

VICTORIA

Auditor-General
of Victoria

SPECIAL REPORT No. 41

**ARTS VICTORIA
AND THE ARTS 21 STRATEGY
Maintaining the State for the Arts**

Ordered by the Legislative Assembly to be printed

VICTORIAN GOVERNMENT PRINTER

ISSN 0818 5565
ISBN 0 7306 9273 6

June 1996

The President
The Speaker

Parliament House
Melbourne Vic. 3002

Sir

Under the provisions of section 16 of the *Audit Act 1994*, I transmit the Auditor-General's Special Report No. 41, "*Arts Victoria and the Arts 21 Strategy: Maintaining the State for the Arts*".

Yours faithfully

C.A. BARAGWANATH
Auditor-General

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Foreword

The launching by the Victorian Government in November 1994 of its Arts 21 strategy heralded a new era for the State's arts industry and created significant challenges for Arts Victoria. As the Government's statutory body with portfolio-wide co-ordination and monitoring functions for arts, Arts Victoria was assigned major responsibility for guiding implementation of Arts 21 up to and beyond the start of the 21st century.

This Report assesses the level of early progress made by Arts Victoria in establishing a framework for effective implementation of Arts 21. It also examines the soundness of the past relationship of Arts Victoria with the former Department of Arts, Sport and Tourism as well as the ramifications brought about by Arts 21 for Arts Victoria's long standing role as a provider of financial assistance to non-government arts organisations.

I hope that the Parliament, the Government, management and staff within Arts Victoria, and the arts community find the Report to be timely and helpful in presenting an independent assessment of progress made to date towards achievement of the objectives established under Arts 21.

C.A. BARAGWANATH
Auditor-General

Part 1

Executive Summary

Part 1.1

Overall audit conclusion

1.1.1 The importance of effective implementation of the Government's November 1994 arts strategy, Arts 21, is accentuated by the key macro-level purposes assigned to the strategy, namely, to take the arts industry into the 21st century and to cement Victoria's position as the *State for the Arts*.

1.1.2 Arts Victoria, the Government's statutory body with portfolio-wide policy development and co-ordination functions for arts, has principal responsibility for delivery of Arts 21.

1.1.3 Effective implementation of Arts 21 will require Arts Victoria to have established well-structured and positive relationships with government agencies within the arts portfolio and external arts organisations, particularly those organisations which receive periodic financial assistance from Arts Victoria.

1.1.4 This Report identifies that Arts Victoria has not been in a position to satisfactorily pursue its responsibilities to co-ordinate portfolio-wide arts matters within the framework of Arts 21, principally because of a less than cohesive internal relationship with the Resource Management Division of the former Department of Arts, Sport and Tourism. This situation was exacerbated by the fact that Arts Victoria could not exercise a significant role in planning and resourcing matters dealing with the allocation of funds to the Government's various statutory agencies within the portfolio. Arts Victoria has been further impeded by overly-intrusive framework agreements involving the agencies, which were proposed by the former Resource Management Division, but criticised by many of the agencies. In short, these factors have adversely impacted on Arts Victoria's capacity to effectively manage its portfolio-wide responsibilities for implementation of Arts 21.

1.1.5 In terms of its relationships with external arts organisations, Arts Victoria has, in a positive initiative, moved to assess the level of client satisfaction with its services through the conduct of a client services survey. It now needs to complement this action by establishing specific performance targets for its services categories as a basis for measuring the effectiveness of its service delivery to arts organisations outside the arts portfolio.



1.1.6 Arts Victoria is in the early stages of developing a performance and evaluation framework for measuring progress against the various objectives set out in Arts 21. While the strategy document contains a listing of performance indicators under an *Arts 21 Checklist*, this listing itemises quantitative output indicators only and does not address qualitative measures of effectiveness or assessments of the outcomes or impact of Arts 21. Formulation of qualitative measures of effectiveness and outcomes by Arts Victoria will be necessary for meaningful and complete reporting of the extent of progressive achievement of the objectives established under Arts 21.

1.1.7 Arts Victoria's long-standing role as a provider of grants to arts organisations has led to many organisations becoming dependent on financial assistance for their survival or continued delivery of programs. For some organisations experiencing financial difficulties, advance payments by Arts Victoria have become common. Arts Victoria is moving to revamp its grant management practices with the aim of transferring the funding focus to achievement of outcomes relevant to Art 21.

1.1.8 In summary, Arts Victoria is responding positively to the challenges arising from the emergence of Arts 21. Facing a fresh operational environmental following the Government's April 1996 structural changes and under the leadership of a Director who played a leading role in the formation of Arts 21, Arts Victoria is suitably placed to drive implementation of the strategy through to the 21st century and make a significant contribution to cementing Victoria's position as the *State for the Arts*.

□ **OVERALL RESPONSE** provided by Secretary, Department of Premier and Cabinet

The Report provides a comprehensive and constructive analysis of Arts Victoria's performance, and identifies areas where performance can be further improved. It is a timely analysis, following the period of intense organisational change initiated to manage the implementation of Arts 21. Many of the key issues identified are being addressed in the course of separating Arts Victoria from the former Department of Arts, Sport and Tourism, and implementing its comprehensive reorganisation as a unit of the Department of Premier and Cabinet. Other areas are already in hand, or will be incorporated into the Business Plan program for 1996-97.

Part 1.2

Summary of major audit findings

MANAGEMENT OF SIGNIFICANT ARTS 21 RELATIONSHIPS WITHIN THE ARTS PORTFOLIO

Page 29

- Although Arts Victoria had prime responsibility for the management of the Development of Arts Institutions and Resources Program, the fact that it could not exercise a key role in planning and resourcing functions relating to the Program meant that its ability to effectively deliver Arts 21 was severely restricted.
Paras 4.8 to 4.10
- With the recent transfer of responsibility for Arts Victoria to the Department of Premier and Cabinet, it will be important that the arrangements set in place enable Arts Victoria to effectively manage its portfolio-wide arts responsibilities, including the implementation of Arts 21.
Paras 4.11 to 4.13
- Because of their overly-intrusive nature, framework agreements proposed by the former Department of Arts, Sport and Tourism for the Government's arts agencies were not accepted by many of the agencies.
Paras 4.14 to 4.18
- In establishing new organisational arrangements, Arts Victoria will need to work with the arts agencies to develop a mutually-acceptable definition of accountability and the parameters which will apply to the progressive implementation of Arts 21.
Paras 4.19 to 4.20
- A sound relationship has been established between Arts Victoria and Tourism Victoria for pursuit of the cultural tourism goals of Arts 21.
Paras 4.21 to 4.25
- The future implementation of elements of Arts 21 could be at risk if there is continued dependence for a large proportion of its funding from the Community Support Fund.
Paras 4.26 to 4.32

EXECUTIVE SUMMARY



MANAGEMENT OF ARTS 21 RELATIONSHIPS WITH EXTERNAL CLIENTS

Page 39

- The introduction of Arts 21 has accentuated the importance of sound relationships between Arts Victoria and its various clients across the arts industry.
Paras 5.4 to 5.7
- There is scope for Arts Victoria to adopt a more strategic approach to the implementation of Arts 21 in the local government sector.
Paras 5.8 to 5.16
- It will be important that Arts Victoria establishes specific performance targets for its various service categories as the basis for measuring the effectiveness of its service delivery to clients.
Paras 5.17 to 5.25
- The development of a client management strategy would assist Arts Victoria in enhancing its client relationships in the context of Arts 21.
Paras 5.26 to 5.33

PERFORMANCE MEASUREMENT AND EVALUATION

Page 49

- While the *Arts 21 Checklist* constitutes a useful initial step towards long-term evaluation of the Arts 21 strategy in terms of outputs, it does not address measurement of the effectiveness of Arts 21 or qualitative assessments of the outcomes or impact of Arts 21.
Paras 6.4 to 6.9
- Arts Victoria needs to identify what outcomes are expected to result from each of the strategic goals addressed under Arts 21 and determine the means of measuring the progressive achievement of such outcomes.
Paras 6.11 to 6.12
- With the emergence of Arts 21, it will be critical that Arts Victoria reaches agreement with the various arts agencies on the manner in which their overall performance against objectives assigned to them under Arts 21 is to be progressively monitored and measured.
Paras 6.13 to 6.14
- As one of the main aims of the *Promoting Leadership* strategy is to improve the quality of management talent in the Arts industry, Arts Victoria will need to formulate performance measures for monitoring the level of improvement, against expected targets, in management talent throughout the industry.
Paras 6.19 to 6.21
- Arts Victoria has undertaken or funded some studies to identify the economic impact of specific events such as the Comedy Festival. Apart from these particular studies, there has not been a great deal of emphasis directed towards evaluating and monitoring the arts industry with a view to constructing a consolidated picture of the industry.
Paras 6.22 to 6.23

EXECUTIVE SUMMARY



PERFORMANCE MEASUREMENT AND EVALUATION - *continued***Page 49**

- The importance of industry-wide evaluations as part of Arts 21 has been recognised by Arts Victoria in establishing an Industry Development, Research and Information Unit which it anticipates will be instrumental in development of a methodology for across-the-industry assessments.
Paras 6.24 to 6.25
- Arts Victoria should identify and take into account community expectations of the arts industry in its program development and formulation of the priorities under Arts 21.
Paras 6.26 to 6.29

MANAGEMENT OF THE DEVELOPMENT OF CULTURAL ACTIVITIES PROGRAM**Page 59**

- The Development of Cultural Activities Program is the major vehicle by which Arts Victoria delivers funding support for Arts 21 to the non-government sector.
Paras 7.6 to 7.9
- There are presently 39 organisations funded triennially by Arts Victoria at an annual cost of \$8.9 million and 58 organisations funded annually at a total cost of \$3.3 million.
Paras 7.16 to 7.20
- To achieve effective accountability by annually and triennially-funded organisations and to enhance its ability to measure the effectiveness of Arts 21, Arts Victoria should ensure that its grant management practices are upgraded and consistent with the Government's recently revised guidelines.
Paras 7.21 to 7.23
- Arts Victoria needs to place greater emphasis on confirmation of adherence to grant conditions by recipients of project specific grants.
Paras 7.24 to 7.27
- The use of a more strategic approach to the management of funding for arts facilities within non-government organisations would assist Arts Victoria in ensuring that such funding is directed to areas of greatest priority within the framework of Arts 21.
Paras 7.28 to 7.32
- Organisations experiencing serious difficulties, primarily of a financial or managerial nature, currently receive annual funding of approximately \$3.2 million, or 27 per cent of the aggregate amount made available by Arts Victoria to funded organisations.
Paras 7.35 to 7.36
- One non-government organisation, which was established through State government funding in 1987 and, in recent years, has received annual funding in excess of \$200 000, recently placed itself into voluntary liquidation and associated costs are to be met by Arts Victoria.
Para. 7.37



**MANAGEMENT OF THE
DEVELOPMENT OF CULTURAL ACTIVITIES PROGRAM - *continued*****Page 59**

- Arts Victoria should cease the practice of providing advance or supplementary funding to organisations solely on the basis of financial difficulty and, in line with Arts 21, adopt policies and practices which encourage the financial independence and viability of grant recipients.

Paras 7.38 to 7.40

- There is a need for a more structured approach by Arts Victoria to the monitoring of funded non-government organisations, including the progress made by such organisations towards achievement of outcomes under Arts 21.

Paras 7.41 to 7.54

- When Arts Victoria upgrades its existing grants database software, it will be important that the new software provides for accurate recording of client and project data and constitutes an effective basis for management decision-making.

Paras 7.55 to 7.60

- File management practices, encompassing control over organisational information, within Arts Victoria have been less than satisfactory and demand decisive corrective action.

Paras 7.61 to 7.65

Part 2

Background



ARTS VICTORIA AND THE ARTS ENVIRONMENT

Role of Arts Victoria

2.1 Arts Victoria is a key government body within the State's arts portfolio and operates under the provisions of the *Ministry for the Arts Act 1972*. It has principal responsibility for the delivery of the Government's major cultural policy, Arts 21.

2.2 The specific functions of Arts Victoria within the portfolio, as documented in its 1995-96 Business Plan, are to:

- co-ordinate planning and performance monitoring of the arts agencies of the State and the major arts and cultural organisations;
- deliver industry assistance programs across the arts and cultural sectors; and
- undertake the portfolio's policy development, advisory, research and promotional activities.

2.3 Following the extensive machinery of government changes announced by the Premier early in April 1996, the arts portfolio now comprises Arts Victoria and, in addition to interface with the non-government sector of the arts industry, the 6 arts agencies listed below:

- Geelong Performing Arts Centre;
- Museum of Victoria;
- National Gallery of Victoria;
- Public Record Office;
- Victorian Arts Centre; and
- State Library of Victoria.



Victorian Arts Centre, Melbourne.



Impact of April 1996 machinery of government changes

2.4 During the full period of the audit, Arts Victoria was a division of the former Department of Arts, Sport and Tourism (DAST). Under the April 1996 machinery of government changes, DAST ceased to exist and the Premier assumed responsibility for the arts portfolio. As a consequence, related portfolio overview functions involving Arts Victoria and the 6 other government agencies within the portfolio now form part of the role of the Department of Premier and Cabinet.

2.5 Part of the scope of the audit involved an assessment of the interaction of DAST with Arts Victoria and whether its portfolio management procedures in respect of Arts Victoria were conducive to achieving maximum effectiveness in the implementation of Arts 21. This element of the audit focused principally on the role of DAST's Resource Management Division.

2.6 In addition, 3 agencies, namely, Film Victoria, the State Film Centre and the Office of Library Services, which operated within the arts portfolio during the audit, were transferred, wholly or in part, to other areas of government as part of the changes. These agencies were included in the segment of the audit dealing with the relationship of Arts Victoria with the then 9 other arts agencies forming part of the portfolio.

2.7 It can be seen that substantial organisational changes have occurred since this audit. As a consequence, where comments in this Report relate to areas impacted by the changes, the findings have been presented in a manner which, as far as practical, identifies their relevance to the new organisational environment now in place. This situation applies particularly to the functions previously undertaken by the former Resource Management Division of DAST.

2.8 The following chart depicts clients of Arts Victoria as identified in its 1995-96 Business Plan.

**CHART 2A
KEY CLIENTS OF ARTS VICTORIA**



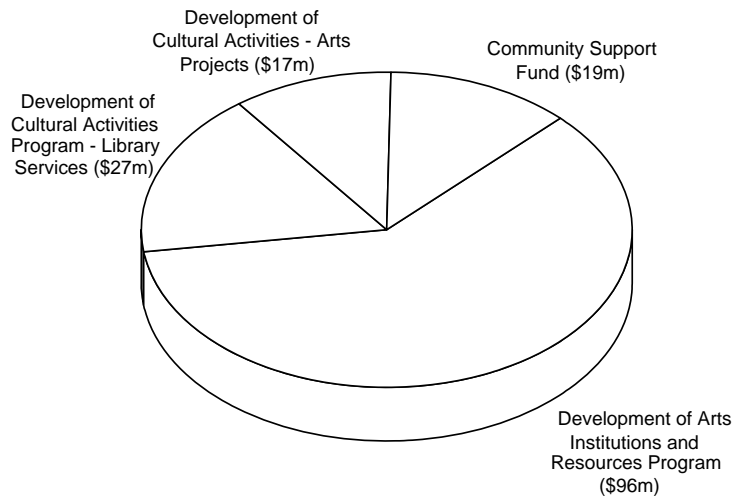
Budgetary allocations under the responsibility of Arts Victoria

2.9 The expenditure budget of Arts Victoria for 1995-96 is \$140 million allocated between the Development of Arts Institutions and Resources Program and the Development of Cultural Activities Program.

2.10 In addition, at February 1996, an amount of \$19 million had been approved for drawdown from the Community Support Fund for 40 arts-related projects. Responsibility for the strategic oversight and monitoring of this funding also rests with Arts Victoria.

2.11 Chart 2B shows details of the aggregate funding of \$159 million for arts purposes which was under the overall control of Arts Victoria during 1995-96.

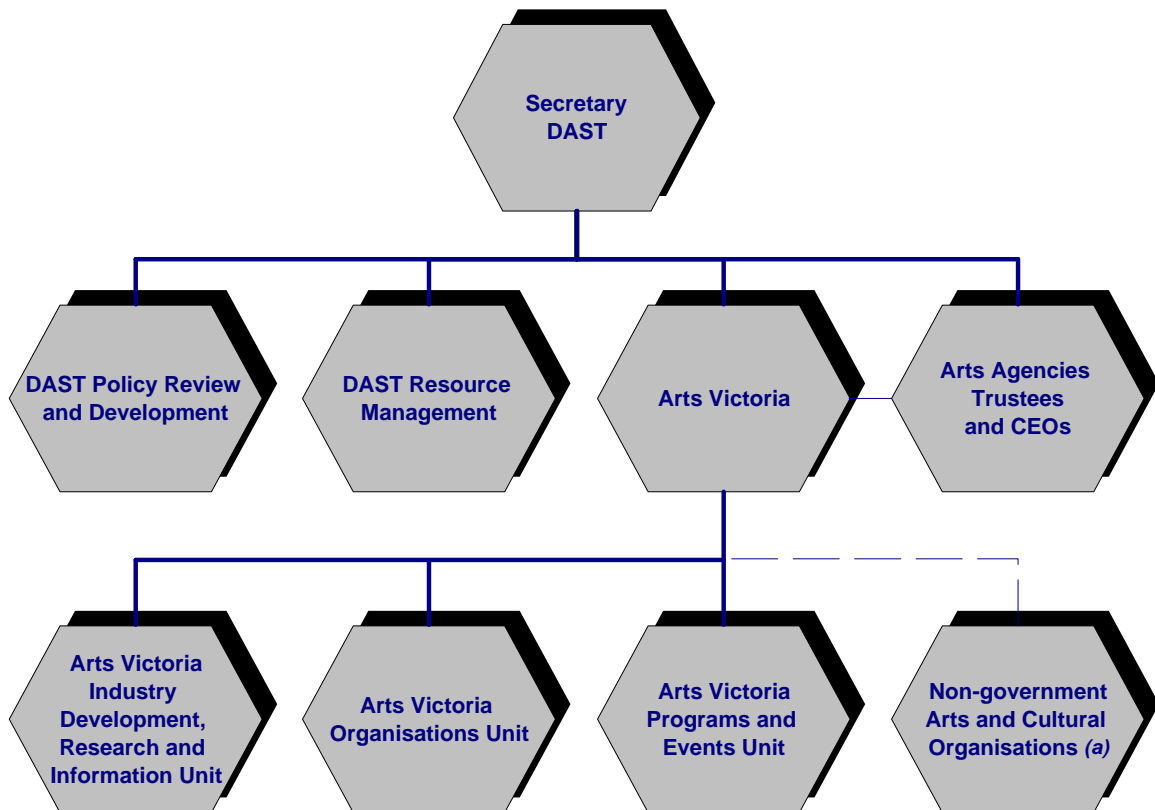
**CHART 2B
TOTAL STATE GOVERNMENT ARTS FUNDING, 1995-96**



Victoria's arts environment

2.12 Chart 2C depicts the structure of Victoria's arts environment in place during the period of this performance audit.

**CHART 2C
VICTORIAN GOVERNMENT-FUNDED ARTS ENVIRONMENT**



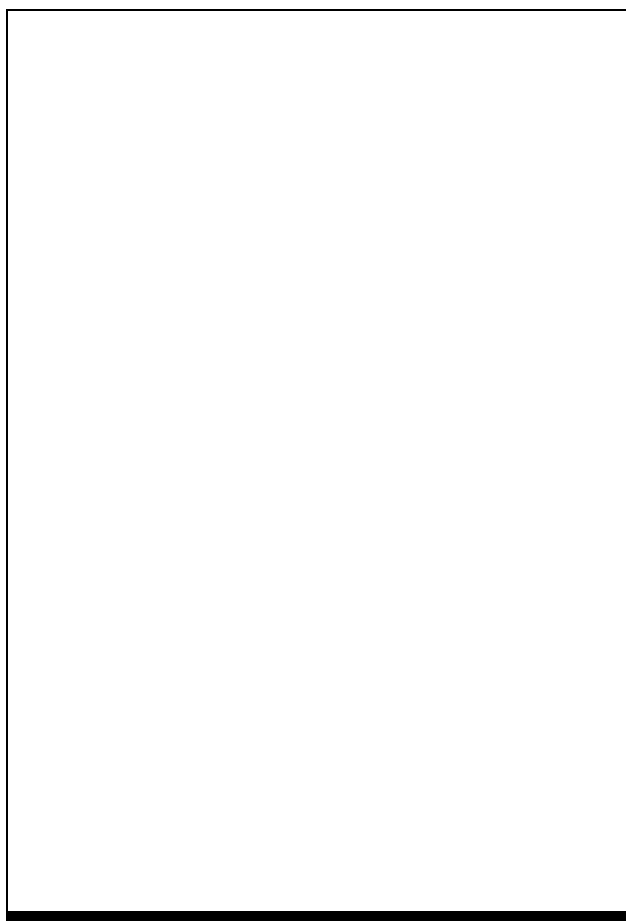
(a) Arts Victoria provides services and funding for non-government arts and cultural organisations.

DEVELOPMENT OF ARTS 21, A MAJOR STRATEGIC INITIATIVE

2.13 There has been a noticeable change at Federal and State levels in the emphasis of government cultural policy away from a subsidy-based approach (which essentially provides direct financial assistance) to an increasing focus towards an industry development model (which focuses on the economic sustainability of the industry). In its 1995-96 Business Plan, Arts Victoria attributes this change to:

- *"a recognition that the cultural sector is more complex and economically viable than predicated by existing product/organisational subsidy models;*
- *a great deal of cultural production occurs outside the subsidised sector;*
- *increasing demand from an expanding cultural sector on the limited pool of resources; and*
- *the majority of cultural activity funding goes into production and very little into marketing and promotion."*

2.14 It was within the context of this changing environment that Arts 21 was launched by the Government in November 1994.



Arts 21 documentation.

.....

The nature and significance of Arts 21

2.15 Arts 21 is the Government's strategy for taking the arts industry into the 21st century. According to the Arts 21 documentation, it is intended to create an environment that will cement Victoria's position as the *State for the Arts*.

2.16 Arts 21 represents the opportunity for the Government to approach the development of the State's arts industry in a systematic manner, concentrating upon those areas considered to be of greatest benefit for the long-term viability of the arts in Victoria.

2.17 The Arts 21 document sets out 6 principal strategies which are intended to build on existing strengths within the arts industry and enable the industry to respond to emerging opportunities. The strategies and their goals, which are described below, provide a focus for medium-term planning and action across the arts industry, extending from its premier institutions to its smallest arts companies:

Strategy 1: Into the information age

- To position the arts industry as a creative force in the media and communications sector of the future.

Strategy 2: Providing world class facilities

- To provide high quality, well-resourced cultural facilities in defined precincts and regions.

Strategy 3: Creating great programming

- To strengthen the range and quality of the annual calendar of arts activities.

Strategy 4: Promoting leadership

- To deliver greater impact and effectiveness in the arts industry. Projects in this area will be designed to improve industry governance and management and promote excellence.

Strategy 5: Customer-focused marketing

- To promote and promulgate best practice marketing in the arts industry. This focus is expected to accelerate the ability of the industry to adapt to the needs and preferences of its customers.

Strategy 6: Delivering to Australia and the World

- To expand the industry's interaction with regional, interstate and overseas markets. The aim is for Victoria to become a leading supplier and distributor of cultural products and services in the domestic and world marketplaces.

2.18 The introduction of Arts 21 has had a substantial impact on the responsibilities of Arts Victoria. While the body retained responsibility for management of the 2 major programs mentioned in the earlier paragraph, its approach to identifying and achieving specific outcomes has changed markedly in line with the dramatically-altered management direction required by it to achieve the goals of Arts 21.



2.19 The emergence of the strategy has given Arts Victoria prime responsibility for bringing together a range of diverse and vibrant industry factions with many different interests to achieve goals for the common good, in terms of both the standing of the industry and the cultural well-being of the community. In effect, Arts 21 has become the catalyst for Arts Victoria to extend its focus to the entire Victorian arts industry.

CHANGES WITHIN ARTS VICTORIA IN RESPONSE TO ARTS 21

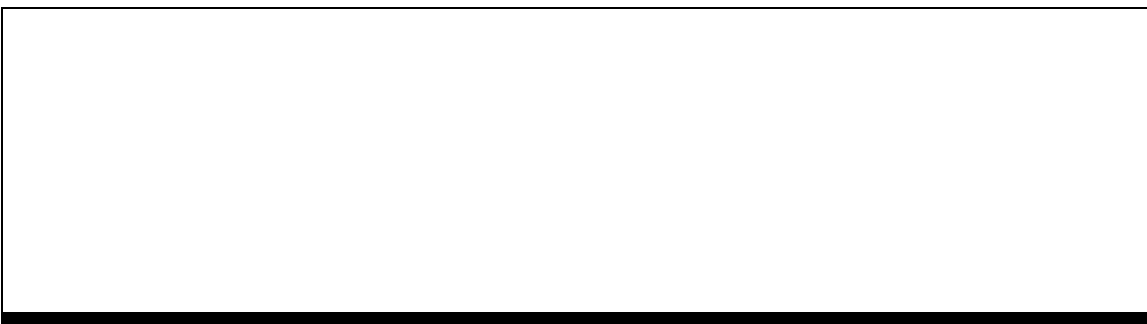
2.20 Arts 21 has given rise to the need for significant changes to almost every facet of Arts Victoria's operations. Initial changes within the body centred around the development of an organisational structure that would be more appropriate for the achievement of outputs and delivery of outcomes under Arts 21.

2.21 In the 6 months from January to July 1995, a complete restructure of Arts Victoria occurred. All staff positions were declared vacant to allow management to ensure that it secured the right people for the job. In tandem with the introduction of the Government's non-executive officer pay scheme, short-term contracts were introduced for particular non-executive staff. This move is expected to equip Arts Victoria with the necessary flexibility in the future to adjust its skill mix as changes in focus occur with the consolidation of Arts 21.

2.22 To consolidate a foundation likely to lead to successful implementation of Arts 21, it was necessary for Arts Victoria to secure the support of the arts community. This was done through a series of comprehensive public seminars. Audit observed during its discussions with various arts industry representatives, a high level of acceptance of the policy direction of Arts Victoria.

2.23 As part of the shift in focus to an industry development model, Arts Victoria has diverted its efforts from a grant provider to the use of resources to build a solid basis upon which the future arts industry could work towards becoming self-sustaining and financially viable in its own right.

2.24 This environment has necessitated a change from the use of peer assessment panels responsible for recommending approval for grants to a management emphasis on the strategic allocation of funds to achieve particular outcomes. As a consequence, a grant provider philosophy has been replaced by a service purchaser orientation designed to facilitate the allocation of funding by Arts Victoria to areas with a capability to achieve the goals of Arts 21 and bring about value added benefit to the arts industry.



Arts Victoria staff celebrate the 1st anniversary of the introduction of Arts 21.

Part 3

Conduct of the Audit

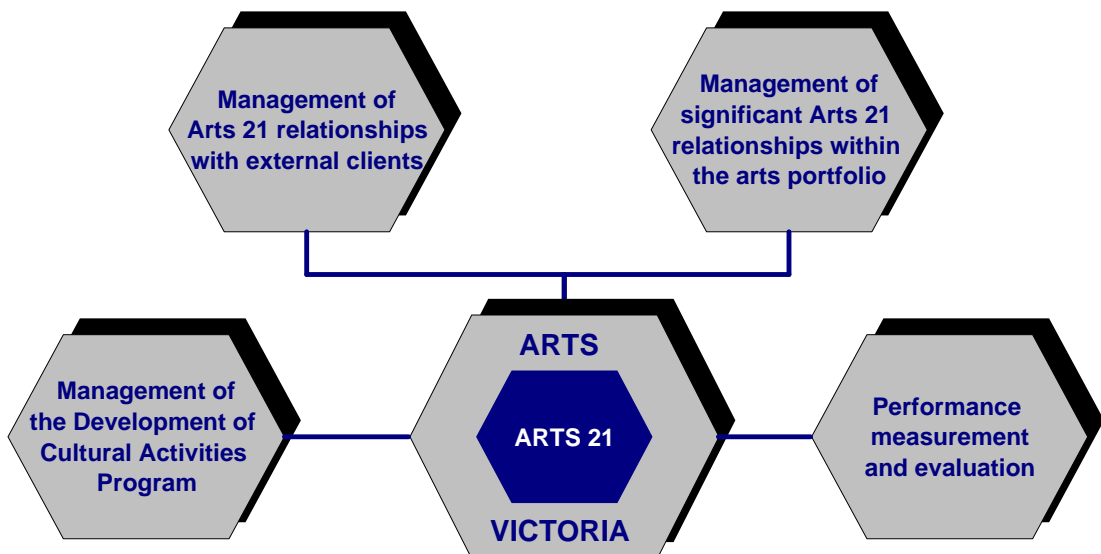
AUDIT OBJECTIVE

3.1 The overall objective of the audit was to examine the arts environment in Victoria and to assess the extent to which the management framework established within Arts Victoria to support the Arts 21 strategy is conducive to implementation of the strategy with maximum effectiveness and efficiency. In pursuit of this overall objective, audit sought to evaluate whether:

- Arts Victoria had established appropriate links with the arts agencies, other State Government agencies, local government and the community to ensure that the objectives of Arts 21 could be achieved;
- management services and support provided by the former Department of Arts, Sport and Tourism (DAST) were adequate in assisting Arts Victoria to implement Arts 21;
- mechanisms had been established by Arts Victoria to provide assurance that the needs of its clients and customers had been satisfactorily monitored and met;
- the organisational structure and management processes within Arts Victoria had been sufficiently revised to facilitate achievement of the objectives of Arts 21;
- recipients of grants under the Development of Cultural Activities Program had complied with all grant agreement conditions;
- Arts Victoria had established appropriate program management practices in respect of its 2 program responsibilities, namely, Development of Arts Institutions and Resources and Development of Cultural Activities; and
- Arts Victoria had established suitable systems of performance measurement in order to assess progress towards delivering the strategies of Arts 21 and the impact of Arts 21 as a major cultural policy.

3.2 In line with the audit objective, the structure of the Report and the findings and recommendations resulting from the audit are presented within the following framework.

CHART 3A



AUDIT SCOPE

3.3 The audit concentrated on the activities of Arts Victoria as the primary vehicle for the implementation of Arts 21. In addition, the Development of Arts Institutions and Resources Program and the Development of Cultural Activities Program as well as some arts projects funded by the Community Support Fund were examined in the context of the strategies of Arts 21.

3.4 Areas examined during the audit included:

The arts environment, incorporating the following elements:

- the interaction between Arts Victoria and the then 9 arts agencies;
- Arts Victoria's interaction with other divisions of the former DAST, in particular the Resource Management Division and Tourism Victoria; and
- clients of Arts Victoria.

The Management Framework and in particular the following segments:

Arts Victoria

- decision-making processes;
- organisational structure;
- planning; and
- resource availability and allocation.

Development of Arts Institutions and Resources Program and Development of Cultural Activities Program

- strategic allocation of resources;
- operating and capital works grants to government and non-government organisations;
- grant management, including access and equity, assessment and approval processes and monitoring; and
- the effectiveness of the 2 Programs in allowing Arts Victoria to deliver outcomes under Arts 21.

Performance measurement

- how Arts Victoria measures its own effectiveness in delivering Arts 21; and
- how Arts Victoria will measure the impact of Arts 21.

.....

Interviews and discussions with relevant organisations:

- staff of DAST and Arts Victoria;
- organisations receiving funding from Arts Victoria;
- unsuccessful applicants for funding from Arts Victoria;
- representatives of the 9 arts agencies;
- members of the Victorian Council for the Arts;
- community arts organisations; and
- arts industry bodies.

IMPETUS FOR THE AUDIT

3.5 Prior to the introduction of the Arts 21 strategy, the breadth and importance of the responsibilities assigned to Arts Victoria were substantial. Its pivotal co-ordinating and monitoring role in respect of 2 major arts programs meant that the quality and soundness of management practices were of direct interest to the Parliament, the Government, the arts community and general taxpayers.

3.6 As outlined in the preceding paragraphs, the emergence of Arts 21, with its dynamic and wide-ranging strategic directions, greatly expanded the magnitude and complexity of the role and functions of Arts Victoria within the arts industry. Arts 21 also necessitated important strategic re-assessments by the former DAST as to the soundness of its portfolio overview practices relating to Arts Victoria.

3.7 It was considered that the arts environment in the immediate post-Arts 21 period presented an ideal and timely setting for a performance audit. In this regard, an opportunity was identified to undertake an independent assessment of the overall management position established by Arts Victoria in response to Arts 21 and to form some judgement on whether Arts Victoria and, in turn DAST, had moved in a direction which was conducive to achieving, in due course, maximum effectiveness in the implementation of Arts 21.

3.8 The performance audit has proceeded against this background with the valuable support and assistance of the Director, Arts Victoria, and the staff of both Arts Victoria and DAST.



ASSISTANCE PROVIDED TO AUDIT

3.9 Appreciation is expressed for the significant support and assistance provided by the management and staff of Arts Victoria and other divisions of DAST during the conduct of the audit.

3.10 Appreciation is also expressed by audit to the chief executives of the arts agencies, representatives of non-government arts organisations and other members of the arts community who made themselves available for interview and provided valuable assistance to audit.

3.11 The audit was performed in accordance with Australian Auditing Standards applicable to performance audits and included such tests and other procedures considered necessary.

Part 4

**Management of
significant Arts 21
relationships within
the arts portfolio**

OVERVIEW

4.1 Effective implementation of Arts 21 will require positive and co-operative relationships between key parties within the arts portfolio.

4.2 The past relationship between the Resource Management Division of the former Department of Arts, Sport and Tourism (DAST) and Arts Victoria was less than satisfactory with poor formal co-ordination between the 2 bodies. This situation was exacerbated by the fact that Arts Victoria could not exercise a significant role in planning and resourcing matters under the Development of Arts Institutions and Resources Program, the Government's major arts program and the principal vehicle for the allocation of funds to the arts agencies. These circumstances have impacted greatly on the capacity of Arts Victoria to co-ordinate portfolio-wide arts matters within the framework of Arts 21.

4.3 In a similar vein, the relationships between Arts Victoria and the various arts agencies have not been conducive to successful implementation of Arts 21, principally because of overly-intrusive framework agreements involving the agencies which were proposed by DAST's Resource Management Division. These agreements would have encompassed virtually every aspect of the strategic and operational functions of the agencies and, thus, interfered extensively with the agencies' managerial autonomy. Not surprisingly, at the date of audit, only 3 agencies had signed a framework agreement.

4.4 The above circumstances contrasted quite sharply with the sound foundation which has been established between Arts Victoria and Tourism Victoria for pursuit of the cultural tourism goals of Arts 21.

4.5 With the recent transfer of responsibility for Arts Victoria to the Department of Premier and Cabinet, it will be critical that Arts Victoria is in a position to effectively manage its portfolio-wide responsibilities for implementation of Arts 21 and to forge productive partnerships with the arts agencies which give prominence to successful achievement of Arts 21 goals.

IMPACT OF THE PREVIOUS ORGANISATIONAL STRUCTURE OF DAST

4.6 In addition to Arts Victoria, the Resource Management Division within the former DAST, had the following arts-related responsibilities:

- management of resources for the arts agencies;
- development and implementation of framework agreements;
- determination of funding allocations under the Development of Arts Institutions and Resources Program; and
- co-ordination of internal and central agency performance reporting.



4.7 While there were some committees within DAST with high level co-ordination responsibilities, audit found that Arts Victoria and the Resource Management Division did not formally co-ordinate their arts agency-related activities.

4.8 Although Arts Victoria had prime responsibility for the management of the Development of Arts Institutions and Resources Program, the key planning and resourcing decisions in relation to this program were in fact made by the Resource Management Division.

4.9 The Development of Arts Institutions and Resources Program is the Government's major arts program and the principal vehicle for allocation of funds to the arts agencies. Its objectives are "... to develop, maintain and exhibit the State collections in the areas of natural history, science and technology, social history, visual and performing arts, library and information resources and film and video collections". The 1995-96 budget for the program is \$96 million.

4.10 The fact that Arts Victoria could not exercise a key role in planning and resourcing functions relating to the program meant that its ability to effectively deliver Arts 21 was severely restricted. In audit opinion, given the significance of the Government's Arts 21 strategy, this situation could only be described as ludicrous.

4.11 A common theme underpinning views expressed to audit during discussions with executive representatives of the arts agencies, key personnel within Arts Victoria and representatives of other bodies within the arts community was that the co-ordination and control of portfolio-wide management issues which impact on the delivery of Arts 21 should be consolidated in one organisation.

4.12 Given that Arts Victoria has been assigned prime responsibility for overseeing implementation of Arts 21, audit considered that it was the most appropriate body to co-ordinate all portfolio-wide arts matters.

4.13 With the recent transfer of responsibility for Arts Victoria to the Department of Premier and Cabinet, it will be important that the arrangements set in place enable Arts Victoria to effectively manage its portfolio-wide responsibilities for arts, including the implementation of Arts 21 and in particular:

- portfolio-wide planning and monitoring of strategies under Arts 21;
- co-ordinating key Arts 21 strategies within the business planning processes of the arts agencies;
- monitoring the performance of arts agencies against specific objectives of Arts 21;
- overseeing involvement by government entities outside the arts portfolio in activities relevant to Arts 21;
- formulating planning and resourcing strategies for the Development of Arts Institutions and Resources Program; and
- reporting to the Parliament and the community on key elements of the arts portfolio's performance in the delivery of Arts 21.

□ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

Management agree that this is a central priority, which is being addressed in the course of reorganising and restructuring Arts Victoria as a unit of the Department of Premier and Cabinet, following the April 1996 machinery of government changes.

**ARTS VICTORIA
AND THE ARTS AGENCIES INCLUDING GOVERNING BODIES**

Framework agreements

4.14 In an initiative designed to change the direction of its relationship with the arts agencies from a highly interventionist model to one that is partnership-based and integrated from a portfolio perspective, DAST, through its Resource Management Division, introduced in July 1995, a system of framework agreements seeking to define the policy and administrative context of the Government's relationship with the arts agencies. The agreements were part of a suite of documentation including service agreements and corporate and business plans designed to define the parameters of the relationship with the arts agencies.

4.15 The framework agreements were intended by DAST to delegate the maximum possible autonomy to the arts agencies in exercising their governance and management responsibilities. This emphasis on autonomy was consistent with:

- the legislative framework governing the operations of each agency;
- the Minister's prerogative to set policies and determine budgets; and
- the responsibility of the Secretary of DAST under the *Public Sector Management Act* 1992 to ensure the effective, efficient and economical management of the functions and activities of that Department.

4.16 The framework agreements proposed by DAST encompassed a wide range of matters which covered virtually every aspect of the strategic and operational management environment of an arts agency. The proposed agreements included:

- aims and objectives of each arts agency;
- delineation of responsibilities of the Minister, the Secretary, DAST, the agency's governing body, for example, the Board of Management or Trust and the agency's Chief Executive Officer;
- risk management strategies;
- planning framework and control;
- financial arrangements between government and the agency;
- overview of the assets controlled by the agency;
- organisational structure of the agency;
- procurement and purchase of goods and services;
- staffing and pay arrangements; and
- triennial review of the framework agreement.

4.17 Not surprisingly to audit, the framework agreements have not, to date, been seen in a very positive light by the arts agencies. In fact, at the date of audit, only 3 out



of 9 agencies had signed an agreement. Various Chief Executive Officers of the agencies advised audit that they viewed the agreements as a substantial and unwarranted intrusion into their managerial autonomy and inconsistent with their legislative authority. They also considered the agreements to be superficial documents lacking in substance, pre-occupied with administrative matters and catering for the lowest common denominator of managerial competency.

4.18 Audit formed the clear view that the structure and content of the agreements would not facilitate achievement by DAST of its objective of changing the relationship with the agencies to that of a partnership arrangement. The intrusive nature of the agreements would be more likely to actually reinforce the interventionist view of DAST held by the agencies. The other major deficiency of the agreements was that they emphasised control with minimal attention directed to facilitating a co-ordinated approach by the arts agencies in pursuit of the goals of Arts 21.

4.19 Framework agreements of this nature are not seen by audit to be a suitable means of achieving co-operative partnerships with the arts agencies. The key emphasis now has to focus on developing an effective relationship between Arts Victoria and the agencies for the successful implementation of Arts 21. In this regard, audit is not convinced that the use of framework agreements is the most appropriate mechanism for forging such a relationship. The most important objective should be to ensure that cohesive arrangements, under the overview of Arts Victoria and involving consultation with the arts agencies, are in place which focus prime attention on maximising achievement of the objectives of Arts 21.

4.20 In establishing new organisational arrangements, Arts Victoria needs to work with the arts agencies to develop a mutually acceptable definition of accountability and the parameters which will apply to the progressive implementation of Arts 21. In addition, to avoid undue and inappropriate interference in the day-to-day management of the arts agencies, Arts Victoria should establish criteria to determine how much it needs to be involved with and monitor the activities of individual arts agencies. Such criteria could include:

- level of commitment to Arts 21;
- the importance of agreement on individual outputs and outcomes required under Arts 21;
- the inclusion of strategic objectives of Arts 21 within corporate and business plans;
- assessments of progress towards achievement of performance targets linked to Arts 21;
- soundness of the relationship between Arts Victoria and the governing bodies of each agency; and
- the overall relevance and significance of Arts 21 to the operations of the agency.

□ *RESPONSE* provided by Secretary, Department of Premier and Cabinet

Agreed.

Arts Victoria and Tourism Victoria

4.21 As outlined in an earlier paragraph in Part 2, Strategy 5 of Arts 21 deals with Customer-Focused Marketing which is aimed at *promoting and promulgating best practice marketing in the arts industry*. Because this strategy involves, as identified in Arts 21, *knowing where audiences are and how to reach them better*, it has direct relevance to tourism activities and, as such, the soundness of the relationship between Arts Victoria and Tourism Victoria is of paramount importance.

4.22 It was pleasing to find during the audit that the interaction between Arts Victoria and Tourism Victoria was soundly based with a number of mechanisms in place to facilitate the achievement of Arts 21 goals agreed by the 2 bodies. For example, a position of Arts Industry Liaison Officer has been jointly established which has led to some quality outputs such as the publication of a cultural tourism map. In addition, the 2 bodies have established, through co-operative efforts, the Arts Industry Tourism Council which has responsibility for facilitating the co-ordination of cultural tourism policy initiatives and providing advice to the Minister on future directions under this policy.

4.23 It is important to recognise that Tourism Victoria is well placed to make a significant contribution to achievement of those elements of Arts 21 designed to enhance the cultural tourism product of Victoria. In fact many of these elements were incorporated in the Tourism Victoria Strategic Business Plan launched in October 1993.

4.24 It follows, therefore, that a sound foundation already exists for Arts Victoria and Tourism Victoria to further build on as they work together to achieve the cultural tourism outcomes envisaged under Arts 21. Such a process will require the setting up of productive relationships between the 2 bodies and the arts agencies which can ultimately lead to assurance, to the satisfaction of Arts Victoria, that the quality of market research and associated marketing activities within the agencies is conducive to achievement of the cultural tourism aims of Arts 21.

4.25 **To build on the positive progress achieved to date by Arts Victoria and Tourism Victoria and to facilitate achievement of Arts 21 goals, both bodies, in conjunction with the arts agencies, need to work together to:**

- **assess the agencies' current achievements in the cultural tourism area;**
- **establish the agencies' capacity, in terms of marketing and related areas, to achieve cultural tourism goals jointly identified with Tourism Victoria and Arts Victoria; and**
- **reach agreement with the agencies on the manner in which these goals can be implemented and achieved.**

□ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

In May 1996, Arts Victoria and Tourism Victoria received the second stage report of the research consultancy into developing the tourism potential of the arts agencies (Part 1 was undertaken in 1995). This report addresses tourism information issues and strategies for the National Gallery of Victoria, the Victorian Arts Centre and the Museum of Victoria; a Tourism Marketing Plan for Scienceworks, and a business plan for a Cultural Tourism Conference. Action in response to these reports will be progressed through the Arts Industry Tourism Council, and the 1996-97 business plan.

Arts Victoria and the Community Support Fund

4.26 The *Gaming Machine Control Act* 1991 identifies the promotion of the arts as an area eligible to receive financial assistance from the Community Support Fund.

4.27 At February 1996, an amount of \$19 million had been approved for draw down from the Community Support Fund for funding to approximately 40 arts-related projects, of which 19 are specific Arts 21 initiatives.

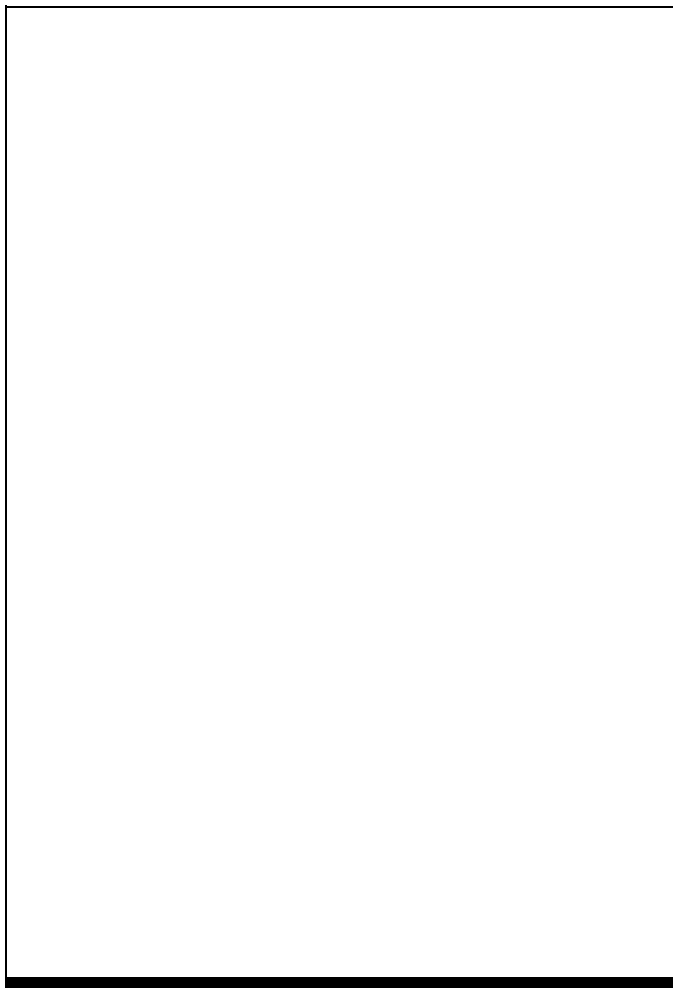
4.28 Some of the more significant projects relating to Arts 21 initiatives which have been financed by the Community Support Fund are:

- The Victoria Commissions - a fund that will enable the commissioning of new major artistic works (\$2.2 million);
- The Arts Victoria Leadership Fund - to be used for the establishment of a training and development program for Victorian arts managers (\$1 million);
- Arts Victoria Arts Marketing Taskforce - promotion of best practice marketing in the arts industry (\$750 000);
- Arts Victoria International (Export) Touring Fund - a fund to assist Victorian artists and arts companies to develop new sustainable markets world-wide (\$600 000);
- Establishment of the Melbourne Film Office (\$500 000);
- The Arts Victoria Cultural Exchange Program - a fund to foster international relationships for the Victorian arts industry (\$450 000); and
- Cultural Tourism - a strategy to maximise the potential of cultural tourism, (\$200 000).

4.29 While all of these initiatives may not necessarily be of a recurring nature most form the basis of the Arts 21 strategies and are expected to contribute significantly to successful achievement of its goals.

4.30 In addition, the financial assistance received to date from the Community Support Fund for arts-related projects has included:

- Melbourne Symphony Orchestra Development Fund (\$1.8 million); and
- Victoria State Opera - provision of financial assistance to strengthen financial viability (\$2.4 million).



Photographer: Jeff Busby

Performance of the Magic Flute by the Victorian State Opera - a significant recipient of funding from the Community Support Fund.

4.31 Audit considers that the future implementation of elements of Arts 21 could be at risk if there is continued dependence for a large proportion of its funding from the Community Support Fund. This aspect is important as, given the nature of the Community Support Fund, there can be no guarantee that the magnitude of existing funding for arts purposes will continue for an indefinite period.

4.32 **Arts Victoria needs to recognise within its strategic planning arrangements that funding from the Community Support Fund for some Arts 21 initiatives may not always be available.**

❑ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

Commitments made by the Coalition in its election platform, and incorporated into the 1996-97 budget estimates, address this issue for annual programs and events receiving Community Support Fund (CSF) funding currently. If there is a reduction in CSF funding for capital works, these projects will have to be progressed through the annual works and services budget process.

Part 5

Management of Arts 21 relationships with external clients



OVERVIEW

5.1 The introduction of Arts 21 has accentuated the importance of sound relationships between Arts Victoria and its various clients across the arts industry.

5.2 While Arts Victoria has taken some action, through its client services survey, to assess the level of client satisfaction with its services, it now needs to establish specific performance targets for its service categories as a basis of measuring the effectiveness of its service delivery to clients.

5.3 Actions by Arts Victoria to strengthen its corporate focus on client interaction such as the formulation of a client management strategy and a communications framework have been suggested by audit in order to provide greater assurance that arts organisations, and in particular grant recipients from Arts Victoria, have ready access to assistance and advice which enables them to accurately comprehend the objectives of Arts 21 and effectively work towards their achievement.

NEED FOR STRONG CLIENT RELATIONSHIPS

5.4 The introduction of Arts 21 has provided Arts Victoria with a greater emphasis on addressing the needs of clients, both from its own service perspective and the needs of external users of artistic goods and services. Three of the 6 Arts 21 strategies, namely *Creating great programming*, *Customer-focused marketing* and *Delivering to Australia and the World*, emphasise, in addition to other matters, the need for effective relationships between Arts Victoria and its external clients.

5.5 The arts industry produces and retails arts goods and services to suit the particular needs or tastes of a diverse range of clients. The success of these business activities is greatly reliant upon the accurate and timely identification of client needs and upon satisfying such needs.

5.6 Arts Victoria has a central role within the arts industry not only through provision of funding and other services, but also by maintaining a policy and strategic overview role which involves it in frequent liaison with industry participants and other agencies.

5.7 Following implementation of its organisational changes in response to Arts 21, as described in Part 2 of this Report, Arts Victoria has moved to strengthen its focus on grant recipients through the creation of an Organisations Unit. However, to date, resourcing constraints within the Unit have placed many demands on staff time which have adversely affected the Unit's ability to devote sufficient attention to all client organisations.

LINKS WITH LOCAL GOVERNMENT

5.8 A primary role of Arts Victoria is the allocation of direct assistance to organisations across Victoria that provide services associated with arts programs or functions. It performs this role by the provision of financial assistance to organisations that may operate throughout Victoria and by directly funding events, displays and performances which tour Victoria.

5.9 Municipal councils provide varying levels of support to the provision of the arts at a local level. Many councils employ cultural officers to develop local cultural programs and several are responsible for managing regional performing arts centres that provide a valuable outlet for artistic expression.

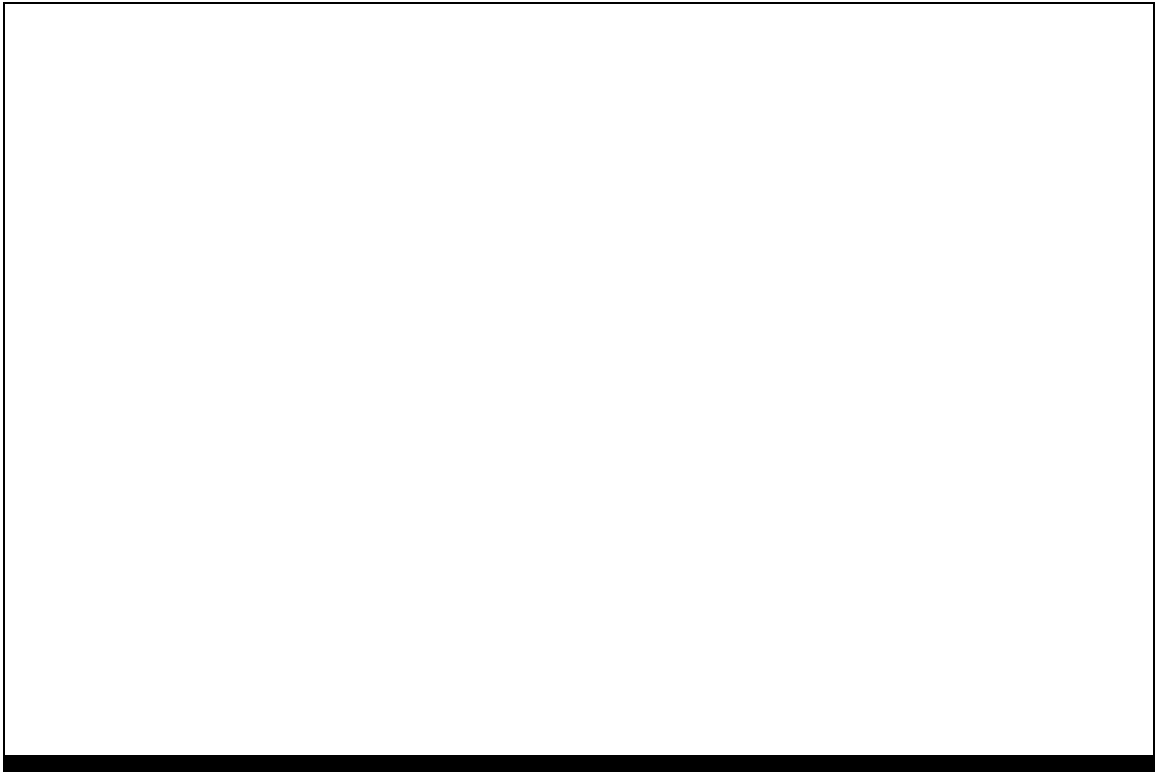
5.10 Notwithstanding the above arts activity within regional Victoria, Melbourne remains the prime location for artistic venues, production and artists.

5.11 The Ministry for the Arts Act outlines an objective of Arts Victoria to *increase the availability and accessibility of the Arts to the public of Victoria*. This objective encompasses a role for Arts Victoria in ensuring that all Victorians have ready access to performances, displays and other artistic output. Such a role implicitly requires Arts Victoria to assist the industry in meeting the objective. It also requires Arts Victoria to work with local government to identify local and regional demands and requirements.

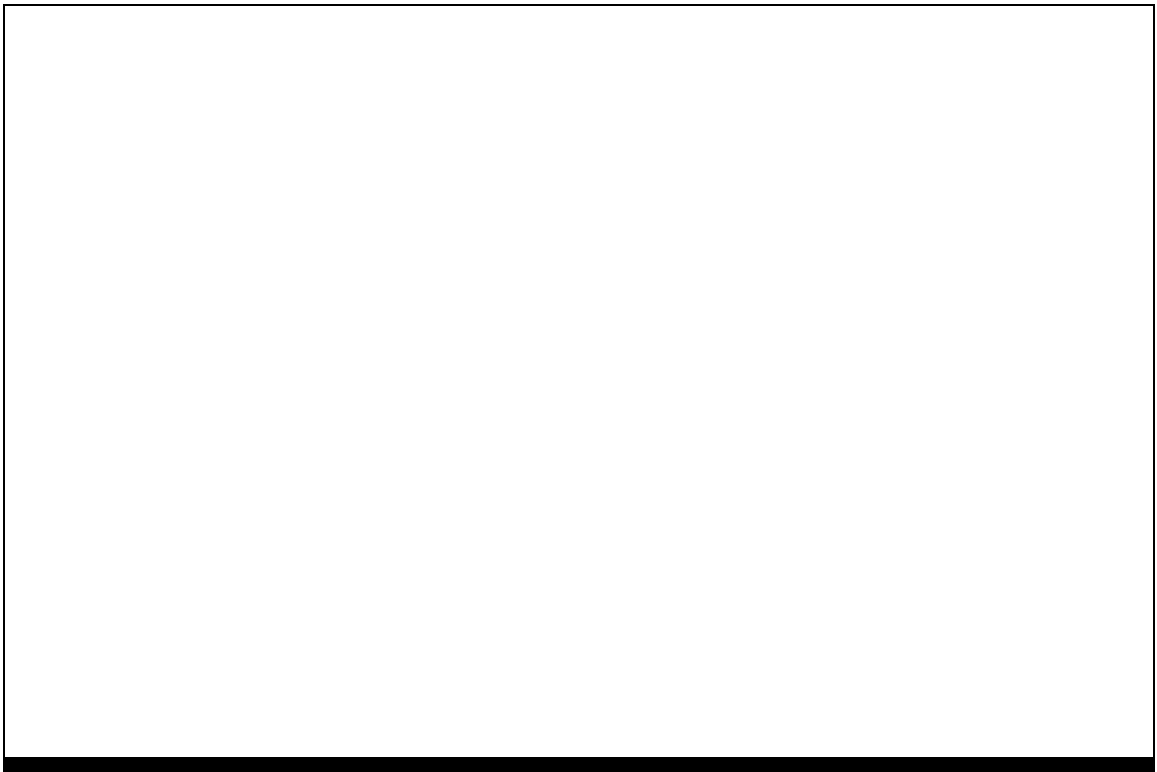
5.12 During 1995-96, Arts Victoria has provided \$2.5 million for the development of regional facilities such as galleries and performing arts centres. Additionally, \$22.3 million is distributed annually through the Office of Library Services for the support of municipal libraries. Arts Victoria also provides financial support and grants for the touring of performances across Victoria as well as local festivals and events. However, it does not have a strategy for measuring whether the arts are accessible to all Victorians or even what impact the recent local government reforms within the State will have on the arts industry.

5.13 Consequently, Arts Victoria is not in a position to determine whether it is adequately providing all Victorians with ready access to the arts. In addition, it is not utilising links with local government as a valuable resource that can identify specific requirements and directly contribute to the provision of artistic services at a local level.

5.14 While Arts Victoria is directly involved in assisting industry to provide services across Victoria and has implemented initiatives such as a *Local Government and the Arts* seminar held in November 1995 and the *Minister for Local Government and the Minister for the Arts Awards* announced in March 1996, there has been reliance until the implementation of Arts 21, on formal liaison with local government through the grants process. This limitation is a result of Arts Victoria not having a strategy for dealing pro-actively with local government prior to the implementation of Arts 21.



Performers at the Castlemaine State Festival - bringing the arts to country Victoria.





5.15 To ensure that stronger connections are forged and maintained with local government, Arts Victoria needs to continue taking action to identify and meet the needs of this specific area of the arts industry. This will be vital if it is to be in a position to achieve planned outcomes under the second Arts 21 strategy of *Providing world class facilities*. This strategy seeks to identify the need for regional cultural facilities and to reinforce local economic and tourism planning priorities.

5.16 In order to ensure that it maintains an awareness of arts issues at local government level, Arts Victoria needs to continue with the initiatives undertaken to date, but be more strategic in its implementation of Arts 21 in the local government sector. By enhancing relationships with this sector of the arts industry, Arts Victoria will also be able to plan more accurately for the arts on a regional level.

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

Strategies to address this issue are already in place and progressing well. Revised funding agreements with local government for grants to regional cultural infrastructure, completion of facility development needs analysis surveys that are currently under way, and wider promotion of the Arts 21 Local Government and the Arts Awards will provide the basis for strengthening the relationship with local government.

LEVEL OF SATISFACTION OF GRANT RECIPIENTS WITH SERVICES PROVIDED BY ARTS VICTORIA
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5.17 The recipients of grants provided by Arts Victoria are an important link in the implementation of Arts 21 and, as mentioned in an earlier paragraph, the Organisations Unit has been established to strengthen the focus on service delivery to recipients of annual and triennial grants.

5.18 During discussions with a sample of grant recipients, audit found that while there is a degree of satisfaction with the services provided by Arts Victoria, some recipients spoke of communication problems such as:

- a lack of information and contact during the first 6 month period of the restructuring of Arts Victoria;
- failure by Arts Victoria to adequately clarify its funding requirements and guidelines and the role of grant recipients within the strategic framework of Arts 21;
- insufficient feedback to unsuccessful grant applicants on the reasons for rejection of applications; and
- an absence of guidance with respect to the quality or appropriateness of information provided by funded non-government organisations in corporate and business plans, budgets and artistic reports, and how these documents can be improved.

5.19 As an initiative designed to establish the level of satisfaction of grant recipients with its services, Arts Victoria during November 1995, conducted a client services survey, by way of questionnaire, involving all grant recipients.



5.20 The purpose of the survey, as outlined in the questionnaire, was to provide an opportunity for organisations and individuals involved in the arts industry to evaluate the relevance and effectiveness of Arts Victoria's programs and services. A total of 191 completed questionnaires were received by Arts Victoria, representing a response rate of approximately one-third.

5.21 The questionnaire covered the important issues of:

- contact with Arts Victoria staff;
- Arts 21 developments; and
- programs of support.

5.22 Preliminary results of the survey developed by Arts Victoria in January 1996 incorporated the following information on Arts Victoria's assessment of responses provided from grant recipients:

Contact with Arts Victoria staff

In general, contact with Arts Victoria staff is rated favourably: 72 per cent agreed that staff were well-informed; 74 per cent that staff were accessible; 80 per cent that staff were helpful; and 84 per cent that staff were courteous. However, despite these favourable views more than half (57 per cent) believed that contact should and could be improved; the most commonly suggested improvement being more personal/ face-to-face interaction.

Arts 21 developments

There was a very high degree of awareness of Arts 21- 94 per cent with 91 per cent having read the document, although a few claimed to be unable to understand it.

Programs of support

- *Application process*

Almost all respondents (94 per cent) had read the Programs of Assistance booklet. Most (80 per cent) felt that the booklet provided a clear statement of Arts Victoria priorities, and most (79 per cent) thought the booklet provided helpful information to applicants. As to whether the application process should be improved: 44 per cent felt it should be improved, 33 per cent did not think the process required improving, and a significant number (24 per cent) felt unable to comment.

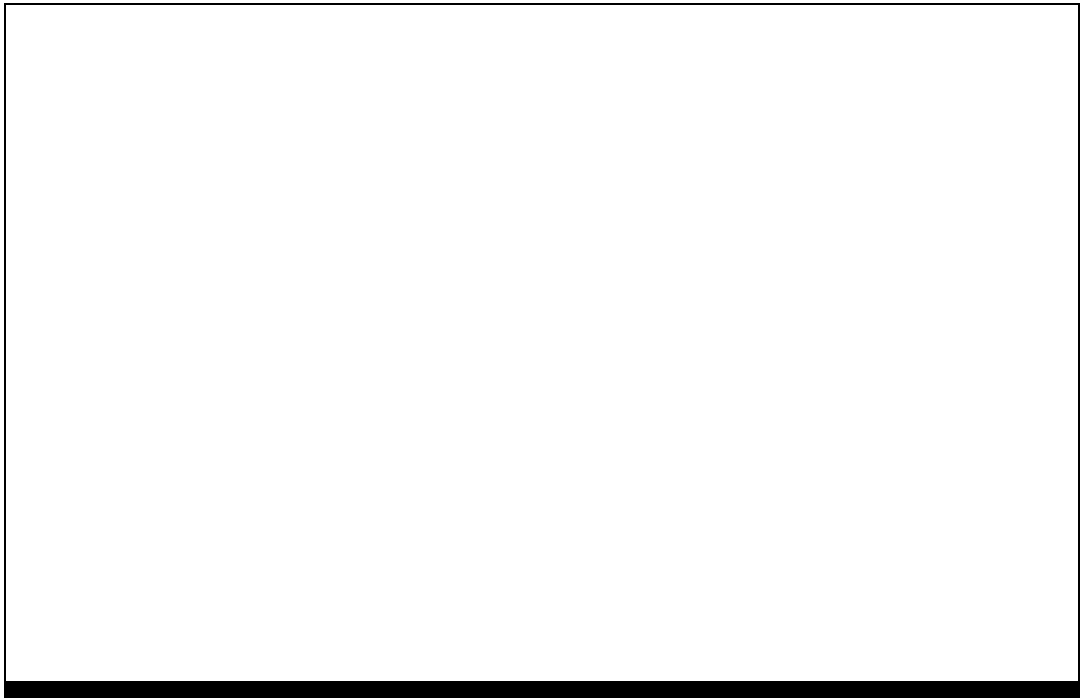
- *Assessment procedures*

Many respondents did not appear to be very confident about their understanding of the assessment process. Slightly less than 50 per cent felt that they had a good or excellent understanding of the process. Over one-third admitted to having a poor or very poor understanding of the process, and 15 per cent felt unable to comment.



5.23 Prior to the survey, Arts Victoria did not establish performance targets against which it could measure the survey results. In addition, because the survey responses were kept anonymous, there was no opportunity to determine whether the non-respondents had similar views to those who responded to the survey. From a methodology perspective, this situation was important because it meant that Arts Victoria could not identify whether there were significantly diverse views held within the non-respondent group which could influence the analysis of the views of respondents.

5.24 While audit was informed by both Arts Victoria and grant recipients that some aspects of the relationship with recipients had improved since the launch of Arts 21, the survey results indicated that some matters require further attention, including a continued lack of direct face-to-face contact by Arts Victoria staff with some organisations and the need to improve the application process and assessment procedures.



A selection of newsletters communicating the Arts 21 message to the community.

5.25 It will also be important that Arts Victoria establishes specific performance targets for the 3 categories of services provided to grant recipients, as identified in the survey questionnaire, as a basis for systematically measuring its effectiveness in this area.



5.26 Through its client services survey, Arts Victoria has identified the extent of levels of satisfaction of grant recipients with its services. Prior to that, in September 1994, a firm of consultants was appointed by Arts Victoria to undertake a *Communications Review* of the organisation and develop a communications strategy for Arts Victoria to follow in the future. While Arts Victoria has implemented some of the actions suggested in the communications strategy, it needs to ensure organisation-wide awareness of the strategy and the development of a plan to facilitate its implementation. Audit considers that this would enable Arts Victoria to manage its client relationships in a more systematic and strategic fashion.

5.27 To enhance its client relationships in the context of Arts 21, Arts Victoria needs to build on the knowledge gained through the communications review and the communications strategy, by developing a client management strategy which incorporates the following significant features:

- identification of key clients and their needs;
- strategies for meeting those needs either by category (such as major organisations) or individually;
- specification of respective client contact responsibilities within Arts Victoria;
- mechanisms for measuring the extent to which the management of client relationships progressively contributes to achievement of Arts 21 goals; and
- a client services charter.

□ *RESPONSE* provided by Secretary, Department of Premier and Cabinet

The communications strategy was reviewed and updated in January 1996, and the public affairs program restructured to deliver the new priorities for the strategy. Additionally, client managers are undertaking a program of visits to all annually funded organisations to identify key client needs, with a view to addressing priority needs through strategy to be incorporated in the 1996-97 business plan.

<p>IMPACT OF RESTRUCTURE OF ARTS VICTORIA ON CLIENT COMMUNICATION</p>
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5.28 Effective communication constitutes a key pre-requisite in the arts industry for maintaining awareness of issues, facilitating interaction between organisations and providing advice. It is vital that communication is open at all times to ensure organisations have ready access to assistance and advice.

5.29 One of Arts Victoria's major roles has been to promote interaction across the arts industry and maintain awareness of industry developments. Prior to Arts 21, contact with organisations and the industry was arranged according to art form such as dance, drama or visual arts, utilising staff with specific art form expertise and responsibilities. This expertise consisted of officers recruited because of their specific knowledge and expertise in a particular art form. Organisations had direct access to these staff members and were able to obtain specialist advice and input.



5.30 The internal changes resulting from the implementation of Arts 21 have affected clients and their contact with Arts Victoria. Staff changes resulted in many clients having to establish links with new staff as well as coming to terms with revisions to the grants process. While officers with expertise in some of the art forms remained, they were no longer responsible for the management of matters specifically relating to a particular art form.

5.31 For a period of approximately 6 months subsequent to the release of Arts 21, there was a reduced focus on client communication as Arts Victoria came to grips with a new organisational structure and the various tasks required to establish an appropriate management framework. This factor, together with the move away from operating according to art form, has led to a perception among some clients that they are no longer able to discuss specific art form issues with Arts Victoria staff.

5.32 While the results of the November 1995 client services survey indicated a high degree of awareness by clients of the Arts 21 document, feedback received by audit during discussions with organisations indicated that there is scope for Arts Victoria to improve its contact with clients to enhance their understanding of the principles of the strategy. Action in this area will be important, as effective implementation of Arts 21 will require that arts organisations and the arts industry have ready access to assistance and advice, to ensure that they accurately comprehend the objectives of Arts 21 and can apply them appropriately to the activities of their own organisations.

5.33 **In seeking to maintain appropriate links with non-government arts organisations, Arts Victoria needs to implement a communications framework that will, among other things, ensure that clients are clear about the new roles of Arts Victoria staff under Arts 21.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

Strategies to ensure strong lines of communication with non-government arts organisations, and high levels of awareness of Arts Victoria staff roles and processes, have been incorporated in the revised communication plan, and in response to the issues identified in the Client Services Survey.

Part 6

Performance measurement and evaluation



OVERVIEW

6.1 Arts Victoria is in the early stages of developing a performance and evaluation framework suitable for effectively measuring progress against the various objectives set out in Arts 21.

6.2 Its evaluative focus to date has centred around a listing of performance indicators recorded under an *Arts 21 Checklist* which has 2 major shortcomings in that it contains quantitative output indicators only and does not address qualitative measures of effectiveness or assessments of the outcomes or impact of Arts 21. A structured approach to performance evaluation of Arts 21 by Arts Victoria is also made difficult by weaknesses in the layout of the Arts 21 document, e.g. there is no clear connection between the 6 key strategies of Arts 21 and the objectives assigned in the document to the various arts agencies.

6.3 This Part of the Report includes suggestions from audit on avenues available to Arts Victoria for systematically appraising performance against Arts 21 from both industry and wider community viewpoints.

THE TRANSITION FROM IMPLEMENTING ARTS 21 TO ASSESSING ITS IMPACT

6.4 The focus of Arts Victoria since November 1994 has been very much on implementing Arts 21 rather than measurement of achievement of the strategy's goals.

6.5 In the Arts 21 document, the following 3 levels of evaluation are envisaged:

- *"as projects are completed, they would be appraised;*
- *each strategy would be reviewed annually, with major evaluations scheduled triennially in 1997 and 2000; and*
- *over the 8 to 10 year timeframe of Arts 21, the success of Arts 21 in achieving its outcomes would be monitored through the Arts 21 Checklist".*

6.6 Even though audit found that there was a strong awareness within Arts Victoria on the importance of progressively measuring the effectiveness of Arts 21, the 6 strategies set out in the document have not to date been subject to early evaluation by Arts Victoria and, at the time of the audit, plans for such evaluation had not been formulated. However, Arts Victoria has introduced a requirement that all new projects commenced under Arts 21 must include an evaluation component.

6.7 In terms of long-term evaluation of Arts 21, the document identifies the *Arts 21 Checklist* as comprising the following performance indicators:

An entertaining, creative industry - measured by:

- amount of new product developed and presented;
- growth in co-operative and joint ventures; and
- number of Victorian artists included in national and international awards.

A viable wealthy industry - measured by:



- trends for the capital base of the industry;
- numbers of arts companies with surpluses applied to growth or reserves;
- value of goods and services, turnovers and wage levels; and
- revenue generated from its own resources.

A confident, forward-looking industry - measured by:

- numbers of arts organisations with corporate and business plans and performance evaluation programs;
- labour force and employment trends across the industry; and
- value of products and services toured or exported.

A well-equipped arts industry - measured by:

- trends in expenditure on new and improved facilities, new plant and equipment; and
- rate of introduction of communication technology into product development and distribution.

A market-aware industry - measured by:

- rate of growth in marketing budgets and marketing sophistication;
- trends in audiences, and participation rates in education programs; and
- trends in return visitation and customer satisfaction.

A key contributor to tourism - measured by:

- increasing tourism component in attendances;
- increasing cultural packaging for the wholesale tourism market place; and
- tourist recognition of Melbourne as a cultural destination.

6.8 Since the release of Arts 21, Arts Victoria has moved through the development of a statistical framework to identify the means of progressively gathering data under the *Arts 21 Checklist*. While audit considers that the *Arts 21 Checklist* constitutes an initial step towards long-term evaluation of the strategy in terms of outputs, it has 2 important shortcomings, namely, it does not address measurement of the effectiveness of Arts 21 or qualitative assessments of the outcomes or impact of Arts 21.

6.9 As an illustration of the above shortcomings, the *Checklist* proposes that the move towards a *market-aware industry* be partly measured by trends in audiences at performances, but this information alone will not necessarily be sufficient for Arts Victoria to attribute any increases in attendance numbers to the effectiveness of Arts 21. Changes in attendance numbers would need to be monitored and analysed in greater detail to allow these connections to be made, if at all. This particular aspect of Arts 21 has been taken into account by Arts Victoria in its recent establishment of its Arts Marketing Taskforce which involves a \$170 000 commissioned research project to develop audience research and trend analysis data.

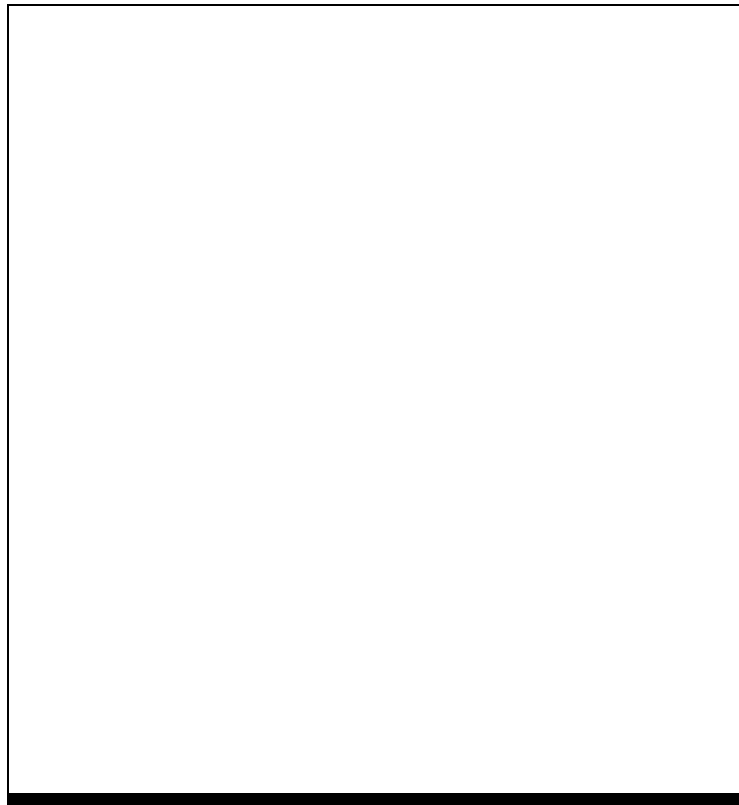
6.10 One of the difficulties likely to be encountered by Arts Victoria in its evaluation of Arts 21 is the absence of a direct nexus within the document between the



6 strategies and the performance indicators itemised under the *Checklist*. In fact, this characteristic extends to other information set out in Arts 21, e.g. there is no clear connection between the strategies and the various objectives which have been assigned to the arts agencies. Audit has suggested to Arts Victoria that this fundamental weakness in the structure of the document needs to be specifically addressed.

6.11 In addition to collecting statistical information through the *Arts 21 Checklist*, Arts Victoria should develop an evaluation framework which will ensure complete evaluation of each of the 6 strategies and make provision for triennial evaluation as originally planned.

6.12 Arts Victoria needs to ensure that qualitative information is collected in order to be in a position to systematically appraise the long-term performance of Arts 21. The nature of qualitative information to be collected will depend largely on the particular characteristics of each strategy. As a starting point, Arts Victoria needs to identify what outcomes, rather than outputs, are expected to result from each of the strategies of Arts 21 and then determine how these outcomes will be measured.



Photographer: John Marmaras

Melbourne Symphony Orchestra - a significant cultural icon for Victoria.

EVALUATION OF THE ARTS AGENCIES

6.13 As previously indicated under Part 4 of this Report, the Development of Arts Institutions and Resources Program is the Government's major arts program and the principal vehicle for allocation of funds to the arts agencies. Part 4 also commented that, although Arts Victoria had prime responsibility for the management of the Program, the key planning and resourcing decisions were in fact made by the Resource Management Division within DAST.

6.14 Audit found that neither the Resource Management Division nor Arts Victoria had specifically addressed the question of measuring the effectiveness of the Program. **With the emergence of Arts 21, it will be critical that Arts Victoria, in its pivotal role within the Arts 21 framework, reaches agreement with the arts agencies on the manner in which their overall performance against objectives assigned to them under Arts 21 is to be progressively monitored and measured.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet
Agreed.*

EVALUATING THE IMPACT OF ARTS 21 IN THE NON-GOVERNMENT SECTOR

6.15 Arts Victoria does not systematically monitor the performance of its funded non-government organisations as it believes that this responsibility rests directly with each organisation. As a result, Arts Victoria is unable to fully determine whether it is achieving its Arts 21 objectives for the non-government sector of the arts industry.

6.16 An indication of the importance of the objectives of Arts Victoria relating to non-government organisations can be gleaned from the fundamental purpose of the Development of Cultural Activities Program to *support the non-state government sector in the development and provision of cultural activities and facilities throughout Victoria*. The significance of the role of Arts Victoria in this area has been further reinforced under strategy 4 of Arts 21 dealing with the *Promotion of Leadership*. As identified in Arts 21, projects under this strategy will be designed to improve governance and management in the arts industry and to promote excellence.

6.17 In the 1996 Funding and Performance Agreements for non-government organisations, which Arts Victoria has introduced primarily to clearly establish the rights and obligations of funding recipients, there is a requirement for the organisations to provide specific performance information and additional statistical data as part of the *Arts 21 Checklist*.

6.18 Although the Agreements document a commitment from the non-government organisation to address Arts 21 strategies, the performance information required does not specifically relate to those strategies. For example, the outputs and outcomes required under the Agreements do not correspond to specific Arts 21 strategies and, as such, it is not possible to establish a direct link between the use of grant funds received from Arts Victoria and the achievement of goals under Arts 21.

6.19 As mentioned in an earlier paragraph, most of the information which will be gathered by the *Arts 21 Checklist* constitutes measures of outputs rather than measures



of outcomes. In terms of the non-government arts sector, the information required under the *Checklist* is unlikely to be suitable for measuring the impact of Arts 21 strategies which apply to the sector such as *Strategy 4: Promoting Leadership* which seeks, among other things, *to assist the development of management experience and new skills.*

6.20 As one of the main aims of the *Promoting Leadership* strategy is to improve the quality of management talent in the arts industry, Arts Victoria needs to ensure that performance measures are in place which enable it to determine whether there has been the expected improvement in management talent throughout the industry. Its work in this area would be assisted if the funding and performance agreements for non-government organisations contained a specific requirement for them to systematically measure the development of management competence.

6.21 While it may not be practical to gather the following information for all funded non-government organisations, Arts Victoria could measure management competency in the organisations on a case study basis initially and develop a survey to supplement case study material. Case studies could examine the following aspects of an organisation's operations:

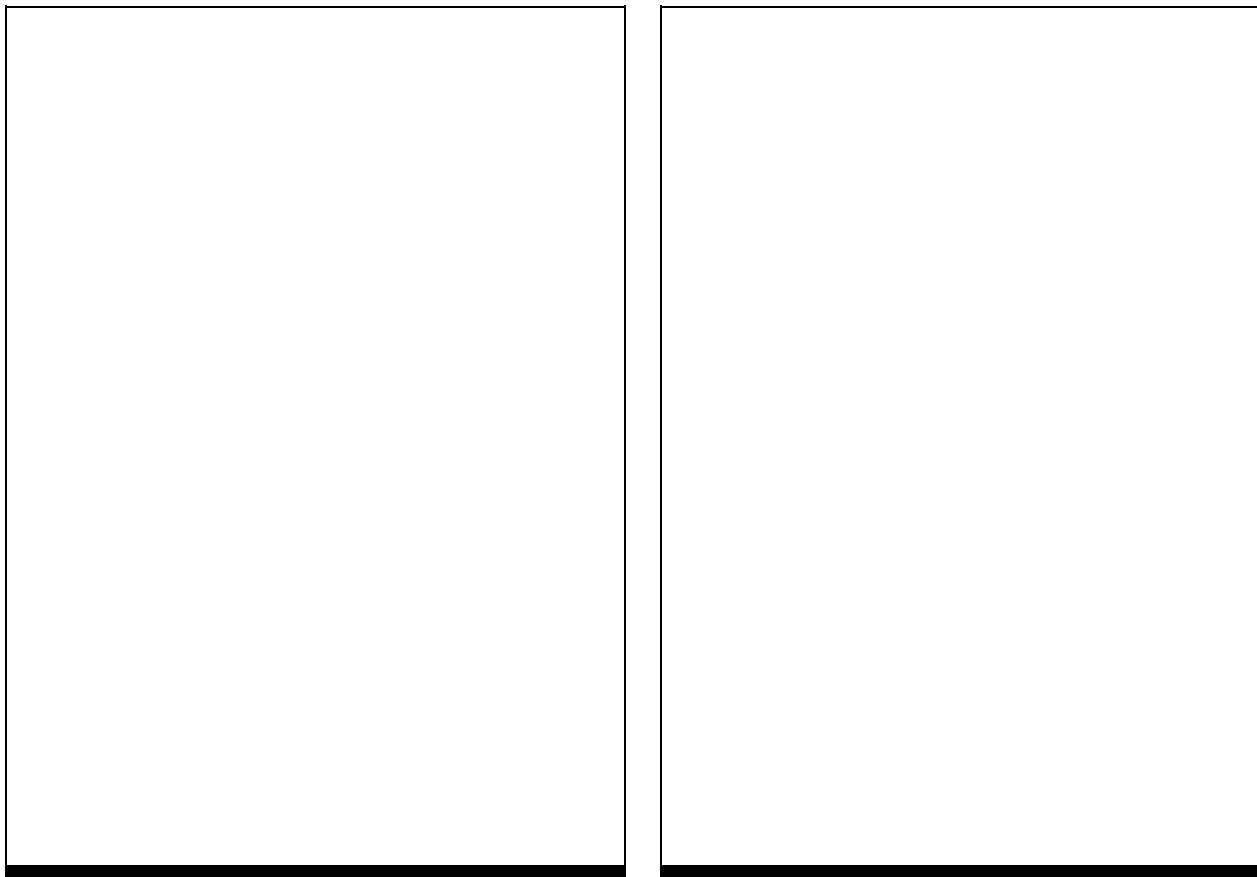
- quality of planning reflected in business and corporate plans;
- outputs and major activities linked to Arts 21 and other goals in corporate documentation;
- framework of performance measurement and evaluation;
- management within budget;
- extent of reliance on government funding compared with overall budget;
- quality and standing of artistic/creative work; and
- soundness of corporate governance.

□ *RESPONSE* provided by Secretary, Department of Premier and Cabinet
Agreed.

INDUSTRY-WIDE EVALUATION

6.22 Arts Victoria has undertaken or funded some studies to identify the economic impact of specific events such as the Comedy Festival. Apart from these particular studies, there has not been a great deal of emphasis directed towards evaluating and monitoring the arts industry with a view to constructing a consolidated picture of the industry.

6.23 Arts Victoria has an industry development role which obliges it to undertake across-the-board evaluation and performance measurement. This role emanates mainly from its key responsibilities associated with Arts 21, but also extends to providing a body of knowledge concerning the state of the industry and identifying priorities for future State-wide arts planning.



Solstice, Youth Theatre Project, City of Ballarat Community Arts, 1995.

6.24 The importance of industry evaluation as part of Arts 21 has been recognised by Arts Victoria in establishing an Industry Development, Research and Information Unit. Arts Victoria anticipates that the Unit will be instrumental in the development of a methodology for evaluating the arts industry.

6.25 Arts Victoria would be greatly assisted in its planning and resource allocation processes if it directed specific focus to:

- regular analysis of the economic impact of the arts industry and specific events;
- formulation of benchmarks for industry evaluation;
- community expectations of the industry;
- identification of status and overall position within each sector of the industry; and
- market research, including longitudinal trend analyses.

□ *RESPONSE* provided by Secretary, Department of Premier and Cabinet

The evaluation methodology being implemented addresses the 2 key issues, namely, the overall trends in the industry and its operating environment, and specific impact and effectiveness of each of the 6 Arts 21 strategies. The market research project has already been commissioned and does include longitudinal trend analysis.

MEASURING COMMUNITY EXPECTATIONS

6.26 Because of its industry focus, Arts Victoria does not often deal directly with the wider community. There is some reliance placed on the arts agencies and non-government organisations to undertake research that will identify customer requirements, however, on a broad policy scale, it is important for Arts Victoria to ensure that it has its own information about public expectations of the arts industry.

6.27 This point is particularly relevant given that both the arts agencies and non-government organisations tend to conduct research which involves existing customers, rather than periodic market research designed to identify *non-users* and their reasons for non-participation within the industry.

6.28 As a result, Arts Victoria's understanding of community expectations of the arts industry is not complete and is likely to lead to inadequate emphasis on community needs in Arts Victoria's program development as well in the identification of priorities for Arts 21.

6.29 **Arts Victoria needs to identify and take into account community expectations of the arts industry in its program development and formulation of priorities under Arts 21.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet
Agreed.*

Part 7

Management of the Development of Cultural Activities Program



OVERVIEW

7.1 The provision of grants, through the Development of Cultural Activities Program, is a primary vehicle by which Arts Victoria directly assists the arts industry. In its *Information for Applicants* booklet, Arts Victoria states that its various grant programs "*are designed to assist individuals and organisations to develop, present and manage projects, activities and services which will benefit Victorian artists, cultural organisations, and the community*".

7.2 Many Victorian arts organisations depend upon the financial support from Arts Victoria for their survival or for continued delivery of existing programs. Advance payments are made to organisations experiencing financial difficulties. In one case, an organisation receiving annual funding of in excess of \$200 000 has recently placed itself into voluntary liquidation, with related costs of administering the liquidation to be borne by Arts Victoria.

7.3 In the current circumstances, there is a clear risk that organisations regard their continued funding from Arts Victoria more in the nature of a subsidy than a means of delivering specific outcomes. Also, Arts Victoria is exposing itself to a perceived responsibility for the continued financial viability of non-government arts organisations.

7.4 In accordance with the objectives of Arts 21, Arts Victoria needs to continue encouraging organisations to become more self-sufficient by focusing on corporate governance, strategic planning and revenue generation. Audit believes that achievement of outcomes relevant to Arts 21 is the principal criteria by which organisations should be funded.

7.5 The audit concluded that stringent grants management practices consistent with accepted practice have not been developed by Arts Victoria. Arts Victoria intends to revamp several aspects of its grant management practices in order to improve its management and administration of the grants program. It also needs to more closely monitor the performance of funded organisations in line with the outcomes required under Arts 21.

DEVELOPMENT OF CULTURAL ACTIVITIES PROGRAM

7.6 The objective of the Development of Cultural Activities Program is to *support the non-State Government sector in the development and provision of cultural activities and facilities throughout Victoria*. This program, in conjunction with funding for the promotion of the arts obtained from the Community Support Fund, is the major vehicle by which Arts Victoria delivers the funding support for Arts 21 to the non-government sector.



7.7 In the past, all applications for funding from Arts Victoria were reviewed by peer assessment panels organised according to specific art forms. The principle underpinning peer assessment is that grant applications are assessed by fellow artists and representatives of the arts community with appropriate expertise and interest in the specific art form category of the applicant. Arts Victoria is currently reviewing the operations of these panels with the number of panels to be reduced from 7 to 3 or 4.

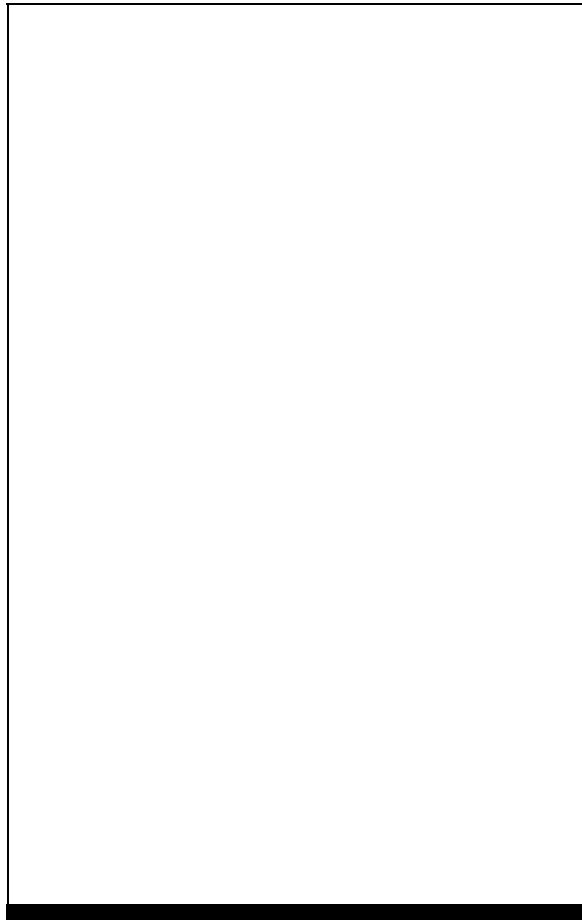
7.8 The 1995-96 budget for this program is \$44 million and the main categories and amounts of funding under the program are presented in Table 7.1 below.

TABLE 7.1
CATEGORIES AND FUNDING AMOUNTS FOR THE
DEVELOPMENT OF CULTURAL ACTIVITIES
PROGRAM
 (\$'000)

<i>Category</i>	<i>1995-96 budget</i>
Library services	27 180
Assistance to cultural activities - Grants	11 708
Regional art galleries, museums and regional performing arts centres - Grants	2 555
Arts Victoria operating costs	1 561
State Orchestra of Victoria - Grant	713
Regional and other minor project grants - (Arts Facilities Development sub-program)	510
Premier's Literary Awards	100
Total	44 327

Source: 1995-96 Budget Estimates.

7.9 The audit focused on the provision of grants to cultural activities, regional arts galleries, performing arts centres and regional projects under the Arts Facilities Development sub-program. These elements of the Development of Cultural Activities Program, which cover non-government organisations (including the local government sector), are the direct responsibility of Arts Victoria.



Photographer: Terence Bogue
Piece, by Stephen Benwell, Craft Victoria.

Past government and audit emphasis on management of grants

7.10 From as far back as 1986, the adequacy of managing grant payments to non-government organisations has been commented on in several Reports of the Auditor-General to Parliament.

7.11 In response to these Reports, the Department of Management and Budget developed in 1988, guidelines for the management of grants known as the *Uniform Application Procedures and Funding Arrangements for Non-Government Organisations*.

7.12 The guidelines applied to all budget sector agencies and were aimed at:

- streamlining funding application procedures;
- ensuring that the basis of funding is clearly defined; and
- establishing uniform financial accountability requirements.

7.13 Implementation of the guidelines occurred over a 4 year period from 1988-89, thereby allowing sufficient time for government agencies and non-government organisations to develop appropriate systems and mechanisms.

7.14 As part of the Government's emphasis on improved management and accountability, in December 1995, the Department of Treasury and Finance issued revised guidelines. The main features of the revised guidelines are:



- a move towards focusing on outputs and outcomes, rather than on the level of financial input;
- implementation of a productive, effective and realistic monitoring approach;
- updated and more flexible financial requirements with an emphasis on avoiding the imposition of unreasonable workloads upon non-government organisations;
- an increased emphasis on the legal nature of larger agreements and the treatment of capital assets purchased with government funding; and
- a continued emphasis on the need for proper accountability of government funds.

7.15 The revised guidelines envisage monitoring by the Department of Treasury and Finance.

PROVISION OF GRANTS

Annual and triennial funding to non-government organisations

7.16 Arts Victoria provides annual and triennial funding to 97 non-government organisations. Its *Information to Applicants* booklet states that these grants are intended to contribute to the "*core operations of an organisation to enable effective delivery of a planned program*".

7.17 There are presently 39 organisations funded triennially by Arts Victoria at an annual cost of \$8.9 million, and 58 organisations funded annually at a total cost of \$3.3 million.

7.18 Annually funded organisations must meet set criteria with respect to planning, budgeting, programing and management, and must also address at least 4 of the 6 Arts 21 strategies. Their funding is re-assessed each year based on assessments by Arts Victoria of previous compliance with grant conditions and satisfaction of funding criteria.

7.19 Triennially-funded organisations receive funding in the first year and projections of indicative funding for the next 2 years, with this commitment confirmed each year. These organisations must meet the same criteria as annual clients as well as preparing a 3 year corporate plan.

7.20 The provision of guaranteed funding to a large number of non-government organisations makes it imperative that Arts Victoria maintains regular and effective contact with these organisations. In addition, as the organisations receive funds for the year in advance based on their agreement to meet predetermined requirements, in particular goals relating to Arts 21, Arts Victoria has the responsibility to ensure that:

- adequate monitoring practices are followed;
- appropriate accountability frameworks are established;
- activities are linked to the achievement of goals relevant to Arts 21; and
- performance in the use of funds is measured against relevant benchmarks.

7.21 Audit examined a selection of annual and triennial grants made under the Development of Cultural Activities Program to measure the soundness of grant management practices of Arts Victoria. This examination identified the following deficiencies:

- monitoring of funded organisations did not ensure that they were adequately addressing Arts 21 strategies or fulfilling other grant conditions; and
- the absence of relevant benchmarks consistent with Arts 21 to monitor the performance of non-government organisations.

7.22 Audit was informed by the Organisations Unit of Arts Victoria that it intends to introduce the following measures to address the weaknesses in its management of grants:

- more closely monitor funded organisations, including identifying those that are in the most precarious financial circumstances and work with them to resolve their difficulties;
- strictly enforce the requirement for organisation to demonstrate adherence to acquittals (but annual reports will still generally suffice);
- ensure that grant conditions make organisations more accountable for their grants addressing Arts 21 strategies and conducting major reviews of triennial clients every 3-5 years;
- introduce relevant performance indicators and use them to monitor the performance of the non-government organisations; and
- implement performance agreements, which will consolidate all requirements of grant recipients in one legally enforceable document.

7.23 To achieve effective accountability by annually and triennially-funded organisations and to enhance its ability to measure the effectiveness of Arts 21, Arts Victoria should ensure that its grant management practices are upgraded and consistent with the Government's recently revised guidelines.

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

Grant management practices to achieve effective accountability by annually and triennially-funded organisations are being addressed through the strategy described in paragraph 7.22.



Project specific grants

7.24 For 1995-96 Arts Victoria has allocated \$1.5 million of the funding available from the Development of Cultural Activities Program for consideration of peer assessment panels. At the date of audit, 145 grants totalling \$1.1 million had been provided to individuals or non-government organisations for specific project purposes.

7.25 Arts Victoria requires that project grants address Arts 21 and that the grant be applied in accordance with the grant conditions.

7.26 An examination by audit of files relating to specific project funding indicated that Arts Victoria staff were often unaware of the status or progress of funded projects and that adherence to grant conditions was not always confirmed.

7.27 **Arts Victoria needs to place greater emphasis on confirmation of adherence to grant conditions by recipients of project specific grants.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

Projects currently under way to upgrade grants administration and records management systems and practices have been designed to address issues identified by management, and reiterated by the audit.

Arts Facilities Development Program (a sub-program of the Development of Cultural Activities Program)

7.28 At the date of audit, Arts Victoria had allocated \$390 000 through its Arts Facilities Development Program for the construction, improvement and refurbishment of arts facilities by non-government organisations. Grants up to a maximum of \$30 000 are provided under this program and are available only to non-government organisations. Applications may be submitted at any time throughout the year with applications and are assessed progressively by Arts Victoria.

7.29 Rather than working to a structured plan for the development of community cultural facilities within the State, and the provision of funding for related projects in accordance with set priorities, Arts Victoria follows a distinctly reactive approach in that it simply responds to applications for funding as they are received. In this way, applications are assessed on an ad hoc basis until funds in any given year are exhausted.

7.30 In addition, the lack of strategic thinking by Arts Victoria in this area makes it difficult for it to explore avenues for jointly funding, developing and planning arts facilities with local, other State and federal organisations.

7.31 Given that strategy 2 of Arts 21 is aimed at ensuring that Victoria has a range of world class arts facilities in regional areas as well as Melbourne, it is important that Arts Victoria is able to assure itself that the allocation of limited funds to the non-government sector in this area is targeted at the highest priorities.

7.32 **The use of a more strategic approach to the management of funding from the Arts Facilities Development Program would assist Arts Victoria in ensuring that such funding is directed to areas of greatest priority within the framework of Arts 21.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

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A VPS 5 position of Manager, Capital Works was created in January 1995 and filled in April, and will specifically address this issue.

Advance and supplementary payments to non-government organisations

7.33 Organisations in the arts sector continuously face the challenge of reconciling the task of producing artistic services or products with the goal of remaining financially viable.

7.34 Arts 21 aims to generate self-sufficiency within the arts industry by encouraging industry participants to focus on meeting the demands of clients and improving the quality of their governance and management.

7.35 Many non-government arts organisations funded by Arts Victoria are actually very small organisations which have always been or have become dependent on Arts Victoria for financial support. Other funded organisations remain in financial difficulty despite receiving assistance from Arts Victoria.

7.36 Arts Victoria has provided advance and supplementary payments to some non-government organisations experiencing financial difficulties and, in some instances, the provision of financial assistance has continued over a number of years. In this regard, Arts Victoria has identified 18, out of the total of 97 funded organisations, which are currently experiencing serious difficulties, primarily of a financial or managerial nature. In total, these organisations currently receive annual funding of approximately \$3.2 million, or 27 per cent of the aggregate amount made available by Arts Victoria to funded organisations.

7.37 In addition, one major non-government organisation which was established through State Government funding in 1987 and in recent years has received annual funding in excess of \$200 000, placed itself into voluntary liquidation early in 1996. The organisation's financial difficulties were advised to Arts Victoria as early as July 1994 and a decision was taken by Arts Victoria in recognition of these difficulties, at the time to advance an amount of \$120 000 against the organisation's 1995 allocation. A further advance payment of \$50 000 was made in December 1994 and the balance of the 1995 allocation (\$50 000) was forwarded in April 1995. Approximately one month after the latter payment, the Deputy Chairman of the organisation's Board formally advised the Minister for the Arts that the Board had decided the organisation could not continue to operate in its current financial position. Under pressure from the organisation's Board, Arts Victoria has agreed to meet the costs associated with the voluntary liquidation which, to the date of audit, total \$12 500.



□ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

The description omits 3 salient facts and as a result is misleading. Firstly, the organisation's financial difficulties were in part triggered by the decision to reduce the annual grant by \$120 000, without notice. Secondly, Arts Victoria was accordingly authorised to facilitate management of the consequential cash flow pressures, while the organisation restructured its operations to accommodate the new grant level. Thirdly, the organisation's directors (despite concerns advised by Arts Victoria) went ahead and mounted a full-scale festival in 1995. Shortfalls on income projections and through cancellation of some key events and sponsorships resulted in new trading losses that were outside the parameters of the agreed cash management plan, and could not be absorbed.

7.38 Arts Victoria continues to be seen as a financial saviour that arts organisations can turn to for help in times of cash flow or other financial problems. It has, in effect, been reluctant to refuse funding because it has been wary of the likely direct consequences for the arts industry such as organisations forced to wind up, poor publicity, impact on industry confidence, job losses and accusations of lack of support from government.

7.39 By continuing to fund non-government organisations which are financially vulnerable and dependent upon it for a significant proportion of their operational budgets, Arts Victoria is exposing itself to a perceived responsibility for the continued financial viability of non-government arts organisations.

7.40 Arts Victoria should cease the practice of providing advance or supplementary payments purely on the basis of financial difficulty and, in line with Arts 21, adopt policies and practices which encourage the financial independence and viability of non-government organisations. This approach could include training and support for non-government organisations in the following areas:

- education programs for CEOs and Board members on corporate governance;
- marketing and sponsorship development; and
- strategic planning, resource management and financial management and reporting.

□ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

Strategies such as those proposed are integral to the Arts 21 Leadership program, the annual-triennial funding agreement methodology, and related initiatives currently being implemented. It is unrealistic to assume that all financial risks can be removed, given the nature of the trading environment and the generally low level of capital reserves in NGOs. When financial difficulties occur, Arts Victoria as the principal financier will be required to analyse the cause and provide advice on the options and strategies available to the Government.

NEED FOR MORE EFFECTIVE MONITORING PRACTICES

7.41 The 1995 government guidelines emphasise the importance of sound monitoring practices for grants in the following terms, "... it is expected that any agreement between a Government agency and a service provider should set out a clear monitoring process ... agencies with a significant involvement in the non-government sector would be expected to have in place a comprehensive monitoring system which measures performance against targets and this system should also be outlined in the Department's Business Plan ...".

7.42 Arts Victoria does not presently have a comprehensive plan for monitoring non-government organisations receiving annual and triennial funding. Its monitoring practices are primarily geared towards intervention after a problem has surfaced rather than identification of an impending problem and pro-actively assisting the non-government organisation to resolve that situation.

7.43 Consistent with the discussions under the previous heading, closer monitoring of funded organisations by Arts Victoria would assist it in working with organisations experiencing financial difficulties to identify early solutions to those difficulties and, as a consequence, help to protect the related investment of public funds by Arts Victoria.

7.44 In addition, the limited monitoring undertaken by Arts Victoria does not provide assurance that funded organisations are fulfilling their commitments to the strategies of Arts 21.

7.45 The limited approach to monitoring of grants by Arts Victoria is evidenced by the use of a document which Arts Victoria refers to as a Monitoring Plan which in audit opinion is superficial and shows no more than the current position of a number of organisations that are financially or organisationally vulnerable. In addition, the document makes no provision for monitoring by Arts Victoria of other funded non-government organisations. Apart from the Monitoring Plan, there is no other formal management approach followed within Arts Victoria for the systematic oversight of the activities of funded projects or non-government organisations.

7.46 As mentioned in Part 2 of this Report, Arts Victoria in response to Arts 21, is committed to moving from a grant provider role to one which engages in strategic partnerships and provides general industry assistance. With this approach, direct contact with organisations will become a primary task as the focus shifts towards the quality of industry development and achievement of Arts 21 goals. This emerging environment will require Arts Victoria to be much more diligent in monitoring the activities of grant recipients to ensure that agreed funded activities are successfully undertaken and that the goals of Arts 21 are achieved.

7.47 **Arts Victoria needs to adopt a more structured approach to the monitoring of funded non-government organisations, including the progress made by such organisations towards achievement of outcomes under Arts 21.**



□ **RESPONSE** provided by Secretary, Department of Premier and Cabinet

Following introduction of new funding agreements in 1995, and the revised program structure scheduled for introduction from July 1996, Arts Victoria will have in place the 2 critical prerequisites to adopting the approach proposed.

Need for greater alignment of grant funding with Arts 21

7.48 Following its establishment in January 1995, the Organisations Unit assumed responsibility for evaluating which non-government organisations should continue to receive annual and triennial funding from 1996. Although the Unit conducted a brief review of the funding of each organisation, there were few resulting changes to the funding base, with Arts Victoria electing to continue to fund most organisations according to existing funding levels for at least the remainder of 1996.

7.49 In effect, although Arts Victoria has undergone a major restructure following the introduction of Arts 21, funding of non-government organisations has continued on a basis similar to the position in place before Arts 21. Rather than systematically re-assessing the ability of each organisation to deliver a range of new and advanced outcomes under Arts 21, Arts Victoria has simply classified all organisations and their activities according to the various Arts 21 strategies.

7.50 While change in this area will necessarily take time, the above approach indicates that Arts Victoria has not yet completely aligned its grant programs to the new focus brought by the introduction of Arts 21.



Performance by Circus Oz.

Photographer: Ponch Hawkes

7.51 Audit is aware that a large number of arts organisations are dependent on the funding received from Arts Victoria to continue their operations. Under these circumstances, there is always a risk that such organisations will regard their continued

funding more in the nature of a subsidy from Arts Victoria than a means of focusing on the delivery of specific outcomes.

7.52 The continued funding of organisations on the above basis is also contrary to the Government's guidelines, referred to in an earlier paragraph, which require "... *Government Departments to specify an agreed output of service to be provided and wherever possible, a unit cost should be related to this output ... such an approach also requires a move away from the arrangements where grants are calculated on some historic formula or represent merely a contribution to the operating costs of an organisation*".

7.53 While recognising that any variations to funding to many organisations would have serious short-term consequences, audit believes it is vital, in terms of the long-term implementation of Arts 21, that Arts Victoria determines whether its overall management of the grants program is conducive to maximising achievement of its strategic goals established under Arts 21.

7.54 **In summary, Arts Victoria needs to assess whether the continued provision of funding (\$12.2 million in 1995-96) to 97 non-government organisations is the most effective method of harnessing the activities of the non-government sector under Arts 21.**

□ *RESPONSE provided by Secretary, Department of Premier and Cabinet*

The Government has recently reaffirmed its commitment to continuing support for non-government arts organisations. Identification of which organisations are best placed to deliver the Government's objectives is a continuing requirement which is addressed through the performance evaluation and assessment process, and industry sector review forums.

OTHER MANAGEMENT ISSUES

Need to upgrade grants database

7.55 Arts Victoria maintains a database record of all grants made to non-government organisations since 1992. The database contains details such as grant applicant or recipient, grant amount, project completion date and contact details.

7.56 The grants database was intended to be a valuable tool available to Arts Victoria for recording details of grants, monitoring the use of funds and managing the grants program in the context of Arts 21.

7.57 As outlined in earlier paragraphs, grant recipients are required to submit financial and evaluative information at the end of a project or financial year to demonstrate adherence to grant conditions. In this regard, one of the database's primary purposes is to identify, through exception reporting, those grant recipients who have failed to submit the required information to Arts Victoria by the due date.

7.58 An examination by audit of reports produced from the database showed that the information recorded within it was both incomplete and inaccurate. For example, some grants were either not recorded or were listed in the wrong category. In addition, the database showed that for some grants, information had been received from



recipients to demonstrate use of funds for intended purposes when, in fact, no information had been submitted to Arts Victoria.

7.59 It was clear to audit that the grants database was not functioning as an effective management tool.

7.60 Arts Victoria has advised audit that it intends to replace its existing database software. It will be important to ensure that the new software provides for accurate recording of client and project details that adequately assist in the management of these grants and in managing client relationships. To be effective, the new database will require regular updating by the relevant organisational units within Arts Victoria.

RESPONSE provided by Secretary, Department of Premier and Cabinet
Agreed.

Poor file management practices

7.61 Arts Victoria maintains files pertaining to administration of the arts portfolio. These include files kept for each organisation or project that is funded, specific projects or initiatives undertaken by Arts Victoria, the arts agencies and budget matters.

7.62 The maintenance of adequate file records should be a priority function within Arts Victoria, given its extensive contact, both formal and informal, with the arts industry. Such records serve to justify expenditure, evidence decisions, review performance, and assist in future planning.

7.63 Audit found that record keeping and file management practices within Arts Victoria were very poor. A failure to record details, including dates, of client contacts, memorandums, and file notes was of particular concern. In addition, files reviewed by audit contained multiple copies of many documents and failed to account for current developments or recent events.

7.64 Audit also observed that it was common practice for some staff to maintain unregistered files containing official documents for their own personal use. In discussions, audit conveyed the view that this practice should be discouraged as sometimes critical information would not be available for use by other Arts Victoria staff.



7.65 Arts Victoria needs to develop and implement a records and file management policy for all staff which ensures:

- effective control over organisational information; and
- the maintenance of complete and accurate records dealing with all significant corporate decisions and events.

□ *RESPONSE* provided by Secretary, Department of Premier and Cabinet

A project to upgrade records management policy and practices was initiated through DAST in September 1995. The project is currently being adopted to accommodate the DPC environment. It will enable the issues identified by management, and reiterated by this audit, to be addressed.