

The Art of Living

A provocation paper by John Knell for

Mission, Models, Money

Catalysing a more sustainable arts and cultural sector

March 2007

Acknowledgements

This piece has been commissioned by Mission, Models, Money (MMM), a national action research programme and campaign for change committed to exploring radically different conceptions of how the arts and cultural sector might operate in order to become more organisationally and financially sustainable.

This document should be read as a companion piece to MMM's newly published report on '*New and alternative financial instruments*', and thanks to Margaret Bolton, David Carrington and the broader MMM team for the quality of that work and for ensuring that it has informed the thinking being presented here.

The analysis does not claim to be a comprehensive review of arts and cultural sector funding in the UK or internationally, although it draws broadly on a range of relevant literature. Rather it is an attempt to make flesh a more progressive vision of how our existing mixed economy of arts and cultural funding could operate in England.

I would like to thank Clare Cooper and Roanne Dods, Co-Founders and Co-Directors of MMM for commissioning this work and for their vital intellectual contributions and unfailing support.

The analysis is based on MMM's evidence from its Action Research programme and a range of expert interviews and focus group sessions, which have been conducted under the Chatham House Rule. Focus group were held with three out of the four funding communities identified by MMM as the principal financial supporters of the sector; individual donors, charitable trusts and foundations, and business. Individual conversations were held with various practitioners working in the public sector funding system. Producers, artists and organisations in receipt of this mixed economy of funding were also consulted.

A wide range of individual experts also greatly improved the analysis by talking through the ideas with me, and I would particularly like to thank Dawn Austwick, Robert Dufton, Vernon Ellis, Graham Hitchin, Kate Oakley, Dick Penny, Sara Robinson, Naomi Russell and John Tusa for their insights and encouragement.

I would like to thank all those who gave so generously of their time and ideas.

Of course, all errors or omissions remain the author's own.

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March 2007

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Introduction: The Art of Living

Why 'The Art of Living'?

In 2005 Mission Models Money commissioned me to write a provocation exploring whether or not the portfolio of arts organisations in the UK had become too fixed. I playfully called the piece '*The Art of Dying*' because my argument was that we need to challenge more directly the mindset common across the sector that it is wrong, and indeed a cultural crime, to let an arts organisation die.

But the deeper conclusion of that analysis was that sector was not living well, and that the debate about cultural funding was too narrow, informed by a lack of radicalism about how the sector thinks about the future and plans for the present. I predicted that real progress would be dependent on a shift in the psychological mindset of the arts.

This provocation is therefore a welcome return to unfinished business – with a focus this time on how the arts and cultural funding ecology might be transformed to ensure that our cultural organisations begin to live a little better. The '*Art of Living*' its natural title.

And yet at face value the timing may seem a little strange. The normal advocacy frenzy that accompanies any Comprehensive Spending Round means the arts are understandably intent on celebrating achievement, not reflecting on weakness. Prime Minister Blair has belatedly added achievements in the arts to his legacy list, pronouncing earlier this month that the last ten years have been a 'golden age' for the arts¹. The renaissance has been both national and regional. Box office numbers in the seven major regional theatres have risen by nearly 40% on five years ago. At the same time the RSC sold more than half a million tickets for its shows in London and Stratford-upon-Avon; and visits to national museums have risen by almost 30 million.²

These recent achievements are impressive. That increased funding has helped to produce them is undeniable. But this success hides a more sober truth – that these achievements have been achieved despite of, rather than because of, our current arts and cultural funding ecology.

The last ten years has seen increased funding to the arts – we have not yet seen the arrival of smarter funding.

¹ Prime Minister Tony Blair (2007) '*Cultural Speech at Tate Modern*'

² DCMS (2007) '*Culture and Creativity*'

The fact that a doubling of government funding and healthy increases in other contributed income to the sector has helped produce better outcomes is hardly a revelation. The more worrying trend of the last ten years has been the entrenched accommodation of the arts and cultural sector to the dysfunctional funding ecology that sustains it.

A dangerous culture of accommodation

An intellectual and policy project usually starts with a groundswell of enthusiasm and support before the ennui sets in - well mine do anyway.

This one was rather different – not so much the chill winds of indifference – arts and cultural funding arouses plenty of passion – but the clear whiff of resignation and fear. To give you a flavour of some of the early comments I received:

‘You’re not going to write about the arts funding system are you? What are you going to call this one – Who Cares Anyway?’

‘Oh for god’s sake don’t try to change the funding system. The one we have is terrible – awful in fact. But we all know how to play the game and if you did manage to change anything it would undoubtedly end up being worse than what we have already’

This all left me feeling rather intrigued – the majority of people we consulted are in favour of change and reform, yet they appear unwilling to devote energy, creativity, or political capital to this task.

This apparent paradox of inaction stems from a strong culture of accommodation to the current funding ecology across the sector - which has both hyper rational and deeply emotional roots. Rational in the sense that many in the arts clearly believe that in a mass consumerist democracy, the current arts funding settlement from government is about as good as it gets, and further reform and tinkering will just further disrupt the quality of decision making and activity. They are committed to living well within the current system, rather than changing it.

Another rational aspect underpinning this accommodation is the perception that the funding system has become relatively immune to reform - with most believing that the key public and

private sector players; business, charitable trusts and foundations, and individual donors who support the arts will continue to do their own thing as they have always done. Slow moving tankers are hard to deflect.

But the accommodation also has emotional roots. The sector is full of fragility and fear of punishment. As respondents commented:

'We don't challenge but there's a reason – we fear that if we raise our voices too loud they could cut us even more'

'Arts leaders won't speak out about the system's failings because they're scared of being punished by politicians, and prescribed by the Arts Council'

'Of course I'd like to be tougher with our business sponsors but the inescapable truth is that unless I'm an effective hospitality professional then I can't be an arts professional'

Clearly, my own ennui would have to wait – there's far too much of it already flowing around the funding system.

This piece aims to briefly explore the reality of the current mixed economy of arts and cultural funding in the UK with particular reference to England and offer some thoughts on how it could be different. In doing so it starts from the inexorable truth that structures influence behaviour; that as Andrew Taylor has underlined "the shape, distribution, and flow of financial resources have a dramatic influence on behaviour by individuals, by organisations, and by communities."³

The behaviours and mindsets being reinforced by our current funding ecology need to be challenged, and require two sets of responses. The first requires all of the funding communities to transcend their recidivist tendencies and embrace a set of mechanistic changes to current funding practice that would do much to transform the arts and cultural funding ecology. We outline these steps in Chapter Two.

³ Andrew Taylor (2006) 'Three (short) detours back to public value' National Assembly of State Arts Agencies Leadership Institute, Anchorage, Alaska, September 19th 2006

But if funder and funded alike are to create a more vibrant, more sustainable arts and cultural ecology in the UK, they must do more than simply refine the workings of the current funding ecology. They must embrace the possibility of more fundamental shifts in mindset and behaviour – which are required to contract with the future more imaginatively and grasp the opportunity to create new paradigms to support a healthy arts and cultural ecology. We explore the necessary steps in Chapter Three.

The concluding chapter will explore how best to galvanize the collective efforts of the funding community to these ends – the sector requires its own Kyoto treaty on cultural funding and aspiration.

But we begin, as we must, with a brief description of the UK's arts and cultural funding ecology.

Chapter 1

Understanding the UK's arts & cultural funding ecology

1.1 The mixed economy model

*'Britain's funding model is, if not the best of all possible worlds, certainly one that should be treated with a basic respect for the pragmatic balance it strikes between the state and the market'*⁴

*'Our booming arts economy is wonderfully mixed up. Glyndebourne, for all its self-sufficiency, employs two orchestras that rely on subsidy for their year-round concerts. The West End habitually takes shows which the National or the Donmar has developed in rehearsal for six months, a level of preparation untenable in the commercial theatre.'*⁵

A wide range of institutions and actors fund the arts in England, spanning the public, private and third sectors. As a consequence the system is usually described as a mixed economy funding model encompassing public funding, primarily through DCMS via Non Departmental Public Bodies (NDPBs) such as Arts Council England (ACE), Museums, Libraries and Archives' (MLA) Renaissance in the Regions and others and Local Authorities, charitable trusts and foundations, business sponsorship and individual giving. In addition of course, arts and cultural organisations seek to earn revenue through the box office and complimentary commercial activity.⁶

There is now considerable consensus that the mixed economy model is desirable offering both a plurality of funding sources and a diversity of funding schemes. This is seen as particularly attractive given that levels of contributed income (income from grants and fundraising) to arts and culture have traditionally been subject to significant cyclical variations – swinging between mild and severe famine.

⁴ Adrian Ellis (2004.4) 'New Approaches to sustaining the arts in the United Kingdom' Mission, Money, Models.

⁵ Norman Lebrecht (2006) *'Time to break the stranglehold of state funding'*

⁶ MMM have adapted the NCVO's income spectrum model for the arts and cultural sector. This recognizes a spectrum of funding types from philanthropic gifts, grant funding, social investment, loans, service contracts, sponsorship, through to straight commercial operations. See MMM (2006) *'How can we support a healthy ecology of the arts in the UK?'*

The current New Labour government has presided over a comparatively 'generous' period of public support, buttressed by funds from the National Lottery, which is seen as having stabilized the sector after years of under investment.

1.2 Overall levels of funding

During this last Spending Round Arts Council England annually has received on average more than £410 million in parliamentary grant-in-aid and has distributed an annual average of £180 million from National Lottery Funding in each of the three years between 2003/04 through to 2005/06.⁷ DCMS provided direct grant-in aid funding of £320 million in 2006/07 to museums and galleries.⁸ The other main source of public funding is provided by Local Authorities whose total spending on sport, museums and libraries, parks and the arts was £4.37 billion for the financial year 2003/04.⁹

The other key players in the funding system are businesses, individuals and charitable trusts and foundations. In terms of business support, it is estimated that contributions from business totaled £119.2 million in 2004/05. Trust and Foundation contributions totaled £88.7 million in the same period. Individual giving contributed £244.2 million in 2004/05, and has displayed a continuing upward trend since 2001/02, increasing by more than 43%.¹⁰ Therefore the total amount of non public source investment in the arts in 2004/05 was £452 million.

As these figures reveal, the vociferous debate about the appropriate levels of public support for the arts has tended to obscure the importance of other funding communities. Indeed, given the importance of their contribution to the health of the arts and cultural sector, it is remarkable how little attention is given to their activities, with UK wide public debate about cultural funding largely dominated by discussion of the relevant Government and NDPB cultural strategy and funding policy. Why is the focus of debate and critical analysis so unbalanced?

⁷ See Sara Selwood (2007) 'Public Funding, Private Contributions and Arts and Business' (appendix five) Arts and Business

⁸ See www.culture.gov.uk/What_we_do/Museums_galleries/sponsored_mg.htm

⁹ See J. Holden (2006) 'Local Authorities: A Change in the Cultural Climate', Demos, for a discussion of available data sources and recent trends.

¹⁰ Arts & Business (2006) 'Private Investment in the Cultural Sector 2004/05'. Arts & Business conduct an annual survey of arts organisations across the UK to ascertain their sources of funding and their relative contribution

1.3 Why the obsession with public support?

Firstly, because the overall level of public purse contribution to arts and culture is the largest and often taken as the key barometer of how much we as a society value arts and culture.

Secondly, because the aims and aspirations that underpin public funding are relatively transparent and at any given point reveal the essence of what cultural policy does and does not value – which unsurprisingly, is contested terrain.

Thirdly, politicians and publicly funded institutions are subject to a range of democratic and public accountability mechanisms, and increasingly have to account for their actions in an atmosphere of unforgiving public scrutiny and press commentary. Other funders in the system are relatively ‘invisible’ by comparison.

Fourthly, government and public funded agencies are the key developmental institutions for the sector, in the sense that their explicit role and mandate is to preserve, nurture and develop our cultural heritage and artistic practice, and to promote public appreciation and participation in arts and culture. As a consequence, the public sphere, often mistakenly, remains the key focus of lobbying, commentary and critical analysis to drive systemic change in the arts, as it is perceived to offer the greatest leverage in the system.

1.4 A necessary correction – understanding the motivations of all the funding communities

This over preoccupation with public funding sources has done much to limit the quality of debate about how best to develop a healthier arts and cultural funding ecology, and has fostered some very unproductive consequences:

- It has led to an over-emphasis on the differences – especially the differences in size of contribution between the funding communities, stifling discussion of their common ground and possibilities for collaboration
- It has weakened the sense of collective responsibility across the funding communities for the outcomes that the current system produces. All of the funding communities create the

overall funding ecology – real change requires all of them to take responsibility for how it operates and for its positive and negative aspects

- It has in turn limited the degree to which they have sought to understand the interconnectedness of their actions, or to think expansively about how the interplay between them could produce a smarter use of money
- It has tended to obscure how much some funding communities are converging. For example, public sector funding bodies and charitable trusts and foundations have tended increasingly to contractualise their funding relationships with cultural institutions to produce outcomes that support directly their funding strategies.¹¹
- It has impoverished the ability of the different funding communities to learn from one another despite common challenges. Both funder (public and private) and funded alike, are facing similar pressures to rethink: the value they create and how to measure it; how best to manage their stakeholders; the governance structures of their organisations; and the financial instruments they use.¹² In a profound sense funding practice is becoming a convergence point for new thinking about purpose, outcome and delivery across all of the public, private and third sectors.

For all of these reasons this piece has been intimately concerned with understanding not only the motivations of public funders, but also the practices and motivations of the other three significant funding communities: individuals, charitable trusts and foundations, and business.

These private sector players in the system fund the arts and culture for a wide variety of reasons, some clearly articulated some not. The heterogeneity of their motives and practices brings opportunities as well as challenges and makes for a richer mixed economy of funding:

Charitable Trusts and Foundations

Trusts and foundations in England and Wales are registered charities that try to meet their charitable purposes through the provision of funds to other charities, community organisations or

¹¹ Adrian Ellis (2001) 'The Context for Culture Now' AEA Consulting

¹² James E. Austin et al (2007) 'Capitalizing on Convergence' Stanford Social Innovation Review

individuals. There are about 10,000 trusts and foundations in the UK which display enormous diversity in terms of size and scale.¹³

Many commentators regard endowed, philanthropic foundations as good and increasingly vital institutions in modern societies, with an enormous potential to be intellectually active, independent and informed institutions. So for example in the case of arts and cultural funding, they could choose to act as a counterbalance to any perceived drift towards a dominant performance-measurement culture.¹⁴

Their mission and remit are normally closely determined and indeed constrained by founder intentions. However there are real signs that as trusts and foundations mature, and the influence of founder intentions develops and evolves into a richer agenda, their desire to fund smartly and well is growing, with numerous examples of good practice.

US evidence¹⁵, supported by anecdotal UK evidence, would suggest that the majority of grants made by even large foundations are program restricted (in other words related to specific activities and outcomes, with only a minority funding operating support / core costs)

Business

Direct business contributions to arts and culture fall within three broad categories: the old-fashioned patronage model, marketing-driven sponsorship, and a Corporate Social Responsibility (CSR) engagement¹⁶. Sponsorship based relationships dominate business arts relationships, although the CSR budgets of some businesses have more recently begun to be deployed. Despite increasing professionalisation of this kind of fundraising by arts and cultural organisations business support tends to be geographically focused, and 'local' arts institutions, away from metropolitan centers, especially London, find it very difficult to attract corporate sponsors.

One of the areas of untapped potential in terms of business contribution to the arts is their expertise in using various forms of capital and social investments, and the degree to which they could play a vital role in working with all the other funding communities to lessen reliance on

¹³ For an interesting review see D. Carrington (2003) 'How Trusts and Foundations Can Be More Than Grantmakers' Asia Pacific Centre for Philanthropy and Social Investment

¹⁴ For an interesting discussion about the future of charitable trust and foundations see H.K. Anheier and D. Leat (2002) 'From Charity to Creativity – Philanthropic Foundations in the 21st Century. Perspectives from Britain and Beyond.' Comedia

¹⁵ J. Huang et al (2006) 'In Search of Impact' The Center for Effective Philanthropy

¹⁶ V. Ellis (2006) 'Business Engagement in the Arts – A Brief Perspective' MMM

straight grant making and to experiment with new forms of financing and support. (See MMM's report on New and alternative financial instruments.¹⁷)

Individual Donors

Individual donors are compelled by a wide range of motives, but often driven by a very personal passionate interest in particular art forms or broader cultural outcomes. They are of enormous importance to the arts and cultural sector for two reasons. Firstly, their freedom to support what they want, how they want, gives them a ready ability to take risks that is currently less developed amongst other funders.

Secondly, whilst the sector has long benefited from the enduring importance of small scale individual support to organisations, contemporary affluenza is creating a large cadre of high net worth individuals, and whilst individual giving from this group is on the increase, many are yet to be engaged in a vibrant conversation about new forms of patronage and support.

There is also emerging anecdotal evidence that the ongoing professionalisation of individual philanthropy is encouraging individual donors to work in consort with others to fill significant funding gaps or to address longer term challenges.

1.5 A word about language

In addition to developing a better understanding all of the funding communities, there are also certain words that need to be decommissioned, or used much more precisely, if we are to construct a more grown up debate about the funding of the nonprofit arts and cultural sector

Firstly, 'investment' is a word that should only be used to describe a contribution from a funder or investor when that same funder or investor expects to personally secure a specific financial or commercial return from the investment. Under this tight definition very few 'investments' are flowing into the arts and cultural sector – to the detriment of its ongoing development.

Secondly, the word 'subsidy' has become heavily loaded with negative connotations in this sector, and is largely synonymous with support from the public purse, rather than contributed

¹⁷ Margaret Bolton and David Carrington (2007.20) 'New and alternative financial instruments' Mission, Models, Money.

funds from other sources. There is a widely held view across the sector that an over reliance on public support can breed a deep sense of dependency within the funded organisation, which over time can erode its self confidence and capacity for decisive and independent action.

Thus one can be a supporter of increasing overall levels of public and private support to the arts whilst being determined to ensure that contributions are spent in such a way as to ensure that funded organisations do not become locked into a cycle of dependency or infantilism. As one leader of a major trust and foundation commented:

‘Arts organisations who are only capable of defining themselves through their relationship with a narrow coterie of funders will find themselves redundant.’

Given that this piece is concerned with the activities of all the four main funding communities, it will adopt the more neutral and precise phrase ‘contributed income’ to describe the monies the arts and cultural sector receive which is not generated through earned income, commercial trading or traditional and new financing mechanisms.

With these definitional decks cleared, how then might the main funding communities begin to change their funding behaviours and mindsets to ensure that their contributed income is put to smarter use?

Chapter Two: Physician Heal Thyself

Our arts and cultural funding ecology could operate very differently.

The necessary actions required to kick start a transformation in the conduct of arts and cultural funding are not controversial. Indeed, they are almost the opposite. They are based on points of principle and action that are largely accepted by large parts of the funding community and by many arts and cultural organisations.

If we think of donors and funders as enablers – ‘strengthening the hands of those who do’¹⁸ – there is growing acceptance that this enablement could be done better by adopting some very simple mechanistic changes in working practice and by addressing some more major changes in mindset - mindsets that have become so deeply embedded that they have ceased to be noticed yet they deeply influence choices and behaviours.

Sticky thinking also pervades the actions of those in search of funds. Too many non profit arts and cultural organisations are focusing primarily on solutions to cover their cost bases rather than exploring how hard and soft assets could leverage money differently. The latter requires them to think of their organisations more as a collection of assets to be nurtured and less as a cost stream which has to be subsidised. All too often the funding scramble leaves arts and cultural organisations ill equipped to understand the broader financial dynamics of their business, and how best to nurture and invest in a whole range of intangible assets such as reputation, brand, and people vital to their long term success.¹⁹

What then are some of the mechanistic levers and practices that might inform better funding practice – MMM’s action research and our expert interviews have identified a number of necessary actions that need to be taken by funder and funded alike.

¹⁸ See Julie Unwin’s (2006.3) ‘*The Intelligent Funder: a discussion paper*’ for an eloquent discussion of emerging funding practice

¹⁹ ‘*Investment or Subsidy?*’ Remarks by Vernon Ellis at Federation of Scottish Theatres Conference, March 2007

Mission Based

2.1 Funding seen as a partnership activity between the funder and the funded for mission led mutual gain

*'[arts and culture]..is a hyperactive sector that responds with Pavlovian urgency and enormous ingenuity to the imperatives of funders but that has a decreasing capacity to hear, or at any rate listen to, the voice of mission.'*²⁰

Necessary Actions

For Funders:

- Funders need to think more deeply about whether there is a close fit between their mission and core values and those of the organisations they fund.
- Funders need to fund on the basis of the clarity of the mission of the funded and the relationship to the funders mission and judge funded organisations or individuals exactly on the delivery against mission
- Decisions to pull funding should increasingly be based on the performance of the funded organisation in delivering its mission rather than other secondary criteria.

For arts and cultural organisations:

- To resist the temptation of chase after new, but inappropriate, funding opportunities if they distort or divert the organisation's core mission
- To develop more realism about developing missions that are tenable and deliverable – too often the gap between mission and capacity to deliver is profound

One of the central charges against the current funding ecology is that it perpetuates mission creep and short termism at the expense of mission coherence and long term viability.

Funders are criticised for their short attention spans - moving too quickly from priority to priority. Most felt mission creep was endemic within the main funding institutions, both public and private, with new goals regularly being added to missions already groaning with activity and overreach. This was seen as leading to ineffectiveness and weakening the overall funding system.

²⁰ Adrian Ellis (2004.5) *'New Approaches to sustaining the arts in the United Kingdom, MMM*

Arts and cultural organisations are criticized for being too willow like – bending too readily in whatever direction the money is blowing in from. The outcome is inevitable mission creep within arts and cultural organisations blunting their effectiveness and performance. As the Leader of a major Arts Centre commented:

‘You’re buggered when you allow your mission to be bastardized by what others want’²¹

What is so striking about these established behaviours is how at odds they are with the behaviours that are widely recognized as underpinning good funded outcomes – high trust relationships, and a patient partnership approach based on mission fit and coherence between funder and funded.

Both public and private funders are looking to achieve specific aims through their funding activity. As a consequence it is difficult for them to support organisations in a high trust way unless the organisations they support align with and support their aims and principles.

What more sophisticated funders are therefore beginning to realize is that funding is in fact a messy partnership endeavor, in which the quality of the funding agreement is a less reliable predictor of success than the ‘fit’ and quality of the relationship between funder and funded. And indeed the better the ‘fit’ the more the criteria for support can become broad brush and directional rather than detailed and prescriptive, and the less likely they are to deflect or damage the development of the funded organisation.

The other advantage of this approach is that is likely to encourage arts and cultural organisations to do less better – in the longer term it might also lead funders to fund fewer arts and cultural organisations but to do so more generously and systematically.

Money based

2.2 More long term funding agreements - between government and the public infrastructure agencies they support, and between all funders (private and public sector) and funded

‘I would introduce six-year funding agreements for trusted and successful arts organisations. I feel very strongly that there needs to be more trust in the funding system where organisations are

²¹ Leader of major Arts Centre

*obviously doing good work. The need to monitor them, with reports, and fund them on a year-by-year basis really ties people's hands.'*²²

Necessary Actions

For Funders:

- Those funders that can (i.e. public funds and charitable trusts and foundations) should commit where possible to longer term funding models.

For arts and cultural organisations:

- To engage in better long term financial planning with the aim of building both financial and organisational capacity

Given the strength of consensus that the strategic development of the sector requires longer planning horizons and greater certainty over funding levels, it is perhaps surprising that so little movement has been made toward this principle in the contributed income flowing to the sector.

The main reasons are a lack of trust between funder and funded and in the public realm a lack of political will. On the funded side there is also the fear that longer term funding agreements may come heavily discounted – the sector being asked to accept lower overall funding settlements in return for the certainty brought by longer term funding agreements.

For funders the issues are also finely balanced. Long term funding can engender complacency in recipient organisations, and can also create high barriers to entry for new and emerging organisations by tying up supplies of contributed income.²³

But it can also unlock the business resilience vital for the innovation required to deliver commercial and financial sustainability. For the funding communities any movement towards longer term funding agreements will be about striking the right balance within their overall funding portfolios, but no movement towards this approach would be an abdication of responsibility.

²² Chris Smith, Former Secretary of State for Culture, Guardian, 21st April 2005

²³ Julia Unwin (2006.5) 'The Intelligent Funder – a discussion paper' SCVO

Peter Hewitt, Chief Executive of Arts Council England, has raised the idea of a ten year investment plan for the arts in his *Changing Places* provocation²⁴ which he emphasized would have to be the result of close cooperation with Government and other key stakeholders. This is a proposal that should be pursued, not least because it would necessitate better long term strategic planning about the needs of the sector.²⁵

In terms of private sector funders, there is some evidence that charitable trusts and foundations are trying to break the cycle of short term funding agreements. Foundations have tended to focus on shorter time scales for investment, but as one Chief Executive of a major foundation commented:

‘We are trying to make a shift on length – supporting projects for 3 years in the first instance, but also being prepared to indicate when a grant is first awarded whether we are in principle prepared to consider funding for another three years’

Our interviews with corporate givers underlined that the corporate sector is unlikely to provide long term secure support for the arts, in that their planning horizons for funding decisions are based on short term business cycles, and as one Corporate giver commented, ‘to try and make work a three year relationship with an arts would be a very big ‘sell’ in a corporate environment’.

Corporate givers did acknowledge that despite these limitations, they could do more to build longer term relationships with arts organisations that have become part of their funded family, keeping them part of an ongoing long term conversation about opportunities and activities.

2.3 Funding that is either ‘light touch’ or ‘highly tailored’ – not the all too common kitchen sink approach to expected return

‘There are very few sources of funding that come clean’²⁶

‘A lesser known funding paradox is that the more outcomes a funder prescribes and expects the less likely they are to see them delivered’²⁷

²⁴ P. Hewitt (2005) *‘Changing Places’* Arts Council England

²⁵ The Government already publicly supports the principle of implementing longer term funding arrangements in the not-for-profit sector where these represent good value for money – see *‘The Compact Code of Good Practice on Funding and Procurement’* (2005), drawn up in partnership between Government and The Compact Working Group (representing the voluntary and community sector)

²⁶ Arts producer interviewed for the project

Necessary Actions

For Funders:

- To more decisively adopt funding practice at either end of the ‘light touch’ – ‘highly tailored’ spectrum.

For arts and cultural organisations:

- To work in partnership with funders to ensure that funded projects are increasingly measured by achievement of mission and not compliance

A common complaint directed towards public sector funders, but increasingly also towards trusts and foundations and parts of the corporate sector, is that far from narrowing their expectations on the funded, they are increasing the range and type of criteria they expect those they fund to deliver against. What one interviewee dubbed the ‘kitchen sink approach to expected return.’

As another interviewee commented, ‘we have to bend over backwards to display how we’ve ticked every box that matters to them, even if we haven’t in all cases, and on many occasions we didn’t have the ability to do so in the first place.’

The active deception that this produces on both sides is corrosive. Funders find themselves having to justify funding decisions that don’t quite correspond to their own rules, whilst the funded now accept the application and reporting process necessarily involve the dark arts of ‘creative’ presentation.

However a word of caution is necessary here with regard to funding from public sources. I found the arts community split on the degree to which public funding is directive or prescriptive, no doubt reflecting real differences in funding practice across the sector by the same institutions. Some pointed to funding agreements that set few if any measurable objectives, making it extremely difficult for the funder to hold the recipient to account for any under performance.

²⁷ Leader of a charitable trust and foundation

Another key dynamics here is the degree to which the funder is perceived as having real leverage over the funded institution. There was an acknowledgment that it is in fact a minority of organisations who derive the greater majority of their funding from any one source of public or private funding. As a consequence, even when that funder may be driving the funded organisation to deliver against their aims and expectations, as enshrined in a funding agreement, often the funder's overall leverage on the behaviour of the funded organisation may be negligible.

All of which suggests that we need to move away from generalised funding agreements, to either 'light touch' approaches where the missions and approaches of funder and funded are in close alignment, or towards more tightly tailored funding agreements, in which the funder is very clear about specifying some narrow non-negotiable outcomes they are seeking to gain from their contribution.

In addition to improving funding practice, this shift would have another major benefit to those seeking funding. We have already noted the benefits of a mixed economy funding model. The motivations of funding groups differ, and it is precisely these differences that give diversity to arts funding streams. However, one of the downsides of diversity is the high transaction costs of dealing with a multiplicity of funders.

For example, the Head of Learning at a major arts institution revealed that they are currently in negotiation with 29 funders, all with different needs and interests. For those in search of funding, the outcome can feel like a game of funding Twister:

'Statutory and private funders have forced arts organisations to contort themselves in a game of funding Twister to accommodate the 'latest direction'. We desperately strain to keep our left leg on 'arts company' while arching backward to keep our right arm on 'trainer provider' and our right leg on 'education consortium'²⁸

I think some funding Twister is inevitable for organisations seeking funding in a vibrant mixed economy system, but the contortions required would reduce significantly if funders recognized the value of working at the two polar opposites of the funding spectrum – a light touch approach based on long term relationships and mission compatibility, or highly tailored agreements to deliver highly specific outcomes.

²⁸ A. Devitt (2006) 'Because We're Worth It', Arts Professional

Too many funders are muddling through in the middle.

2.4 Funding communities undertake to be proportionate (to size of funding, size of provider and perceived risk) in monitoring requirements and to focus on outcomes²⁹

Necessary Actions

For Funders:

- Funders will consider joining-up or standardising monitoring requirements so that arts and cultural organisations in receipt of funding from a number of sources, and funders themselves, are not overburdened.

For arts and cultural organisations:

- To work more closely in partnership with funders to share their knowledge base about evaluation and measurement, and to ensure greater transparency about the use of funds and what they have achieved

Funded organisations, dealing with a wide array of funders, find themselves facing an ever more complex array of impact measures and assessment criteria against which they have to evaluate their activities and report their achievements.

This has two negative impacts. It increases the transactions costs on both sides of the funding relationship, with much reinvention of the wheel, and paradoxically perhaps weakens the overall quality of the evaluative data that is produced.

Two responses are required. The first is to explore how far monitoring requirements can be joined-up or standardised. The Government has already committed itself to this principle in its funding activities to the broader non profit sector³⁰.

²⁹ This phrase has been taken directly from 'The Compact Code of Good Practice on Funding and Procurement' (2005.15), drawn up in partnership between Government and The Compact Working Group (representing the voluntary and community sector)

³⁰ *ibid*

At the very least, funders should be encouraged to take greater account of the monitoring procedures already agreed by the organisation's other funders, and to agree that monitoring should only include information that is needed or will be used to assess performance.

The second necessary response is that funders begin to share their knowledge base about evaluation and measurement to improve practice and facilitate movement towards intelligent standardisation. This is not a new call to arms. It has long been argued that there is the need for greater agreement around the needs for common definitions and concepts to underpin measurement of arts, economic and social outcomes across the sector, for greater consistency in their use, and for some degree of standardisation of methodologies to enable easier comparison between funded projects of different size and scales.³¹

Such efforts would allow for measurement expertise across the funding community to be pooled and shared and in the longer term would help create better quality data, with less duplication and wasted effort.

2.5 The Full Cost Recovery Revolution

Necessary actions

For Funders:

- All four funding communities should ensure that the price of grants, donations and sponsorships reflects the full costs of delivery, including a legitimate portion of overhead costs.³²

For arts and cultural organisations

- To develop full cost apportionment in their budgeting and to stop '*sucking up*' bad funding practice.

The arguments around full cost recovery are well known in the wider voluntary and community sector³³ but barely known at all in the arts and cultural sector with corrosive effects. If the funding

³¹ M. Reeves (2002) 'Measuring the economic and social impact of the arts: a review' Arts Council England

³² Under full cost recovery, organisations and their funders ensure that the price of contracts and grants reflects the full costs of delivery, including the legitimate portion of overhead costs. See HM Treasury 'The Role of the Voluntary and Community Sector in Service Delivery, September 2002

communities do not begin to honour a full cost recovery model in their funding practice they will continue to perpetuate fragility and chronic under-capitalisation across the arts and cultural sector.

But the challenge extends equally to arts and cultural organisations and their leaders. Business models that can only function on sweat equity and weak cost recovery are not sustainable. All too often non profit organisations tend not to recognise that they can only maintain projects or programmes if they invest regularly in their capital and human resource base.³⁴ As we noted in the introduction, dysfunctional funding practice goes unchallenged for fear that organisations will have their funding cut or loose funding altogether. As one commentator has observed:

‘It will take some nerve, but as a sector we are going to have to try and start producing costings that actually reflect true project costs...Otherwise I suspect that we will follow the fate of chunks of the voluntary sector bled white to deliver projects with inadequate funds by rather better resourced commissioners and funders.’³⁵

This is not to underestimate the challenge. One respondent running a rural arts centre described the problem in terms of her relationship with her local town council – ‘it’s a fine line between challenging them appropriately and exposing their mendacity and uselessness’

³⁴ Margaret Bolton and David Carrington (2007.20) ‘*New and alternative financial instruments*’ Mission, Models, Money.

³⁵ Alice Devitt (2006?) ‘*Because We’re Worth It*’, Arts Professional

2.6 Encourage the build up of reserves and endowments

Necessary actions

For Funders:

- All four funding communities encourage the deepening of organisational and financial capacity in the funded

For arts and cultural organisations:

- To develop a financial strategy to maintain and further develop its work that makes intelligent use of recyclable funds – recyclable from its own reserves / endowments.³⁶

Most arts and cultural organisations are chronically undercapitalised for the work they do, and very few funders have been prepared to address this critical problem. A necessary first step is that public and private funders need to recognise that their practices often punish organisational autonomy rather than encouraging it.

As Jed Emerson has commented:

*'Non-profit enterprise organisations are penalized if they have too much money on their balance sheets, because many funders then say 'you don't need our money'. It's like saying to a business, 'At the end of very year we expect you to spend down all of your investment capital, because that's the only way we know you need more money from us.' It's insane.'*³⁷

This is perhaps one of the clearest cases where current funding practice is not only irrational, but as a consequence can harm the long term health of the organisations it is intending to support. Participants in MMM Road Shows have regularly reported that public and private sector funders are penalising the build up of reserves even when in public they say they are not, yet the build up of reserves and endowments are critical to strengthening the capital structure of arts and cultural organisations and as a result their ability to take risks – a key behaviour that lies at the very heart of artistic endeavour.

³⁶ David Carrington (2004) 'New approaches to sustaining the arts in the United Kingdom' MMM conference, British Museum, 28th June 2004

³⁷ 'Foundations: essential and missing in action'; Interview with Jed Emerson, Alliance Extra, March 2006

2.7 Lobby for a tax regime that encourages new forms of patronage and giving

Necessary Actions

For Funders & arts and cultural organisations:

- To more fully exploit the provisions of existing regulations shaping current patterns of patronage
- To more forcibly promote the case for further change and reform

The arts are short of funding.

We are witnessing a phenomenal increase in personal wealth at the top of the income distribution. There is growing evidence that wealthy individuals are willing to give considerable sums to support arts and culture and other forms of philanthropic giving. And yet we have barely begun to explore how the tax system could be reconfigured to usher in a new era of arts patronage.

I've yet to hear a convincing argument for the inaction.

Given the tightness of the current spending round, and the pressures on corporate and lottery giving to be redirected to the London 2012 Olympics and environmental concerns, some smart and immediate action to encourage a new era of personal patronage of arts and culture is more pressing than ever and long overdue.

Happily there is growing interest in and support for reform. In a recent paper Eric Posner and Anup Malani argue that the tax benefits currently available only to non profit charities should be extended to 'for profit charities' and to the charitable activities of for profit commercial firms³⁸. This is a particularly interesting issue for arts and cultural organisations in that traditionally the non profit form has been a necessary key to unlock gifts, grants, and discounts, but it may increasingly be a less suitable governance model, in that as Andrew Taylor has commented the question of fiscal privilege for nonprofits is particularly vexing for the arts 'since creative

³⁸ E.A. Posner and A. Malani 'The Case for 'For-Profit' Charities' University of Chicago Law & Economics, Olin Working Paper No. 304 (September 2006)

expression is produced, preserved, presented and distributed through a full spectrum of organisational types (from independent contractors to commercial firms to informal collectives to hybrids thereof),³⁹

On rather narrower territory, The Art Fund has been campaigning for some time for income tax incentives to be granted to those individuals who make a donation of a cultural or heritage object to a public collection. More recently there have been calls to allow those high net worth individuals in receipt of large bonuses to create a Bonus Foundation, along the lines of the Gates Foundation, into which they would invest a proportion of their annual bonuses, on advantageous tax terms to the Foundation.⁴⁰ For example, some of these individuals might be willing to donate part of their bonus to a new arts and cultural fund, a new endowment fund aimed at supporting small and medium sized arts organisations who find it difficult to raise donation income.⁴¹

One of the key barriers to encouraging a more profound shift in the pattern of individual giving in the UK is that the UK tax system affords the tax benefits of any giving act largely to the recipient charity rather than the individual offering the gift. As Christopher Ondaatje has argued recently, tax incentives that go directly to the individual are a key foundation of the culture of ‘planned giving’ that exists in the United States. Individual charitable giving in the US is more than double that in the UK, and 54 per cent of the richest US donors said that they give for the tax benefits. In Britain, the charity, rather than the individual, receives most of the refund under Gift Aid.⁴²

AEA Consulting, in a comprehensive study commissioned by Arts & Business⁴³, have mapped the broad territory of possible reforms in this area, including suggested changes to Gift Aid; payroll giving; improving the framework for share giving; the introduction of the Partial Interest Rule; extend relief to tangible personal property and to gifts of intangible property; and to prioritise Charitable Gifts Annuities and Fractional gifts of arts⁴⁴.

MMM’s new publication on ‘New and Alternative Financial Instruments’ outlines further areas for possible innovation of which more later.⁴⁵

³⁹ A. Taylor ‘The For-Profit Charity’ January 2nd 2007

⁴⁰ ‘How Philanthropic bonus-earners can make a difference,’ FT leaders & letters, February 22nd 2007

⁴¹ For this and other innovative suggestions see: M. Bolton & D. Carrington (2007.28) ‘New and alternative financial instruments’ Mission, Models, Money.

⁴² C. Ondaatje, ‘Giving it all away’ Newstatesman, January 15th 2007

⁴³ AEA Consulting (2005) ‘The Maecenas Initiative’ Research Project Part 2, Draft 2 – prepared for Arts & Business

⁴⁴ *ibid*

⁴⁵ M. Bolton & D. Carrington (2007.28) ‘New and alternative financial instruments’ Mission, Models, Money.

2.8 Summary - Passing the 'no harm' test

The power and discretion to implement these measures already resides within the arts and cultural sector, with funders and funded alike. If the sector were to fully embrace these practical steps to the extent that they became business as normal funding and operational practice, the overall effect would be enormously powerful.

Their cumulative impact would be to tackle some of the least functional aspects of the current funding ecology. For it example, they would lessen the heavy toll private and public funders currently impose in terms of unnecessary duplication and high transaction costs, at the same time as increasing the stability of some of the funded sector. All of which would do much to improve the performance and sustainability of large parts of the arts and cultural sector.

The funding community would by default begin to develop a sharper shared vision of how they need to change funding practice in order to pass the Hippocratic commitment to do 'no harm' – 'in terms of distorting or undermining either the business resilience or the mission of the funded organisation.'⁴⁶

2.9 Towards a more substantial prize

The case to adopt a more concerted collective responsive to this agenda for change, in terms of immediate short term benefit, is largely unanswerable. But the really substantive prize is that movements towards this immediately actionable agenda would also create the opportunity for the arts and cultural sector to create a better, more convincing contract with the future – one that escapes a development trajectory mired in accommodation, for one rooted in possibility and innovation. This will require more imagination and collaboration by funder and funded alike.

As we will see our concluding chapter, the sector is weak at collective, collaborative action. Competition and individualism, rather than cooperation and coalition, are the more common modus operandi of the sector. As a consequence the future health of the sector weights too lightly on activities in the here and now.

It is to that broader future challenge that we now turn.

⁴⁶ See Julie Unwin's (2006.3) '*The Intelligent Funder: a discussion paper*'

Chapter Three: A Better Contract with the Future

If funder and funded alike are to create a more vibrant, more sustainable arts and cultural ecology in the UK, they must do more than simply refine the workings of the current funding ecology. They must embrace the possibility of more fundamental shifts in mindset and behaviour – which are required to contract with the future more imaginatively.

Some of the necessary dimensions of these shifts are already clear and they are vital if they sector is to effectively address a nagging, elephant in the room sized, unpalatable truth about the current funding ecology. Let's look at each in turn – mindsets and unpalatable truths.

3.1 A Mindset Shift

For Funders

3.1.1 Community by name, community by nature

*'The lack of collaboration between funders is a fantastically wasteful of everyone's time; and it's expensive, soaking up money that could – should - have been directed at the execution of the organisation's mission'*⁴⁷

Firstly, the funding community in the UK needs to become a real community. Despite their common ground, and that by working together more closely all of their support could be better leveraged across the sector, the main funding groups operate in silos. Amongst the funding community, many commented on how little formal contact there was between funders, and indeed how unsystematic the funding community was in creating the right networks of experts and practitioners to drive their funding practice. Interviewees from the funding community talked about different parts of the funding ecology being out of step with each other.

As a consequence there is a massively underdeveloped market for ideas, expertise, and collaboration across the funding landscape. A funding community that actually operates more like

⁴⁷ David Carrington (2004) 'New approaches to sustaining the arts in the United Kingdom' MMM conference, British Museum, 28th June 2004

a community would create a much richer funding marketplace – not homogenized but more interdependent, driven by much better information and expertise, and in turn reducing the transaction costs for funder and funded alike.

The future challenge for funders is to remain autonomous but become more interdependent – based on the realization that by acting alone they won't have the expertise base to resolve these challenges, and that they must become more open to collaboration and critique if they are to play their full role. The Scottish Executive's recent experiment with cultural entitlement and the growing debate about whether public value and public preferences should be accorded a clearer influence on cultural provision, only serve to emphasise the necessity of this approach.

In particular the funding community needs to do more to embrace and understand those who are actually funded. As Dawn Austwick notes, 'no conversation about funding (intelligent or otherwise) is complete without those who are funded being in the room and making some of the running.'⁴⁸

A common lament from producers was that they feel the funded are often invited into the conversation too late – at the how rather than the why stage in terms of the objectives of the funding strategy. As one producer commented:

'All too often the conversation with funders starts with them staying – 'this is how we work, this is our structure, this is what we fund – have you got anything that fits with this?' – a conversation that is invariably negative'.

Of course, some professional distance between funder and funded is inevitable and desirable. However, respondents talked of funders and funded living in parallel universes which never meet. As another producer noted:

'Arts Council England exists in a parallel universe, doing a job, and is not operating anywhere near close enough to the world of producers and creatives. As a consequence there is not enough respect or mutual understanding on either side. The gap is too big.'

And it needs to be closed.

⁴⁸ D. Austwick (2007) 'Intelligent Funding' Arts Professional

3.1.2 From actors to enablers – producing a healthy arts & cultural ecology

The funding community needs to begin to act in ways that fosters the health of the whole arts and cultural ecology, not the maintenance of survival of particular bits of the system. Organisational stability and sustainability are only desirable outcomes if the portfolio of sustainable arts organisations is creating the type of arts and cultural ecology in tune with the times and public aspiration.

This requires three necessary shifts. The first is that funders need to more fully accept their own role in creating the best and worst aspects of the current arts and cultural ecology. The second is that more players in the funding community do not limit their role to that of an enabler, but become more engaged actors, committed to shaping the whole.⁴⁹ Finally, funders will need to think harder and deeper about what a healthy arts and cultural ecology should be, and creatively develop long term strategies in response.

3.1.3 Developing a long term strategic vision

‘Investments in the arts are not strategic they don’t take the long view. We fund the things that will give us a fix and a flash in the short-term. If we were more strategic, we would invest more heavily in arts education, participatory and amateur sector activities, technology and long-distance engagement systems and other functions that would build appetite and demand for the arts long-term.’⁵⁰

The funding community is perceived as weak at driving mission led change and is prone to short attention spans. This in part reflects the fact that the quality of long term strategic planning in the sector is extremely weak. Difficult decisions about how best to balance the need to support the existing cultural infrastructure against the need for new investment in new technology, or new forms of innovation in artistic practice, are rarely informed by rigorous cost benefit analysis, or a guiding view of the force of emerging trends, artistic, public or otherwise.

⁴⁹ Julie Unwin's (2006.3) 'The Intelligent Funder: a discussion paper'

⁵⁰ James Irvine Foundation, (2006.11) 'Critical Issues Facing the Arts in California'

The uncomfortable reality for all of the funding communities, operating in a resource constrained environment during a period of rapid change, is that they face increasingly hard choices about how best to shape their funding portfolio. As Charlie Leadbeater notes, speaking specifically about Arts Council England:

‘The Arts Council needs to strike a balance between funding established arts organisation to draw in new audiences and shifting funding to where new audiences are emerging. The lessons from public libraries are instructive: libraries built in the 19th century now find themselves in the wrong places, with the wrong buildings and services for 21st century consumers. No amount of marketing will make good those structural weaknesses. The Arts Council’s strategic responsibility is to make sure that does not happen for the arts.’⁵¹

And this strategic responsibility extends to other parts of the funding community, which must be encouraged to shoulder a collective responsibility to think better and harder about the long terms requirements of the sector, developing rich competing visions of what can be created, and shaping their funding policies accordingly

For Arts and Cultural Organisations

3.1.4 A more collaborative mindset

The mindset shifts we have outlined above are no less challenging for many art and cultural organisations. To play their full part in these changes, the leaders of our arts and cultural organisations will need to escape the limitations of narrow vested interest, institutional approaches; sharpen their ability to think about the missions and sustainable long term futures of the organisations they lead; and develop more transparent and challenging relationships with those that fund them.

A number of artists and producers interviewed in this study were happy to acknowledge that those competing for funding do not always operate generously or collaboratively, and in the worst cases honesty is also a casualty – funding can often be a ‘dance of deceit’⁵².

⁵¹ Charles Leadbeater (2005) ‘*Ten Challenges for Arts Organisations in the 21st Century*’, ACE

⁵² Jed Emerson (2001) ‘Grantee-Grantor Relations: Mutual Accountability and the Wisdom of Frank Capra’ Foundation News and Commentary, quoted in David Carrington (2004) ‘New approaches to sustaining the arts in the United Kingdom’ MMM conference, British Museum, 28th June 2004

That it needs to become something different, informed by the mindsets and attitudes we have described, is hopefully self-evident to funder and funded alike.

3.2 The unpalatable truth – Current funding behaviours and practices are systematically under supporting innovation and demand

These mindset shifts are likely to bring into sharper focus an unpalatable truth for the arts and cultural ecology – that contributed funds are not being dispensed in ways that effectively deal with market failures, foster widespread artistic and organisational innovation, or maximize public appreciation and participation.

Here there are no quick fixes. The challenge is to reflect upon and change deeply embedded working models of practice for funder and fundee alike.

The solution, perhaps counter-intuitively for many in the cultural sector, is to dance a while with economic theory – more cultural wellspring than wallflower.

Contemporary economic analysis of arts and cultural funding policy⁵³ would suggest that public and private support to the arts is in need of some over arching principles that are not currently to the fore in funding practice.

Let's focus on five in particular

3.2.1 Invest for innovation

Economic theory confirms is that there is an incredibly strong case for systematically supporting innovation, experiment and diversity in the arts. Bruno Frey⁵⁴ has described how funding decisions on art made by arts administrators, the arts establishment, by artists themselves, or by elected politicians all carry 'grave disadvantages', reinforcing a conservative bias and creating a

⁵³ The discussion that follows draws heavily on Van der Ploeg's work (*'In Art We Trust'* (2002), but see also Throsby (2001) *'Economics and Culture'*, Frey (2000) *'Arts & Economics – Analysis & Cultural Policy'* and O'Hagan (1998) *'The State and the Arts – An Analysis of Key Economic Policy Issues in Europe and the United States.'*

⁵⁴ B. Frey (2000.16) *'Arts & Economics – Analysis & Cultural Policy'*

funding system that is stronger on continuity than innovation invariably leading to weak support for innovative artistic and organisational practice.⁵⁵

Hence there is a strong case that new and existing flows of contributed income should be used to 'stimulate the provision of risk-bearing capital for risky, valuable cultural activities'⁵⁶

All of which requires public and private funders to develop a better understanding of new forms of artistic and cultural innovation and a more open approach to how best use the market in support of these ambitions.

The practitioners interviewed for this study stressed two key areas where more innovation is required:

- To support new artistic practice that is specifically aimed at triggering new types of public engagement and cultural participation
- To support new commercial and business model innovation that naturally spans the for profit and non profit worlds, with the aim of increasing the potential for contributed income to be leveraged for greater return and to challenge the red ink / deficit model in much of the funded community

Supporting Artistic Innovation

The funding community should be seeking to invest in new artistic practices that open up new forms of public engagement and cultural participation. The so-called personalisation agenda offers up a rich menu of possibilities here and is built on the premise that widening reach and participation is not simply about introducing a growing proportion of society to traditional or 'high culture', but also needs to ensure that the widest possible range of people have a greater opportunity to shape their own experience of culture, acting as producers as well as consumers.⁵⁷

⁵⁶ R. van der Ploeg (2002.14) 'In Art We Trust'

⁵⁷ See S.Jones (2006) 'The New Cultural Professionals,' Arts Professional, and J. Knell (2006) 'Whose Art Is It Anyway' Arts Council England

Supporting business model innovation in the sector

Much of the evidence base being drawn together by MMM is highlighting an increasing discomfort with the dominant charity model used by most non profit arts and cultural organisations. Participants in the MMM roadshows have commented on how this operating model has ‘institutionalised’ the sector because of its tendency toward undercapitalisation, its risk averse governance structures and its reliance on equally institutionalised funding sources.

Some commentators believe that part of the problem is that the need for contributed income enshrines a ‘non-profit’ approach, both in terms of mentality and adherence to a ‘non-profit’ governance structure, resulting in a lack of strategic intent and an unnecessary marginalization from commercial partners.⁵⁸

It is also the case that most support from the funding community only serves to enshrine a non-profit dependence with funders wedded to fairly fixed definitions of the roles of the for-profit and non-profit sectors.

But this fixed orbit governance model is being increasingly challenged, the natural response being to advocate that the sector should be encouraged to choose from a widening array of models that mix being open and closed, collaborative and competitive, public and private, large and small⁵⁹. But for this Cambrian explosion to happen it will need the different funding communities to agree to fund different business models. For some this will be impossible – some Trusts & Foundations for example are bound by their own charitable purposes only to fund charities, but for others this should be a simple step.

But it will require the existing funding ecology to become much more comfortable about working alongside the market in building our arts and cultural landscape. One obvious route might be for public funding agencies in arts and culture to work with potential partners, such as NESTA and the business community, to create venture funds that could focus on artistic and business model innovation taking place at the boundaries of art, design, mass media and consumption.

The key argument here is that like the private sector, nonprofits need investors who take risks in pursuit of a financial return. Yet only comparatively recently has the idea emerged that anyone

⁵⁸ Harris (2006) ‘Not for profit fitness for purpose?’ Arts Professional

⁵⁹ Charles Leadbeater (2005) ‘Arts Organisations in the 21st Century: Ten Challenges’ Arts Council England

might invest in a nonprofit, as opposed to just giving it money.⁶⁰ Why couldn't there be a capital market for nonprofits based on 'dynamically deductible shares', in which the magic of the capital market is unlocked by passing legislation that permits investors to risk the size and timing of their charitable tax deductions?

For funders and investors it is not a question of either grants or market based solutions but of trying to understand the array of steps that can be taken within a spectrum between grants and market-based, risk adjusted return capital.⁶¹

What sits within this spectrum? As Jed Emerson notes:

*'with grants, there are different ways you can structure them – programme grants, general operating support grants, R&D type grants. And they can be multi-year, large grants or one-time small grants. So even here, there's a way to think about how the funds that are on the table could be better leveraged. [Then extending the spectrum out]..you've got recoverable grants, which are basically like interest-free loans, .. and then you have various types of programme related investment, which would give a 1 to 3 per cent return, secured or unsecured.'*⁶²

The MMM report on New and Alternative Financial Instruments has indicated that there are a lot more opportunities for arts and cultural organisations to utilize new forms of funding other than straight grants. There are emerging examples of loans, equity and quasi-equity and other forms of investment being made by organisations such as the Charity Bank but also by philanthropists, foundations and even regular financial institutions. These will be even more applicable in the increasingly commercial mixed economy that is emerging from the interplay of the cultural and creative industries, and in MMM's next generation phase the intention is to further consolidate new thinking and practice in these areas.⁶³

Unfortunately, these sorts of approaches are on the margins of current public funding activity. For example our research with individual givers confirmed a number of salient points about this

⁶⁰ 'Market Magic – Nonprofits could access needed capital by turning donors into investors' 13th November 2006, Slate

⁶¹ 'Foundations: essential and missing in action'; Interview with Jed Emerson, Alliance Extra, March 2006

⁶² ibid

⁶³ M. Bolton & D. Carrington (2007.28) 'New and alternative financial instruments' Mission, Models, Money. The report details further recommendations, such as the creating of an arts and culture property fund, in which individuals and corporations might be willing to invest in a fund which purchased property to let to arts organisations at below market rents – and the creation of an underwriting fund, which would give arts and cultural organisations the confidence to develop new initiatives or take artistic risks in the absence of significant cash reserves.

funding community. They acknowledged that they are unlikely to be a force for innovation in the arts – the majority are part of an older age cohort and as one put it rather well ‘we get involved in organisations we like and we therefore like them as they are now’.

Corporate donors do not place innovation per se at the heart of their direct contributions to the arts. Whilst they are happy to support innovative curatorial and artistic content, not least if that helps to generate media coverage of their support, few if any corporate donors want to become involved in shaping the long term practices and activities of the organisations they fund. And the same is true of the great majority of charitable trust and foundation activity in the sector.

This hardly conjures up an image of a broad funding community at ease with risk committed to mainstreaming new innovations, whether artistic, commercial or organisational. In this sense the established funding structures and publicly funded support infrastructures developed over the last fifty years are showing signs of strain – better able to support the status quo than to support the new behaviours and practices required to create a healthier arts and cultural ecology in the future.

The sector, funder and fundee alike, cannot develop a more embedded R&D and venturing mentality quick enough.

3.2.2 Boost demand

Economic theory is also unforgiving about the dangers of over supporting the supply of cultural goods, as opposed to boosting the demand for such goods. Traditionally, the implicit underlying approach of public development agencies and the broader funding community has been to operate a supply push approach to creating a first class cultural infrastructure and an engaged public. In other words, the dominant rationale has been that if we continue to strengthen the producer and supply side of the arts, helping to drive up artistic excellence, more and more people will come to discover and appreciate their value.

From an efficiency and public benefit perspective, the problem with this approach is what economists call the ‘*deadweight burden*’ of generalised support for the supply of cultural goods. The burden arises because the great majority of contributed funds directly supports the consumption of cultural goods by relatively affluent consumers who profit much more from these flow of funds than those on lower incomes. As Van der Ploeg notes:

‘This is known as the Saint Matthew effect: those who already have will be given more. The deadweight burden of general subsidies for the supply of cultural goods may be very high indeed. Much more efficient is to boost demand among lower incomes or children through education, vouchers... or other means. This way people can choose themselves which culture they want to experience.’⁶⁴

If the dominance of the supply side push model is slowly being rejected, not least by Arts Council England, now is a good moment for all the funding communities to become much more innovative in boosting demand for cultural products amongst the whole population.

3.2.3 Boost diversity within the arts and cultural ecology

‘Too much funding is over directed to structure and permanence – to institutions and buildings rather than people’⁶⁵

‘Arts Council England is at its most effective when it is willing and able to back talented individuals and good ideas, rather than prop up institutions that can sometimes under-perform’⁶⁶

A strong sustainable ecology is built on diversity of scale and model and dynamism – with success appropriately rewarded, innovation and risk embraced, and succession a hard wired feature of its ongoing development. Few in the arts and cultural sector argue that the UK’s arts and cultural ecology is as dynamic as it could be – particularly in terms of the mix of new and established institutions and distributed funds. The sharp end of these arguments is that new and innovative ways need to be found to fund talent and ideas, if necessary at the expense of existing institutional interests.

Arts Council England’s recently published suite of arts policies acknowledge the challenges, with ACE pledging to support a more confident, diverse and innovative arts sector, prioritising emerging practice and new organisational models, and to support new forms of distribution (both

⁶⁴ R. van der Ploeg (2002.12) ‘In Art We Trust’

⁶⁵ Producer interviewed for the project

⁶⁶ Consultee response in ‘Arts Council Peer Review’ (2005.15)

physical such as touring exhibitions) and digital (using new and digital technologies).⁶⁷ Fine words, but seasoned players in the sector are thinking ‘and where are you going to find the money to do that then’?

Because the stark reality is that funder ambitions for the sector are often at odds with the stickiness of current funding provision. Unless contributed income to the sector increases significantly over the next five years, which is unlikely, all funders (public and private) face sharp trade offs if their aim is to both maintain the shape of our current cultural infrastructure and also push forward a more vibrant agenda of innovation and diversity across the sector.

By way of example, let’s briefly examine the distribution of ACE funds in England.

Arts Council England’s portfolio of regularly funded organisations (RFOs) is frequently cited as being too fixed. In fact the portfolio is far from static - for example over the last ten years 310 organisations have left the Art Council’s funded portfolio and 472 organisations have joined⁶⁸. But these movements at the margins of the funded portfolio hide deeper rigidities.

There is a firmly established core within for example the Arts Council’s regularly funded portfolio, perhaps around 40% of the total number of funded organisations, that receive the greater majority of regular funding and other types of Arts Council support to the sector (including capital and stabilisation funding)

In other words the great majority of public funds are going to broadly the same set of organisations that received those funds more than a decade ago. None of which is to suggest that these organisations are not worthy of funding. Stability in and of itself is a good thing if it is rewarding outstanding performance or clear incremental improvement year on year.

But given the constraints on overall funding levels, this funded portfolio either has to be performing outstanding well culturally and in terms of reach, participation, and new forms of artistic innovation, or Arts Council England and the broader sector face some very tough choices

⁶⁷ See for example Arts Council England (2007) ‘Interdisciplinary arts policy’ – ‘Distribution Policy’ – ‘Arts Policies – Developing arts practice and engagement’

⁶⁸ Arts Council England (2007) ‘Funding the arts for success – key facts about the impact of increased investment over the past 10 years.’

about how to migrate the overall arts and cultural ecology to a different development path. What might these hard choices entail?

Firstly that all funders, but particularly Arts Council England, will need to more fulsomely acknowledge the unresolved tensions between meeting the aims of cultural excellence and broadening public reach and participation.

Putting it bluntly, many of the established core organisations across the sector receive their funding because they represent the ‘commanding heights’ of our cultural supply infrastructure, both in terms of art form primacy and geographical necessity, or a combination of both.

But it is also the case that many of these ‘commanding height’ suppliers, based on traditional art forms, are also those parts of the arts and cultural sector least well placed to easily deliver on the burgeoning targets and expectations placed on maximizing reach and participation, not just in terms of total audience numbers, but in terms of a range of priority groups.⁶⁹ All of which suggests that if we take the commitments of a whole range of funders at face value - that it really is a priority to build new audiences and to fully honour the diversity of the UK population and the creative energy that flows from it - hitherto ‘fixed’ elements of the ‘commanding heights’ might have to give a little.

At the very least parts of the funded sector will need to accept that the balance of funds from the public purse, and the balance of funds from the other main funding communities, might have to flow in qualitatively different directions. More public money would be directed to tackling market failure and under provision (whether that be supporting more Black and Ethnic Minority (BME) Cultural Production and ensuring that people can engage with art in a wider range of ways) – with the other main funding communities left facing the choice of whether to shift some of their funding to those parts of the established cultural infrastructure which may as a consequence require additional support.

The view from across the sector is that those tough choices will need to be faced sooner rather than later if the future vibrancy of the whole arts ecology and cultural ecology is not to be sacrificed to maintain institutional stability

⁶⁹ One of DCMS’ four PSA targets in the 2004 spending review was to increase take-up of cultural and sporting opportunities by adults aged 16 and above and from priority groups (defined as those with disabilities, members of BME groups and those in socio-economic groups C2, D and E)

3.2.4 Take culture to the people

As we have already noted, one of the most consistent criticisms of the locus of current public funding is that many of the established arts institutions which are in receipt of the greater proportion of Arts Council funding, are geographically concentrated, offer traditional and high culture, and are fighting a losing battle to maintain their current audiences let alone reach new sections of the population. As Van der Ploeg notes:

‘There is a case for bringing high culture to the people Theatre, concert halls, and opera houses seem to be bastions of high culture avoided by the majority. ...Why then not reach out to new and more diverse audiences and bring high culture to public parks, pop temples, libraries, community meeting houses, shopping precincts etc?’

To put this more brutally, if extending reach and participation remain key targets of cultural policy, meeting these aspirations at current funding levels whilst maintaining artistic excellence will require us to rethink how ‘fixed’ our artistic assets can afford to be.

The Lift New Parliament is an exciting example of what might be possible here⁷⁰ and the scope for further innovation in this area is enormous.

3.2.5 Treat culture as an experience good and invest more in education

It has become a growing lament amongst the arts community that in their attempts to reach a wider public with their work, they feel that the relative marginalisation of the arts in the core curriculum and the school day is very damaging and may limit the audience for a wide range of arts in the future.

As Nick Hytner comments:

‘The worry for me is that generations of kids are being brought up who won’t be able to know what they like. The old liberal humanist education that gave students a framework through which

⁷⁰ See www.liftfest.org.uk/newparliament

*they could appreciate, interpret and enjoy has not yet evolved into something that addresses or include enough of tomorrow's audience'*⁷¹

The reason why these arguments should weigh more heavily in the debate about public subsidy and other cultural funding is that culture is an experience good, 'in that the more one tries it, the more one gets out of it. Almost all cultural goods are investments in one's own cultural capital. In a real sense, preferences for cultural preferences are not given, but can be shaped by education and experience'⁷² (2002.5)

For all these reasons the government should be doing much more to stimulate cultural education for school children. As Dawn Austwick comments:

*'I would want more focus on passionate engagement with young people so that as generations grow up audiences, markets, customers are queuing at the doors of the theatres and the art galleries, just as they now do to get on the terraces.'*⁷³

Space precludes any meaningful discussion of the grinding economic instrumentalism that has shaped curriculum development in our schools over the last two decades. In response there is an urgent need for funding that remodels the place of arts and culture in school age learning to ensure sufficient frequency and quality of experience and thus build involvement and demand.

New projects are beginning to emerge that give a sense of what might be possible with more dedicated funding effort. For example the Paul Hamlyn Foundation supported Musical Futures project, which has sought to devise new and imaginative ways of engaging young people in musical activities as an entitlement for all 11-19 year olds, has proved enormously successfully. It is a brilliant example of the power of more personalised models of provision.⁷⁴

Funders will also need to act in partnership with others to advance this agenda, in that they cannot deliver it on their own. In particular our schools and public realm broadcasters need to play a much fuller role in cultivating the tastes, preferences and individual self confidence required for a vibrant cultural life.

⁷¹ The Guardian 'What would you do for culture if you were running the next government?' April 21st 2005.

⁷² R. van der Ploeg (2002.5) 'In Art We Trust'

⁷³ D. Austwick (2007) 'Intelligent Funding' Arts Professional

⁷⁴ 'From Vision to Practice – Musical Futures – a summary of key findings' (2007) The Paul Hamlyn Foundation (see also www.musicalfutures.org.uk)

3.3 A case for optimism?

These shifts in mindset and practice clearly constitute a major challenge to the current funding communities. They require genuine transformations in purpose and intent, not the slow incremental improvements in existing practice that we are witnessing, and which are not serving the sector well. They require a much sharper focus on the future, and much less accommodation with the current status quo.

Given that some of these principles are slowly and patchily beginning to enter the practice of some of the key funding communities, can we be optimistic that funders will rise to these challenges and begin to take the action required to transition the arts and cultural ecology to a healthier place?

In the final instance, funders themselves are best placed to judge.

But my instinct is that progress will be too slow and scatter gun unless the funding community can immediately meet two of the challenges we have outlined – to become a funding community in more than name, and to begin to develop a long term vision of the type of arts and cultural ecology they are trying to create and how they might do that better together.

Success in that endeavour will require our funding communities to become more networked and porous, allowing some open source principles to inform their next stage thinking, and for them to work more closely together to agree those areas where they can make quicker progress in consort rather than apart.

Our closing chapter makes some suggestions as to how that progress might best be secured.

Chapter Four: Conclusion - Creating a Cultural Kyoto

This study has set out two broad agendas for change.

An immediately actionable set of funding and operational practices which would help transform the workings of the current arts and cultural funding ecology in the UK. And a more challenging set of mindset, behaviour and practice shifts. Action on the former – allowing funder and funded alike to more resolutely pass the ‘no harm’ test – is a necessary prerequisite for progress on the latter more expansive agenda.

How best to galvanise the necessary action is therefore a pressing question.

This study has led us to believe that there is strong support for all of the necessary actions required to deliver the ‘no harm’ agenda. Change could be fostered quickly if the funding communities signed up to them quickly and decisively.

4.1 A new funding compact

To that end the sector needs to follow the lead provided by broader developments in the voluntary sector in terms of codifying good funding practices. The sector needs its own Cultural Kyoto⁷⁵ – a voluntary agreement which all the main funders would agree to support – designed to create these necessary conditions and in turn foster the healthier arts and cultural ecology that we have outlined. It is also built on the assumption that the funder and funded communities will not be able to achieve their aims working alone, and that other players will need to play a full role, for example public realm broadcasting and the education system.

What would its objective and key elements be?

Just like any meaningful multi-lateral code of practice – the details would need to be hammered out and negotiated by the key parties – after which they would definitely have become a funding

⁷⁵ The real Kyoto treaty has a clear objective - ‘the stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system’ (The United Nations Framework Convention on Climate Change).

community rather than an unruly gaggle. The code of practice could be contained to England, but could just as easily be extended to the whole of the UK. And our analysis suggests an obvious framework for discussion.

Objectives

The objectives must relate to creating a vibrant cultural community, prioritising the health of the whole ecology and maximising the value and contribution of all the funding communities. With those thoughts in mind we suggest the following objectives for the code of practice – let’s call it a Cultural Funding Compact

The UK’s Cultural Funding Compact

Objectives:

1. To prioritise the health of the whole arts and cultural ecology, not the maintenance or survival of particular bits of the system
2. To shape funding practice so that funder and fundee intent and mission are closely aligned
3. To create a more vibrant funding community based on greater mutual understanding and collaboration
4. To maximise the opportunities for the different funding communities to help leverage the impact of their support
5. To more effectively enlist the support of others in achieving these ends

Status

What would be the status of the compact?

A good model already exists. The Government and the Compact Working Group (representing the voluntary and community sector) have over the last six years drawn up a compact to improve their relationship for the benefit of each other and the communities they serve. They have produced a code of good practice – ‘*Funding and Procurement – Compact Code of Good Practice*’⁷⁶

⁷⁶ ‘*The Compact Code of Good Practice on Funding and Procurement*’ (2005.15), drawn up in partnership between Government and The Compact Working Group (representing the voluntary and community sector)

The code applies in England⁷⁷ to all central Government Departments; ‘Next Steps’ Executive Agencies; Non-Departmental Public Bodies; Government Offices for the Regions; Regional Development Agencies; National Lottery distributors; and agencies contracted to distribute Government funds to the voluntary and community sector. Local Government and local public sector bodies are expected to take appropriate notice of the principles of this Code as recommended best practice in their work.

Both Government and the voluntary and community sector’s Compact Working Group are committed to promoting the code to funders and funded alike. In terms of reporting and evaluation, the Compact Annual Review meeting reviews progress on use and implementation of the Code, and sets out targets to achieve the full implementation of the Compact and Code in Government and across the broader sector.

Yes, agile reader – I know what you’re thinking. If this Code is useful, and given that many organisations in the arts are non profit voluntary organisations, why isn’t it shaping funding practice from the public purse to the arts? Good question.

The simple answer is that that the arts and cultural sector seems remarkably inoculated and isolated from developments in the broader non profit sector, and funder and funded alike have been less than energetic in exploring common solutions to pressing problems, and driving faster learning and innovation across the arts and cultural sector.

The more sophisticated answer is that the specific features of the arts and cultural funding ecology demand a more specific and tailored response than that afforded by the broader voluntary sector Compact, although there are important principles that both might happily share. The most important difference is that the Compact would need to include all members of the arts and cultural funding ecology, including individuals, charitable trusts and foundations and corporate benefactors.

The voluntary, collaborative model that would need to underpin the Cultural Funding Compact (see box below) would have the beneficial outcome of focusing sector wide efforts on agreeing the best way of delivering the ‘no harm’ funding agenda we have outlined.

⁷⁷ Separate Compacts apply in Wales, Scotland, and Northern Ireland

Status of the Cultural Funding Compact

A voluntary code of good funding practice under which:

1. Government and all of the funding communities would commit to reporting publicly on their progress on meeting the demands of the Compact
2. Each of the main funding communities commits to co-operate fully with an external annual review of their funding practice, to monitor how far they are adapting to the demands of the Compact

Actions

What would feature in the Cultural Funding Compact's initial code of practice? In the first stage of its development the actionable element of the Compact would be limited to the immediately deliverable measures we outlined in Chapter Two - a range of mechanistic practices which could be adopted quickly if there was widespread will and agreement.

Of course if the Compact was judged a success in accelerating better practice across the sector, the Compact could subsequently be expanded to embrace some of the more developmental agendas we have outlined in terms of promoting greater innovation, risk and diversity across the arts and cultural ecology - which might lead over a three to five year period to another set of deliverable commitments within the Compact that all the parties would endorse.

The Cultural Funding Compact's initial code of good practice

The measures that follow below are by no means painless for the whole funding community to implement, as they demand significant alterations to current funding practice. But the evidence base supporting their implementation is already strong, and the barriers are not practical but mission and mechanics, both of which could be altered quickly if there was a strong will to change across the funding communities.

The Compact would require all of the funding communities to take immediate steps to implement the following code of good funding practice:

1. To fund activity where there is a close fit between their mission and core values and those of the organisations they fund.
2. To develop funding agreements that are either light touch or highly tailored
3. To develop more long term funding agreements and relationships – between government and the public infrastructure agencies they support, and between all funders (public and private sector) and fundees
4. To commit to being proportionate (to size of funding, size of provider and perceived risk) in monitoring requirements and to focus on outcomes
5. To ensure that the price of grants, donations and sponsorships reflects the full costs of delivery, including a legitimate portion of overhead costs
6. To incentivise rather than penalise organisations we fund that successfully build up reserves
7. To fund different business models and legal structures where the mission of the funder permits
8. To fund for growth – through greater use of capitalisation tools and instruments, including investment capital and debt financing, designed to enable high performing organisations in the sector to build and scale
9. To re-establish and enshrine the centrality and importance of arts and culture in our curriculum across early years, primary and secondary education
10. To lobby for a tax regime that encourages new forms of patronage and giving

4.2 A Deliverable Agenda?

The Kyoto treaty was stillborn from the outset – too little consensus and too many missing supporters.

What price success for the UK's Cultural Funding Compact? Firstly does it pass the vision test – a compelling vision of how things could be different? Our work with the different funding communities gives cause for optimism.

There is widespread acceptance that the possibilities for more transformative change across the arts and cultural sector are enormous if we can conjure up a more creative alchemy of the unique, but interdependent, contributions the different funding communities can make in pursuit of that prize. There is an appetite for just such alchemy across the funding community.

Secondly, does the Cultural Funding Compact pass the implementation test – is it practical and feasible and is there an existing group of leaders from all four funding communities willing to

lead from the front? Undoubtedly yes – in that what is so striking about this Compact is how deliverable it is. It is not dependent on increased levels of public subsidy or private support; it does not require consensus on the aims and purpose of cultural policy and funding support; it does not require new institutions or major changes to the existing cultural development and support infrastructure – however tempting as quick fixes those solutions remain; and it will challenge energy into analysis and action, not recrimination and blame – a welcome change for the sector. The MMM initiative has already helped to identify and galvanise a broad based leadership group within the four main funding communities and the sector that is keen to deliver against these challenges.

Most importantly it places accountability for the health of the sector on all funders, not just the public purse, and on all significant actors in the system, including arts organisations and artists. None of the major elements of the Compact can be delivered unless those arts and cultural organisations stuck in a child like dependency on existing sources and forms of funding also rethink their mission, approach and operational models.

It's high time the UK's cultural funding system was rebooted. The principles and practices that should inform that restart are not opaque or highly contested. Many are crystal clear and well understood and we have captured them in the Cultural Funding Compact. It's time for the sector to sign up. It has nothing to lose but a dysfunctional set of relationships and practices and the chance to trade unhelpful competition and a lack of generosity for a sharper shared sense of cultural intent and action.

All too often the future of the arts and cultural sector is mediated through grindingly depressing conversations about institutional or cultural policy weaknesses. That those weaknesses are real is not in doubt. But they all too often serve to paralyse the sector into inaction and defeatism – and a painfully slow, frustrating, incremental development path. The sector is contracting very badly with the future – cementing accommodation and impoverishing possibility. The means to create a very different development trajectory already exists in the hands of the key actors – it's time the funding community put them to better use.

The recent centenary of W.H. Auden's birth resurfaced a rather wonderful anecdote about Auden's attitude to the sunset hour. As the Auden Society's president, Hugh Bernay, noted, 'Auden regarded cocktails at 5.55 pm as impossible and at 6.05 pm as outrageously late'⁷⁸

For the arts and cultural funding ecology major reform feels impossible in the here and now, and yet will be outrageously late if we leave it another month. That the territory mapped out in our Cultural Funding Compact needs to be traveled through is clear. If the arts are to live better they need to start that journey sooner rather than later.

⁷⁸ The Guardian, 22nd February 2007