BUILDING CHANGE TRUST

Arts & Business Northern Ireland

SOCIALLY INVESTING IN THE ARTS

EXECUTIVE SUMMARY

November 2016

LOTTERY FUNDED

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BUILDING CHANGE TRUST

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FOREWORD: BUILDING CHANGE TRUST

In late 2008, the Building Change Trust was established by the Big Lottery Fund with a National Lottery grant of £10 million as an investment for community capacity building and promotion of the voluntary and community sector in Northern Ireland.

This £10 million grant was made following the submission and acceptance of a proposal developed by the Community Foundation for Northern Ireland, Community Evaluation Northern Ireland, Business in the Community, Rural Community Network and the Volunteer Development Agency.

The Trust was established as and is an independent charity, registered with the Charity Commission for Northern Ireland and governed by a corporate Trustee with a Trust Board comprising 9 members.

In 2010 the Trust Board published "**Investing in Social Change**", its strategy for 2010 – 2013.

In that we set out both how we would be distinctive through:

- doing more than grant making
- supporting Innovation
- learning and sharing
- a strategic focus on change

and at that early stage in our journey set out some initial programmes of work including a transformative grants programme with our original bid partners, our Exploring Change and Deliver Change awards programmes, a Partnership, Collaboration and Mergers support programme and details of plans for a permanent loan fund for the sector.

We highlighted then that "We recognise that now and in the future the sector will operate in a time of reduced and constrained funding and that innovation and changes in funding and financing arrangements are both inevitable and desirable. The Building Change Trust will invest in researching, exploring and learning from social investment developments in the rest of the UK and elsewhere with a view to informing future developments in Northern Ireland."

We set aside £2 million of our £10 million for the social finance theme of our work.

In the intervening years since 2010, we have progressed and refined our strategy around social finance and, following on from an initial £1 million capital investment in Charity Bank's operation locally, have focused on supporting and engaging with others to consider what actions need to be taken in Northern Ireland to support the development and use of social finance to enable its contribution to a strong, vibrant, independent and relevant voluntary, community and social enterprise sector locally that makes a positive impact on people and places. Social finance as a means and not an end in itself.

It has been reported recently that the Office for National Statistics has identified Northern Ireland as the most contented region of the UK. One reason suggested for this is that we have high levels of social capital – the links, shared values and understandings that enable individuals and groups to work together and trust each other.

It's surely the case that it's the voluntary, community and social enterprise sector that makes a key contribution to these higher levels of social capital and the not for profit arts sector plays a key role within that.

Imagine what sort of a society we would have without the dynamic and diverse not for profit arts sector, imagine a society without the raft of small festivals and arts events taking place the length and breadth of Northern Ireland, imagine no small scale and specialist theatre companies, imagine no venues of international stature, imagine no community cinema, film festivals and so forth.

Unimaginable indeed, even more unimaginable when we consider that the arts aren't just about entertainment - the critical role of provocative social comment and challenge, the contribution to regeneration, artistic endeavour for its own sake, the opportunity for us to reflect on who we are, the arts sector does all of those things.

At Building Change Trust we believe that the arts matter to Northern Ireland, that they enrich the lives of all of our people.

However, if that enrichment has a value, it also has a cost; the not for profit arts sector is acutely aware, perhaps more than any other part of the wider VCSE sector, of the challenge of reduced and constrained funding.

Given the centrality of the arts to our lives and the funding challenges emerging, we wished to make a practical contribution to the sector's future development and have been very pleased to partner with Arts and Business Northern Ireland to commission and finance this research looking at social investment in the arts.

Our purpose in commissioning this research was to investigate and uncover the potential of social investment to finance the activity of arts and cultural sector in Northern Ireland.

We were very pleased to appoint such an experienced and knowledgeable team comprising Margaret Bolton, Niamh Goggin and Pat McGinn and thanks are also due to the support staff of the Trust, the staff of Arts and Business and the input of the research advisory group.

The research is a thorough piece of work and it quite properly sets out the potential for social finance to support the sector in the context of the wider ecology of funding for the arts locally.

A financially resilient arts sector has to have a balance between public funding, independent funding and where appropriate and possible income generation by individual organisations.

This is the critical finding of the research and also the critical challenge.

A key and simple idea proposed in the research is that "that every funding/financing programme should leave funded organisations financially stronger, after the intervention."

We believe that this is absolutely the right principle and hope that all those with a stake in the future of the sector will be willing to meet and explore the key recommendations around development of the funding ecology and a resilience strategy including the development of a specific support programme for the arts sector with access to an appropriate ladder of different support and funding interventions.

At Building Change Trust our particular interest is in the potential of social finance to support both the wider VCSE sector and the arts and other sub sectors specifically.

Having made an initial £1 million investment to Charity Bank to develop their offer locally, we have been acutely aware of the need for more action on diversifying the social financing offer and the accompanying need for a focus on investment readiness activity across the sector. We were pleased to be able to bring a specialist investment readiness to Northern Ireland in the form of the Community Shares Ready Programme being delivered by Cooperative Alternatives.

The recently announced Department for Communities pilot investment readiness programme is to be welcomed as are plans for the new Community Finance Fund utilising the Northern Ireland dormant accounts.

At the Trust we have decided to take our own action, in collaboration with others, to support both specific action in the arts sector and the wider needs of the entire sector.

On the foot of this report we will continue to work with Arts and Business and will provide some resources to help turn the recommendations in this report into a development and operational plan for future support.

We are also pleased to announce a new collaboration with the UCIT (Ulster Community Investment Trust) who will from the 1 October 2016 be in a position to offer unsecured loans of up to £25,000 to arts and other VCSE organisations locally following an injection of capital funding from the Trust. Another rung on the ladder of funding and support.

We encourage you to read this report in its entirety, to reflect on its findings and its recommendations and to consider what action you might take to help ensure people and places in Northern Ireland continue to benefit from a not for profit arts sector into the future.

Bill Osborne
Chairperson
Building Change Trust
October 2016

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BUILDING CHANGE TRUST

FOREWORD: ARTS & BUSINESS NI

Arts & Business NI (A&B NI) are really delighted to partner with Building Change Trust to commission this research into the potential around social investment in the Arts. We appreciate the Trust's generous support in funding this project as working with the sector on entrepreneurial approaches to income generation is an important aspect of our work. Social finance is never going to be the silver bullet for the Arts in regard to an income source but, in the context of a changing operating environment and a broad funding ecology, we wanted to test the opportunity and the potential it might present.

A&B NI has been working for over 30 years in Northern Ireland to help arts organisations prosper and businesses thrive. Our commitment as an organisation has always been to help sustain and strengthen the Arts; that purpose underpins everything that we do.

We passionately believe that the Arts are a fundamental part of how we function as a society. The power of the Arts lies in its ability to help us see things differently, to reflect our society and lives, to help us imagine, develop ideas and to bring people and communities together. The businesses we work with cite the important role of the Arts in defining Northern Ireland as a sophisticated business location and a place where people want to work, live and invest.

There is a real imperative for us all to look at how we work together to secure the future of a strong and culturally rich Northern Ireland. If we want to live in a society where excellent Art is accessible to all, then there will always need to be a mixture of public and private funding for the Arts.

Operating in a diverse and precarious public funding landscape has always presented challenges for the Arts, so constantly looking at diversifying income and being financially astute are necessities to running any cultural organisation. Anticipating and responding to changing environments and markets is critical to the sustainability of any business, cultural or non-cultural.

The artists and arts organisation that we work with every day do what they do with passion and purpose. The Arts are already hard-wired to looking at funding from a variety of sources. There are opportunities for diversification of income to the Arts from commercial and private investment sources, however the context of the environment in which the Arts operates, and indeed how Art is created, needs to be understood and supported if these opportunities are to be fully maximised.

If the Arts are to build long term financial sustainability then they need a secure core infrastructure that will allow them to invest in strategic fundraising. They need to feel confident that funders will support them in seeking to build reserves that will enable them to invest in future plans and have the time, resources and space to take artistic and calculated financial risks needed to explore and test new business models, artistic ideas and new products or services. These are factors that are critical to all areas of income generation and fundraising.

We already have a creative and entrepreneurial arts and cultural sector, but we want to work further with our arts and business partners to develop increased commercial entrepreneurship in the Arts in Northern Ireland. This research paper highlights the need to support the Arts sector to see the commercial and profit potential in their organisations, to develop a more non-profit distributing mentality – i.e. making profit with a charitable angle.

Part of our objective in working with Building Change Trust to commission this research was to help inspire and excite the sector to see how opportunities such as social investment, augmented with other non-grant finance, might support them to create the environment and space to use profit to support artistic experimentation. The ability to raise finance, void of grant restrictions, can help organisations to look forward, to look up and to dream big, in a way that grant finance may currently not allow.

We are also mindful of the emerging creative cultural businesses of the future entering a new funding landscape. A&B NI initiatives such as our Creative Internship programme supports the development of future cultural fundraisers, but how are we future proofing our sector and supporting young creative entrepreneurs to set up companies and grow and develop a sustainable business model. Yes, we will need public investment to support this but opportunities such as social finance, complimented by a suite of income sources, will be critical in this new norm for these emerging companies.

A&B NI supports the findings and recommendations within this report. We commend Margaret Bolton, Niamh Goggin and their team, for the passion, expertise and insight that they brought to this project. They have clearly captured the essence of the issues within the Arts funding landscape and ecology; this reflects what we hear and observe in our daily work with our Arts partners.

We would like to thank everyone who engaged and contributed to this research. We are also grateful to our steering group for their advice and guidance throughout the process. We look forward to working with Building Change Trust and our Arts and private sector partners to respond to this report, and map out how we can help the Arts to navigate the pathway to increased commercial entrepreneurship, in a way that doesn't jeopardise or compromise artistic integrity, supports artistic practice and sustains growth.

Dr Joanne Stuart OBE
Chairperson
Arts & Business NI
October 2016

Arts & Business Northern Ireland

EXECUTIVE SUMMARY

INTRODUCTION

This report summarises the findings of a research project commissioned by Building Change Trust in partnership with Arts & Business Northern Ireland. The project was delivered by Small Change (N.I.) Ltd.

The research examined the funding and financing of not for profit arts organisations in Northern Ireland and how access to non-grant finance and in particular social investment might help arts and cultural organisations generate more of their own income and become more financially resilient. It included face to face interviews with funding and financing and arts umbrella organisations; an on-line survey of arts organisations which garnered 67 responses; three consultation events attended by 50 organisations and telephone interviews with a representative sample of 22 arts organisations.

MAIN FINDINGS

The not for profit arts and cultural sector in Northern Ireland predominantly comprises smaller and medium sized organisations; 88 per cent of the organisations responding to our survey had an annual income of less than £1m, when surveys of this kind are likely to have a response bias in favour of larger organisations. Many organisations have only one or a couple of full time staff members, often relying on part-time workers, freelancers and sometimes volunteers to deliver their programmes;

Arts and cultural organisations in Northern Ireland are very reliant on public funding at a time when this funding source is under significant threat. 59 per cent of the organisations in our survey reported public subsidy levels of over 75 per cent. Although some arts organisations have lost some or all of their funding over the last three years, standstill Arts Council NI (ACNI) funding has been the reality for the majority over the last five to six years. However, this means a significant real terms reduction.

This picture of stagnant funding needs to be put in context. There is a consensus amongst arts organisations in Northern Ireland that even before the economic downturn, there was a significant funding gap. This is for a number of reasons, not least that the population of Northern Ireland is relatively small and largely dispersed, which limits audience numbers and therefore the extent to which arts organisations can generate their own income. There is also a marked concern that social finance might be regarded as a replacement for public funds rather than as a complement to them, and a feeling that this is unrealistic given the financial fragility of many, if not most, arts organisations in Northern Ireland.

Within a context of stagnant funding and the constant threat of and necessity of planning for cuts, many have found it a struggle to maintain activity and to keep their organisations afloat. A number have responded by being creative and resourceful in their pursuit of alternative forms of support. However, despite the success or likely future success of these efforts, many have been forced to scale back their activities. Some reported employing fewer artists, cutting back on touring or scaling down their participation and engagement programmes.

Many organisations report that they have been "brutal" in cutting costs and are now operating on a shoe-string. Some have dipped into or are proposing to dip into reserves, which are in any case less than adequate. These organisations recognise that highly creative and skilled staff and volunteers are perhaps their most important asset. However, some of the organisations that we spoke to expressed concern about retention because of very low salary levels and pay freezes that have lasted a number of years.

A key finding from this research is that current funding structures and models do not support organisational stability and impede organisational development and growth. Arts organisations identified a number of specific challenges:

- they struggle to raise adequate core funding;
- annual funding cycles make it difficult to plan and to develop their programmes;
- there is a perception that funders penalise organisations which hold reserves; [1]
- very burdensome application and reporting regimes; [1]
- delays in decision making, and;
- the burden of making provision for proposed 'in-year' funding cuts.

Despite these barriers to the development of capacity to generate additional income, we found that arts organisations had an appetite for exploring new funding streams and using their creative skills to generate additional income. Crucially, they also understand that they possess a range of valuable tangible and intangible assets which could be more fully exploited to generate income. However, generally, arts organisations have very little awareness and knowledge of the various forms social finance takes and how they might use it to generate additional income from their assets. It appears that very few organisations have experimented with it in Northern Ireland. We discovered in our research only a small number of examples.

Many of the arts organisations contacted through the research expressed an interest in finding out more about particular forms of non-grant finance notably, community shares, angel investment and crowd-funding. By contrast there was some marked resistance to and scepticism about loan finance. This is understandable. Loan finance is only an option for organisations that can generate adequate and reliable revenue to cover repayments. The arts organisations we interviewed expressed concern about the security of their current funding position and about whether they would be able to generate the extra income needed to service loan repayments. Some emphasised how financially precarious their organisations were. However, those arts organisations that were interested in loan finance saw it a potential means of helping them realise their plans for capital projects, deal with cash flow problems or support their fundraising plans.

[1] ACNI clarified in discussion on a consultation draft of this report that its policy is to help arts organisations to build appropriate reserves. It also noted it is undertaking a review aimed at streamlining its procedures, to include recommendations around grant applications and reporting processes.

A number of the arts organisations who participated in the research are currently examining or engaging in raising funds from trusts and foundations and individuals and corporates. The general view of both arts organisations and the funding experts interviewed for the research is that there remains significant untapped potential in these funding sources but that there is a problem with access to the skills and experience to support such fundraising.

The larger organisations with more capacity tended to have given more time and attention to planning for income generation. A number of the smaller organisations participating in the research said that they did not have a relevant strategy or plan. They described themselves as completely overwhelmed by the day to day pressure of making funding applications, project delivery and project reporting.

In the consultations, arts organisations described a number of future opportunities for income generation, both some specific to their particular organisations and others which might be a focus for collaborative efforts to lever addition income into the arts and cultural sector. They mentioned: community share issues and 'angel' schemes; changes in local government and in procurement, which will create openings for arts organisations to deliver local services. These opportunities included services which achieve health and well-being outcomes and the potential of digital technologies to improve marketing and build audiences.

The arts organisations consulted recognised that capacity building would be required to support greater entrepreneurialism. They suggested for example, that support on contracting and commissioning, on pricing strategies and on leveraging collaboration with other organisations seeking to achieve similar goals would be very valuable. Our view, based on the research, is that there is also a need to increase strategic financial management capacity amongst arts organisations i.e. the capacity to model the likely income and cost implications of different income generating options. Another issue that merits attention is the development of board and trustee vision and expertise, particularly in relation to risk and investment readiness. Some arts organisations at the consultations referred to boards being resistant to change and committed to maintaining existing operating patterns despite this posing a significant threat to viability

Some of the organisations that we spoke too also described the support they would most welcome in the future. Smaller organisations in particular said that they needed to be able to free up time to dedicate to strategy and planning for income generation and welcomed the idea that small grants might be provided to buy extra administrative support to achieve this. A couple of organisations also referred to the need for seed-corn funding to support business development.

CONCLUSIONS AND RECOMMENDATIONS

1. The main funders of the arts in Northern Ireland should be convened to consider how their funding policy and practice is supporting the financial stability and longer term resilience of the arts and cultural sector. There is a US model of funders, both public sector and independent, collaborating to develop a resilience or capitalisation strategy for the arts organisations in their locality and we believe that this approach could be considered for Northern Ireland.

2. Our contention is that in addition to changes in the ecology of support for arts organisations in Northern Ireland, a specific capacity building and investment scheme is needed.

Our research suggests that a new capacity building scheme should be based on:

- a thorough diagnosis of organisational assets and organisational capacity to exploit them;
- the offer of assistance across the income spectrum
  - for many organisations, investment in fundraising may be a much better option than investment in a new venture;
- an understanding of organisational mission and ethos
- clarity that developing mission-aligned ventures generally takes more time and thought than non-mission-related activities;
- attention to common themes and issues which organisations might more effectively tackle in collaboration with others rather than as sole agents;
- an understanding of the development trajectory of new ventures and that support, generally of different kinds, is needed at each stage;
- one-to-one mentoring and support to provide organisations with consistent encouragement and advice
  - this emerged in the telephone interviews as an important feature of any scheme.

The foundation of the scheme would be awareness raising seminars and financial skills training to support financial modelling. Awareness raising seminars might introduce the training and test the willingness of individual organisations to engage with the approach, while the training itself might be delivered progressively, in three stages. There is some evidence to suggest a link between progressive investment readiness support and the take up of social finance.

Another core element should be an 'incubator' which supports arts organisations through the progressive stages of development of new commercial ventures from prototyping to launch and which brokers access to the specialist technical support needed at the different stages (which will vary depending on the venture). It is envisaged that only a small number of arts organisations in Northern Ireland would initially be ready for such an approach. However, the financial planning training and the mentoring provided through the process would be designed to prepare organisations for this approach.

Our research suggests that arts organisations developing a robust and viable plan for generating additional income will need financial support to enable them to make it a reality. Our view is that this financial support should take a number of different forms:

– small seed-corn grants to help arts organisations explore the feasibility of and undertake development work on proposed new ventures or to develop plans to generate additional income from existing activities.

– grants, loans and quasi equity investment to support the roll out of new products or services which have been prototyped and tested.

A new fund should therefore be established. This fund should have a number of specific characteristics including: it should be a hybrid with grants provided alongside loans and quasi equity and it should provide financing for projects across the income spectrum. It should not compete with existing social investment providers, but should invest in higher risk and early stage projects which may not be backed by assets to provide security.

In summary, our recommendations are that:

1. The Department for Communities in Northern Ireland should prioritise building the financial resilience of organisations in its new 10 year strategy for the arts and culture. It should also provide corner stone funding, together with the Arts Council Northern Ireland, for a new capacity building scheme aimed at supporting arts and cultural organisations to grow their strategic financial management skills and develop new initiatives to generate additional income. A number of trusts and foundations with a UK remit and an arts focus are interested in supporting such a capacity building programme provided that the public sector gives some priority to the issue of financial resilience and is prepared to invest.

2. A&B Northern Ireland should convene the Department of Communities, Arts Council Northern Ireland (ACNI), interested trusts and foundations, Big Lottery Fund and other key organisations in order to co-design appropriate capacity building support based on their collective learning from previous work (including early learning from ACNI's new Sustainability Fund) building on the outline provided in this report. A key element of this support, building on previous Arts & Business Northern Ireland initiatives, is likely to be high quality pro bono private sector involvement.

3. Consideration is being given to using unclaimed assets from dormant accounts in Northern Ireland to support a new hybrid grant loan fund for voluntary organisations. We fully support the establishment of this fund and recommend that voluntary organisations whose primary purpose is artistic or cultural should have access (alongside organisations whose purposes are primarily social or environmental).

4. Finally, we recommend that those supporting the capacity building element of the programme and those leading on the grant and loan elements work closely together in order to ensure that the arts organisations they engage with receive high quality, consistent and seamless support enabling them to achieve their ambitions, financial, artistic and social.



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The Building Change Trust is registered as a company limited by guarantee in Northern Ireland (NI071182) and is accepted as a charity by HM Revenue and Customs (XT11390)

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