommend that area councils should be given feedback about discussions in National Council, particularly when their views are not accepted. They should review their own performance annually.
83. The councils' role in spending decisions is particularly troublesome. There is general agreement both inside and outside the organisation, endorsed by Baroness Macintosh's review, that the spending decisions of 2010/11 were better handled by the Arts Council than for many years. Regional council members take the same view, but many feel dissatisfied about their own role. They feel that they had insufficient opportunity to review recommendations about individual organisations and that national council in some cases overturned decisions they had made, so in what sense did they have the decision making authority described in their terms of reference?
84. As noted earlier, it is impracticable for non-executives to review hundreds of applications for funding. Non-executives can act only as a back stop (and the executive would say that they did so successfully). However the various roles need greater clarity. I would also note that lower courts have decision-making authority but can be overruled if certain criteria are satisfied. In the case of area councils it seems to me entirely reasonable that National Council may overturn their decisions if it feels that the regional decision would compromise national strategy. The need for a national perspective is the more important as more arts companies tour and as people travel further to attend arts events.
85. Building on the process adopted in 2010, the order of events next time could be:
 - area councils discuss and feed into strategy for their areas and nationally ahead of the spending decisions. It may make sense to bring all the area councils together at this stage

- they comment and help shape a first cut of the spending decisions for their regions
- these feed into a first review at national level
- areas consider the decisions relating to their areas and propose any further changes
- National Council endorses those decisions but may overrule them if not consistent with national strategy

86. The relationships between area councils and National Council are bound to be delicate from time to time. Some tension is healthy. The need is for National Council to have clear criteria if an area decision is to be overruled and then for it to give a full explanation. I recommend that the terms of reference be amended to make it clear that decisions by area councils (ie on applications below £800,000) will be subject to review by National Council in the light of national criteria.
87. I do not see a need for other changes in the terms of reference. The issue is not what area councils do in principle, but what they are asked to do in practice, and the need there is for the executive to invest the time to reflect the value they say they place on the work of regional councils.
88. Success also depends on the relationship between the area chair and the area director (or whoever will be the equivalent in the new structure). This should be close, and as the National Trust described it to me in their own structure, much like that between a Chair and a CEO.

London

89. London is a special case in this structure. The Mayor appoints the chair of its regional council and four members. London councils appoint four other members.
90. These arrangements for London have the potential for real conflict between the Mayor and the regional council on the one hand, and the National Council on the other: the focus of the first could be mainly on London itself, whereas the National Council is likely to give greater weight to the wider and national roles of so much of what goes on in the capital city.
91. In practice the Mayor has involved the Chair of the Arts Council in the appointment process for his appointments, though the final decisions are his. This involvement is

clearly important. I recommend that the same process should be used for the members appointed by London councils, where the Arts Council should have the ability to influence who is appointed (as also proposed for other area councils, see below).

92. National Council can overrule the decisions of the London regional council in the same way as it can those of other regional councils, which in principle provides protection for national priorities. (This will be made clearer in the revised terms of reference discussed earlier.)
93. The arrangements seem to be working and I do not recommend any other changes.
94. The London arrangements are thus far unique and I recommend that they should remain so. With more elected Mayors there is pressure to extend them to other cities. London is different in the sense that the boundaries of the Mayor's responsibilities and those of the regional council are the same. This will not be true elsewhere and indeed the Arts Council areas will in future mostly contain a number of large towns and cities, substantially undermining the case for extension of the London model. It is also worth keeping in mind the very difficult and often damaging history of conflict when decision-making has been too decentralised. Area councils will need to include suitable people from the major conurbations, no doubt including elected councillors, and this should be enough.

Relations with local authorities

95. Local authorities currently provide some 13 per cent of the income of the clients regularly funded by the Arts Council, compared to the 32 per cent provided by the Arts Council. Though local authority funding of the arts is likely to decline, they will remain important funders of regularly funded organisations and other activities. They also hold essential knowledge about local arts organisations and people, particularly, as noted earlier, in the light of the transfer to the Arts Council of grants to certain museums and libraries.
96. Local authorities nominate six people to each regional council, with eight in the South East and four in London, making 54 in total. This is a valuable set of connections. A number of councillors have told me of their close links with staff, and were complimentary about the way that the Arts Council collaborates with their local

authorities. Others said the links can be sporadic and that consultation about changes to funding can be token and at short notice.

97. Arguably with declining local authority spending on the arts, local authorities do not need to be represented on area councils. I do not follow that, and would hope that their participation would at least help to maintain their interest. Local authorities can help or hinder arts organisations in ways other than through the making of grants. Depending on the need for balance in terms of skills and backgrounds, it may or may not be necessary to reduce the number of local authority appointees.
98. Practices on appointment of local authority members vary around the country, with some involving the Arts Council and some not. I recommend that, as recommended for London, there should be a formal process for the appointment of local authority representatives with full Arts Council England involvement.
99. I was asked to consider whether the Arts Council's relationships with local councils could be managed through a national forum. The issues with local councils are necessarily largely local, and in my view a national forum for local issues would be an oxymoron. I recommend against it.
100. Task groups to look at particular issues in an area or region could clearly play a useful role, and with fewer Arts Council staff to maintain regular contacts they may well have a larger part to play.
101. The executive (Annex E) have recommended that the National Council should include a representative from the Local Government Association (LGA). The character of the person is more important than the fact that they would come from the LGA, and I do not know whether the LGA has effective mechanisms for collecting information about arts issues and then feeding back to members. I doubt it as the arts are low down most local authority priorities now, but that would need testing.
102. There is no consistency in local authority policies and support for the arts, and this is likely to continue for the foreseeable future. The Arts Council still needs strong local authority input nationally and regionally for obvious reasons, but at both national and regional level getting the right people to sit on councils will continue to depend on local knowledge, contacts and word of mouth.

Payments to non-executives

103. The Chair is paid, as are the chairs of the regional councils, who may claim £6,400 per year. Other non-executives are paid their expenses.
104. The chairs of regional councils are presumably paid to recognise their greater burden of chairing plus attending national council. The amount is substantially less than non-executives receive in some other Non-Departmental Public Bodies (NDPBs), which, though less than it was, can be at least double the current payment and is certainly greater than the nothing that other Arts Council non-executives receive.
105. The merit of not paying people is that their involvement then comes purely from their commitment, and some current non-executives felt this to be an important strength. The advantages of making some payment are potentially to broaden the pool of people who may then be able to contemplate taking on the role, particularly practising artists. It also means that the Chair can hold non-executives to account for their contribution more easily, with, for example, the annual appraisals that are good practice.
106. I recommend that members of area councils should not be paid, bearing in mind that their commitment is only to four meetings a year. However, I recommend that all the members of National Council should be paid at the same rate as area chairs, with a small addition for chairs of committees. This would reflect the arrangements usual for most arms' length bodies, and indeed the boards of government departments. I was told that English Heritage, also a charity, operates in this way.

Conflicts of interest

107. The Arts Council is currently restricted by its charter and by the Charity Commission in terms of its ability to make grants to people who are connected to members of Council and in the proportion of council members who can receive benefits. This has caused difficulty, for example in relation to practising artists who are or might want to become council members. The Arts Council is seeking to loosen these restrictions.
108. The Chair and Council do not need these external restraints to make them aware of issues around conflicts of interest and I support their efforts to have them changed.

Implementation and finance

109. I have proposed that the move to a smaller National Council should be made by the new Chair as soon as he feels comfortable to do that.
110. Other recommendations can be implemented immediately with modest effort.
111. Changes to the Royal Charter may be needed as a result of discussions with the Charity Commission and if all members of National Council are to be paid.
112. Financial implications are minimal, with some very small reduction from fewer regional councils and national committees partly offset by more meetings of National Council. There would be a net cost of around £13,000 (if all chose to accept payment, not the case at present) from paying all members of National Council, with five more people receiving payment offset by four fewer chairs of regional councils.

2 Annex A

Arts Council England Governance review

Terms of reference

1. The purpose of this review is to consider and advise on appropriate governance arrangements for the Arts Council which continue to ensure effective visible leadership and accountability for the Arts Council's work, while reducing its costs. The review is expected to make recommendations on:
 - the knowledge and expertise needed on, and the size of, the Arts Council's non-executive board (National Council)
 - the role of the Arts Council's regional councils, whether they should be retained, and if not, how the Arts Council can ensure that local intelligence and opinion inform its strategy and key funding decisions
 - how any changes recommended should be introduced, including advice on consequential amendments to the Arts Council's Royal Charter

Background and context

2. The Arts Council is the national funding and development agency for the arts in England. It was created by Royal Charter in 1946 to:
 - develop and improve knowledge, understanding and practice of the arts
 - increase accessibility of the arts to the public
 - provide advice to government on promoting the arts
3. In 1994, the Arts Council of Great Britain was divided into the Arts Councils of England, Northern Ireland, Wales and Scotland. Arts Council England was then further restructured in 2002/3, when it merged with the regional arts boards. In 2011 it took on some of the Museum, Libraries and Archive Council's responsibilities for museums and libraries.
4. It is governed by a National Council of up to 17 members. It also has nine regional councils, each one with at least 15 members. The chairs of the regional councils also sit on the National Council.

5. It allocates around £500 million of public money to arts and culture organisations each year.

Key issues

6. This section provides additional information on some of the issues to be considered by the review. However the items listed here are not to be treated as an exhaustive list. Other issues may emerge during the course of the inquiry.

Reduce costs

7. A key driver for this review is the need to reduce the Arts Council's administration costs. In October 2010 the Government announced that the Arts Council's funding would be cut by 29.6 per cent over the spending review period 2012-2015. This includes a £12 million (50 per cent) cut in Grant in Aid (GiA) administrative expenditure. In the light of this the Arts Council has embarked on a fundamental review of its operating model, including its governance arrangements. A key objective of this review is to make a contribution to the Arts Council's administration cost savings by reducing the cost of the Arts Council's non-executive governance.

Regional councils

8. National Council is keen to maintain the valuable connection with artists, other local cultural organisations, local government and other local public services that is currently provided by its regional councils. However, the Arts Council's nine regional councils are configured around the old government offices for the regions which have now been abolished. The proposed new operating model recommends that the Arts Council's nine regional offices should be replaced by five hubs. If this proposal is adopted it will call into question the current number of regional councils. A key issue for the Arts Council to consider is whether regional councils or some other form of area forum should be retained to maintain the connection with local partners, and if so, how they should be configured. The review will make recommendations on the number, remit and composition of regional or area forums and how they should link into the Arts Council's National Council.

9. The nine regional councils have a predominantly advisory role. They monitor trends and developments in the region and contribute to the development of the Arts Council's strategy and policies. They act as advocates for the arts and culture in the region. They are also responsible for making some funding decisions such as in the Arts Council's triennial review of its National portfolio organisations (NPOs), guided by a national framework. The national framework helps to ensure a consistency of approach: avoiding a postcode lottery for artists and arts organisations. It also enables the Chief Executive to discharge his duties as the Accounting Officer. However there is concern that the current arrangement unnecessarily confuses and complicates decision-making. One of the issues identified in a review of the Arts Council's last NPO process conducted by Baroness McIntosh was a lack of clarity about the roles and remit of national and regional councils when major decisions have to be taken. She noted that 'The fact that regional councils can make decisions confers legitimacy on Arts Council England's national strategy, which is vital, but a great deal of time and energy is required to sustain such a diffuse structure.'¹ We would like this review to make detailed recommendations on the purpose and role of the regional or area forums.

10. There are additional considerations in London. It has a directly elected Mayor with responsibilities for the development and delivery of a cultural strategy for London and for promoting arts and culture. The Mayor is responsible for appointing the Chair of the London regional council and four of its members. The London regional council is, in part, the formal forum for the Arts Council's partnership with the Mayor of London and this has worked well because the geographical boundaries of the Mayor and the regional council are the same. The Mayor also has a London Cultural Strategy Group, whose role is to review the delivery of the Cultural Strategy and the Arts Council has, to date, always had a place on that group. The review is asked to pay attention to the need for a formal mechanism to support the Arts Council's engagement with the Mayor of London in considering the configuration, remit and composition of regional or area forums.

11. The review should also look at and make recommendations on how any regional councils or area forums should operate. The current regional councils are standing committees of between 15 and 20 members. Membership is a mix of local authority nominees and openly recruited members who sit on a regional council for up to two, three year terms. They are chaired by a member of National Council and they meet three

¹ *Review of Arts Council England Investment Process 2010/11*, Baroness McIntosh (July 2011) p8

to four times a year. The review is asked to consider whether this method of operating is the best way of maintaining the live connection with local partners and to keep in touch with what is happening in localities, or whether there is a more cost-effective way of achieving this. One issue to consider is whether local authority nominees should continue to sit on regional or area forums, and if so, by what process should they be selected. It has been suggested that the Arts Council's relationship with local authorities in England could be managed through a national forum. Another option this review may wish to explore is a switch to short-term 'task and finish' groups, instead of standing or permanent regional or area forums, which would enable the Arts Council to establish links with a larger number of people and could help ensure that it was connecting to the right people on the right issues at the right time.

National Council

12. There are currently 16 places on the board excluding the Chair.² Nine members of the National Council are also regional council chairs. Some of the six other members represent art forms, but most of them are London-based. Because of its size, four smaller standing committees have been established to undertake certain functions of National Council, with the whole council only meeting three to five times a year. This frequency of meetings can make it difficult for National Council members both individually and as a group to keep up to date with the breadth of the Arts Council's work. To address this, the review is asked to consider options for reducing the size of National Council, which would then enable it to meet more frequently.
13. The Arts Council has absorbed a number of new functions recently. In addition to its well-established responsibilities for the arts in England, it has assumed responsibility for funding regional museums, a role as a development agency for libraries and fund-holder for music education hubs. This wider footprint has meant that it needs to engage in partnership with a wider range of stakeholders. The review is asked to consider how the non-executive board of the Arts Council should reflect this wider cultural footprint.

² There is one vacancy at present.

Other issues

14. The review is also asked to consider the case for revising the provisions in the Arts Council's current Royal Charter, which limit the extent to which the trustees (members of National Council) may receive indirect benefits from the Art Council's work. This is in addition to the rules already in place to prevent trustees from taking part in a discussion or decision where they have a conflict of interest. There is concern that these provisions, which restrict the extent to which trustees or a member of their family may work for an organisation in receipt of Arts Council funds, may discourage practising artists and other candidates with current experience of arts and culture from applying to join the Arts Council's National Council.
15. The review is also asked to look at the question of remuneration or payment of an attendance, or some other form of allowance to members of national and regional councils or area forums for time spent on Arts Council business. At the moment an allowance is available to the chairs, but not other members of national and regional councils. There is concern that the inability to provide some recognition of loss of income while on Arts Council business may discourage practising artists from joining the Arts Council's board or one of its area forums. The review is asked to consider the case for making some form of nominal payment available to other members of national and regional councils or area forums, while bearing in mind that the prime driver for this review is the need to reduce the costs of Arts Council governance.
16. Finally, the review is expected to make recommendations on the timetable for introducing any changes.

Methodology

17. The Arts Council has appointed David Norgrove to lead this review. It is anticipated that the review will involve:
 - discussions with some members of national and regional councils, arts organisations and other external stakeholders like the Mayor of London
 - an analysis of the governance structures of other similar organisations

Timetable

18. David Norgrove is expected to present his recommendations to the Arts Council by 31 October 2012.

Biography of David Norgrove

19. David Norgrove is currently Chairman of Pensions First, the Low Pay Commission and the Amnesty International Charitable Trust. He was the first Chairman of the Pensions Regulator. He has been a trustee and Deputy Chairman of the British Museum. He chaired a review of the Family Justice System in 2010-11. His earlier career included work in HM Treasury, at First National Bank of Chicago, as Private Secretary to the Prime Minister, Mrs Thatcher, and as an Executive Director of Marks and Spencer.

3 Annex B

People consulted in the course of the review

National Council members – Meeting of National Council 29 May 2012

South East Regional Arts Council – Meeting 7 June 2012

Nine members of Arts Council Executive Board – Executive Board meeting 14 June 2012

Session with Regional Council members – East Midlands (10 members attended)

Session with Regional Council members – Dewsbury (six members attended)

Dame Liz Forgan, Chair, Arts Council England

Veronica Wadley and **Moira Sinclair**, Chair, London Regional Arts Council and Executive Director: London respectively

Joe Docherty, Chair, North East Regional Arts Council and member of National council

Anil Ruia and **Peter Philips**, Chair and Member of Performance

(Chair and Member of Performance and Audit Committee and Chairs of Northwest and West Midlands Regional Arts Councils respectively)

Sheila Healy, Chair, South West Regional Arts Council

Clare Pillman and **Paul Kirkman**, Department for Culture, Media and Sport

Councillor Flick Rea, Chair, Local Government Association Culture, Tourism and Sport Programme Board and member of London Regional Arts Council

Munira Mirza, Deputy Mayor, Education and Culture

Alan Davey, Chief Executive, Arts Council England

Althea Efunshile, Chief Operating Officer, Arts Council England

Francis Runacres, Director Investment, Paul Jackson, Assistant Director (Finance)

Councillor Simon Cook, Leader, Bristol City Council

Councillor Roger Begy (Con), Leader, Rutland County Council

Dorothy Thornhill, Elected Mayor, Watford Borough Council

Councillor Hazel Simmons, Leader, Luton Borough Council,

Councillor Mick Henry (Labour), Leader, Gateshead Council

Andrew Dixon, Chief Executive, Creative Scotland

Hilary Milne, Director of Governance, Sports England

Deborah Lamb, Director of National Advice and Information, English Heritage

Sir Laurie Magnus, Deputy Chairman, National Trust

Nick Capaldi, Chief Executive, Arts Council Wales

Robert Bewley, Director of Operations, Heritage Lottery Fund

Baroness Genista McIntosh, author of *After Action Review* of the Arts Council's 2010/2011 Investment review

I also received a number of written comments from members of regional councils.

4

Annex C

Income of arts organisations surveyed by the Arts Council 2010/11

Income	£000s	%
Earned income	573,559	46%
Arts Council England subsidy	396,557	32%
Local authority and other public subsidy	155,616	13%
Contributed income	116,347	9%
Total income	1,242,079	100%

5 Annex D

Current governance

How is the Arts Council governed?

Introduction

1. The Arts Council is the national development agency for the arts in England, distributing public money from the Government and the National Lottery.
2. In 2002, after a period of radical reform, a new governance structure for the Arts Council was established.
3. In October 2011 its remit was extended to museums and libraries. In 2011 it also took on the role of fund-holder for Music education hubs.

National Council and its standing committees

4. National Council is the senior governing body of the organisation. It is established under Royal Charter.
5. National Council comprises 17 members including the Chair. The Chair and members of Council are appointed by the Secretary of State for Culture, Media and Sport under the public appointments process. The Mayor of London has the power to appoint the Chair of the Arts Council England, London, with the Secretary of State for Culture holding the power of veto. The appointments are made in accordance with the Nolan principles.
6. In November 2009, National Council decided to establish three standing committees who would be delegated certain responsibilities. These committees are the:
 - Arts Policy Committee
 - Arts Investment Committee
 - Performance and Audit Committee
7. The terms of reference for these committees are included in this handbook.

Regional councils

8. The Council delegates responsibility for certain matters to nine regional councils, each chaired by a member of National Council.
9. Each regional council has up to 15 members, except the South East regional council which has up to 20. Membership of all regional councils includes representation from local and regional government, and other regional administrative bodies.
10. In addition to the Royal Charter, membership and management of the national and regional councils is regulated by *Council regulations* and the terms of reference for regional councils (for more information see Section 2).

Executive board and Management committee

11. Executive Board is the Arts Council's strategic and executive decision-making body. It is responsible for developing the long-term strategy for the Arts Council and for ensuring delivery of the corporate plan. Executive Board comprises of the Chief Executive, Chief Operating Officer and all Executive Directors.
12. Management Committee is the Arts Council's executive decision-making body. It is a sub-group of Executive Board. It is responsible for overseeing managerial and operational issues delegated by Executive Board, monitoring organisation wide financial performance and management issues, taking an overview of HR issues, the overview of risk management and monitoring the managed funds budget and contingency.
13. Terms of reference for Executive Board and Management Committee are set out in Section 2.

Principles of National Council and regional council membership

14. Membership of the national and regional councils is informed by the following principles:
 - a place for individual artists
 - a balance between men and women
 - a balance between youth and experience
 - a reflection of demographic reality – by ethnicity, disability and gender
15. The person specification for national and regional council members describes the skills and experience needed to fulfil this role (Section 4). In addition, the corporate and individual responsibilities for council members are outlined in the *Code of practice for Council members* (Section 4).

July 2010 [as amended January 2012]

6 Annex E

What skills do we need on national and regional councils?

1. To be effective the non-executive governing body of the Arts Council will need the following range of skills/ expertise and stakeholder representation:

Cultural specialism/ representation	Expertise and experience	Stakeholder representation
<ul style="list-style-type: none"> • music • theatre • dance • visual arts • literature • museums • carnival and festivals 	<ul style="list-style-type: none"> • children and young people • digital • diversity • creative commercial industries • libraries • fund raising and income generation • communications and media • audience development • finance (National Council only) 	<ul style="list-style-type: none"> • individual artist /freelancer • representative of an arts organisation – large/mid-scale • representative of an arts organisation – small/mid-scale • university/FE/schools • local government

2. You have asked us to model how this might play out in a 12 member National Council and regional or area councils with 12 members. An illustration of how this might work for both national and area councils is set out below. But it has been difficult to do this as: (1) we are not starting from scratch; we already have people in posts with particular skills; (2) we might be able to recruit people who are able to cover more than one specialism; and (3) we may be able to cover gaps in the expertise and skills in National Council through our regional councils. In practice what we are probably going to have to do is agree what skills we need and to recruit to that matrix as we go along.
3. It may be difficult to accommodate the range of representation we need to be credible in a 12 member (including the chair) regional council. You will see that a 13 member regional council is modelled below.
4. In addition, you will see from the Executive Board note on how we will manage our relationship with local government in the new operating model, that it is suggested that the Local Government Association should be asked to nominate one of their members to sit on National Council.

National Council

Member	Expertise (minimum)
1. National Chair	Philanthropy and fund raising/ Digital/Creative Media
2. Member and London Chair	The region's arts and culture/ Theatre/ fund-raising
3. Member and South West Chair	The region's arts and culture/ Children and Young people
4. Member and South East Chair	The region's arts and culture/ Finance and Accounts
5. Member and Midlands Chair	The region's arts and culture/ Arts Administrator/ Agent
6. Member and North Chair	The region's arts and culture/ Commercial Creative Industries
7. Member	Carnival /Festivals/Developing Audiences/Diversity
8. Member	Museums
9. Member	Music
10. Member	Visual Arts
11. Member	Dance
12. Member	Libraries/ Literature
	N.B Local Government nominee

Area/Hub/Regional Councils – (13 Members)

Member	Expertise (Minimum)
1. Chair	See above
2. Member	Individual Artist/ Arts Organisation – Carnival /Festivals/Developing Audiences/Diversity
3. Member	Individual Artist/Arts Organisation – Museums
4. Member	Individual Artist/ Arts Organisation – Visual Arts
5. Member	Individual Artist/Arts Organisation – Dance
6. Member	Individual Artist/ Arts Organisation Libraries, Literature
7. Member	Music
8. Member	Local Enterprise Partnerships /Growth and Regeneration
9. Member	Universities/Further Education / Learning and Skills
10. Member	Schools/Children and Young People
11. Member	Local/Regional Government (senior officer/elected members)
12. Member	Local/Regional Government (senior officer/elected members)
13. Member	Local/Regional Government (senior officer/ elected members)

19 July 2012

	National Council	Arts Policy Committee	Arts Investment Committee	Performance and Audit Committee	Remuneration Committee	Regional Councils
How often do they meet?	2011/2 – 3 meetings and one away day	2011/12 – 3 Scheduled to meet four times a year, but one meeting cancelled	2011/12 – 5 Scheduled to meet six times a year but one meeting cancelled	2011/12 – 5 Scheduled to meet 4 times a year, but there was one special meeting	2011/2 – 1	2011/12 – 4 Scheduled to meet three times a year plus one away-day
Number of members	17	5	7	5 members of National Council Up to 3 Independent Members	6	Details to follow on separate sheet
Attendance	July 2011 – 15 out of 17 Dec 2011 – 14 out of 17 Mar 2012 – 15 out of 17 N.B These figures include Andrew Motion, the outgoing Chair of the MLA appointed to the Arts Council as an observer who was unable to make any of the scheduled meetings.	April 2011 2 out of 5 (inquorate) June 2011 4 out of 5 Sept 2011 3 out of 5 February 2011 – meeting cancelled	May 2011 4 out of 7 July 2011 5 out of 7 Sept 2011 6 out of 7 Nov 2011 6 out of 7 Mar 2012 5 out of 7	June 2011 – 4 out of 8 July 2011 – 5 out of 8 (including 1 independent member) October 2011 – 3 out of 8 February 2012 – 7 out of 8 (including 3 independent members) March 2012 – 4 out of 8 (including 2 independent members) N.B there was only one Independent Member in post for most of 2011/2012	2011 – 3 out of 6	Details to follow on separate sheet
How long	Varies. Scheduled to run from 11.00-16.00	Scheduled for 1.00pm-4.00pm	Scheduled for 1.00pm-4.00pm	Scheduled for 1.00pm-4.00pm	Two hours	Details to follow on separate sheet

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ISBN: 978-0-7287-1532-5

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