



**Council Meeting
30 November 2004**

Inflationary increase in funding of Core Funded Organisations for 2005/06 and 2006/07

1 Introduction

- 1.1 Council discussed the funding of Core Funded Organisations (CFO) at its last meeting on 28 September 2004 as part of the discussion on the Planning Guidance Report paper. Council expressed their concerns about being asked to give across the board inflationary increases to CFOs.
- 1.2 This paper recommends an inflationary increase to all CFOs for the year 2005/06 and 2006/07 and outlines the rationale behind this recommendation in an effort to address Council's concerns.

2 Background

- 2.1 The Council now supports over 100 core funded organisations and they absorb approximately 80% of our Scottish Executive grant. The proportion of basic grant absorbed by the CFO's, which extend from Scottish Opera to the Lyth Arts Centre in Caithness, has increased in recent years in recognition of the fact that they form the infrastructure on which much of the development of the arts sectors are built and the platform from which much of our corporate objectives are delivered.
- 2.2 The basic premise of a CFO is that the grants awarded to them aim to support the organisation and the artistic purpose for which they exist. The grant is not hypothecated and simply forms part of the plural funding mix. All CFOs without exception employ staff and operate from a building even if it is only an office. These commitments form major cost drivers for the organisation and they suffer from inflationary pressures. Often these pressures are greater than the retail price index movements and are certainly greater than the consumer price indices used by governments. National agreements which cover the UK and the commercial sector as well as the subsidised make no concession to the low growth in public funds.
- 2.3 The incidence of these fixed costs is such that they have to be met by the CFO's in order to exist at all. When costs increase there is usually little option other than to pay them and as a consequence a corresponding reduction in expenditure has to come from the artistic programme.

3 Provision of inflationary increase to CFOs

- 3.1 A failure to provide an inflationary increase to CFO's has a dual effect. Not only are the programme budgets reduced, the remaining balance has to suffer the effect of increased costs.

- 3.2 If an organisation is recognised as being a CFO and we have the ability to provide an inflationary increase, not to offer it would diminish the purpose of this funding method.
- 3.3 In the longer term this is not sustainable because the increase in grant available over the next three years barely covers inflation and obviously provides no room for any growth. It makes no sense to offer small increases to some organisations at the expense of others unless those being 'punished' and those 'rewarded' are being judged against the same criteria. The real question is why do we support more than a hundred organisations?
- 3.4 This question will be answered over the next twelve months when we review all CFO's under the 20:20 vision initiative. The entire portfolio of core funded organisations will be reviewed by Council over the next twelve months. This will involve agreeing criteria, setting standards, negotiating with partners and consulting where appropriate. This will be done on a cross Council basis using corporate plan aims. The resulting decisions will be notified to organisations in November 2005 giving notice to the end of 2006/07 for any organisation whose funding is to be withdrawn or substantially reduced. All organisations will be measured against agreed criteria and be funded until 31 March 2007.
- 3.5 Until this point is reached it is extremely difficult for us to make a properly informed judgement of the performance of CFOs across the artforms. It is therefore recommended that all organisations should receive inflationary increases at the same rate of increase applied to our total grant which is approximately 2.6%.

4 Recommendation

- 4.1 Council are asked to approve that, for the year 2005/06 and 2006/07, all core funded organisations should receive inflationary increases at the same rate of increase applied to our total grant which is approximately 2.6%.

Graham Berry
Director
November 2004