

# **EDUCATION, CULTURE AND SPORT COMMITTEE**

Wednesday 17 November 1999  
(*Morning*)

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### EDUCATION, CULTURE AND SPORT COMMITTEE 8<sup>th</sup> Meeting

#### CONVENER:

\*Mrs Mary Mulligan (Linlithgow) (Lab)

#### COMMITTEE MEMBERS:

Karen Gillon (Clydesdale) (Lab)

\*Ian Jenkins (Tweeddale, Ettrick and Lauderdale) (LD)

\*Mr Kenneth Macintosh (Eastwood) (Lab)

\*Fiona McLeod (West of Scotland) (SNP)

\*Mr Brian Monteith (Mid Scotland and Fife) (Con)

Cathy Peattie (Falkirk East) (Lab)

\*Michael Russell (South of Scotland) (SNP)

\*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

Nicola Sturgeon (Glasgow) (SNP)

Ian Welsh (Ayr) (Lab)

\*attended

#### WITNESSES:

Graham Berry (Scottish Arts Council)

Peg Beveridge (Scottish Ballet)

Tessa Jackson (Scottish Arts Council)

Nod Knowles (Scottish Arts Council)

Magnus Linklater (Scottish Arts Council)

Ruth Mackenzie (Scottish Opera)

Duncan McGhie (Scottish Ballet/Scottish Opera)

Sandy Orr (Scottish Opera)

Norman Quirk (Scottish Ballet)

David Taylor (Scottish Arts Council)

Adrian Trickey (Scottish Ballet/Scottish Opera)

#### COMMITTEE CLERK:

Gillian Baxendine

#### ASSISTANT CLERK:

Alistair Fleming



## Scottish Parliament

### Education, Culture and Sport Committee

*Wednesday 17 November 1999*

*(Morning)*

[THE CONVENER *opened the meeting at 09:23*]

**The Convener (Mrs Mary Mulligan):** Good morning, everybody. With the committee's permission, we will take the next 10 to 15 minutes in private, so that we can discuss the inquiry and the questioning that might be suitable for this morning's witnesses. Do I have the committee's agreement?

**Members** *indicated agreement.*

09:23

*Meeting continued in private.*

09:44

*Meeting resumed in public.*

### Petition

**The Convener:** Is Brian Monteith able to bring us up to date on the petition?

09:45

**Mr Brian Monteith (Mid Scotland and Fife) (Con):** Certainly. Last Monday I was able to visit the site with Gillian Baxendine, the committee clerk, and Mr Guild. We walked around the site—Mr Guild gave us a guided tour—and we discussed the problems that he felt merited his petition.

Following that, I had discussions with the clerk and decided that the appropriate action is to write to a number of bodies that are interested parties, partly to establish what development plans there are in the area that the schedule of the historic site covers, and partly to try to identify exactly what the schedule covers and who those interested parties are. A great deal of evidence must still be gathered before we can speak to everyone.

We are in the process of sending letters to East of Scotland Water, which is establishing a pumping site on the foreshore; Historic Scotland, which has a great deal of information on the schedule, the layout and those who have an interest; and City of Edinburgh Council, which is the planning authority and has an interest in the planning of the campus site, formerly occupied by

Dunfermline College of Physical Education. We are also writing to the University of Edinburgh to establish the status of the development plans and the preferred bidder, and to the Council for Scottish Archaeology for its information on the importance of the site. Once I have received responses from them, I will have to follow them up. I hope that I will be able to make available at least a draft report before Christmas.

**The Convener:** Thank you. Do members have any questions for Brian?

**Michael Russell (South of Scotland) (SNP):** That work is admirable. I know that there is a lot of interest in the site. I received a fax yesterday from representatives of the Antonine Guard—

**The Convener:** Sorry?

**Michael Russell:** It still exists. It is a society that performs historical re-enactments in Roman uniform. It is excited that somebody is taking the issue of the Roman port at Cramond seriously. Brian will probably get an honorary commission in the Antonine Guard as a result of his work, which is going very well.

**Mr Monteith:** I am already a member of the praetorian guard in the Conservative party.

**Michael Russell:** And in other matters, which we do not want to embarrass you by talking about.

**The Convener:** Thank you for that, Brian. Do you feel that you have sufficient assistance to proceed with that?

**Mr Monteith:** For the moment, yes.

**The Convener:** Good. We look forward to hearing your next report on that issue.

### National Arts Companies (Inquiry)

**The Convener:** Members will have realised that, while Brian was speaking, members of the Scottish Arts Council joined us.

Good morning to you all. I thank you for attending. The committee would like to explore a series of issues with you. I suggest that we give you a brief period—perhaps up to five minutes—to outline any issues that you think should be emphasised. We have the two papers that you sent to us, and we thank you for those. They have raised a number of questions, but there might be issues in them that you would like to expand on.

I ask Magnus Linklater, as the chairman of the Scottish Arts Council, to introduce his team.

**Magnus Linklater (Scottish Arts Council):** Thank you very much. I am the chairman of the Scottish Arts Council. Tessa Jackson, who has been in the job for precisely 37 days—a baptism of

fire—is the director. Nod Knowles is the director of the music committee. Graham Berry is the finance director. David Taylor is the director of the dance committee.

I have been involved with the national companies over many years. I was on the national companies implementation group, under the chairmanship of Neil McIntosh. I emphasise that the national companies are major contributors to Scotland's cultural life, as Sam Galbraith said the other day. The quality of their work is international, in the best sense, in that it goes far beyond Scotland. I believe that that is very important for their artistic excellence.

The national companies are ambassadors for Scotland and work closely with local authorities throughout the country. They are important not only because of the performances they give, but for the tremendous work they do with young people in schools and in communities. That is a hugely important part of their work that is often overlooked. It is also important to the local authorities with which they work.

I have recently been up and down the country with the cultural strategy group. We asked audiences throughout Scotland, "whither Scotland's arts policy?" It has been interesting to hear grass-roots views on the national companies. The response was broadly that people would like to see them more. People welcome the chance to go and see such events as "Opera for all", which works in schools, and "Opera-go-round", in which Scottish Opera gives small-scale performances. People have welcomed those where they have seen them and they would like to see more.

Scottish Opera has ambitious aspirations. The resources that it requires reflect those ambitions. That is a legitimate subject for discussion and I am sure that the committee will want to ask questions about it. In recent years, we have established the national companies committee to discuss all the issues that are raised about the national companies. We have been closely involved with all of them, particularly with Scottish Opera and Scottish Ballet, as they have moved towards a merger. We are committed to the quality of their respective work and we have paid particular attention to their artistic vision and to the companies' access to the audiences that they wish to build.

The qualities of the companies have been taken care of by experienced artistic and administrative teams and highly committed boards. Scottish Opera and Scottish Ballet will now couple their respective strengths under the newly appointed chairman, Duncan McGhie. We look forward to working with him and his staff.

I will hand over to Tessa, who will say a few

more words.

**Tessa Jackson (Scottish Arts Council):** I want to outline the purpose of the two documents—although I hope that their purpose is self-evident. The first document is "Background on the National Companies, November 1999". There are four national companies and they produce extremely good work, but the report does not give much detail regarding the artistic programme. If that does not come up today, it will be up to us to reiterate how strong the programmes are and how important they are to the broad cultural life of Scotland and to the cultural lives of many individuals in the arts world and beyond—to people who might not previously have had the opportunity to engage with music, dance and opera.

The paper attempts to give a general background to the joint working that has occurred in recent years and raises some of the issues that the companies and SAC have faced together. The paper—as you will have noted—includes questions that SAC would ask regarding what constitutes a national company in a new political framework. How do we recognise such companies in this new context? What vision and delivery describes a national company? Should we be looking to other organisations to take on such a role?

We hope that the national cultural strategy will provide an opportunity to address those questions from our side, from the committee's side, from the point of view of the arts sector and—importantly—from the public's point of view. We would like contributions from all parties and we look forward our discussion today. This is a large subject, and in giving it due consideration we have looked at aspiration, actuality, resources, appropriate structure and the positioning of national companies. What does Scotland want and what can best be provided?

The second paper concentrates on the relationship with Scottish Opera and Scottish Ballet. It concentrates more on Scottish Opera, but that does not in any way suggest that our contact with Scottish Ballet is any less or that we value it any less. From previous meetings of the committee, we have detected that there are issues that members want to examine in more detail. I hope that the diary serves its purpose of setting out factually the context and order of events.

The diary charts the past year and a half of a relationship that dates back a long time. It will give some idea of the complexity of events, the amount of contact and the ever changing contextual factors that were being considered by Scottish Opera, Scottish Ballet and the Scottish Arts Council. We regret that there will not be as much discussion of the artistic side—although members

may want to draw that out—but we felt that the diary had to be self-contained.

A good relationship has existed for a long time. The diary acknowledges that it is difficult to operate on tight budgets and that difficult decisions must be made. As a funder, we try to have regular contact with organisations and to support them, but it must be recognised that the organisations must manage themselves. SAC must achieve that fine balance with all the many organisations and projects that it supports.

The diary will give a glimpse of the complex financial detail. It indicates how regularly SAC was informed of how the organisation was doing in terms of cash flow and keeping within agreed budgets. It is evident that the national companies have had many issues to deal with over a relatively short period of time. They have had to consider working together—moving towards a merger—and to examine merger models, the cost of a merger and a change of personnel.

Long-term planning for substantial programmes is difficult. I hope that that comes across in the diary. We see this as an opportunity to examine the process that we have been through, recognise where lessons can be learnt and decide how to move forward successfully, which is what we all want to do. I am sure that I say that not only on behalf of SAC, but on behalf of Scottish Ballet and Scottish Opera, too.

We have identified ways in which SAC can work more closely with organisations in the future on monitoring and long-term planning, while allowing organisations to operate independently—as they are constituted. We have discussed what the three-month report, which has been mentioned, should include. It may include a statement on the status of national companies. Our coming here today will form part of the report, on which we hope to make progress in the coming weeks.

We welcome members' comments on what it would be helpful to include in the report.

**The Convener:** We have until 10:45. That is not a great deal of time, so I ask that questions and answers be kept fairly brief. Magnus Linklater, perhaps you could indicate which member of your team will respond to each question.

10:00

**Mr Kenneth Macintosh (Eastwood) (Lab):** Thank you for coming along. Any discussion of the national companies is usually preceded by the caveat that those companies are expensive to operate and opera is extremely expensive. What the public always want to know is, "Can we afford them?" I realise that that is a very general question.

**Magnus Linklater:** That question is raised and discussed constantly. You have to decide what level of national companies you want, whether an audience exists for them, whether they produce work of the desired artistic quality and whether they have a role to play in Scotland's cultural life.

To us, all the evidence suggests that there is a demand and that the companies make a major contribution, for some of the reasons that I stated earlier. You then have to consider what the companies cost and whether you can afford them. We examine those questions all the time. There is no question but that the national companies take a substantial proportion of our budget; they account for 46 per cent of what we spend on the arts in Scotland. You then have to ask whether that money is well spent. To answer that, you have to look at the work that they do, the audiences that they reach and their artistic contribution—in and outside Scotland. Inevitably, that is a subjective judgment, but we monitor it closely and take soundings.

We talk to local authorities, in particular, about the work of the national companies. I pay tribute to the crucial relationship that has been established between the national companies and local authorities. By and large, we believe that the national companies are well managed and that they do excellent work.

**Mr Macintosh:** You mentioned the fact that the national companies take up a huge proportion of the Arts Council's finances. Has that proportion changed and do you think that you have got it right? In particular, is it right for opera to be the major sponge, if that is the correct word?

**Magnus Linklater:** Do we think that we have got it right—

**Mr Macintosh:** Have you got the balance right? There is an argument—which I do not support—that the national companies are elitist. I do not want to get into the elite versus low-brow culture argument, but do you think that they take up too much of your budget? Do you assess that and has it changed over the years?

**Magnus Linklater:** It has changed, but only at the margins and we keep it under constant review. Whether they take up too much of our budget is almost an impossible question to answer. We think that the budgets are right and that—given the level at which the companies operate—that is the kind of money that has to be invested in them.

I know that different views exist across the country. I resist the suggestion that the companies cater simply for a small—you used the dread word "elitist"—audience. On the contrary, when you see some of the work that they do at the grass roots, that is not a fair judgment. I am very proud of our national companies; I think that they do a

tremendous job for Scotland. The broader question, therefore, is whether we are committed to them. Do we support them at that level, or do we simply reassess their role and the level at which they operate?

**Mr Macintosh:** My final question concerns why opera in particular and the national companies in general take so much of the resources. You said—and I agree—that the process of monitoring the companies is subjective and difficult. Why does opera take up so much of your money—is that based purely on tradition? Is it cost driven, in the sense that if opera were twice as expensive you would support it with twice the budget? Do you apply any criteria other than the inherent costs of the companies themselves?

**Magnus Linklater:** I think that I have talked enough about that. It might be fair to let Tessa pick that up.

**Tessa Jackson:** In the national companies paper we outline how and under what categories we monitor. Monitoring is subjective to a degree, but one has to monitor under declared areas of work, both for the company and for the funder. We have explained how we examine artistic activity, as well as educational and outreach work.

The contact that we have during the year addresses those issues. It does not necessarily give anything as analytical as scoring, but it will give a very clear trace of the work that has been done and the company's own evaluation of that work, as well as that of our assessors who, as is detailed in the paper, consider a company's work and submit reports. The company can see those reports—this is the case for all organisations, not just Scottish Opera or Scottish Ballet—although they will not know the author. That condition is designed to prevent people feeling that they cannot be frank.

We have several ways of finding out what people feel about the quality of work; it is not just the opinion of SAC officers.

**Michael Russell:** Will you, as a new director, reflect on monitoring and financial performance? It might be something that you will treat as a priority if you consider the fact that in 11 of the past 32 years special deficit funding has been required for Scottish Opera. It is not simply a question of the proportion of the Scottish Arts Council budget that goes to national companies; there are regularly occasions on which that money has to be increased. There must be something wrong with the system of monitoring, control and supervision, if in the years 1967, 1968, 1972, 1977, 1982, 1983, 1984, 1992, 1996, 1997 and 1999 special deficit funding was required. The company had a balance sheet that did not show an accumulated deficit in only two of those years, in both of which it

received additional funding. Will you—at least ambitiously—say that you will ensure that that does not happen every second year from now on?

**Tessa Jackson:** It would be ambitious to say that, in the short time that I have been in the organisation, I could have examined the years you mentioned. We take assessment very seriously. Quite separately from what has happened in the past couple of months, the organisation is considering its assessment process to ensure that procedures are up to date.

There is overwhelming proof that procedures are proper and fair to all parties in most of the projects and organisations that SAC monitors. Clearly, given what has happened over the past few months, we need to work closely with Scottish Opera and the merged company to consider our monitoring of long-term planning as well as the actuality month by month. I do not say that that does not happen now, but there are a number of things that we could do, such as looking at long-term plans, and being prepared for meetings by looking at papers well in advance of meetings.

**Michael Russell:** That does not answer my specific question, which was a positive one for the SAC to take on board. Surely, given that list of years, even though the monitoring of all your companies may be effective, the value of that is almost set at nought if the overspend on your biggest company is so great as to require deficit funding of that degree and frequency? Is the SAC concerned about that and is it considering it as a priority issue? Logically, I would have thought that you would have to.

**Tessa Jackson:** Yes.

**Magnus Linklater:** That was precisely the issue that we addressed when we set up the national companies working group under Neil McIntosh. In view of the historical problem, we wanted to try to achieve cost savings and more efficient working arrangements. That led to the question of merger, which may seem now as something that is set. However, in those days it was inconceivable that Scottish Opera and Scottish Ballet could come together.

We have achieved a huge amount of co-operation between the two, and the merger is still on course; despite everything that has happened, it will go ahead. I believe that it will form a stable basis on which the two companies can operate.

**The Convener:** We will come back to questions on the merger.

**Ian Jenkins (Tweeddale, Ettrick and Lauderdale) (LD):** I want to ask about the merger now. In artistic and financial terms, what is the timetable for the merger and where will the savings come from? I have been advised that



some of the savings that have been identified may be nebulous.

**Nod Knowles (Scottish Arts Council):** According to the timetable that has been set, the merger will be in effect by the end of this financial year. The people who have recently taken over the operation of the merger, such as the interim chief executive, are seeking to move it forward as fast as possible.

The savings that were signalled 18 months ago by the national companies co-ordinating group were to come from the merging of administrative and technical back-up staff. There is no doubt that that will lead to a certain amount of cost saving. The figures are still being produced, as a great deal of work remains to finalise the merger. At no time was there any suggestion that savings on artistic costs would be made as a result of the merger, although in future years the joint management of the company and the various artistic directors might discuss an artistic merger. That may or may not result in cost savings—it may result in projects that do not produce cost savings but have greater artistic value. The administrative savings, however, will be realised and remain an important reason for the merger.

**Ian Jenkins:** We will ask the companies about that later. How is the companies' independence protected? There was resistance to the merger in the first place, and I sense that they are like two struggling swimmers clinging together, as in a famous Shakespeare play. They may sink if they cling to each other too tightly, as they have slightly different management and financial cultures. It might not be an easy marriage.

**Nod Knowles:** That is what the management of change is about. Specialists have already been involved—the new chairman, I believe, is an expert in the management of change—to ensure that the companies' cultures come together. That is what happens when any two organisations merge. These companies have far more in common than they have differences. They are performing arts companies with the same basic aims: to put on performances and to serve the Scottish public artistically, with educational work and with all kinds of off-stage projects. I do not believe that the merger is unfeasible. There is a strong possibility that, in time, it will bed down happily.

**Ian Jenkins:** One of the reasons for the merger was to make savings, which have not been figured out yet. The savings will be in the area of administrative and technical back-up.

**Nod Knowles:** There is no doubt that savings are being made by merging certain administrative staffs. Economies of scale are being found.

**Magnus Linklater:** When we first discussed the

merger, the debate centred on preserving the separate characters of the two companies. I think that that has been achieved. Neither company would say that it has lost its individuality. They have separate programmes, which are progressing.

**Mr Monteith:** In the timetable that you produced, the entry for 26 November 1998 states:

"Figures for merged working beginning to be produced."

Are we to believe that you are still working on figures for the merger, or are concrete figures now available?

**Graham Berry (Scottish Arts Council):** Your reference to the figures relates to a series of financial models that began to be produced around that time. They forecast the effect of joining certain aspects of the two companies. That was almost a year ago, and since then forecasts have been refined and things have changed. There were several versions of those early financial models. All I can say at this stage is that I have no doubt that the companies will still be refining them. As we near an event, it becomes easier to forecast the actual costs, income and any savings. The answer to your question is yes; those figures are being worked on all the time, and they change as circumstances become clearer.

10:15

**Mr Monteith:** It seems from your timetable that financial forecasting is a movable feast. On 24 September 1998, the budget deficit for 1998-99 was forecast at £151,000, against a projection of £121,000. It had changed to £136,000 by 11 November 1998, and to £104,000 by January 1999. The figures vary considerably almost every month. Is there a particular reason for that and do you feel that anything could be done to produce a clearer picture of where the figures will end up?

**Graham Berry:** Those varied forecasts are an indication of the relatively close monitoring—mainly by Scottish Opera itself—that was going on, and come from the figures that it passed to us. A new set of management figures was produced every two months that updated the previous set of accounts. I mentioned earlier that as we progress through a financial year the forecasts and spending figures become clearer. More important for performing companies such as Scottish Opera, the box office income becomes clearer.

Variations between forecast box office income and actual income account for most of the variations in the forecast deficit. There is nothing unusual or untoward about that: it shows that there is close monitoring of the position as and when management accounts are produced and presented to us and, presumably, to the board of

Scottish Opera.

**Michael Russell:** You made an important point about financial monitoring. I have worked with you myself and I know how assiduous you are in such matters.

Let me ask you to reflect on this: the Scottish Arts Council information document says, on 11 November 1998, that

"SO's Finance Director will leave at the end of March."

As Brian Monteith mentioned, that year the deficit was comparatively small. On 22 April 1999, the document goes on to say that

"SAC receives 1<sup>st</sup> cash forecast for 1999/00. This indicated a net borrowing requirement at the end of March 2000 of £849k."

Two pages later, on 14 July, we discover that the corrected financial statement

"indicated that the advance required from the SAC remained at £849k but that a bank overdraft of £497k would also be required."

The figures have gone up by roughly 50 per cent, have they not? That was between April and July. On 10 August, less than a month later,

"A further revision indicated that the cash requirement . . . had increased by £200k to the SAC advance of £849k and the Bank £697k."

That is an increase of £200,000 in three weeks. On the following page, a board minute for 17 September has been provided by Scottish Opera; it will be important later in the meeting. That minute notes that the

"accounting policy in respect of . . . new productions would need to be considered in relation to MACBETH."

On 29 September, Scottish Opera's interim chief executive telephoned the Scottish Arts Council to say that there were serious problems and that a meeting was required.

At the bottom of page 10, the section on cash flows for 1999-2000 show that, at 5 October, the forecast balance for 31 March 2000 was minus £3.275 million. We have gone from a situation in April where everything was absolutely fine and there was no need of an overdraft, to a situation at 5 October which forecast a balance of minus £3.275 million. Before I ask you about next year's figures, would you agree that the absence of a finance director was one of the factors affecting that change?

**Magnus Linklater:** I shall make a general point before allowing Graham Berry to answer more detailed questions. The picture that emerges is that there was a problem, but a manageable one. At every point until those later dates, the situation was serious but manageable. Then came a point at which things got out of control. That was when the situation was reported to us and to the Scottish

Executive, and that, of course, is why we are here. That is the general picture that emerges from the monitoring of the figures, but Graham may want to elaborate.

**Graham Berry:** I echo what Magnus Linklater has said. The early phases of the cash flows do not show anything unusual. I mentioned earlier that as a company progresses through the year its cash demands and its forecasts change. The information that we have received reflects that.

That is all that I can say about the cash flows. As Magnus has said, the amount of cash that is needed simply reflects the actual income and expenditure of that period. One must remember that the bulk of the earned income, from box office sales and sponsorship, tends to come later on in the financial year. A lot of the grant income from the Scottish Arts Council tends to be paid up earlier. That may not be completely clear to someone who is studying the figures for the beginning of the year, and we usually expect revisions of the cash flow as we progress through the financial year.

I agree that the cash flow figures show some significant changes, but the overall cash balances and the forecast did not indicate anything untoward. Having said that, we were concerned enough to raise the questions that have been noted.

**Michael Russell:** Let me press that point a little. According to the Scottish Opera board minutes, under the heading "Finance":

"The Period 3 Management Accounts were introduced. The overall situation was favourable in relation to budget."

That is a quotation from a board minute. I assume that those minutes are supplied to your organisation and that you would have a representative present at board meetings in any case.

**Graham Berry:** We do not attend every board meeting, but there is usually a representative at most of them.

**Michael Russell:** We can find out simply by looking at the list of those who attended. Nod Knowles was present. So, on 17 September

"the overall situation was favourable in relation to budget."

Twelve days later, Scottish Opera's interim chief executive telephoned the Scottish Arts Council to say that there were serious problems. Within a week of that, you knew that the problem was a deficit of £3.275 million.

I ask you to reflect on the fact that there is no finance director in post. How was it that, in 12 days, the bottom dropped out of Scottish Opera's financial world? How was that possible in terms of reporting systems?

**Graham Berry:** Scottish Opera was clearly working on the cash flows that it had prepared. All that I can say is that they were obviously incorrect.

**Michael Russell:** Very substantially incorrect.

**Graham Berry:** Indeed.

**Michael Russell:** They were incorrect by something like 400 per cent, which is very worrying.

I have one final question about accounts for next year. You talked about the availability of models. There are plans for Scottish Opera to operate next year on a planning cycle of roughly two years to accommodate contracts. Those plans include 11 productions, the estimated costs of which, as I understand it, have been provided to you. You know what the grant is to be next year, and you must be concerned that, at the moment, a deficit is projected.

**Magnus Linklater:** Yes. As you know, we have been given three months in which to look hard at those figures and projections, in the light of present circumstances. In the course of that, all those questions must be addressed. We are under no illusion that that is a serious operation. We have to come up with rock-solid proposals.

**Michael Russell:** We wish to support the work of the national companies; indeed, to see them expand. That is my position. Our concern is whether Scottish Opera might be planning a deficit of £1.5 million—or that equivalent—next year, in addition to what has happened this year. That would damage matters even more. It is therefore important that the Arts Council is a player in ensuring that confidence is restored.

**Magnus Linklater:** I accept that.

**Mr Monteith:** Mike Russell correctly drew attention to a report that the finance director would be leaving at the end of March. In the timetable, on 22 April, we find the entry:

"Actual draw down of cash departed from cash flow statement and SAC requested a correct version."

Presumably, because you mention it in the timetable, the sum was significant enough for you to notice it. Had you picked up that the cash flow was different from what had been projected?

**Graham Berry:** Yes. We ask the organisations that we support to submit an annual cash flow, which is really a tool to assist me in managing our cash flow and to indicate the actual amounts of grant instalment to be paid each month.

**Mr Monteith:** Is that updated monthly?

**Graham Berry:** Normally, there is no need to update it at all. Smaller organisations, for example, which do not have huge ebbs and flows in their income and expenditure, can often forecast their

income and expenditure fairly accurately over the full 12 months. If there is any variation, it is up to the client organisation to give me a revision and tell me that it needs an additional instalment of grant or a change to the instalments. In the instance that you are referring to, I believe that we had a telephone call saying that they needed some extra cash. When we examined the cash flow, it was obvious that that need had not been anticipated in the figures that we had been given. I simply requested a corrected version that would update the figures to give the actual position. That is part of the normal course of business.

**Mr Monteith:** Given the points that I raised earlier about the fluctuations in the budgeting for the deficit, would you accept that there is a clear need for Scottish Opera to monitor cash flow on a monthly basis?

**Graham Berry:** I am sure that Scottish Opera is managing it much more regularly than that. Our need to monitor the cash flow is less than its, so I am certain that it is monitoring its cash flow much more regularly than monthly.

**Mr Monteith:** I notice that you—not you personally, but the Scottish Arts Council—contacted Scottish Opera by letter, requesting an update and correction of the latest cash flow. I see, unless it appears earlier elsewhere, that that was back in April. According to your timetable, you received a revised cash flow statement on 14 July. Was any information given to you before then?

**Graham Berry:** I cannot recall specifically, but there would probably have been no need for further detail if the later cash payments between those dates remained the same as the figures in the original version. It is just that one of the earlier figures had to be corrected.

**The Convener:** I wish to ask a basic question. Within the report, references are made—I am not sure whether they originate from you or from Scottish Opera—to the fact that, at the beginning of the financial year, Scottish Opera often starts without any reserves, and to the impact that that has. Can you explain how the Scottish Arts Council gives the grant to the opera company and how that is programmed throughout the year?

10:30

**Graham Berry:** We ask each organisation that we support to provide us with a budget for each year and an estimate of its cash flow. The cash-flow statement indicates when the organisation would like to receive instalments of its grant across the 12-month period. Larger organisations, such as Scottish Opera, receive instalments every month; an annual festival might receive two or three payments during the year.

We use those statements to draw down cash from the Scottish Executive. We consider whether the cash-flow statement looks reasonable in terms of what the organisation is asking for. We also consider the profile of the draw-down of cash to see whether it is evenly spread or whether a lot of money is being asked for at a certain point in the year. It is simply a tool to aid us in making the payments. If the demands change, we ask for a revision of that statement.

**The Convener:** Are you saying that the grant would be given on a monthly basis unless a specific request was made for the payment to be brought forward?

**Graham Berry:** Yes.

**Mr Macintosh:** Obviously, Scottish Opera is responsible for running up its deficit. As the body that monitors the accounts, how much responsibility does the Arts Council have? What is wrong with the relationship between Scottish Opera and the Arts Council?

**Magnus Linklater:** I would like to make a general point about that. When the national companies working group, under the chairmanship of Neil McIntosh, examined the operations of all the national companies, it came up with proposals, including merger, to which all the companies signed up. All the companies recognised that they were responsible for managing their own affairs. That was an important part of the deal. Scottish Opera was well managed and we had no doubt that it would be able to deliver on its agreements.

The companies are independent of the Scottish Arts Council but we are responsible for monitoring them. As Graham pointed out, our monitoring procedures are well understood and well laid down. In the light of what has happened, we will spend the next three months re-examining the monitoring process and determining whether it needs to be strengthened.

**Mr Macintosh:** You said that Scottish Opera was well managed when the terms were agreed. Something obviously went wrong with the management at some point.

**Magnus Linklater:** I am not suggesting that at all. I think that it has a good board with a record of good management.

**Mr Macintosh:** Let me get this clear. Scottish Opera's management is responsible for ensuring that the company keeps to its budget. Your responsibility is not to ensure that, but to monitor what Scottish Opera is doing.

**Magnus Linklater:** We are not involved in the management process; we are responsible for monitoring it.

**Mr Macintosh:** I am trying to get to the heart of

the relationship that you have with the national companies, particularly Scottish Opera. Sandy Orr's submission suggests that the Arts Council is involved in the day-to-day management of Scottish Opera. He quotes several examples of that, including his own resignation, which he claims was forced.

**Magnus Linklater:** Who suggested that?

**Mr Macintosh:** Sandy Orr, in his submission to this committee. He suggests that the Arts Council is very hands-on, has replaced boards and, among other things, forced him out of his job.

**Magnus Linklater:** We are not hands-on in that sense. We do not replace boards. That may refer to Scottish Ballet, the history of which is well documented. I do not think that what you say is right. As set out here, we assess and monitor the organisations that we fund. We ask for statements and we attend board meetings.

**Mr Macintosh:** Are you happy that Scottish Opera was a well managed company that took responsibility for its own accounts? The accounts are a disaster area. Whose responsibility is that? I am not necessarily trying to pin the blame on any one person; I just want to get a rough idea. Is anyone taking any responsibility for the accounts? If there is no hands-on management, that is a problem. We are in charge of public money. We must make sure that it is spent wisely. I am trying to work out whether that is the SAC's job or the job of the individual national companies.

**Magnus Linklater:** It is our responsibility to ensure that the money that we invest in all arts organisations is well spent and properly accounted for.

**Michael Russell:** I am intrigued by your description of Scottish Opera as a very well managed company. It is a company that has required emergency funding 11 times in 32 years. It may be an artistically successful company—and well managed in that sense—but it could not be described as well managed in the sense in which that is usually meant. There is a basic problem with the paper that you submitted and with the information that we have received from Sandy Orr. I quote from Sandy Orr's statement. He has not yet made the statement to the committee, but he has provided it in writing. If he does not make the statement when he gives evidence I may be proved wrong. He says:

"The request by SAC for the Chair of SO to step down, amongst other actions, demonstrates the active nature of SAC involvement."

The diary for 25 June on page 8 of the SAC paper says:

"Chairman of SO writes to Chairman of SAC. 'I can appreciate the view that an outside Chairman should be

appointed.”

It is like comparing observations of the Kremlin. The truth lies somewhere between those two sets of words. Either the Scottish Arts Council suggested that Sandy Orr do the honourable thing and top himself in the interests of the company or Sandy is not telling the truth. Which is it?

**Magnus Linklater:** I refer you to the paper from which you have just read, which says:

“I appreciate that you and Peg would wish to stand down once a new Chairman is appointed, but I would urge you to hold back until that happens.”

That was my exact phrasing. Peg Beveridge is chairman of Scottish Ballet.

**Michael Russell:** You did not, therefore, request that he stand down.

**Magnus Linklater:** No.

**Michael Russell:** In that case, I want to ask about good financial management. The Cogo-Fawcett report, which considered some of the issues, described the financial management of Scottish Ballet in less than complimentary terms. The report indicated that too tight financial management had a corrosive effect on the artistic activities of the company. Was that true? Does that perhaps mean that Scottish Opera is not being managed tightly enough?

**Magnus Linklater:** I will let David Taylor answer the question about Scottish Ballet.

**David Taylor (Scottish Arts Council):** That observation was made by a consultant. Scottish Ballet had a good track record of managing its accounts and rarely went into deficit without good reason—for example, the box office not performing up to scratch—but the figure was always manageable. The board often took action to remedy the situation if that was predicted.

**Michael Russell:** The board of Scottish Ballet rightly feel slightly aggrieved that having lived within their means and having run a successful company—although perhaps not an internationally outstanding company—its financial control was described as having a corrosive effect on the artistic freedom of the company. Yet Scottish Opera, which does not live within its means and which has had to be saved from bankruptcy 11 times in 32 years—with 48 hours to go on the most recent occasion—is praised by the chairman of the Scottish Arts Council for being very well managed. There must be a balance in managing the national arts companies somewhere between those two extremes. The balance is not right at the moment.

**Magnus Linklater:** It was not just the opinion of the national companies working group under Neil McIntosh that those companies were well

managed; the group had accountants going over every last figure and interrogating the boards of both companies. At that stage, they concluded that Scottish Opera was an efficiently managed company.

**Michael Russell:** Will the people of Scotland, who know all about the deficits and to whom we are ultimately responsible, agree with that definition?

**Magnus Linklater:** I will not pass judgment on that. We have a serious job ahead of us in addressing this situation and we have to come up with proper answers.

**Michael Russell:** I just want to press this point. A company that has been serially in debt over many years has just received £2.2 million. Could anyone really describe such a company as very well managed? Would not people want to be absolutely certain that companies stuck to their budgets? They would accept that companies can agitate or campaign for more funds, but they want sound financial management so that other budgets are not plundered again and again. Is not that what people want, Magnus?

**Magnus Linklater:** I agree.

**Michael Russell:** Good.

**The Convener:** We have five minutes left. Ken Macintosh will be next, followed by Brian Montieth.

**Mr Macintosh:** In his submission, Sandy Orr suggests:

“It is comparatively easy in the short term for arts companies to play safe and live within their means, but that would not achieve the maximum gearing on public and private investment in these companies”.

That suggests that Scottish Opera is encouraged to live dangerously with the money at its disposal. Have you nourished such an attitude at the company?

**Magnus Linklater:** That would not be a fair way to characterise it.

**Mr Macintosh:** No? Sorry.

**Graham Berry:** All arts companies live on the edge. The company law structure within which arts organisations work is perhaps seriously flawed. They have no access to shared capital, no shareholders to go back to for rights issues or extra money and they are constantly living within very restricted budgets. They also have ambitions that sometimes outstrip the resources available. It is a constant balancing act which arts organisations have to keep up and which we have to monitor.

**Mr Macintosh:** So you do not agree with Sandy Orr that “it is comparatively easy” for an opera company to live within its means.

**Graham Berry:** No, it is not; it is a difficult job. It could be easy for a company with a very limited programme and activity.

**The Convener:** Before I let Brian Monteith in, I want to ask a question. I think that Tessa said that you were still considering the remit of the report that the Scottish Executive has asked for. What might be included in that report?

**Tessa Jackson:** It is very important that we document the lessons that Scottish Opera and the Arts Council have learnt and consider practical, deliverable ways of working in future. There is no point in one party or the other coming up with suggestions that will not be borne out. The Arts Council has examined its assessment process separately. As a result, we have been asking questions not in the light of any particular event, but to ensure that certain conditions are adhered to and that we have papers in advance so that there is something to examine if someone cannot attend a meeting.

The process by which boards sign off agreements of contract—on, for example, the artistic programme or any capital—is well documented. In some cases, commitments are perhaps better documented, so that it is quite clear what commitments have been made and when. The entire board and the Scottish Arts Council would be aware of any commitments. That can be difficult from the artistic direction side, when people are in constant negotiation and discussion, and that is why we need to plan ways of working in the future.

**The Convener:** Brian, the last question is yours.

**Mr Monteith:** I want to refer to paragraph 2.7 on page 3 of your white paper, which, according to page 4 of your pink paper—

**Magnus Linklater:** We do not have pink or white papers.

**Mr Monteith:** I am sorry. I am referring to paragraph 2.7 on the paper headed “National Companies”, and the way in which it relates to the information from 3 July 1998 given in the paper headed “Working Relationship”. Paragraph 2.7 states:

“Shortly afterwards, SAC awarded additional and separate one-off Lottery funding (£795,000) to SO to cover part of its accumulated deficit and some of the cost of restructuring/merging with SB.”

Your 3 July reference breaks that down:

“Formal offer of Advancement funding”—

I understand what that means—

“of £795k to SO comprising of £600k grant, £120k for IT equipment & £75k for specific external advice/consultancies.”

Presumably, those consultancies were in relation

to the advancement funding.

Is the £600,000 of lottery money to go towards paying off a deficit, or is it for a particular project, or consultancy, or some other type of work?

10:45

**Graham Berry:** The advancement programme is a lottery-funded scheme that encourages organisations that wish to go through changes. The main change in this case, of course, was the proposed merger of the technical, financial and other activities of the ballet and the opera. The £600,000 was a straightforward grant. It was not specified as having to go directly towards the deficit or to anything specific; it was just calculated as a sum of money that was needed to ease the process of the merger.

The figure arose from a series of reports. One of the final recommendations from the national companies working party was that Scottish Opera and Scottish Ballet should be considered for the programme, and the council agreed to award the grant. Part of the £600,000 was paid in the previous financial year. There is still an outstanding amount to be paid in the current financial year.

As I think is fairly clear, the £120,000 was to allow the two companies to bring together control systems. As you said, £75,000 was to go towards, for example, legal advice and various other bits of consultancy. The money is from a specific lottery fund that is designed to aid this sort of process of change.

**Michael Russell:** Tessa Jackson spoke about lessons to be learnt for the future. If it were to emerge from those lessons that there had been a complete breakdown in the system of commissioning work—something that Tessa referred to, and that documents that we have refer to—would you regard that as a matter that required, if a staff member had been involved, serious action?

**Tessa Jackson:** This answer is a question back to you. If it were seen that, within the SAC, something had not been appropriately carried out—

**Michael Russell:** If within your organisation, or within client organisations, money had been spent without proper authority, and had resulted in a serious financial deficit, would you regard that as a matter in which you would have to name the individuals and ensure that it was clear who was responsible?

**Tessa Jackson:** We would need to look at the situation, and we would need to have serious discussions with the board and management as to how the situation had arisen and what the factors

behind it were. It would really be for the organisation in which the problem had arisen to deal with it. However, we would indicate where we felt that procedures had not been followed or where we felt that communication had not been appropriately carried out. If the problem were in our own organisation, we would clearly need to consider the way in which we had fulfilled our role.

**Michael Russell:** Would you be inclined, as an open, accessible and public organisation, to make such information public?

**Magnus Linklater:** We initially report to the Scottish Executive. I have no doubt that the whole process will be well scrutinised, possibly by this committee.

**Michael Russell:** We hope so.

**The Convener:** Thank you very much for your answers to our questions. We know that you will be coming back to us at the end of the inquiry, to discuss the issue of the national theatre.

10:50

*Meeting suspended.*

11:00

*On resuming—*

**The Convener:** I welcome members of Scottish Opera and Scottish Ballet. You have had the opportunity to hear our earlier presentation and questioning. I suggest that we employ the same format. I will give you an opportunity to say a few words, if you want to, after which the debate will be opened to committee members to ask you any questions that they may have. Duncan, I am aware that you are going to take the lead. You may invite your colleagues to speak, as you see fit.

**Duncan McGhie (Scottish Ballet/Scottish Opera):** If Tessa Jackson feels that she is the new kid on the block, I am not quite sure what I am, on day 8 of my appointment. I certainly did not expect to appear before such a committee so soon. However, I genuinely welcome the opportunity to attend this meeting. Three or four weeks ago, the Scottish Executive asked me whether I would be willing to undertake the role of chairman of the new joint venture company. After a little consideration, I readily agreed.

I feel strongly about the importance of Scottish Opera and Scottish Ballet. Indeed, the arts in general are a hugely important part of the whole cultural development of society in Scotland and beyond. The national companies are wonderful ambassadors for Scotland. Whether performing at the Theatre Royal, at a local school, or wherever, they have a hugely important role. I welcome the

opportunity of taking Scottish Opera and Scottish Ballet into the next millennium and on to better things.

I could not have lived and worked in Scotland without being aware of the issues that face those organisations. I welcome this inquiry, as I welcome the review that the Scottish Arts Council will undertake over the next three months. We need quickly—and I mean quickly—to learn the important lessons of the past. We can then move on positively. In my business life, it has been my experience that there is a fine balance between allowing the creative spirit to move freely and retaining the right level of management control. My one regret is that I am an accountant. I hope that people will not regard me as an accountant in my present role. I want to work with the teams in both companies, and in the new joint company, to proceed positively.

I want to highlight several issues that, in my early days of involvement with the two companies, I have identified. Quality is important. An organisation that does not strive for the topmost quality will not succeed in the long term. Therefore, I intend to support both organisations in striving to maintain and develop the quality of their delivery to their respective audiences. That is vitally important. Anything that is sub-optimal is not on my agenda. However, that has to be balanced against the constraints that are placed on the organisation. Would that our contribution were double or treble what it is, but that is not the reality. I am very aware that we have to recognise the practicalities of our situation.

Earlier, there was a reference to change management. Over the years, I have worked with many organisations on issues related to that. It is not easy to explain to people what this process is about. I am not talking about boards of directors or senior management, but people at the grass roots: the stage manager, the dancer, the singer, the first violin and so. That is a huge challenge for the organisation, and one that I relish. However, I embark on it with some trepidation, because it is not easy. It is all about communicating confidence in the future, on a sound basis. I am committed to working towards that with this organisation.

I am grateful to colleagues for joining me to answer your questions today. I hope that they are familiar to you. May I introduce Peg Beveridge, chair of Scottish Ballet; Norman Quirk, vice-chair and, at present, managing director of Scottish Ballet; Adrian Trickey, acting chief executive of Scottish Ballet/Scottish Opera; Ruth Mackenzie, with whose role the committee is, I am sure, familiar; and Sandy Orr, lately chair of Scottish Opera. Dr Chris Masters is unable to be present today, as he had a clash of engagements in his diary. However, I had a lengthy meeting with him

on Monday, and he sends his apologies to the committee.

I will be happy to take questions, as will my colleagues. We come to this meeting in the most positive spirit, looking forward to taking Scottish Opera and Scottish Ballet on to even better things in the future.

**The Convener:** Thank you very much. As I have already said, we must be out of this room by 12:30, so I would appreciate it if you could keep your answers concise. We will begin with questions on the merger situation.

**Ian Jenkins:** I hope that nobody at today's meeting feels that there is an atmosphere of philistinism around. I pay tribute to the quality of Scottish Ballet and Scottish Opera. It is in no one's interest to harm that quality, and I accept that companies that do not aim for the best are not good enough to be called national companies of Scotland.

I asked earlier about the timetable for and cost implications of the merger. You may want to comment on that, but more important is how the companies feel about the merger and its detailed workings. For example, I understand that Scottish Ballet has premises in West Princes Street in Glasgow with which it is very happy. It is possible that under a merged organisation it will be told to sell those and go somewhere else that is not as good. That may not save money; instead, Scottish Ballet may end up like me, sharing a lawnmower with the guy next door.

**Duncan McGhie:** I will make a couple of comments before asking Adrian to deal with the detailed point that you raise. It is very understandable that, when two organisations come together, there is a concern about identity. We must recognise that as a real issue and work very hard to ensure that it is foremost in our planning and thinking. These are two organisations that have developed their own identities over many years, and that is hugely valuable. The process of merger, therefore, must be seen to be supportive of and complementary to the ethos of the two organisations. I cannot speak in detail about how that is proceeding. I invite Adrian Trickey to make comments on that. It is important that I state that the ethos of both companies will be maintained.

**Adrian Trickey (Scottish Ballet/Scottish Opera):** The timetable is proceeding with the aim of completing the merger of the administrative and technical support functions of the opera and the ballet by no later than the end of the current financial year, 31 March 2000. From 1 April there will be a single organisation that will provide overall management. It will work under a single board, led by Duncan, and will share common

technical, marketing, fund-raising, finance and administrative support services.

Merger is an interesting word because it can mean so many different things. At different times different possibilities have been explored regarding the thinking on and planning for the association and alliance of the two companies. We are working towards the provision of common support services that will realise some economies of scale, although we cannot make extravagant claims in that respect. An opportunity will be provided to share best practice and, as a result, to improve the quality of support and to deal with the factors that affect the cost of support. We will support two artistic companies that will—where that is appropriate in the context of past traditions and strengths—have strong identities of their own in terms of both performance in theatre and outreach work.

In some areas, such as development of education work, there are great possibilities for the sharing of and overlap of artistic skills, as well as for the sharing of support and management. I should emphasise that we are concentrating on merging the technical and administrative support and services because that must be completed by 31 March 2000. We have had strong indications from SAC that funding for 2000-01 will only come via the channel of the merged company supporting both artistic enterprises.

**Ian Jenkins:** Do you think that there is an imbalance? Scottish Opera has traditionally had a full-time orchestra, whereas the Scottish Ballet has not. Scottish Opera is heavily involved with the property of the Theatre Royal, but Scottish Ballet is not. Is not there a danger that the smaller of the two companies will be dragged along by a group whose scale of working is going to make it difficult for the smaller company to balance their books? Scottish Opera costs something like £5.5 million before a note is sung or a costume bought. Is there a difference between the cultures and ways of working of the two groups?

**Duncan McGhie:** There is a risk and it would be naive of us to not recognise that. I can reassure the committee that we are well aware of that risk and that issues such as cross-subsidisation must be addressed. There is no good whatsoever in putting two strong organisations together and letting the lowest common denominator drag both down. That is not the point of the merger. All one can do at this stage is to say, "Yes, there is a risk, but we are aware of it and we will manage that risk". At the end of the process, we will have a strong opera company and a strong ballet company.

The degree to which merging should take place artistically is, as far as I am concerned, an issue for tomorrow, not today. Practical issues of the



nature that Adrian Trickey described must be dealt with quickly and efficiently. Those are savings that can be made, which will support the artistic development, not impede it. I want to consider ideas for future artistic merger at a more leisurely pace.

11:15

**Ian Jenkins:** If one partner in a merger is in such deep financial trouble that it cannot be sorted, presumably that will put an end to the merger?

**Duncan McGhie:** The three-month review will examine how deep the problem is. I recognise the comments made earlier about Scottish Opera requiring special deficit funding 11 times in 32 years. I think that I have got the figures correct. A lot of discussion is required between ourselves, as the new joint company, the Scottish Arts Council and the Scottish Executive to examine the funding and longer-term basis of financing the companies and to consider whether this is an appropriate model. We should have an open mind about that and explore all opportunities. One loss-making organisation—if that is what it is; I use your words, not mine—should not be allowed to drag down another organisation.

**Ian Jenkins:** I hope that you succeed.

**Duncan McGhie:** So do I.

**Michael Russell:** I will address at an early stage some of the questions that underlie the inquiry into the national companies, which are concerns about ensuring that the national companies are properly funded. At some stage I will quote back to Sandy Orr his chairman's statement in 1996 about structural underfunding, which is a key issue.

I will ask Scottish Ballet a question, which I think is important. Earlier, I quoted the findings of the Cogo-Fawcett report, which was critical of the financial control of Scottish Ballet and said that it had a corrosive effect on artistic performance. I contrasted that with the situation in which financial controls did not have a corrosive effect on anything because the evidence seems to be that they were not there. As Scottish Ballet people coming into this merger, how do you feel, knowing that your financial controls have been good up to now? Do you have concerns about the future?

**Peg Beveridge (Scottish Ballet):** I am less concerned about the future now than I was 12 months ago. I am confident that a strong financial team will be in place. For as long as I have been involved with Scottish Ballet, we have had a thorough and effective finance director. I am confident that the search process that is going on for the joint merged company will produce a finance director with an even greater ability to

control the finances and still allow the creative and artistic sense to come forward.

**Michael Russell:** Do you accept the analysis of the Cogo-Fawcett report that Scottish Ballet's financial direction had a corrosive effect on its artistic ability?

**Peg Beveridge:** There have been moments in Scottish Ballet's history when the financial issues came to the fore. We are in a much stronger position now than 12 months ago, as we have a permanent artistic director in place. Our financial forecasting was always super; we always had a thorough analysis of what things would cost. We felt as a board, and I think that the Scottish Arts Council would agree, that in the two-year hiatus between the leaving of Galina Samsova and her replacement by Robert North, it would have been inappropriate for the company to invest large sums in repertoire that might not be kept by an incoming artistic director.

**Michael Russell:** You come from a culture in which your company lives within its means, or attempts to live within its means—there may be small deficits but no difficulties that projections or changed circumstances would not account for. You are merging with a company whose track record is different, for whatever reason—I do not criticise it at this stage. As I understand it, there are considerable differences in the salaries that are paid by the two companies. Am I right to assume that?

**Peg Beveridge:** I do not have access to specific detailed information, but I know that our dancers are the lowest paid in the UK.

**Michael Russell:** There are generally higher salaries at Scottish Opera. Perhaps this is a question for the new chairman or the acting chief executive rather than for you, but how will you address such issues in a culture of change? I am sure that the new chairman will agree that such issues cause the most irritation in any merger and can destabilise it.

**Peg Beveridge:** It would be more appropriate for Adrian Trickey to answer that.

**Adrian Trickey:** It is one of the issues with which we must deal during the merger. At the end of the process, we cannot have a single company in which salary differentials for people doing similar jobs depend on which company they worked for before the merger. There has to be a regrading of staff across the whole company, and personnel have to be slotted into positions in a standard structure with standard gradings.

That is most applicable where similar departments, such as marketing or theatre technicians, are being merged. However, there will be issues even for artistic staff who do not do

exactly comparable jobs but will work for the same organisation. It would be surprising if dancers coming into the new organisation from Scottish Ballet—who, as Peg Beveridge says, are aware that they are less well paid than dancers in any other large dance company in the UK—did not look at the salaries of artistic personnel in the other half of the company. We expect that.

**Michael Russell:** I know that we will come on to what has happened in the past six months so I will not ask you about that, but I will ask about financial planning.

I referred to the plans for Scottish Opera for the next 12 months, which obviously have been developed over some time. Nobody could deny that they are ambitious. The Scottish Arts Council shows in the first run of the figures a deficit of about £1.5 million for next year—let alone what has just happened. In those circumstances, the chairman's statement made by Sandy Orr at the end of 1996 is important. He said:

"For years we had managed to keep our finances in order by means of sizable one off sums"—

we know that that was true then and is true now—

"but had always warned that these could not be found indefinitely and that the company was suffering from structural underfunding which needed to be addressed on a long term basis if it were to be able to continue at its present level of quality and activity."

Adrian Trickey has talked about the need to spend additional sums in merging the companies to address such difficulties as the matter of salaries. We know that there is a budget that allows for a deficit arising from your plans for the coming years. It seems to me that the merger, far from putting the companies on to a firmer footing, is a cause for concern for the public purse.

**Adrian Trickey:** I substantially agree with what you have said about the impact of the merger on costs. At various times in the past, there have been ambitious targets for the savings that could be achieved by merging the two companies.

You have drawn attention to instances—we are already aware of them—in which merging creates a tendency towards a growth in costs, perhaps for very good reasons. For whatever reason, one of the companies might not have been able to pay the going rate in the past. We are all beginning to realise that putting a large financial plus against the outcome of the merger is not what it is about. It is about delivering quality and making some savings from economies of scale; it is not about releasing large amounts of money from staff or salary reductions.

**Michael Russell:** Nor, as the Scottish Arts Council said this morning, is it about putting the companies on to a firmer financial footing. I do not see from the papers or from the evidence that you

have given any indication of how that could happen in the short term.

**Adrian Trickey:** Let me take that up in the context of your previous question, which I did not get around to answering. You referred to the budget for next year. We do not have anything that we could dignify with the name of a budget for 2000-01. However, we have prepared some estimates of the cost of operating the joint company through that year and the following two years. We need to plan ahead and to estimate the costs.

The proposed work programmes, inherited from the ancestor companies, tend to drive the costs of the merged company. However, those programmes are not immutable. Ultimately, what we do has to be tailored to the resources. In response to requests to cost the planned programmes for the merged company, we have provided the Scottish Arts Council with information, which indicates that the cost of those programmes will be greater than the previous grant indications in the two-year funding agreements and as part of the four-year plan. I can go into some of the reasons for that, although it may not be helpful to the committee at this stage. At the moment, we are costing those programmes, which is not to say that those are budgets or that the merged company is committed to going ahead with the programmes. We have to manage within the resources that are allocated.

**Michael Russell:** Are you not committed to the 11 productions that you have said that you want to put on next year? Is it true that you have not entered into contractual commitments for any of them?

**Adrian Trickey:** Some of those productions have contractual commitments.

**Michael Russell:** Which ones?

**Adrian Trickey:** All productions that will take place before the end of the current performing season—July 2000—are firmly committed. This is an area of interest to anyone involved in the planning side of arts organisations. The arts calendar tends to run from September through July and is planned on that basis. The last three months of that planning year are always the first three to four months of the financial year. One always finds, in any arts organisation of any size and complexity, that there is little scope for last-minute manoeuvring to reduce costs at the beginning of the financial year.

**Michael Russell:** Of the 11 productions on your list, which ones have contractual commitments? In case I need to remind you, the 11 are "Tosca", "Macbeth", a visit to Vienna, "Salome", "Das Rheingold", "Orfeo ed Euridice", "L'Elisir d'Amore", "Madama Butterfly", "From the House of the

Dead", "Jephtha" and "Don Giovanni". Which of those are contractually committed?

**Adrian Trickey:** All those before "Das Rheingold" have substantial contractual commitments. That is not to say that every singer will be committed, but most of the casts of the productions will be firmly contractually committed, and inescapable financial obligations stem from those contracts.

**Michael Russell:** Does that include "Das Rheingold"?

**Adrian Trickey:** On "Das Rheingold", we have contractual commitments for the creative team—the directors and designers—and one or two commitments to singers. The majority of singers are not firmly contracted yet. Operas beyond that are in the same situation—we have not made contractual arrangements with more than the occasional singer.

11:30

**Michael Russell:** But based on those figures, if you were to stop after "Das Rheingold", would you simply break even for the year?

**Adrian Trickey:** If the company were to cease performance after putting "Das Rheingold" on the stage?

**Michael Russell:** Yes.

**Adrian Trickey:** I have not studied that. We could look into that for you and reply in writing.

**Michael Russell:** The effect of what you said—I think that this would be undesirable—is that you would have to stop after "Das Rheingold" and do nothing for the rest of the year simply to break even.

**Adrian Trickey:** I have not said that.

**Michael Russell:** But that is what your figures say.

**Adrian Trickey:** That is not necessarily the conclusion that one would draw from those figures. If you want us to look into that as an option and produce a report on it, we could do that.

**Michael Russell:** No, I do not—

**Adrian Trickey:** I would not like to say, here and now, that that would be a way of breaking even on the year.

**The Convener:** I am aware that there are still a few further questions on the merger, so we should push on with those.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** I am a roving questioner; I had a meeting earlier this morning with some

shellfish people, so I do not have a set question. Before I ask my question, I want to distance myself from my colleague's comments, because I think that the artistic repertoire is very much your province. It does not behove politicians to get over-involved in that. None the less, I welcome Peg Beveridge's comments, as I firmly believe that prudence and efficiency do not necessarily impinge on artistic quality.

I am interested in the merger; I think that all of us are anxious for it to be successful. I have no doubt that you can manage aspects of the merger, Adrian, given the various imbalances. You talked about the administrative merger and the economies of scale associated with it. What thoughts have you given to a merger of other aspects of production? I totally agree that artistic integrity has to be kept separate, but I should think that substantial economies of scale could be made in the back-up aspects of staging a performance, such as lighting and scenery.

**Adrian Trickey:** I think that you are referring to the company's technical support areas; they form part of the merger project. I agree that there are some opportunities for making efficiency savings in those areas.

**Mr Stone:** Are you absolutely sure? If I know arts organisations—and I have worked with one or two in my time—they come out with statements such as Sandy Orr's and, quite rightly, argue their corner. There will be a tendency to try to keep those areas separate. Producers and directors will say, "Hands off!" As a manager, are you sure that that part of the merger process is under way?

**Adrian Trickey:** Yes. I am quite certain that the merger process is under way.

**Mr Stone:** I await with interest.

**Mr Monteith:** To what extent do any cancelled productions at the Theatre Royal impinge on either company's budget or deficit? Both companies use the Theatre Royal and tour to a greater or lesser extent. There is no merged company at the moment, so if no income is coming into the Theatre Royal, in whose accounts does that cost appear?

**Adrian Trickey:** The Theatre Royal is, in effect, a wholly owned subsidiary of Scottish Opera. Post merger, it would be owned—directly or indirectly—by the joint company.

**Mr Monteith:** Is it the case that a Christmas show was cancelled last year? If so, did that contribute to Scottish Opera's deficit?

**Norman Quirk (Scottish Ballet):** I think that you are referring to our new production of "Aladdin", which was originally scheduled for this Christmas. When we examined the financial implications of that, however, we decided that we

would be better placed if we moved it to the following Christmas. To a large extent, that decision depended on theatre availability—not specifically the Theatre Royal, but other theatres. Giving the production a greater Christmas focus had a substantial impact on the projected box-office figures. The cancellation of provisional bookings left an opening at the Theatre Royal, which it was able to fill with another company.

**Mr Monteith:** Okay. That is fine.

**The Convener:** We will move on to more specific questions on the opera company.

**Michael Russell:** I am grateful for the information that you have provided, including the fascinating set of board minutes from Sandy Orr. I do not think that I have seen a more congratulatory set of board minutes for a long time. Even the words “artistic triumph” appear in them.

I cannot find anywhere in the chronology that the Scottish Arts Council has given us, or in the documentation that Scottish Opera has sent us, an account of the process by which “Macbeth” was commissioned. Can you give me the time scale and an account of the decision-making process that was involved?

**Ruth Mackenzie (Scottish Opera):** That question is most appropriately directed at me, convener.

There is nothing in particular to say about the commissioning of “Macbeth”, so I shall make a couple of general remarks about the way in which Scottish Opera has put together its programme, before I refer specifically to that performance.

As you have heard—and it is important to underline this—Scottish Opera and Scottish Ballet have had to plan much later than would be normal for companies of their size. When I started work at Scottish Opera, it was noticeable that fellow general directors in Europe would plan productions three or four years in advance. That has not been possible for Scottish Opera, and I want the reason for that to be emphasised in the forthcoming inquiry into long-term planning. It is incredibly important, both for finances and artistic opportunities—which are not oppositional—that the issue of long-term planning is addressed.

The process of planning the current season began in 1998. That is extremely late. The process of planning an opera season is a complicated matrix, in which new productions must be balanced with revivals—that is, productions in which we have already invested. There must be a balance of productions that will make full use of the chorus—which means that some productions will not be able to use the chorus while others have to use it. We must establish a good pattern

of work. We must also think about audience needs and balance the repertoire between—crudely speaking—Italian and German works, with those from other countries making a third category. Finally, a balance must be achieved between producing work by dead people and ensuring that we are fulfilling our duties in commissioning or reviving work by living composers who are developing the art form. The process is complicated. I am sorry to labour the point, but it is useful for the committee to appreciate that.

Additionally, Scottish Opera has been fortunate in that the Edinburgh international festival has regularly invited the company to open a production at the festival. As well as all the issues that I have mentioned, Scottish Opera has to consider what production would be most appropriate for the festival and what would fit into its programme.

The idea for Scottish Opera’s production of “Macbeth” emerged through dialogue with the Edinburgh international festival; it is fair to say that it was led by the desire to work with the director Luc Bondy. Luc Bondy is widely considered to be one of the best directors in the world. He is certainly one of the directors who are most in demand from international opera companies. Because he is in demand throughout the world, it is a challenge to get him to commit himself to a project; it is even more of a challenge to get him to carry out a project. He has visited the Edinburgh international festival regularly with visiting companies, undertaking work both in the theatre—for which he is perhaps best known—and in opera.

He already had a relationship with the Edinburgh Festival Theatre, and he had a relationship with me from my previous job at Nottingham Playhouse. Back in 1997, he indicated informally to Brian McMaster and me that “Macbeth” was one of the operas that he most wanted to put on. It is a particularly appropriate opera to have in Scottish Opera’s repertoire, as it could be defined as a Scottish opera, as well as a fine piece that Richard Armstrong, our music director and an internationally renowned conductor of Verdi, is superbly equipped to conduct.

In summer 1998, Luc Bondy attended the Edinburgh festival with his theatre production of “Phèdre”. It was then that we managed to commit him to the project. That is very late for a project that was planning to premiere in summer 1999. Once we had secured Luc, we were able to start discussions with colleagues internationally about setting up co-productions. Again, I draw your attention to the shortness of the timetable. As I said earlier, most colleagues work three or four years ahead.

Our intention with “Macbeth” was to provide the Edinburgh festival, Scottish Opera and the communities of Scotland with a world-class

example of a Scottish opera. We wanted to ensure that the net costs of "Macbeth", once the co-productions and the exploitation of the work had been taken into account, would be no greater than those of an average new production by Scottish Opera. There has been much talk today about our being an ambassador for Scotland, and we wanted an artistic product that would demonstrate our abilities in that regard. There is a final useful effect. A calling card such as "Macbeth" opens doors. I noticed that people around the world started talking to me who would not have done so if we did not have Luc Bondy in our pocket.

I should say that our targets have been achieved. Generally speaking, the production received outstanding reviews, both in mainland Europe and in England and Scotland. Its net cost will not exceed that of an average production by Scottish Opera. It has also secured an invitation to Scottish Opera to take the entire production to the Vienna festival, which is the richest festival in Europe and is considered by many to be the most prestigious. I am sure that Brian McMaster will not mind my saying that. That is a major coup.

**Michael Russell:** On what date did the board approve the plans? I asked for the dates on which the plans were approved and where they fitted into the budgeting process.

**Ruth Mackenzie:** It has never been the board's practice to approve specific productions. That is a key feature of a non-executive board and reinforces the point that has been made about the importance of putting artistic expertise and authority in the right hands. The board is responsible for approving the draft budgets for the year. Because of difficulties in negotiating the grant level for 1999-2000 with the Scottish Arts Council, the board formally approved the 1999-2000 budget, which included "Macbeth", at its meeting in June 1999, after the Scottish Arts Council had approved its latest three-year plan, of which 1999-2000 was the first year. Of course, the board's finance committee had seen draft budgets that included "Macbeth" in autumn 1998. Because discussions with the Scottish Arts Council about grant levels in the three-year plan starting in the financial year 1999-2000 were so late, it was impossible for the board to approve a budget before June.

I must say that, undesirable as that may seem, I understand that it has not been uncommon for Scottish Opera to be in that position. That has been the case for several years before my time as well as during my time. It might seem undesirable to the committee that a company does not approve its budget before it starts the financial year, and I have to agree with that view.

11:45

**Michael Russell:** Was that board meeting on 24 June the one at which your resignation was accepted?

**Ruth Mackenzie:** Indeed. The resignation of my chairman was also put on the table then.

**Michael Russell:** The total cost of "Macbeth" in the year 1999-2000 is approximately £781,000. Does that include production and performing costs?

**Ruth Mackenzie:** Yes.

**Michael Russell:** How much was included in the figures that were seen on 24 June?

**Ruth Mackenzie:** The whole budget would have been included in the figures that were seen on 24 June. As with normal accounting policy for the company at that time, there would have been a carry-forward of the production costs, as opposed to the performing costs, into the following budget, 2000-01.

**Michael Russell:** At the board meeting on 17 September, questions were raised about the company's accounting policy in respect of the expensive new productions. That may be relevant to the issue, but I think that it is a sideline.

Let me give a chronology of the finances of Scottish Opera. You were in a key position during the period to which the figures refer, so you may want to comment on them.

On 22 April, the company made a forecast that the net borrowing requirement would be £849,000 and that an overdraft facility would not be required because the Scottish Arts Council would advance its grant. We now know that the full figures for the financial year were not notified to the board until 24 June, two months away from the April meeting.

We then discover that on 14 July, two weeks later, the mafia has changed again and Scottish Opera now requires a bank overdraft of £497,000 in addition to the £849,000. On that date, "Macbeth" is included in the figures as a net cash contributor. However, three weeks later, on 10 August, the figure has gone up by a further £200,000. The bank overdraft limit is going to be breached, the bank has to increase the overdraft facility. According to the Scottish Arts Council,

"The deterioration on cash was partly linked to Macbeth and it was confirmed co-production income was now not due for some time."

As I understand it, no co-production income has been received in the project to date.

That was the situation on 10 August. By 17 September, Adrian Trickey was questioning the "accounting policy in respect of new productions".

On 29 September, the

"Interim Chief Executive telephoned SAC to say there were serious problems".

During that period we have gone from a forecast balance on 22 April of £0, because no overdraft was required, to minus £497,000 on 14 July, and minus £697,000 on 10 August. Then, on 5 October, the sky falls and a figure of minus £3.275 million is quoted. The only factor identified in the document and in the submission from Scottish Opera is as follows:

"The components of this serious financial situation have been: accumulated deficits planned to be maintained, and increased; the need to pay for a major project not budgeted to be a charge on current income".

I assume that that refers to "Macbeth". The submission continues:

"and short-falls on income—sponsorship, co-production shares, hires and rents".

A key component of that has been the decision to undertake the production of "Macbeth".

You have said that you are able to go round the world with Luc Bondy in your pocket and people will speak to you who would not otherwise speak to you. Do you think that the price of that has done considerable damage to the reputation of opera in Scotland, because people now say—wrongly, I think—that Scotland cannot afford a major opera company because of this financial situation? In retrospect, do you think that an error has been made?

**Ruth Mackenzie:** It is important, and difficult, to be clear about the difference between cash flows and budgets. It is a complicated subject that will be a key area for the forthcoming inquiry. If I had the chance to go back and revisit the decision, with 20:20 vision, to commission "Macbeth", would I do anything differently? No, I would not.

**Michael Russell:** Even though it meant that the Scottish Executive would have to find £2.2 million?

A large number of people in Scotland say that the future of opera in Scotland is under question and there is a feeling of considerable aggravation and frustration about the fact that the Scottish Office bailed out Scottish Opera 11 times in 32 years, which is immensely regrettable. In retrospect, you and your colleagues might reflect on whether your actions brought about the situation. I find it curious that a range of organisations think that the situation seems to have been a sort of victimless crime. No one says, "I was there. I saw the smoking gun." No one can tell us what happened.

Ruth, do you and your colleagues not think that, in retrospect—be generous about this—decisions have been made that should not have been made and that are going to damage opera in Scotland in

the long term?

**Ruth Mackenzie:** I wish to cover three points as briefly as I can.

First, Mike Russell raised several times the absolutely fundamental point about the Scottish Office bailing out Scottish Opera 11 times in 32 years—fundamental to the costs of funding an opera company. No one around the table can speak to or take responsibility for all those 11 bail-outs over a period of 32 years—no one can. We must begin to examine some of the general issues as to why Scottish Opera has had bail-outs.

I think that it is interesting that Mike Russell used the word bail-out. If one has structural underfunding, if one is not able to build up reserves, if one cannot draw upon working capital to invest in productions and if one cannot forward-plan in the same way as one's competitors, it is inevitable that one will hit bail-outs. I agree that it is regrettable that we regard the situation in that light. The committee has an opportunity, with the inquiry, to consider fundamentally the way in which large-scale arts organisations are funded.

Secondly, while I absolutely cannot take responsibility for 32 years, I take my former role as chief executive very seriously. I entirely accept that I am responsible for the events that took place while I was chief executive. I want to be very clear on that point. It has yet to be demonstrated whether I was holding the gun. However, I would like to be clear that, in my view, the job description of a chief executive is that the buck stops here.

I cannot remember my third point now—sorry.

**Sandy Orr (Scottish Opera):** May I be permitted to say something?

**The Convener:** Certainly.

**Sandy Orr:** The issue of responsibility has been mentioned a few times today, and I think that it would be appropriate for me to take my share. I was chairman of Scottish Opera for seven years, which accounts for some of Mr Russell's 32 years. Beyond that, I was on the board for two years and on the Scottish Arts Council for six years. I know quite a bit, at first hand, about at least half of those 32 years.

What Ruth said about the nature of financing the major arts companies is important. It is hugely damaging and to be regretted that people think that arts companies are badly managed. However, that perception is inevitable if we persist with the current system. One of the benefits of having a Scottish Parliament is that we can sit in Edinburgh and discuss the situation in open court, knowing that we are talking through this committee to the funding bodies and to those who are in a position to do something about the situation. In the past, of course, we had to be routed through London and

the system was so obscure that it was not possible to have fundamental debates. Now we can make our own decisions in Scotland, which is an opportunity that is hugely welcome.

I want to raise two points of tension. I think that tension is generated by the system and, no matter how much we monitor, there will still be situations of deficit arising in arts companies. Arts companies have no reserves; they empty the bucket every year. A system evolved in which Scottish Opera and the Arts Council countenanced and indeed encouraged deficits. A reason why Scottish Opera hit the wall in the past few weeks was its considerable inherited deficit that had been targeted and budgeted for. In all my years as chairman of Scottish Opera, the company never went over its budget, except when there were shortfalls in indicated public sector financing. There were deficits when the Arts Council did not include inflation in its funding; in other words, absolute standstill. It is important for the committee to look back as well as forward, because it always comes back to Mr Russell's point that something is wrong. What is wrong is the system. The companies are doing very well.

**Michael Russell:** I agree entirely with you. The suggestions that you have made in your submission are very important. There is undoubtedly something wrong with the present system. The committee's task is to examine the funding of all the national companies and to try to come up with a better system. However, as someone from another artistic discipline, I have to say that not only is there considerable public anger at public funds being used in this way, but people in other artistic communities and disciplines are angry. Those people try to be creative within the limitations that have been placed upon them and it makes them angry to see others being rewarded for what they consider to be bad behaviour. If people are constantly rewarded for bad behaviour, they go on being bad.

The way to surmount that problem is, first, to analyse what has happened. There has been a major failure, either by individuals or corporately, to prevent this situation from happening. The paper on the working relationship between Scottish Opera and the Arts Council proves that. Secondly, we need a new system of transparency as well as of funding so that we know what is happening. One of the most interesting suggestions I have heard recently is that, as a non-competitive business in Scotland, Scottish Opera should publish its monthly accounts and cash flow on its website to let everyone see what it spends. Given some of your forecasting difficulties, that might not improve the situation, but at least things would be transparent. It has taken this committee and many individuals much effort to find out the truth.

**Sandy Orr:** Money has not been lost, Mr Russell: this is a cash flow issue. Scottish Opera had an inherited deficit.

**Michael Russell:** Money has been lost; it has been taken from Scottish Executive budgets and put into your budget with only two or three weeks' notice. According to the Deputy Minister for Culture and Sport last week, your company was within 48 hours of going bust. There would have been a very considerable cost if that had happened, not least in terms of people's jobs. This was not a victimless crime, Mr Orr.

**Sandy Orr:** I am not saying that this was a victimless crime. This situation should not have arisen. However, the company's trading was on budget. You have to remember that this is a business with a £10 million turnover—

**Michael Russell:** How could you have been on budget if you were about to go bust?

**The Convener:** Can we let Mr Orr answer?

**Sandy Orr:** Perhaps the situation is best left for the inquiry, which I completely welcome. I agree that this was not a victimless crime and that we should not be sitting here discussing the problem. However, a level of understanding of the shape and nature of those businesses would be helpful. No commercial business would be conducted in such a difficult and dangerous area, starting with a deficit and with no reserves. It is important to disseminate that fact to people so that they understand the situation, which they compare to a commercial situation and which they say is appalling. The system provides an opportunity to do that. I am not saying that it is not appalling, but that people cannot believe how we got into this situation.

**The Convener:** Several colleagues want to follow up on that, but I would like to ask a question. You seem to accept that the way that funding was provided was not as you wanted it to be, in that there would always be an issue about running close to the edge, and, on occasion, falling over it. How many times were representations made to SAC or to the Scottish Executive regarding changes to the provision of finance?

**Sandy Orr:** The May plan, which was agreed with SAC, was a plan to increase the deficit. In financial terms, that was obviously not a plan that we wanted to adopt. It was a practical compromise that, it was agreed, would be supported by SAC on the basis that there was no more money to support Scottish Opera. As Graham Berry said, there is a continuous dialogue with the Arts Council on cash flows and performance, which is right and proper. That dialogue is transparent, although we do not publish it on the website, and every year a very full annual report is published,

which we disseminate as widely as possible.

**The Convener:** Were you not uncomfortable knowing what damage that could do to your reputation as an opera company?

12:00

**Sandy Orr:** Yes. The May plan was difficult and challenging and we would not have agreed to it without the support of the Arts Council.

**Ruth Mackenzie:** As Graham Berry reported earlier, the company offered a range of three-year financial models. The SAC chose one at their May meeting, based on the level of resources that the council could find to support Scottish Opera. It was not, of course, the plan that would have been most readily achievable by Scottish Opera, nor was it the one that would offer the greatest comfort to the officers charged with its achievement. The plan projected accumulated deficits of up to £1.2 million by the end of this year for the ballet and the opera combined. That is a high level of budgeted deficit that would have greater implications in terms of cash.

The plan was approved by the Scottish Arts Council at the end of May and by the board of Scottish Opera in June. To some degree, that accounts for the development of the figure work which was referred to earlier. Admittedly, that figure work has a start point later in the year than one might wish. It is based on unapproved draft plans, which were then refined and approved by SAC and by Scottish Opera. The figures then had more work done on them, as has been referred to several times.

**Mr Macintosh:** I would like to go back to structural underfunding. As you say, Mr Orr, you have been with Scottish Opera for a long time. How much variation has there been in opera funding through the years? My impression is that it is predictable. You know well in advance what the company's income will be and what the grant from the SAC will be, and that will not change much from year to year. If the budget is roughly £10 million, you can predict that it will be somewhere in that region next year. It has been predictable for a long time, but—given the small variation in those figures—you are saying that you cannot cope. Your ambition seems to exceed the limitations that are placed on you by money. Although I agree that we should be artistically ambitious, it seems that you do not accept those limitations.

**Sandy Orr:** The problem arises from trying to land absolutely on the square at the end of each year. Scottish Opera is not allowed to keep reserves. It can build in some contingency, but only about £100,000 to £150,000. That is a tiny amount. If there is a structural change in a local authority, problems can be caused: Glasgow City

Council reduced Scottish Opera's grant by 50 per cent. Public funding, curiously enough, has been less predictable than funding from the private sector.

On behalf of all of the people who have worked so long and hard in Scottish Opera, I tell the committee that, in relation to private funding, the budgets have been met. I would like the committee to scrutinise those budgets because it is important for the building of public confidence that that message gets across.

Public funding should also be examined. There have been unpredictable reductions, the latest of which was at the turn of the year. Our original three-year plan depended on there being a certain level of grant at that time, but the award that was made was substantially less and eliminated the inflation-linked increase. That applied to all the national companies.

**Ruth Mackenzie:** When I became the director of Scottish Opera, there had been years of inquiry by the national companies working party and years of uncertainty about the level of grant. There had been discussions about whether the company should go part time and about the mergers of orchestras. I join Sandy in saying that, in those circumstances, the quality of artistic work that has been done by all the national companies has been astonishing. The quality of financial handling of the areas of the operation that are within their control has been exceptional.

**Mr Macintosh:** I appreciate that. We are trying to find out whether the management difficulties that have been experienced are in some way to blame for the situation.

The key problem is that Scottish Opera loses funding if it spends less than a target figure. That encourages the company to set unrealistic budgets. It is unrealistic for a public company to run a deficit of the scale that we are talking about today.

One problem is the fact that the company cannot build up reserves, but another must be Scottish Opera's assessment of what the budget should be. No company should be run with a £3 million deficit, and you should realise that.

**Sandy Orr:** The accounts for the period during which I was the chairman of the company show that we have not missed our budgets.

**Mr Macintosh:** Scottish Opera set its budgets, but the levels were wrong.

**Sandy Orr:** I should say that I am talking about the budgets that were agreed with our funders. Those budgets have been met. All our budgets have been met, except where unexpected reductions in public funding affected us. It has always been a matter of pride and importance to



the board that that is done.

**Ruth Mackenzie:** The point that you are making is whether it is correct to set a budget in which the target is a deficit. When the chairman says, "We have met our targets," quite often our targets—as a bottom line—have been an agreed deficit with our main funding partners. It is an achievement to meet an agreed target, even when it is a deficit. You ask me whether it is appropriate. Of course, there is a sense in which it is highly undesirable. However, it is not possible for arts organisations to say, "Well then, we are not going to do it," because then you are facing a precipice; you are talking about taking a company out of trading. It seems that you have very few options. I am not saying that anyone is to blame for it, but that is the case.

**The Convener:** I should allow Duncan McGhie to comment on that, as he has been desperate to get in.

**Duncan McGhie:** Thank you, convener. I do not want to interrupt the flow of your questioning, but I have sympathy with the public at large. Deficits, cash flows—the terminology is difficult. What is the real problem? Are we losing money? Ultimately, annuality—and the challenges that it brings—is one of the biggest problems in the public sector. Resource accounting, which will come in in the near future, might help. The fundamental issue, and the challenge for my board, will be to look not just at the current year, but—with the Arts Council and all concerned—at what the medium-term funding capacity is for this business and what we can raise from other resources. We then have to plan within those constraints.

Do not get me wrong; I will be pushing the Arts Council for a bigger share of the cake—that is my job, and it will be up to it to judge. Ultimately, we have to look at the matter on a medium-term basis, as it is a medium-term business. That supports the argument for going on to different forms of funding, but ultimately, the situation is one of cash in, cash out, over the medium term, and we must balance the books within that.

**The Convener:** Precisely. The question of annuality will be—and has already been—raised in a number of places. There will be further discussion on that, but many organisations are having to operate on that basis; they are not getting into the difficulties that we are having to examine today. We have to take that on board.

**Mr Monteith:** You will gather how long I have been waiting by my line of questioning. I refer to a point made by Ruth Mackenzie, with regard to the programme of productions. Am I right that the board does not approve the productions that you decide to run in a season? Is that what you meant?

**Ruth Mackenzie:** The board does not approve whether we produce "Tosca" as opposed to "L'Elisir d'Amore".

**Mr Monteith:** But does it approve the budgets that you present for the productions? It will not question the artistic merit of your season of productions, but it will look at the cost implications of the budgets.

**Ruth Mackenzie:** Indeed.

**Mr Monteith:** That is pleasing to hear. Sandy Orr consistently talked about—and has put in writing—achieving budget. Coming from a commercial background, I find it rather confusing that while budgets have consistently been met, the company seems to be running up growing deficits. When you talk about meeting budgets, are you saying that you have met the target production and performance budgets, or that you have met the target production and performance budgets set against the additional production income from other companies, venues, sponsorship or the box office? In what terms do you see the budget?

**Sandy Orr:** The financial budget?

**Mr Monteith:** Yes. Does the financial budget include income?

**Sandy Orr:** Financial outturn, including targets for raising sponsorship—for which the company has a fantastic record—is approximately £1 million a year. To fail on sponsorship would be a serious matter. It is not just about monitoring and control, but about going out there and getting the money in.

**Mr Monteith:** Your own statement seems to contradict you, as you say that the components of the serious financial situation were accumulated deficits—we will take that as read for the moment—that were planned to be maintained and increased. We have heard a lot about that.

12:15

Paragraph 12 of the paper talks about

"the need to pay for a major project not budgeted to be charged on current income."

We understand that that is "Macbeth". The intention was that "Macbeth" would be earning. Did it not meet its budget because the income did not come in?

**Sandy Orr:** You are probably asking me because I have been speaking so much, but I think that that paragraph is in Mr Trickey's paper.

**Adrian Trickey:** The project that was not budgeted to fall within the overall budget for 1999-2000 was, indeed, "Macbeth". That was not because it was not expected to generate income, but because its pre-performance costs—for the

sets, the costumes and the rehearsals—were all budgeted to be accrued and charged to the budget for the following year, 2000-01, when most of its performances will take place. There was a whole area of expense where cash that had to be paid out to create the production did not come into the budget for that year.

**Mr Monteith:** So why has it now been decided that the money should be shown in the current year?

**Adrian Trickey:** I have stalled slightly because of your use of the word “decided”. I warned the SAC about the opera company’s budgeting in future years—because the costs were being charged forward to a later year—and about its cash flow this year. I drew attention to the fact that that particular accounting treatment—which might be justified because companies have, in the past, sometimes treated productions in that way—was unsustainable because of the demands that it placed on the cash flow.

**Michael Russell:** As I understand it, that method of accounting has been justified in cases where a production had a number of performances in March and a number of performances in April, and money was carried forward. I think that I am correct in saying that there is no precedent, in your company, for doing that when the production takes place in August, and the next production is not due until the following financial year.

**Ruth Mackenzie:** This is obviously an area that the inquiry will go into in detail.

**Michael Russell:** Is there a precedent?

**Ruth Mackenzie:** I think that “Ariadne auf Naxos” is a precedent.

**Michael Russell:** Will you provide the figures to the committee to prove that? The information that has been provided indicates that there is no precedent of carrying forward more than £600,000. No matter what accounting procedure were applied, that would cause an additional burden on the cash flow. Following on from Sandy Orr’s point about budgeting, that burden skewed the demands on the cash flow for that year beyond a level that could be sustained. Putting on that production was bound to cause a financial crisis.

**Sandy Orr:** Not if the timing of the counter-payments from the co-producers or co-sponsors of the production had been as expected.

**Michael Russell:** Who were those co-sponsors?

**Ruth Mackenzie:** Bordeaux and the Vienna festival are the two that are confirmed. I understand that the company is still in negotiations with a couple of others.

**Michael Russell:** The Vienna festival?

**Ruth Mackenzie:** Yes.

**Michael Russell:** Is that the income that you expect in 2000-01 of £300,000?

**Ruth Mackenzie:** There are two partnership projects with the Vienna festival. I am sorry, but this will sound complicated. One is a co-production partnership—in which it contributes to the costs of the production. The second is an invitation to the company to tour—a different arrangement in which the company is given a fee to cover the cost of touring. So there are two payments.

**Adrian Trickey:** I think that Mr Russell might be looking at a particular figure—I hear him quoting £300,000. The £300,000 of co-production income is what we expect to receive towards “Macbeth”. Approximately half of that will be from Vienna, and the other half will be from Bordeaux—the other co-producer that Ruth Mackenzie mentioned.

As Ruth says, those payments are quite separate from those from Vienna for taking the company there to perform. The basis of our going there to perform is that we are paid sufficient to cover all the marginal costs of taking the company there and any fees and expenses arising from that.

**Michael Russell:** Even if you had received your £300,000, the cost of “Macbeth” to you—from the figures that you have for this year—would still be over £300,000. You would still have gone into deficit and you would not have met your budgets. Is not that correct?

**Ruth Mackenzie:** It would have put a strain on the cash—and indeed it did. The cash is not the same as the budget.

**Michael Russell:** I think that we all understand that. What I am asking you—it seems difficult to get this answer—is this: whether, even with the co-production income, which did not turn up, you would have been in substantial deficit compared with your expectations. We have no evidence on whether you were let down and we would like evidence on that.

**Ruth Mackenzie:** The budgeted target for “Macbeth” in the 2000-01 budget is a deficit. Of course, a new production costs more than it earns. That is the same with any opera.

**Michael Russell:** Instead of a £1.5 million deficit at the end of the year, you would have had a £1.1 million or a £1.2 million deficit, even with that money.

That is what the figures say. That not only strained your cash flow; it might have tipped you over the edge, but other things were going on and there were various types of overspending. I find your statement that your financial control is exceptional to be either deliberately ironic or some

form of joke. No financial control can be exceptional when the company has had to be bailed out to the tune of £2.2 million: that is not exceptional financial control except in terms of being exceptionally bad financial control. I think that the majority of people in Scotland know that.

**The Convener:** I want to move on; we have only 10 minutes left.

I will come back to Brian Monteith—I know that we moved away from you before you had finished, Brian.

**Mr Monteith:** It was mentioned that there was exceptional financial control. I understand that Coopers and Lybrand carried out a review a number of years ago, which was intended to put the national companies on a surer footing. It appears, however, when we consider the chronology of events, that deficits are carried forward and that that seems to be the way of things. To me, deficits are losses—that is the way that I understand it. It may be that the budgets are met, but to explain a deficit or loss, there must be budgets somewhere that are not being met. It may be in connection with sponsorship income; it is suggested that it is not to do with the box office.

There is confusion about how the deficits grow, but it is separate from the issue of cash. From the figures that we have, it would seem that the projected deficit would be, in the end, £1.2 million. However—again, separate from the issue of cash—on 5 October, the deficit was predicted to be £2.5 million, with a quite separate cash deficit of £3.3 million.

If there is good financial control, is it then the case that there must be poor artistic control? Where is the lack of control that allows those deficits to grow? If you are right, and there is good financial control, there must be somebody making artistic judgments that go beyond financial control. Is that a possibility?

**Adrian Trickey:** I am not sure that I can answer the final specific question that Brian Monteith asks. It is one that we all have to address.

We need to establish the mechanisms to bring the best possible financial controls to the new company. We would have to address that, however good the arrangements are for the merging companies. Essentially, we are starting with a new set-up, and the systems and arrangements that are put in place have to be good enough.

The deficit has developed from the predicted £1.2 million—which, I remind everybody, is a combined deficit for the two companies, most of which is on Scottish Opera's books—to a predicted deficit of £2.5 million. That is also a combined deficit, not all of which is on the books

of Scottish Opera. It includes the charging back of the "Macbeth" production to the current year. That is not a change in reality, but a change to what might be regarded as a more prudent accounting policy and a way of expressing the deficit properly. It is not a question of money having been spent that was not planned and expected to be spent.

A significant element of the deficit is made up of costs relating entirely to the preparation for and carrying out of the merger. Those costs were not a part of either company's operating budget. There was a certain amount of specific funding for the merger, but the costs have run extensively over the earmarked budget. The £2.5 million deficit is the sum of all those separate elements. It has not built up because of the companies overspending by £1 million during the year. If members of the committee have not already received a paper that sets that out, we can give them one.

**The Convener:** We would welcome that.

**Mr Monteith:** It is interesting that Scottish Ballet was concerned that a production might prudently be postponed, but that what has become apparent or started to unravel from the chain of events—I am not sure which is the best phrase—is that the artistic commitment was to drive on. It may be that there is an underlying structural problem with the funding or that, as Sandy Orr said, one must live near the edge and drive forward to attract the funds that one wants. There appear to be different approaches in the two companies. We need to ponder, as do the companies, given that we are talking about the companies merging.

**Mr Macintosh:** My question is for Mr McGhie and Mr Trickey. I quote Sandy Orr again:

"It is comparatively easy in the short term for arts companies to play safe and live within their means".

I know that it is the duty of the national companies to put on productions of which we can be proud and which reflect well on Scotland. Is it also your duty and responsibility to live within your means?

**Duncan McGhie:** Yes.

**The Convener:** Thank you for that concise answer.

I thank Duncan McGhie and his colleagues for coming this morning and for answering our questions. I regret that we have not had more time to go into some of the other work that your organisation is doing in education and social inclusion. The committee might want to consider that at a later date. However, we are aware that those things cannot go ahead unless the companies operate within the budgets that are laid down. We feel strongly that we have a responsibility to the public purse. We must have answers when there are difficulties, not only to assist you to get out of them, but to ensure that

the same thing does not happen in the future. The costs must be found from someone else's finances, so the opportunity is lost to use that money for something else. We are concerned about the situation, but we want to see a positive result for Scotland's national companies. Thank you again.

**Duncan McGhie:** I thank you, convener, and the committee for your questioning. We have a lot to do. No one doubts that. It will take time. We would welcome the opportunity to come back at any time to discuss any of the points with you in more detail. We are at your disposal.

**The Convener:** Thank you.

Are members agreed that before next week's meeting on Tuesday morning we should hold—in private—a similar session to the one held this morning to discuss questions?

**Members** *indicated agreement.*

**The Convener:** Thank you.

*Meeting closed at 12:29.*

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