Arts
&Business

Arts funding in a cooler climate

Subsidy, commerce and the mixed economy of culture in the UK

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Foreword

A culture of austerity has befallen the UK. The arts have not been spared. The cultural sector is coming to terms with an era when the public purse could be empty.

The budget cuts are predicated on the belief that the private sector can help fill the gap. With strong arguments, the best training, the most enterprising organisations will still flourish, but others will not. Philanthropy is no panacea.

Arts & Business has been staking out our new ground through our Private Sector Policy for the Arts and our Culture Forum, which will be a lively, vocal and democratic voice of the cultural community. As strategic partnerships will be a way forward, we are delighted to be working alongside Martin Smith by publishing the analysis of a respected cultural and business leader. Martin takes us beyond any special pleading. His paper aims to stimulate ideas to improve the health of the arts during this cold climate.

Martin offers us an enticing and pragmatic vision. If the UK is indeed going to become a 'kind of Silicon Valley' for the arts and culture, Martin suggests we will need to make progressive changes to the components of the mixed economy, pay our way more and provide higher quality evidence.

We must also make sure culture appeals to those who remain undeterred by fiscal deficits and sovereign debt crises. The wealthy see huge opportunities to make money. We see opportunities to help them understand the value of culture.

Martin shares our sense of the need to collectively avoid inward looking responses. To address the new financial reality and find different ways for the cultural sector to flourish, some radical and some evolutionary ideas must be put forward. If this is the start of a new age, Martin's paper is a significant step to making sense of it.

Colin Tweedy
Chief Executive, Arts & Business

Executive Summary

The UK's balanced arts and culture funding model is structurally robust by international standards, but also potentially vulnerable. The fall-out from the economic downturn is now being felt and there is a growing anxiety that a "golden age" of creative achievement and box-office success may be at an end.

Some 53% of the income received by the arts sector comes from public funding, a proportion which increased by 5% during the worst of the financial crisis in 2008–09. However private investment declined by 7% during this period.

Many arts organisations are already in difficulties. Faced with the prospect of cuts, arts lobbyists have called for the ring-fencing of public spending on arts and culture, arguing that cuts would have a detrimental effect on the country's "creative economy" as well as the arts themselves. These arguments are too often unsubstantiated and self-serving.

The evidence base that underpins policy-making in the arts and culture sector, and the wider creative economy, is generally poor. This reflects a historic lack of interest in the economics of culture in the UK. Given the scale of the contribution of the sector to the nation's economic life (however measured), and its vulnerability to international competitive forces, this is a public policy weakness that requires specific and urgent remedy. An Office of Cultural Economics should be established with a remit to help provide this.

Most arts organisations need to generate new revenue streams through better financial management and more imaginative exploitation of cultural assets. They need to develop more sophisticated approaches to managing risk; to innovate continuously in terms of audience access and content distribution; and to draw in new investment from a variety of partners.

The broad structure of the current arts funding system should be retained but more diversity in approaches to backing artists and cultural entrepreneurs should actively be explored alongside current models. Public money should be set aside in the form of Cultural Entrepreneurship Funds to enable such experimentation to take place.

Measures should be taken to promote private and corporate giving to the arts, and more should be expected of the public pound in terms of its capacity for drawing in private money.

1. Introduction

"…culture – not industry, not health provision, certainly not financial services – has been Britain's new jewel in the crown".
Peter Aspden, *Financial Times,* 17th–18th April, 2010.

"…the creative class which breezed its way through the 1990s is about to hit the wall".
Charles Leadbeater, *The Digital Revolution: the Coming Crisis of the Creative Class.*

In recent years we have enjoyed an extraordinary "golden age" (in Christopher Frayling's phrase) of critical and popular creative success – in our theatres, opera houses, museums and galleries. From China's terracotta army at the British Museum, to *Monkey: Journey to the West* at the Manchester International Festival and *Enron* and *Jerusalem* at the Royal Court Theatre, box-offices have never been so busy.

But now there is an understandable apprehension that things are about to get much tougher. This anxiety is based in part on current experience of the impact of the recession on budgeting and commissioning throughout the creative sector, with artists' wages, fees and contractual terms already taking hits. It is based also on a gnawing sense that, however well the case is made for the defence, it is highly unlikely that cuts in overall public funding will leave the arts unscathed.

The critical issue confronting not just the subsidised arts, but also much of the commercial entertainment sector, is how much funding will be available to create new work. Generally it is investment in innovation that gets chopped when the purse strings tighten, because innovation is intrinsically risky. The issue is that in the arts and "creative industries", all new work is risky.

It is clear that investment in new work in the UK across all art forms and all platforms will fall in 2010. This scenario reflects the combined impact of structural challenges (the digital revolution) and cyclical challenges (the credit crunch and recession) on the economics of content creation in the commercial media, for example in film and television, together with the lagging impact of the financial crisis on arts, culture and broadcasting budgets in the public sector. The indications are that there will be a continuing decline in total public and private investment in culture and entertainment for at least the next two years.

This is a sobering prospect. More positively, the changing landscape also brings opportunities – to construct new forms of partnership, to work in different ways on multiple delivery platforms, and to develop new revenue streams. The issue here is that many of these opportunities remain relatively untested as regards their revenue potential, whilst the underlying costs of producing new creative work remain high.

Many people believe passionately that it is desirable to support a strong and confident arts sector, especially during an economic downturn. But to maintain current levels of financial support is going to be exceptionally difficult on any foreseeable scenario. This should concern us because on any measure Britain excels at being "creative". We are exceptionally good at creating and delivering high quality and diverse cultural experiences to individuals as individuals, and as members of large audiences. These strengths are dependent on various and complex arrangements for financial support. Maintaining these strengths against the backdrop of a much less benign funding environment and an increasingly fragmented mass market for culture and entertainment will be exceptionally challenging.

How, then, should arts-leaders, policy-makers and politicians respond?

This pamphlet has arisen out of a reflection on what is increasingly called "the creative economy" – a concept now widely used by arts-leaders and others, but little understood as regards its fundamental dynamics. It draws on conversations with entrepreneurs, managers and investors in this economy, as well as with artists and arts commentators. It draws too on my own direct experience of arts funding as a board member of the Young Vic Theatre Company over a period of some fifteen years.

As talk of spending cuts intensified ahead of the general election, I decided to try to revisit the issues within the wider policy context of this abstraction called "the creative economy". My aim is to try to move the argument beyond special pleading, to stimulate debate, to provoke a response from politicians and others and to influence the arts and culture agenda over the lifetime of the new Parliament.

2. Subsidy and the market: the political economy of the arts and culture

"Culture gives us our place in the world, it reminds us of what we are, it makes us aware of what we could be… All governments in the future are going to be thinking of course about making economies… we want to remind them that culture works. This is the bit of public life that is extraordinarily efficient and extraordinarily effective."
Neil MacGregor, Director of the British Museum, quoted in *The Daily Telegraph,* 25th March 2010.

"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…"
Adrian Ellis, *New Approaches to Sustaining the Arts in the United Kingdom,* Mission, Models, Money, London, 2004.

2.1 The funding ecology and the creative economy

The UK's arts and culture sector is both mixed and balanced, though not by strategic design[1]. It contrasts sharply both with the funding ecology of large parts of the USA, where the performing arts are 95% dependent on private giving[2], and with patterns in continental Europe, where there remains a dominant tradition of public subsidy and the state's duty to support "culture" is often constitutionally guaranteed, as in Germany.

The effects of the recession have been especially dire in the USA, where museums, orchestras and theatre companies have been left reeling from sharp falls in endowment income. In Europe, where state-run bodies are typically major commissioners of commercial entertainment content, and especially film, as well as funders of art and culture, the worst effects are being felt, not surprisingly, in those countries with the least sustainable public deficits, including Italy, where some major museums are now partly closed and bankruptcy may yet claim some famous names as city authorities attempt to keep their expensive opera houses afloat.

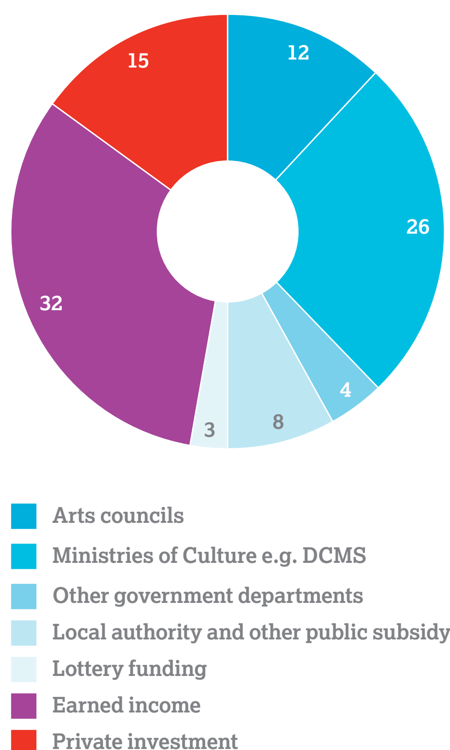
Against this generally bleak backdrop and the near certainty that public expenditure on the arts will fall over the next five years, there is nonetheless good reason for believing that the UK model, the result of six decades of characteristic pragmatism, is in a reasonable position to weather the impact of hard times, though this cannot be taken for granted.

The grounds for optimism rest on two propositions. First, artists are resilient, will always create and will always find an audience. Second, the model draws its funding from three broad and mutually reinforcing categories of revenue: the state (just over half); the box-office and other earned commercial income (around a third); and the private sector, including business investment, individual giving and income from trusts and foundations (around 15% of total funding in 2008–09).

The term "UK model" should be qualified. Not surprisingly in organisations that range in size, scope and function from national museums and large metropolitan orchestras to peripatetic theatre companies and small community arts centres, many business models can be observed, and scores of organisations do not receive any public funding. I use the term to indicate the sum of the parts of the arrangements found in the UK – an evolutionary and balanced ecology that sits somewhere between the American free market model and the European state model.

Just as the private sector segment of the UK model embraces distinct forms of contribution, so the public or state segment itself breaks down into five sub-categories as shown in figure 1:

Fig. 1: breakdown of sources of income



To understand the complexity of the UK model, and also the potential vulnerability of the sector to any significant reduction in public spending, it is essential to understand these numbers. Local authority and other sources of public subsidy account for some eight per cent of total UK funding. This equates to two thirds of the contribution made by the combined arts councils. Direct funding by culture departments in England, Scotland, Wales and Northern Ireland collectively accounts for more than a quarter of the total. Alongside the Lottery (three per cent of the total),[3] these state and state-financed funding arrangements constitute the bedrock of what might be described as an accidental system[4].

Such diversified arrangements are inherently more robust than those that depend heavily on the market, as current American experience clearly shows. But no system is entirely recession-proof. This is apparent in the gloomy narrative that accompanies the register of payments made from Arts Council England's (ACE) £40 million Sustain fund to recession-hit clients like the Royal Liverpool Philharmonic Orchestra, the Milton Keynes Gallery, Opera North and English National Ballet in the second half of 2009 and first quarter of 2010. Phrases such as "problems arising from recessionary decrease in income" form the leitmotif of reports to Council.

The picture emerging from these organisations is undoubtedly worrying, given that theatre, music and dance all had an astoundingly successful year in 2009 in terms of box-office performance. Because the deeper impact of the financial crisis is only now beginning to feed its way through the system, it is clear that harder times lie ahead, even if box-office numbers and other earned income continue to hold up well.

The UK arts and culture economy is "mixed" not only in this sense of the diversity of its income streams, but also of its capacity to foster talent and produce creative capital – capital which, in turn, enriches and fuels the commercial entertainment sector and thereby helps to generate alternative career paths. Many of our most talented and commercially successful artists and producers were trained and nurtured in the public sector, but make much of their living, and occasionally their fortunes, in the private sector.

At all levels of the creative economy "the talent" moves backwards and forwards between the public and private domains. West End theatres frequently take on shows that the National Theatre, the Royal Court or the Donmar Warehouse have spent months developing in rehearsal, enabling the original producers to recoup, through commercial partnerships, some or all of the costs of an expensive process. Film producer and director Danny Boyle *(Trainspotting, Slumdog Millionaire)* began his career in Birmingham with the Joint Stock Theatre Company. Professional musicians move serially between commitments to subsidised orchestras and engagements with commercial recording companies and entrepreneurial promoters[5].

This is all commonplace stuff for people who work in the business. Yet there is often a reflex assumption in policy circles that the commercial creative universe is so different from the subsidised world that it must be treated as distinct. Sometimes it is ignored altogether. One example was *Creative Britain, New Talents for the New Economy,* the serially delayed "strategy document" published by the government in February 2008. *Creative Britain,* notwithstanding its title, completely ignored the media and entertainment industries[6].

The traditional ethos of the public sector is different from that of the market – different and sometimes more "pure". Public money often does come with fewer strings attached than private money, and is often more amenable to creative risk-taking. Public money is sometimes used to provide seed-corn funding for the development of creative ideas in a way which the market typically does not. This kind of funding (Film4 is a classic example in cinema) exists in response to particular market failures.

But the true picture on the ground is more often one of a complex intermingling of market and non-market arrangements. Financial imperatives have always driven arts and culture organisations to make pragmatic accommodations with commerce. Yet many insiders remain stuck in an over-simplified world in which the commercial entertainment industry eschews artistic risk in favour of tedious repetition, shamelessly exploiting its talent base in search of short-term profit, whilst the noble world of subsidy, guided by artistic mission and social purpose, enthusiastically embraces risk in the name of culture.

It was never that simple. All these boundaries – between commercial and non-commercial, public and private, art and "entertainment" – are deceptive, porous and impermanent. We know this from our own personal experiences as consumers of culture, or perhaps as workers in the system, but our knowledge of the flow of funds around the mixed economy of culture is sketchy and as much anecdotal as empirical.

In short, we have generally not taken the economics of culture very seriously in the UK[7]. On many key questions we do not have enough evidence to be able to make informed policy judgements. In economics-speak we have remarkably little data on the complex "spill-overs" between the subsidised public and unsubsidised commercial realms of art and entertainment, and relatively little detailed analysis to learn from.

This weakness in the knowledge base contributes to an undervaluing of the arts and culture sector. It is undervalued because we have no reliable basis for assessing just how much of what economists call the gross value added (GVA) contributed to the UK economy by the creative industries[8] is attributable to the "investment" made by government to the arts and culture sector through the DCMS, the arts councils and other funding mechanisms. Whilst Arts Council England talks enthusiastically about how public money strengthens a "talent pathway that is essential to the success of the wider creative economy",[9] no-one can adequately substantiate this proposition. This is debilitating from the point of view of evidence-based policy-making, and weakens the hand of the arts lobby and the DCMS during spending review negotiations.

Some problems of language and terminology are also inescapable. The reason why many politicians, and more recently arts leaders, have latched on to the problematic concept of the "creative industries" is that it has enabled them to talk more about "investment" and less about "subsidy" – to move deftly from begging-bowl territory on-to what sounds politically like easier terrain.

One consequence has been the increasingly nebulous use of the word "investment". Private investors in the commercial world invest to make a profit: classically, investors seek a return on their investment at least equal to the cost of capital. In the arts world no public money is contributed on this basis, so the use of the word "investment", as distinct from "grant-income" or "subsidy", can be confusing. On the other hand the word "subsidy" carries with it the negative connotation of being devoid of the expectation of financial return. This is no less satisfactory given that such funding does generate social returns, variously defined, and also contributes to the development of creative capital (in intellectual property and skills).

To highlight this point may appear overly fussy, but once arts organisations start to talk seriously about "investing in culture" as a means to bring about "social and economic recovery" the words used must be subject to some degree of critical scrutiny.[10] One of the obligations of the higher political profile achieved by the arts in recent years is clarity of expression in advocacy. In economics, investment means creation of capital or goods capable of producing other goods or services. An award of financial assistance to an eligible grantee with no expectation of financial return or requirement that lasting value or a lasting asset will be created, is only "investment" in the very loosest sense.

2.2 Dissenting voices

The urge to talk up the wider economic importance of arts and culture is an understandable response to the anticipation of hard times. It is interesting therefore that a decade of relative plenty in the arts clearly evident, for example, in the extraordinary renaissance of public museums throughout the country has also, paradoxically, generated a number of radical critiques of traditional arts funding. The idea that we need to re-examine the relationships between the market and the state, and between commercial and non-commercial business models, as well as the governance structures of the subsidised sector, has emerged most sharply from the work of Mission, Models, Money (MMM),[11] a think tank and social action agency founded in 2004, and especially from a series of challenging MMM publications.

Several MMM authors have argued that traditional funding models have contributed, over time, to a number of highly undesirable outcomes. These include endemic under-capitalisation (or organisational over-stretch), a diminished willingness to take artistic risks, and an erosion of artistic integrity directly attributable to the introduction of ever more onerous performance targets. In consequence, it is argued, many arts organisations have succumbed to a combination of compromised mission, timidity, complacency and lack of nerve. It is a view which resonates with a large number of thoughtful arts practitioners and has begun to make inroads into the funding system itself. It clearly informed Sir Brian McMaster's 2008 report *Supporting Excellence in the Arts – from Measurement to Judgement,* for example.

Three MMM publications from the period immediately before the credit crunch are particularly interesting: Margaret Bolton and David Carrington's *New and Alternative Financial Instruments;*[12] John Knell's *The Art of Living;*[13] and Tim Joss's *New Flow.*[14] Based on the conviction that arts organisations do not do enough to optimise the value of their assets, Bolton and Carrington assess the possibilities offered by bonds, share issues, barter and exchange schemes, endowments and contract income. They appraise fourteen case studies in which finance was arranged from non-traditional sources, including the Charity Bank; Venturesome, a loan facilitator, provider and underwriter; and Triodos, a small "ethical bank". The authors are illuminating on the subject of fund-raising constraints, including legal and governance constraints, outside the world of the big national flagships. The perspective is predominantly that of social enterprise: only three of their fourteen studies relate to innovations that are recognisably "commercial" as seen from a private sector viewpoint. This approach is of course legitimate but limiting, especially now that the voluntary sector is under growing strain.

In *The Art of Living,* John Knell takes a more radical step in calling for the abandonment of the not-for-profit mentality that underpins the regularly funded public sector; a reconfiguration of funding and business models; and the adoption of market-driven approaches to the raising of risk-bearing capital. His critique of a funding environment that penalises organisations for having too much money on their balance sheets, fails to encourage individual giving through the tax system, and systematically encourages short-term thinking, is exceptionally cogent, as is his advocacy of a more innovation and demand-oriented (audience-building) approach to financial strategy.

In *New Flow,* Tim Joss, director of the Rayne Foundation and a former artistic director and festivals administrator, advances a yet more fundamentalist critique of arts funding culminating in a proposal for the abolition of ACE and its replacement by two new organisations: an arts research and development agency (ARDA); and a Commission for Public Engagement with the Arts (COPEA), whose remit would include the objective of "providing access to finance and helping the UK arts industry compete successfully in the domestic and global marketplace."[15]

New Flow, which is bold in its critical range and scores some palpable hits in its assault on the general treatment of artists in society, is especially strong on the restrictive consequences of the dearth of funds for development (artistic "R&D"), a theme developed in a more recent MMM essay, *Not Rocket Science* by Hasan Bakhshi and others.[16] It is less convincing in its numerous cross-references to the commercial entertainment sector. Furthermore Joss's faith in the superior efficiency of the private sector is sadly not borne out by the performance of the UK's quoted and unquoted entertainment companies. Nevertheless, the overall thrust of *New Flow's* passionate argument for a more inter-disciplinary, mixed and converged public/private sector funding ecology is broadly right.

These three pieces, in common with all MMM publications, are characterised by a thoughtful and optimistic appeal for new and better ways of making art and delivering better quality outcomes for the expenditure of public funds: they are equally concerned with the future of both parts of the equation of "the creative economy". However, in each case they also pre-date the financial crisis. As the impact of the recession continues to bite in 2010 and beyond, this kind of radical reappraisal should, nonetheless, become more relevant as the demands on the public purse intensify and an expectation grows that more should be done with less.

But it may not look that way to all of ACE's regularly funded organisations (RFOs), of which there are some nine hundred, and which alongside the museums sector make up the spine of the UK model. For some RFOs, particularly in those regions most economically dependent on public expenditure, for example the West Midlands, this may appear to be the wrong moment to address the radical challenges laid down by Knell and others. There may be a temptation just to hunker down. Why? Because of ingrained thought processes in part perhaps, but also, and not unreasonably, because the cash-strapped private sector is more constrained from spending on arts and culture than in the years of plenty. By contrast the last fifteen years or so has seen greatly increased public funding for the arts – roughly a doubling of aggregate funding – in an economy in which the public sector has grown much faster than the private sector.

New realities may not yet have sunk in: adjusting to a wholly different set of expectations may take time. The question is will the critical thinking triggered by MMM writers progress, or will it be derailed by hard times?

2.3 Known unknowns

John Maynard Keynes was instrumental in establishing the Arts Council of Great Britain, as it was then called, and became its first chairman in 1946. It is strange that a country that has produced so many great artists and so many great economists should have been so neglectful of the economics of culture, and that much policy-making in the UK cultural arena is in consequence so uninformed.

John Major's Conservative Party gave us the National Lottery, which has transformed the asset base of the nation's cultural landscape. Tony Blair's (and Chris Smith's) Labour Party doubled government funding of the arts. These were both enlightened acts of faith which, together with a boom in private sector giving, have brought the arts and culture sector to what Nicholas Hytner, director of the National Theatre, has pithily described as "a really good place. Public investment has meant new places for vastly increased numbers of people to come and see new work and new talent".[17]

Moving forward into difficult times however, we need something more than acts of faith if the momentum of positive change is not to be lost as the funding temperature cools. First, we need a more developed understanding of how public interventions work in the arts and culture sector, and of how they relate to the performance of the wider creative economy. Do they stimulate the growth of new markets, for example? Second, building on the work of Arts & Business (A&B) and others, we need a more thoroughgoing evaluation of how best to use public money to leverage sustainable private funding. And third, we need to construct an inventory of evolving business models so as to facilitate a rolling assessment of which innovations are likely to prove most productive and durable in a changing creative business environment, and to enable this learning to be shared throughout the sector.

This brings us to the argument about the so-called "intrinsic" and "instrumental" merits of investing in the arts. In the early years of the "noughties" this debate took an unfortunate turn. In their enthusiasm for all things "creative" government ministers went overboard for what is known amongst policy wonks as "instrumentalism" – the idea that the arts can solve, or at least mitigate, a variety of social problems ranging from urban regeneration to child delinquency. This proposition was given its definitive expression in 2001 by then Minister of the Arts Tessa Blackstone who asked, "Can the arts be more than just frivolous, trivial, irrelevant?" Answering her own question she replied:

"I am in no doubt that the arts can contribute to improving healthcare outcomes... better employability and employment... the position of disadvantaged groups... there's increasing evidence that the arts can play a role in both crime prevention and reducing re-offending…"[18]

There is a place for more considered versions of this argument, especially in the education arena, but the exponents of instrumentalism too frequently gave the impression that they were scratching around for new ways to justify arts spending. Happily, most politicians who address these matters have since retreated from the extreme utilitarian position.

However in developing a strategy for the future of the wider creative economy, including the competitively crucial audiovisual industries of film, games, music and television, we do need access to a different kind of "instrumental" analysis – of the role that core public funding plays in training artists, producers and technicians, supporting cultural entrepreneurs and pump-priming creative enterprises so that they are able to thrive, earn taxable revenues and drive up export earnings. By mapping the flow of funds in the whole cultural economy and analysing the multiplier effects of the "spill-overs" of funding from the arts to tourism, film, games and other adjacent sectors, we should then be able to provide a measure of substantiation to the otherwise largely rhetorical claim that arts subsidies enable "pathways to talent" and invigorate the broader economy. Then, also, we would be in a better position to begin to talk more credibly about "investment".

In research terms this is a considerable task, but not an insuperable one.

2.4 Responding to harder times

Although, as I and others have argued, the UK arts funding model is relatively robust, drawing strength from its interlocking component parts, it is about to confront the sternest of tests. Some 53% of the income received by the arts sector comes from public funding. Public funding of the arts and culture sector increased by five per cent during 2008–09[19] through the worst of the financial crisis, reflecting budgetary allocations made during the years of plenty. Although, sad to say, there was very little discussion of these matters by the political parties during the election campaign it is clear that, faced with a £163 billion hole in the public finances, no assurance can reliably be given by the new government that arts funding will be guaranteed at current levels following the next Comprehensive Spending Review.

The good news is that the sector's performance in terms of earned income is holding up remarkably well. Even if this were to continue, however, the expected cuts in aggregate public funding could have severe consequences.

The major challenge, paradoxically, is that as a country we are now so well endowed with cultural capital estate. Splendid new museums, like the New Art Gallery in Walsall, enrich towns and cities that have not previously enjoyed such facilities, or not for a long time. The problem is that these buildings are hungry for cash and have to find additional revenues if they are to survive. Unless supplementary commercial revenue-generating models are quickly identified and successfully activated, some new and refurbished Lottery-funded facilities may close. This would be damaging for the communities concerned.

It is conceivable that one consequence of large-scale cuts in arts-related public expenditure could be a serious fracturing of the model itself, especially in regions such as the north east where the private sector is relatively weak. Public money attracts private money. Success attracts new sponsorship. In the worst-case scenario lower levels of public funding could have the effect of putting this dynamic into reverse, creating a vicious cycle of decline. This is why the issue of how best to leverage private funding by using public money is now more urgent than ever.

Liz Forgan, Chair of ACE, believes that

> "Most arts venues in England operate on a 30:30:30 rule of thumb – box office, private fundraising and subsidy. For every £1 the Arts Council puts in, £2 is pulled in from elsewhere, totalling £3 in income to the theatre or dance house. It has taken years to build up this system, and artists, arts organisations and their boards have become skilled partners with private sponsors and industry."[20]

Leaving aside the numerical oddity of a "30:30:30 rule of thumb", this statement would appear only to be partly true in that private investment in the sector is currently not more than half the level of aggregate earned commercial income (see fig.1 on p.6).

The issue of how exactly the three parts of what Arts & Business (A&B) calls the arts "tripod" economy interact with each other is complex. The picture varies from region to region and art form to art form. There are two separable sets of questions here: the first has to do with relationships between subsidy and private giving within the arts; the second has to do with relationships between the arts and the unsubsidised commercial sector outside it. We need a better understanding of both.

The most illuminating insights into the first category are provided by A&B in its report on *Private Investment in Culture 2008/09: the arts in the 'new normal'* drawing on research commissioned from Frontier Economics (FE) and others.[21] This report in turn forms the basis of a consultation document entitled *A Private Sector Policy for the Arts,* published to coincide with the general election.[22] A&B argues that income streams in the culture sector are mutually reinforcing, emphasising that artistic success attracts new money and that private "investors" are interested, primarily, in being associated with such success. It recognises that public funding provides the guarantee of quality to which private contributors respond, and that without public subsidy for what might be called cultural "R&D" there would be market failure in the sector as whole. On this view private funding does not substitute for public funding. Rather public funding

> "…itself provides the foundations for the health of the sector, which is a prerequisite for further investment – remove that and the balance is completely disrupted and there is nothing to build on."[23]

Before the credit crunch this dynamic fed the growth of a virtuous circle in which private money was increasingly attracted into the mix. Conversely, unless effective measures are taken to counteract it, the process could switch into reverse.

Why do businesses and individuals give, and could they be persuaded to give more? Unpacking the different elements in the mix of private sector funding reminds us that the word "investment" is no less problematic in the private than it is in the public domain. One category of contributed private money is business investment, usually some form of marketing spend designed to benefit both the donor and the beneficiary. Individual donations comprise a second category and are generally associated with packages of benefits related to the size of the gift. A third category is the philanthropy of trusts and foundations, much of which is tied to welfare or educational objectives. It is easy to lose sight of the operational peculiarities of these quite different forms of transaction when bundled up generically as private "investment".

How politically significant are these issues? None of the political parties went into the 2010 general election campaign with a commitment to ring-fence central government expenditure on the arts.[24] Some arts leaders are privately expecting cuts of the order of 15 to 20 per cent of their public funding within two years. At the same time local government expenditure on the arts and culture (eight per cent of total income) is certain to be under extreme pressure from 2011 onwards. However all of the main parties have committed to maintaining a policy of free access to museums and galleries. These sums may not add up unless spending on new work is severely curtailed.

Leaving aside the question of public subsidy, three objectives should be pursued. They relate respectively to distributions from the National Lottery; the level and distribution of private investment, including endowments; and new business models (or ways of generating revenues).

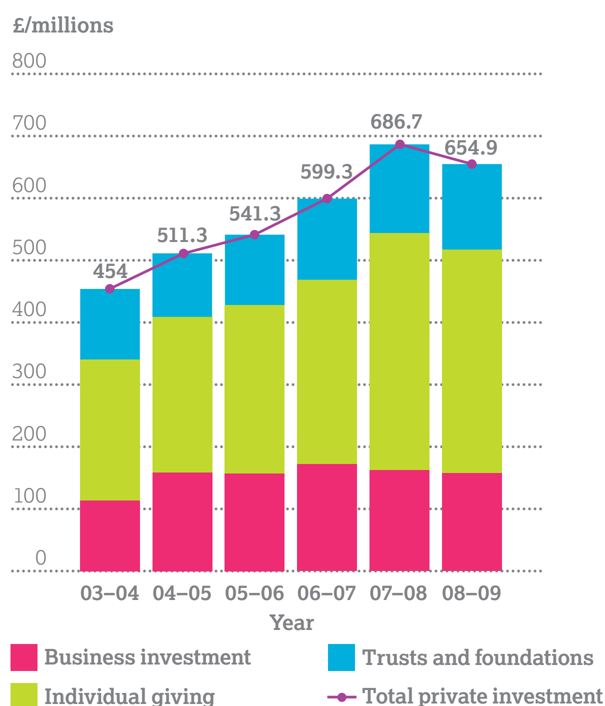
In opposition, the Conservative Party committed itself to returning the National Lottery to "its original purpose". Sports, heritage and the arts "will each see their original allocations of 20 per cent of good cause money restored".[25] As a result of the "raiding" of Lottery funds for various purposes, including the 2012 Olympics, over a billion pounds has been transferred out of the arts and heritage funding system. This has already led to significant cuts, for example to the museums' budget and the funding available to ACE.[26]

According to the Conservatives, "…£240 million less is going into the arts from the Lottery each year than in 1997". Their commitment before the general election was carefully phrased: "to increase the share of Lottery funding received by the arts". This is not the same as restoring 1997 levels of distribution, but the impression created by party spokesmen Jeremy Hunt and Ed Vaizey before the election was that this was their intention.[27] If implemented this would be very significant: £240 million is equivalent to six times the size of ACE's Sustain fund for rescuing recession-hit RFOs, and around one fifth of current DCMS spending on culture.

Even if this is done, it is likely that the UK model will only prosper in its current form, meaning its present scale and scope, if the private sector contributes far more in future. In particular, each public pound awarded through the grants system will have to leverage more private pounds.

Private sector investment in arts and culture peaked at £687 million in 2007–08 having grown from just over £400 million in 2003–04. Under the impact of the recession this figure fell back to £655 million in 2008–09 (see Fig. 2). As we have seen ACE claims that "for every £1 the Arts Council puts in, £2 is pulled in from elsewhere…" Meanwhile A&B, which in 2008–09 received a public sector grant of £5.1 million to help pull in more private funding, claims that "…for every £1 received by Arts & Business they (A&B members) may be leveraging in excess of £4 from donors".[28]

Fig. 2: Private investment in the arts 2003–04 to 2008–09



It would be mistaken to read too much into the difference between these two ratios (2:1 and 4:1 respectively) because many A&B members are not RFOs. However it would appear from research commissioned from Frontier Economics (FE) that A&B membership does result in significantly higher levels of private fund-raising.

On the basis that the 4:1 ratio could be explained by other differences between member and non-member organisations not related to the role of Arts & Business, FE's analysis took into consideration those factors that could have skewed their calculations.

Regression analysis allowed them to control for these variables and separate out the impact of Arts & Business membership from other determinants of private sector funding, such as turnover, region, and artform.

In summary this research suggests that total private investment for Arts & Business members is about 24–30% higher than in the absence of Arts & Business. Translating this into monetary terms, these percentages suggest that Arts & Business leveraged about £65–79 million of the £305 million of private investment received by members in 2008–09.[29]

However it would also seem that the effect of A&B membership on total private investment is largely driven by its impact on business investment (essentially sponsorship). Research findings indicate a relatively low impact on individual giving and grants by trusts and foundations. This is not really surprising given that individual benefactors do not need, and may even resent, the intermediation of another body, and that trusts and foundations are staffed by their own professionals.

Against this background A&B is now consulting on a proposal to launch an exceptionally ambitious programme to raise £1 billion or more from the private sector by 2016.[30] It proposes to do this in five ways: first, by re-establishing a Matched Grant Programme to stimulate business sponsorship; second by establishing a new Challenge Fund Scheme to stimulate individual philanthropy; third by establishing a Legacy Campaign; fourth by operating a dedicated Cultural Philanthropy Campaign in the business and financial sectors; and fifth by pressing for tax incentives designed to stimulate private philanthropy through the institution of Higher Rate Gift Aid and other measures.

Some considerable feat of income-raising of these dimensions will be required if the UK model is to continue to prosper in harder times. But, equally, it would be wrong for the UK to rely entirely on a strategy of increasing private investment. It has one major drawback: poor distribution. Earlier A&B surveys have reported that the distribution of private investment is heavily skewed towards the top 50 organisations in central London. Its 2007–08 report noted that

> "…London dominates with 58% of all business investment in England, and for some artforms such as libraries and museums and galleries almost all the investment goes to London venues and organisations…"[31]

Indeed, A&B noted in 2009 that the tendency for private investment to be concentrated in major national organisations in London seemed to be increasing.

Clearly there is a serious risk that tilting the UK funding model too far in the direction of private investment could have the effect of making comparatively rich organisations in the capital even richer, whilst small, experimental and edgy groups elsewhere lose out.

That is why we need to put the issues raised by Knell, and Bolton and Carrington, back on the table. We have to devise new ways of attracting revenues. The challenge is to find a practical way of scaling up the work that MMM began in the years before the crisis, and at the same time to bring in more commercial perspectives.

3. Goals and challenges

“The idea that ‘the future has arrived’ may be commonplace but it is rarely spelled out. A confluence of technical and social factors today pose unprecedented challenges and opportunities for the arts and cultural sector which they cannot meet without R&D.”
Hasan Bakhshi, Radhika Desai and Alan Freeman, *Not Rocket Science: A Roadmap for Arts and Cultural R&D,* Mission, Models, Money, 2009.

“You structure the developmental process according to the needs of the experiment. You don’t take risks until you are confident you can.”
Tom Morris, artistic director of the Bristol Old Vic, quoted in *The Observer Review*, 15th November 2009.

3.1 The agenda

To answer the challenges posed by the pressures on funding described in section two, I believe we need to make some rapid progress in pursuit of each of the following strategic goals: to generate new revenue streams by means of better financial management and the more imaginative exploitation of cultural assets; to develop new approaches to managing artistic and financial risk; to innovate in terms of audience access and content distribution, embracing all the possibilities offered by new media platforms; and, through these and other means, to draw in new forms of investment from a wide range of partners.

This is an ambitious agenda, but significant progress is already being made: the arts and culture sector is alive with innovation and experiment. The most difficult question is how to turn this process of experimentation into increased revenues. In setting out my own thoughts I also have in mind two further questions: first, are we moving quickly enough to respond to the risks and opportunities offered by the internet and new media? And, second, should we be experimenting more with cultural investment vehicles based on financial models developed outside the arts?

If it is indeed true that “the future has arrived”, heralded by the Royal Opera House’s *Twitterdammerung* and the Royal Shakespeare Company’s *Such Tweet Sorrow,* for some arts bodies a complete change of psychological mindset may be required. For others, the journey is well under way. Not only have they recognised the challenges posed by the digital world, in which the competition for attention and personal discretionary spend becomes daily more intense, they have also put appropriate strategies in place. They are adapting. They are experimenting with new business models and, in media business jargon, new “delivery” mechanisms. For others, old ways of thinking will be hard to throw off. They may get left behind.

There are a number of issues here. There is no definitive way of bundling them up, but I propose to examine them under four thematic heads: the mentality of not-for-profit; risk evaluation and mitigation; branding, talent and competences; and “smarter” funding. The key to nurturing more sustainable arts and culture organisations in a cooler funding climate will lie in addressing this “to do” list effectively and at scale.

3.2 Not-for-profit?

The governance of the arts and culture sector has had to evolve in recent years driven by the need to supplement core public funding and box-office revenues with income generated by marketing activity. The growth in co-productions and the development of digital platforms are opening up new commercial possibilities. The marketing teams employed by some nationally and regionally funded organisations throughout the performing and visual arts are now highly skilled professionals, and are able to attract the best young talent in the labour market. Their role is to maximise income from the second and third legs of the funding “tripod”: earned and commercial income, primarily through the box-office; and private contributions from companies, foundations and individuals.

As we have seen the income generated by these activities, particularly in London, is considerable, peaking at almost £700 million in 2008–09. This is a substantial sum but nevertheless a comparatively small one by American standards, reflecting the relative weakness of a culture of giving to the arts in UK society.[32]

The differences between the two systems, and the tax systems which underpin them, are significant. One important though possibly diminishing feature of the UK scene is a social attitude that regards cultural provision as an element of the post-war welfare state settlement: art and culture are public goods which taxpayers largely pay for and funding bodies deliver on their behalf at arm’s length through distributions to registered charities.[33] This attitude is still widely held, which explains why the dominant governance model at the heart of arts organisations remains that of the not-for-profit charitable organisation.

Several aspects of this funding environment, notably the lack of effective encouragement for individual giving through the stimulus of fiscal incentives, have been highlighted by Arts &Business in *A Private Sector Policy for the Arts*.[34] In spite of vigorous campaigning by arts lobbyists, this is a case that appears not to have engaged the serious attention of HM Treasury in recent years.

Less often discussed is the impact on organisational performance of the traditional mindset of not-for-profit, and especially its tendency to discourage longer-term strategic planning and financial innovation. This is not to argue that arts organisations should jettison their underlying ethos of public service and aim to become profit-maximising entities. It is to recognise that there is a need to make "profits" on a project by project basis (or surpluses, to use a less emotive word), in order to underwrite the continuous process of re-investment in skills, risk-taking and the creation of new work necessary for the achievement of artistic goals. We need a new mindset, and possibly a different vocabulary, to help us respond to the changing context.

To help pursue the argument it is useful to assert an undeniably naïve proposition. Profit is, in itself, neither good nor bad: it is what is done with it that counts.

This is a critical issue for all creative organisations subject to the vagaries of the box-office – vulnerable, in William Goldman's famous aphorism on the film business, to the "nobody knows anything" characteristic of unpredictable demand. Subsidised arts bodies, no less than commercial entertainment businesses, must methodically apply the portfolio principle of production and (in the case of museums and art galleries) exhibition so that the "hits", in a purely financial sense, are reliably able to pay for the "misses". The misses are generally more numerous, particularly where companies are striving to innovate and develop new audiences. The portfolio principle is the key to sustainable business activity even in companies which regularly achieve high hit/failure ratios. In this sense the mentality and language of not-for-profit is unhelpful to the practice of sustainable long-term financing.

The proposition that hits pay for misses through a process of internal cross-subsidisation is commonplace in the commercial sector. It is also a fact of life in the subsidised arts. If, as is already happening at the front line, arts companies are in future to exploit their intellectual property assets more systematically through, for example, distribution deals with commercial partners, whether of live (streamed) or non-live content on new media platforms, patterns of cross-subsidisation are likely to become more complex, and the language of not-for-profit more discordant.

3.3 Managing risk

This brings us to the subject of risk, risk evaluation and more especially risk mitigation. Sir Brian McMaster argued in his 2008 report *Supporting Excellence in the Arts – from Measurement to Judgement,* that innovation and successful risk-taking are essential to the pursuit of artistic excellence. He made a formal recommendation that "innovation and risk-taking be at the centre of the funding and assessment framework for every organisation, large or small."[35]

A capacity for taking risks lies at the heart of all successful creative enterprises, and all successful risk-takers experience failure in their careers. However Sir Brian does not say how unsuccessful risk-taking, if it leads to the bankruptcy or the emergency rescue of an RFO, a regular occurrence even in good times and a fact of life in 2010, should be appraised, or where precisely responsibility should lie. Although he does concede that "successful risk-taking should be informed by skill and sense and be managed", he does not explain what he means by this – in terms of repertoire, performance practice or audience engagement. Worse, he repeats the old cliché that "the biggest risk….is taking no risks at all". This rhetorically satisfying paradox is rather unhelpful: actually the biggest risk is to proceed without submitting forward plans to a process of informed, experienced and proportionate risk evaluation and risk mitigation.

Public funding allows artists, directors and producers the "right to fail", perhaps repeatedly, but at the same time to learn from experience, grow artistically and professionally, and go on to do great work. But the right to fail at public expense is also a privilege. Things are much tougher in the commercial sector, where one failure can easily be terminal. The history of film provides hundreds of examples of single production "failed" directors: there is no-one to bail them out.

It is too easy for arts organizations to assume that risk is unmanageable and cannot, by virtue of the essential mystery of art, be evaluated or mitigated. This position was challenged directly in 2009 by Hasan Bakhshi, Radhika Desai and Alan Freeman in the previously mentioned pamphlet from the Mission, Models, Money stable, entitled *Not Rocket Science*.[36] Drawing on studies of research and development practice in other sectors, and long established performance practice in the arts, *Not Rocket Science* is a sustained plea for the experiences of producers and artists to be collected, codified, made more explicit and replicable for the benefit of others. The authors mount a measured attack on the "prejudice" that all artistic practice is necessarily mysterious, and that the knowledge that flows from it is always non-replicable.

This is highly contentious, especially on the replicability point which will be fiercely resisted by many, practitioners and critics alike, but it is a subtle and persuasive argument – one that demands an appropriately reflective response.

A more informed approach to arts and cultural R&D would show, amongst other things, that it is often mistaken to think in terms of a deterministic relationship between subsidy, risk and innovation on one hand, and artistic conservatism and the market on the other. With its brilliant site-specific pieces such as *The Masque of the Red Death,* the independent theatre company Punchdrunk demonstrated that innovation and risk-taking are not the exclusive prerogatives of RFOs. Punchdrunk has built an audience and attracted funding by daring to be daring. It has effectively created a brand from scratch. So, over a longer period, has the still more daring genius that is Robert Lepage. Lepage's multidisciplinary production company Ex Machina, mixing the performing arts with recorded arts and drawing in funds from both market and commercial sources, confounds all creative categories.

The onset of harder times may change certain risk calculations. In most creative environments when money is short, or funding prospects weaken, there is a temptation on the part of those who commission content, or select repertoire, to "play safe" – to become more risk averse. The evidence is all around us in the television production industry, where commissioning budgets have been drastically slashed. In the words of one apprehensive chief executive, interviewed in 2008 for the BBC:

> "Risk is about a willingness to countenance different ways of doing things, to trust in delegation, a willingness not to be overly analytical, to embrace different forms of story-telling, and to give the audience something they didn't know they wanted. It is not just about funding, but about a culture."[37]

"*…something they didn't know they wanted…*" Just so! Sir Brian was therefore right to state the case for a culture of innovation, an approach that can deliver financial returns as well as artistic rewards. But if arts bodies are to take more risks as a matter of strategic intent, as his report proposes, they must also be able to sustain higher losses when the bet goes wrong. Not all audiences have an equal appetite for being challenged; and not all risks pay off. The remedy lies not in an indiscriminate appeal to "embrace as much risk as you can", but in a more considered approach to the practice of cultural R&D and the bespoke adoption of risk mitigation strategies by leadership teams.

What does this mean? In addition to adopting a more reflective approach to R&D issues, it means building multiple audiences, adopting a portfolio or "slate" approach by spreading risk across a season of work, calibrating degrees of risk, differentiating between various forms of risk (known/unknown work, known/unknown performers, "difficult" subject matter), and placing an absolute premium on experience. Above all it means recognising that the discipline of risk management is not the enemy of innovation; that, on the contrary, it provides an artistic framework within which a culture of innovation can flourish.

A well-managed strategy of risk mitigation will not of course deliver an all purpose generic blueprint, even on a genre-by-genre basis. (A season of work by Sarah Kane is unlikely to fare as well in Chichester as at the Royal Court.) It should not lead to the exclusion of new or adventurous work, nor of innovative performance practice. However the disciplines of risk evaluation should provide mechanisms for raising the alarm if a cultural equivalent of what investors call "three red flags" begin to show up in the planning matrix. Such strategies should also allow companies plenty of opportunity to "give the audience something they didn't know they wanted". Most importantly they should form the basis of intelligent discussions between producers, funding bodies, commercial and other partners, and audiences.

3.4 Brands, competences and talent

None of this is easy nor, of course, is it a precise science. Still less is it how most arts leaders have been trained to think. This brings us to people and competences: art and culture in Britain is in good shape, from a creative point of view perhaps never better, but in challenging times we need more good people to be able to demonstrate an ever-wider range of competences. How do we find them? Are we doing enough to nurture outstanding administrative and business talent and to disseminate best practice across the sector? And, more controversially, are the leadership requirements of arts organisations now so very different from other bodies?

On this last, rather heretical question it is instructive to ruminate upon the similarities between successful, highly reputed and well managed arts organisations and comparably successful and reputed commercial businesses. Do they have attributes in common? Yes, I would argue: generally a board, a CEO or equivalent, a business model, a passion for what they are doing and some very committed people. More specifically they both have assets – often intangible assets – talent, and a brand name.

Less successful businesses and arts bodies alike tend to be deficient in one or more of these three areas. In spite of the progress made in recent years, what holds many organisations back is shortage of talent – not artistic talent, but management, financial and business talent.

This is a key issue. The journalist and business economist John Kay argues that shortage of money is generally the manifestation of a problem rather than the problem itself, and that this applies equally in commercial and not-for-profit organisations. The implication is that new ways of thinking are required. If they are to succeed in developing sustainable futures against a background of reducing levels of subsidy, all arts and culture organisations will have to develop the kind of business competences that will enable them to build and sustain brands, exploit cultural assets and generate new revenue streams, and thus make them attractive to a wider range of commercial partners.

Achieving such goals will become progressively more difficult if the combined impact of austerity, digitalisation and changes in consumer behaviour has the effect of drawing people away from the experience of live, ticketed entertainment, as some pundits predict. Reflecting on current trends, the cultural commentator Charles Leadbeater has gone so far as to suggest that "the creative class which breezed its way through the 1990s is about to hit the wall."[38] This cheerful prognostication should be taken seriously, even though an irreversible audience retreat from the experience of social entertainment is not pre-ordained, and indeed current box-office figures suggest an altogether more optimistic narrative.

Nonetheless it is clear that for arts and culture organisations rapid advances in the delivery of ever higher quality sound and vision via the internet, home cinema screens and mobile devices will serve up both threats and opportunities. The response to the threat posed by digitisation must be fully to exploit the opportunity – to strike out and innovate. Arts companies must leverage as much value as possible from their stocks of cultural assets, their reservoirs of talent and their brand names, constantly experimenting with new delivery platforms by using their brands as magnetic force fields.[39]

This talk about brands and "leverage" will not be to all tastes. Similarly musicians and writers are rarely happy to hear their work categorised as "content" in the reductivist argot of media business. Such language can indeed grate. But, on the substantive point, if the goal is to retain or, better, to expand the size of the paying audience for art and culture, the issue of cultural branding is likely to be crucial in a competitive entertainment environment characterised by so-called "freemium" consumption patterns, intensifying market fragmentation and almost infinite "noise".[40]

No fundamental artistic principle is at stake here: what is required is an understanding of how branding works and the competence to make it work for you. Powerful branding can be put at the service of culture without comprising artistic integrity. Brands resonate in a way which is crucial to attracting attention in a competitive entertainment landscape. Culture, by sharp contrast, often subverts and criticises, but also frequently uplifts. The trick for arts organisations is to find ever more ways of exploiting the former in order to deliver the latter.

In the UK the gold standard in these matters has been set, perhaps not surprisingly, by three especially well-funded national organisations – the Tate, the British Museum and the National Theatre. On 25th June 2009 the National's ground-breaking production of *Phedre*, starring Helen Mirren, was seen by an astonishing 50,000 people in 280 cinemas worldwide as part of its *NT Live* season.[41] Such a prospect, and the possibility of reaching such an audience, would have been generally derided in the theatre world only a year ago.

Of course the National's brand, not to mention the Mirren brand, is not just any old brand, and it helps to have the two Nicks – Hytner and Starr – at the helm of an organisation that can draw upon all the necessary competences, not to mention a sponsor list to die for. Nevertheless the boldness and success of the experiment speaks loudly: this will be the way that the subsidised arts and culture sector extracts more public value from its creative assets, by developing what in effect will become a kind of iPlayer for the performing arts.

The success of organisations like the National Theatre and the Tate in turning themselves into "narrowcasters" – creators and distributors of content capable of being delivered on more than one platform to precisely defined target markets – provides solid evidence of how new forms of partnership between publicly funded bodies and commercial collaborators can help expand audiences and increase revenues. The future has arrived.

3.5 "Smarter" funding

To succeed in this converging arts and media environment will place a high premium on entrepreneurial skills. The funding system has not yet caught up with this.

Realistically, arts and culture organisations cannot fundamentally transform their ways of operating unless the funding system, or a defined part of it, changes with them. The basis of the existing system is still largely to support charitable institutions, rather than to foster cultural entrepreneurship. This arrangement suits traditionally run companies governed by those who are distrustful of the idea of capturing the commercial value of artistic creativity, and also suits artistic directors whose exclusive focus is on what happens in the rehearsal room. Meanwhile many board directors do not really understand the dynamic business models required to account for new revenue streams.

The result is that a not-for-profit mentality remains too often entrenched against an entrepreneurial one. This is why John Knell argues for what he calls "smarter funding", based on the proposition that arts companies will only be able to extricate themselves from the treadmill of serial project funding and chronic under-capitalisation if they can be persuaded to reject the non-commercial logic inherent in the charitable mindset.[42]

Of course we need our great arts institutions. They are thriving. We are fortunate that many of them are run by outstandingly entrepreneurial leaders – Nicholas Serota at the Tate, Nicholas Hytner at the National, Neil MacGregor at the British Museum and Tony Hall at the Royal Opera House to name just a few. It is easier to innovate at the bigger institutions because they enjoy the benefits of scale and can more easily absorb the odd failure.

For smaller and newer organisations the transition to "smarter" funding will be more challenging, especially for building-based museums, galleries and theatres with high fixed overheads. The problem is particularly acute in the performing arts, for example classical music, which suffer from the phenomenon known as "cost disease" long noted by cultural economists.[43] Nor is it possible to specify precisely what smarter funding might mean without reference to the very different situations faced by, for example, large museums on the one hand, and small community arts centres on the other. There are many variables in play, including sources and flow of funds, property status, rights ownership, the producer/receiving house distinction and, in the case of museums, statutory provisions on charging for admission. One size will clearly not fit all therefore.

The obstacles to progressing towards a more diverse funding universe are considerable, particularly in a downturn. Many arts funding agreements are project-focused and neglect to factor in legitimate associated overhead costs let alone an allocation of time for research and experimentation. Accounting techniques based on the principle of full cost recovery have not been universally embraced in the arts and culture sector: the funding system has provided little incentive to do so. This pattern of lack of capacity building is not peculiar to the world of arts subsidy however: it is generally mirrored in the thousands of micro and small businesses found in the commercial creative economy.

Another significant obstacle to higher levels of engagement between publicly funded bodies and commercial businesses can arise from their differing time horizons for investment decisions. In response to the McMaster report many in the arts community have called for long-term funding agreements. The argument in favour is clear for established companies, though less so to emerging ones. One company's long-term funding agreement is another, nascent company's barrier to entry.

Either way, the fit with commercial business can be poor in harder times: unless you are a well capitalised, mature business able to maintain a commitment to invest through low points in the cycle, private sector reality often demands the flexibility to respond to short-term market pressures by cutting what are perceived as non-core activities. This largely explains the 7% fall in private investment in culture in 2008–09.

The argument for longer-term funding agreements – five years, say – is clear in principle, but also runs the risk of solidifying the concentration of a large proportion of public funding in London. The suggestion by the then Shadow Chancellor, George Osborne MP, in a speech to the Tate Family Conference in December 2009 that such agreements might be tied to the delivery of enhanced private funding through endowments, is an interesting one, but could be seriously redistributive in its geographical effects.[44] Such agreements should not be made at the expense of companies like Birmingham Opera Company or Live Theatre in Newcastle – or indeed other companies outside London that have earned reputations for innovation and successful risk-taking. There is an exceptionally delicate balance to be struck between rewarding financially and non-financially determined indicators of performance.

Finally, we should aim to "remix" the mixed economy of culture by providing a defined space in which alternative approaches to funding art and artists can be tried and tested. We should set aside given pools of public funding with which to back entrepreneurs with a track record of achievement, whether through setting up and growing their own enterprises (like Adrian Brendel at Plushmusic), turning round and reinvigorating existing organisations (like David Lan at The Young Vic and Tom Morris at the Bristol Old Vic), running festivals (like Alex Poots in Manchester), or – though this would be more contentious – running venture capital businesses (Luke Johnson at Risk Capital Partners).[45] There are some formidable cultural entrepreneurs in the UK arts world: we should find a way of backing them so that the UK model is capable of evolving dynamically, and progressively, drawing on a range of approaches to meeting the challenges of a changing marketplace.

4. Conclusions

"…the arts have shown how they can earn their way and point to an economically newborn future for this country. They show that the UK could be a prime provider of imaginative riches and intellectual adventure, which I think are the two great prizes of the 21st century."
Melvyn Bragg, "Cultural Revelation", *New Statesman,* 26th April 2010.

"It's high time the UK's cultural funding system was rebooted."
John Knell, *The Art of Living,* MMM, 2007.

In March 2010, against the background of mountainous public debt and anticipated post-election expenditure cuts across Whitehall of possibly 15% to 20%, Arts Council England (ACE), with others, launched a pre-emptive strike against the idea that the public funding of arts and culture should accept its share of the pain by publishing a document entitled *Cultural Capital: a Manifesto for the Future,* subtitled *Investing in Culture will build Britain's Social and Economic Recovery.*[46] It is not a manifesto in the accepted sense of a public declaration of principles and policies: it is, rather, a collage of assertion, aspiration and ambition.

There is nothing wrong with aspiration or ambition, and there is a case to be made for ring-fencing public expenditure on art and culture in hard times, but the case has to be well grounded if it is to be effective. Good arguments should be sifted from bad ones. It is only credible to claim (as *Cultural Capital* does) that "investing in culture" as distinct from, say, advanced manufacturing, biosciences or transport "will build Britain's social and economic recovery" if the claim can at least partly be substantiated. Given that the entire budget of the DCMS amounts to only 0.3% of Whitehall expenditure this is difficult to do.

The issue of ring-fencing is hard to duck. Should public expenditure on arts and culture be ring-fenced in the next Comprehensive Spending Review? I would argue yes, initially for two years, although given the gravity of the crisis in the public finances it is a tough argument to deploy with complete conviction.

If pressed, I would attempt to make the case for exceptional treatment partly on the basis of one "good" argument, what one might call "the MacGregor argument" (see page 6), that such expenditure is life-enhancing in its moral effect upon the community; and partly on the basis of a second "good" argument, that as a country we are generally successful at making, delivering and exporting art and culture and should bend every sinew to ensure that things stay that way. The argument at the crucial level of local government is yet more difficult because the opportunity costs in terms of competition from other front-line services (housing, care for the elderly and so on), are much more sharply visible on the ground in what is unavoidably a zero-sum game.

There are other appealing arguments to be made. Melvyn Bragg, presenter of *The South Bank Show,* the longest continuously running arts programme in the history of British television, praises the potential of "the chameleon power of the arts" to transform under-performing schools, and argues that such transformations should not be lost through cuts and "cultural neglect".[47] Who could disagree? But public money is rarely the decisive factor in cases such as this, considered alongside the commitment of an extraordinary artist, significant private sector money and the continuing power of television.

Reverting to the issue of Lottery funding, as we have seen there is an argument that expensive new museums and other cultural estate could be mothballed due to funding cutbacks unless some degree of ring-fencing is implemented. This would be to "squander" the initial investment, as ACE and others put it.[48] But this argument is a dangerous one: in harder times the solution, surely, has to lie primarily in the resourcefulness and ingenuity of the boards and management teams responsible. John Kay is right. The funding bodies cannot always be expected to act as bankers of last resort. Meanwhile, the argument that arts spending should be ring-fenced simply because at national level the sums involved are so relatively small, is hardly convincing, given that much the same can be argued on behalf of crucially important areas of medical research.

Personal politics and cultural preferences, as well as self-interest, no doubt, will always be influential factors in discussions of this kind, but – and this leads directly to my first conclusion – it should be possible to demonstrate by reference to hard evidence that, in Lord Bragg's words, "…the arts have shown how they can earn their way and point to an economically newborn future for this country".

My first conclusion, therefore, is that for the arts and culture sector to be able to argue its corner more effectively we need more analysis, better research-led policymaking and higher quality public debate. We know too little about too much. This includes the mechanisms through which arts practitioners respond to policy interventions, and the processes through which public subsidy in what the Work Foundation and NESTA call the "core creative fields" of the performing and visual arts filters its way through to, fertilises and boosts the wider creative economy.[49]

Some things we do know of course. We know for example that the UK music industry contributes £6 billion to the economy and employs some 130,000 people. We know that the UK is a top exporter of design and that our theatre companies are substantial net earners for the Exchequer. We do not really know whether these truths would still obtain if the taxpayer had not, over time, contributed so much funding to our colleges of arts and design, the BBC, the arts councils and other funding bodies, though it is reasonable to hypothesise that there is a complex pattern of causal relationships here, one which brings economic as well as social benefits to the UK. These relationships should be interrogated. It would be foolish for us to take such benefits for granted, or to put them at risk.

As noted earlier, the discipline of public economics has largely ignored the arts and culture sector. That cannot be changed overnight, but we could improve matters radically by establishing an Office of Cultural Economics with wide terms of reference.[50] Specifically, the new Office should be given a five year remit to map out the linkages and "spill-overs" between the subsidised and commercial sectors of the creative economy, and to act as an observatory for codifying and appraising evolving business models throughout the arts and culture sector. The new body should be linked both to government and the funding bodies, but should be located in one of our universities or business schools to ensure its independence. It should be eligible for public funds, perhaps on a matched basis with the private sector.

A higher quality evidence base should lead in turn to better policy-making and a higher quality of advocacy.

My second conclusion is that although this is not the right moment to make fundamental changes to the funding system, either in respect of the arm's length relationship between the DCMS and the funding bodies, which has served us well, or of the way in which funds are regularly distributed to client organisations, it is the right moment to experiment more boldly with different ways of funding artists and new arts organisations. We do need to make progressive changes to the "mix" of the mixed economy: in John Knell's word, the system does need "rebooting", but on an evolutionary basis.

A completely comprehensive restructuring of the way art and culture is funded by public money should not be attempted arbitrarily, particularly during an economic downturn. On the income side of the equation a tripartite system that has evolved so organically and which appears to grow so interdependently would be put at risk of serious damage by any attempt to recast it more radically, including the withdrawal of large amounts of subsidy. On the expenditure side of the equation, new arrangements should only be introduced on a rolling, evidence-led basis proceeding via controlled research, experimentation and development and the systematic appraisal of new funding models.

On the income side, Arts & Business (A&B) is right to argue that we urgently need initiatives to help the public pound work harder in leveraging private money. The five priority recommendations which form the core of A&B's *Private Sector Policy for the Arts* – on matching grants, individual philanthropy, legacies, corporate giving and tax reform – though exceptionally ambitious, should be encouraged in every way possible, including the kind of encouragement that can only be offered though changes to fiscal rules. A&B claims that "the arts could collectively raise £1 billion from the private sector by 2016".[51] This figure will strike some as unrealistic, and must rest on some fairly optimistic assumptions about the general state of the economy in the coming years. Nevertheless it is good to set targets and have a plan.

On the expenditure side of the equation, we should use a defined element of public funding to promote faster progress towards a more diversified model, based on the proposition that cultural entrepreneurs might do as well, or even better, than regularly funded organisations. At the ultra high risk end of the spectrum we should experiment with cultural venture funds – investing in people and ideas rather than buildings and established companies.

ACE is itself experimenting with a variant of this approach through its Managed Funds programme. This aims to identify new opportunities for the arts to flourish by promoting projects capable of generating supplementary funding from commercial sources. Eight per cent of ACE's budget is committed to this programme in 2009–10. This is welcome, but we also need to move more boldly in this direction with projects that, requiring financial experience and commercial acumen, are not appropriately ACE-sponsored.

A country which is justifiably famed not just for the wealth of its creative talent but also for the deep roots of its inventive and entrepreneurial traditions should be capable of turning itself, at least in part, into a kind of Silicon Valley for the arts and culture. Two prototype Cultural Entrepreneurship Funds should be established with public funding of not less than £10 million each, per year, for five years, and linked to the Office of Cultural Economics for the purpose of evaluation. The two funds should be separately run on the basis of open tender. An element of competition would both enliven and enlighten the ensuing process of experimentation and evaluation.

Martin Smith
18th May 2010

References

[1] The term “arts and culture sector” is used here to embrace all the subsidised visual and performing arts. Poetry is also subsidised in the UK but, for the most part, not other forms of literature.

[2] Funding patterns in New York City and some other large American cities are closer to the UK model.

[3] Mermiri T, Private Investment in Culture Survey 2008–09: the Arts in the ‘New Normal’; Arts & Business, London, 2010, p.12. Note however that this breakdown differs significantly according to region, art-form, size and type of organisation.

[4] The crucial role played by public funding becomes still more obvious if we add in the distinct category of the licence fee-funded BBC, which not only remains the biggest commissioner of artistic work in the UK but continues to support five orchestras and the UK’s only full-time professional choir, the BBC Singers.

[5] These interactions are categorised at greater length in John Holden’s excellent discussion paper Publicly-funded Culture and the Creative Industries, Demos/Arts Council England, June 2007, drawing on the work of Professor David Throsby and others.

[6] Creative Britain: New Talents for the New Economy, published by the DCMS in association with BERR and DIUS, 22nd February 2008. In the particular case of the computer games sector this lop-sided angle of vision led to what is, by any economic measure, a major creative industry (with a total export value of more than £1 billion per annum) being largely ignored by government prior to the Digital Britain process initiated by (Lord) Stephen Carter in 2009.

[7] Hasan Bakhshi, who leads on creative industry policy and research and assists with economic analysis at the National Endowment for Science, Technology and the Arts (NESTA), has written extensively on this topic. See for example Measuring Intrinsic Value: How to stop worrying and love economics, with Alan Freeman and Graham Hitchen, Mission, Models, Money, 2009.

[8] 6.2% of total UK GVA in 2007 according to the latest DCMS Estimates, DCMS, February 2010.

[9] Arts Council England, Achieving Great Art for Everyone: Consultation Paper, March 2010, p.9.

[10] Cultural Capital: a Manifesto for the Future; ACE and others, March 2010.

[11] MMM was established by Clare Cooper and Roanne Dods with financial support from the Paul Hamlyn Foundation, ACE, Arts & Business, Deutsche Bank, Accenture and other funders – itself an impressively catholic funding base.

[12] Bolton and Carrington, New and Alternative Financial Instruments, MMM, May 2007.

[13] John Knell, The Art of Living, MMM, March 2007.

[14] Tim Joss, New Flow: a better future for artists, citizens and the state, MMM, September 2008.

[15] Ibid., p.104.

[16] Hasan Bakhshi, Radhika Desai and Alan Freeman, Not Rocket Science: A Roadmap for Arts and Cultural R&D, MMM, 2009.

[17] Sir Nicholas Hytner, quoted in The Daily Telegraph, 25th March 2010.

[18] Quoted in Claire Fox’s (unpaginated) essay, No strings attached! Why Arts Funding should say no to Instrumentalism, Arts & Business, 2007.

[19] Mermiri T, Private Investment in Culture Survey 2008–09: the Arts in the ‘New Normal’; Arts & Business, London, 2010

[20] Evening Standard, 26th February 2010.

[21] Mermiri T, Private Investment in Culture Survey 2008–09: the Arts in the ‘New Normal’; undated. A separate and unpublished report from Frontier Economics entitled Arts & Business’ role in leveraging private sector funding for the arts is available through A&B. A&B, which brokers partnerships between commerce and cultural organisations and has some 1,550 members throughout the UK, has played a major role in promoting a culture of private and corporate giving to the arts since it was founded as the Association of Business Sponsorship of the Arts (ABSA) in 1976.

[22] Arts & Business, A Private Sector Policy for the Arts, London, March 2010.

[23] Private Investment in Culture 2008/09, op.cit., p.17.

[24] The Liberal Democrats first promised to “maintain current levels of investment in the arts and creative industries” in a paper entitled The Power of Creativity in February 2010, but this commitment was later withdrawn. It would “simply be dishonest to say that entire departmental budget (sic) can be ring-fenced from cuts”: Liberal Democrats Party Manifesto 2010, p.99.

References

[25] The Conservative Party Manifesto, 2010, p.39.

[26] Arts leaders are entitled to feel sore about the funding consequences of the 2012 Olympics. The funding allocated to the "Cultural Olympiad" amounts to less than half of one per cent of the £9 billion set aside to pay for the games, a figure which, as Richard Morrison of The Times has pointed out, is equivalent to the National Theatre's current subsidy for the next 500 years!

[27] The Future of the Arts with a Conservative Government, p.1.

[28] A&B, A Private Sector Policy for the Arts, op.cit., p.6.

[29] Arts & Business' role in leveraging private sector funding for the arts, op.cit., p.4.

[30] A Private Sector Policy for the Arts, op. cit., pp.7–10.

[31] A&B, Private Investment in Culture 2007–08, 2009, p.9.

[32] According to A&B, in 2007–08 businesses and individuals collectively donated a total of £16 billion to UK charities. Three per cent of this went to the arts and culture sector. Over the same period in the USA $307 billion was donated to charity, of which $12.8 billion, or just over four per cent, went to arts and culture.

[33] In the context of ACE it is surprising to learn that "arts and culture" includes poetry, including "survivors' poetry", for the purpose of distributing subsidy, and that the beneficiaries of these grants include commercial publishers like Carcanet.

[34] Op.cit., pp.8–10.

[35] Sir Brian McMaster, Supporting Excellence in the Arts: from Measurement to Judgement, DCMS, London, January 2008, p.10.

[36] Hasan Bakhshi, Radhika Desai and Alan Freeman, Not Rocket Science: a Roadmap for Arts and Cultural R&D, MMM, 2009.

[37] Glenwyn Benson and Robin Foster ed., The Creative Perspective: the Future Role of Public Service Broadcasting, BBC, 2008, p.116.

[38] Charles Leadbeater, The Digital Revolution: the Coming Crisis of the Creative Class, pp.2–3.

[39] One example is a company called Digital Theatre, at www.digitaltheatre.com, which in partnership with some of Britain's leading theatre companies, including the Almeida, English Touring Theatre, the Royal Court, the Royal Shakespeare Company and the Young Vic, attempts to capture live performance authentically onscreen using multiple camera angles and high definition technology. See Bryan Appleyard's enthusiastic review in The Sunday Times, 25th October 2009.

[40] "Freemium" is a business model which involves giving away a basic product, such as the digital download of a book or sound recording, whilst charging a premium for special editions or additional features. Although not original, it has been popularised in the web 2.0 era by Chris Anderson and other pundits of the "free" economy.

[41] Hasan Bakhshi and David Throsby, Culture of Innovation, An economic analysis of innovation in arts and cultural organisations, NESTA, June 2010.

[42] Knell, op.cit., p.4.

[43] The first economists to flag up this issue were William J Baumol and William G Bowen in their book Performing Arts: the Economic Dilemma, MIT Press, Cambridge Mass., 1968. In its very simplest form the issue is that the hours required to rehearse and perform a Beethoven string quartet are exactly the same now as when Beethoven wrote it. No "productivity" improvement is possible.

[44] Rt.Hon. George Osborne MP, speech to Tate Family Conference, 1st December 2009.

[45] Luke Johnson is also chairman of the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA). See his article "Artists can seize the business initiative", Financial Times, 16th February 2010.

[46] The document is unsigned, though sixteen other organisations are listed as being "associated with" its "production".

[47] Melvyn Bragg, "Cultural Revelation", New Statesman, 26th April 2010. Lord Bragg tells the story of how Gallions Primary School in east London has been transformed since the violinist Tasmin Little conducted a series of workshops held there under the auspices of The South Bank Show.

[48] Cultural Capital: a Manifesto for the Future, op.cit., p.15. The signatories of this document are on stronger ground when they draw attention to the enormous sums that have been diverted from the arts to help pay for the 2012 Olympics.

[49] Staying Ahead: the Economic Performance of the UK's Creative Industries, Work Foundation/NESTA, 2007.

[50] A variation on this recommendation is made by Bakhshi and others in Measuring Intrinsic Value, op. cit., p.13.

[51] Op.cit., p.3.

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