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The funding mix for arts organisations

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“It’s important to recognise that changing an organisation’s funding mix takes time and investment.”

What is the funding mix?
— introduction

Financial sustainability and resilience are benefits of having a mix of different sources of funding for your organisation.

In addition to the traditional grants, arts organisations use a diversity of funding including earned (traded) income, private and corporate donations, sponsorship and crowdfunding as ways of financing their operations. Trustees / directors may also be considering borrowing or using equity investment to finance growth. **The blend of these is the organisation's funding mix.**

Assessing your current funding mix

To assess your organisation's current funding mix look back at the previous year's accounts or management accounts and the business plan (if you use them) and answer the following questions; you may find a spreadsheet helpful.

- How many **separate types of income** did the organisation have?
- What **proportion** of its total income did each account for?
- Within each type of income how many **sources** of that income were there, e.g. trusts and foundations — five different trusts in last financial year, etc.?
- Does the majority of the organisation's income come from just a few sources or is there a **broad portfolio**?
- Is there any income (multi-year grant, investment income) that is **certain** going forward?
- How much **control** do the team have over bringing this income in, e.g. trusts and foundations project funding — **low control**; income from regular giving — **high control**?
- Is there a **development plan** for finding new income to meet existing and future financial needs?
- Has it planned how it will **grow** its income or increase the **diversity** of income streams (if applicable)?
- If the organisation wants to grow, could this be funded by a **new source** of finance such as loans or investment?

You could also look at the following measures of financial strength:

- Does the organisation have **reserves** / **retained** profits?
- How long could it fund **operations** from reserves?
- Is there a **reserves policy** (a plan for what reserves should be and how they will be held)?
- What **fixed assets** does the organisation have, and what is their current value?
- What **debts** / **liabilities** does the organisation have?
- What is the **ratio** of debts to assets?

With your trustees or directors you can use this data to make an assessment of your organisation's financial resilience and consider its funding policy.

You may find **strength checker** tools useful to have a rating of your organisation's resilience such as:

Strength Checker for Heritage Organisations
www.resilientheritagechecker.org.uk

Strength Checker for Voluntary Sector Organisations
vcsestrengthchecker.org.uk

Think about...

Should the organisation be looking to diversify its income?

Is it in a secure or precarious financial position?

Does the organisation need to boost its earned income and is there a plan in place to do this?

What does a healthy mix look like?

There is no one formula for a healthy mix; it's whatever is right for your organisation. However some indicators of a healthy mix are:

— has **multiple funding types**

— within these, has **multiple sources** of funding (i.e. multiple trusts and foundations, multiple private donors, etc.)

— some or most of the funding is confirmed across **multiple years**

— team has **high control** over at least some of the organisations funding (so it's not all left to funding applications)

— has a **reserve** to cover any gaps in funding

— when **benchmarked** against similar types and sizes of organisations the organisation compares or betters the 'average'

— has a development plan for **generating new sources** of funding.

It's important to recognise that changing an organisation's funding mix takes time and investment.

“Arts organisations [feel] like they are failing if they are not developing fundraising on every front — trusts, individuals, corporates, crowdfunding and social investment — and too often this stretches already tiny resources so thin that nothing meaningful is achieved ... it’s much better to focus on two key areas and to build the relationships and depth needed, than to over-promise across several fronts.”

Michelle Wright, Cause 4
now/new/next
Arts Fundraising and Philanthropy’s
online magazine

With that in mind, a strong plan for getting the funding mix right would include training for staff, volunteers and trustees, a focus on specific measurable and limited targets; possibly a budget to access advice and expertise and finally enough time to implement the plan.

In terms of benchmarking, resources such as Arts Council England's **Private Investment in Culture Survey** (2016) can be useful for comparing the distribution of private income (from business, trusts and foundations and private individuals by art form and region) with other organisations.

And Arts Council England's **2016-17 Annual Submission Headline Statistics** provides a detailed analysis based on their own 649 National Portfolio Organisations' funding, showing:

— Earned Income **52.4%** (up 4.4% on previous year)

— ACE Subsidy **24.2%** (down 1.3%)

— Contributed Income **12.9%**(up 3.1%)

— Local Authority Subsidy **6.8%** (down 9.9%)

— Other public subsidy **3.8%** (up 3.6%)

This is helpfully organised by art form, region and organisation size and diverse-led to provide more accurate comparison between organisations.

Alternative funding

In addition to open application arts grants and grants from trusts and foundations arts organisations may look to generate earned income such as consultancy income, income from events, rental income or retail income with support from loans or investment, or to generate corporate or individual donations.

Here is a quick list of ideas of where to get such funding and some of the opportunities and issues this presents.

Type of funding	Where to get it	Opportunities	Issues
Borrowing	• High Street bank: Barclays, HSBC, Santander, Lloyds, RBS • Challenger bank: Metro Bank • Social / alternative lender: Responsible Finance, Fredericks Foundation, London Small Business Centre, Arts Impact Fund (All CU Partners) • Charity / ethical bank: Triodos (CU partner), Charity Bank • Peer-to-peer: Ratesetter (CU partner), Funding Circle • Other: Invoice Finance, Asset Finance	• Relatively quick and easy to find • Varying amounts £5,000 — £1million plus • Can use payment holidays or partial drawdown • Buying a fixed asset like equipment or buildings • Expansion where you need capital for a fixed-time (one to five years) • Working capital — access to money before income is realised, e.g. hiring staff to fulfill a contract • Good for low risk activities • Fixed cost	• May need collateral • Commercial experience and trading history • Affording the repayments of the sum borrowed with interest • Producing cash flow forecasts • Producing a strong plan to deliver the new business • May not be suitable if the income is unpredictable or the plan is speculative

Investment	• Private investors such as Business Angels or other experienced investors perhaps using EIS/SEIS, see also MeWe360 an incubator for creative businesses that has received ACE funding • Other Businesses e.g. Joint Venture with another company • Funds: Venture Capital Trusts, Investment Funds • Social Investors: Big Issue Invest (CU Partner)	• Suitable for higher growth and higher risk businesses • Offers a longer time to generate returns • When substantial funds are needed for expansion and don't have assets • Investor can offer business advice and incubation	• Pitching and due diligence process can be onerous • Is the idea scalable? • Less obvious where to go • Inequality of opportunity (much more dependent on contacts) • Lower chance of securing money • Reporting and delivery can be extensive
Donations	• Private individuals: existing subscribers, high net worth individuals, charity fundraisers, legacies, crowdfunding • Corporate Donors: CSR, company giving or sponsorship (earned), chambers of commerce, local business partnerships	• It doesn't need to be repaid. • Potentially unrestricted core funds • Potentially unlimited amounts • Cost of fundraising • Can be driven via social media / crowdfunding campaign or individual approaches — or both • You are developing a diverse network of donors, which builds resilience	• Stewarding — managing the relationships • Moral and ethical issues: must adhere to data protection and fundraising code of practice • Struggling to 'make the ask' • May need to be a charity with the tax benefits that offers donors • Costs of fundraising and time to generate return — can be resource heavy • Can be unpredictable

Summary

- Benchmark against peers
- Never just one type of funding
- Usually more than one source of funds
- Balance resources with likely outcomes (focus on a small number of areas)
- Earned income is the highest growth area
- Plan long-term to build up new income streams over two to five years
- Consider skillset, upskill where needed
- Have robust long-term plans — plan should drive funding rather than short-term chasing funds.

Links

- Wright, Michelle; **What's Surprising In Arts Fundraising** in *Now, New & Next* magazine, (Autumn 2016) 2nd edition, Trends, Statistics & Expertise for Arts & Cultural Fundraisers
  Published by Arts Fundraising & Philanthropy
  artsfundraising.org.uk/now-new-next/

- **Tips on evaluating the funding mix**
  knowhownonprofit.org/how-to/how-to-how-to-make-a-start-evaluating-your-funding-mix

- **Research on non-profit funding**
  data.ncvo.org.uk/a/almanac14/how-has-the-funding-mix-changed/

- **Easy Money? The Definitive UK Guide to Funding Music Projects**
  using grants, investment, crowd funding, sponsorship and loans
  www.musictank.co.uk/product/easy-money-the-definitive-uk-guide-to-funding-music-projects/

- **Understanding social investment**
  www.goodfinance.org.uk

- **Report on fundraising in the regions**
  www.culturehive.co.uk/resources/philanthropy-and-fundraising-in-the-regions/

- **Private Investment in Culture Survey**
  www.artscouncil.org.uk/publication/private-investment-culture-survey

- **Economic contribution of arts and culture**
  www.artscouncil.org.uk/economic-contribution

- **2016-17 Annual Submission Headline Statistics**
  www.artscouncil.org.uk/sites/default/files/download-file/2016_17_Annual_submission_headline_statistics_Jan18update.xlsx

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