A&B (Arts & Business) and the Jerwood Charity

MISSION, MONEY AND MODELS

New approaches to sustaining the arts in the United Kingdom
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Full details of this conference and programmes are to be found at:
http://www.aandb.org.uk/Asp/templateManager/render/sites/24/render.aspx?siteID=24

'Cultural organisations' – as defined by Adrian Ellis – make up a sector in their own right, but are also part of a wider sector of non-profit organisations that includes charities, community and voluntary organisations, social enterprises. I've been asked to draw on my experience of that wider sector – as a funder and as a fund-seeker – to pick out some connections and current developments on the funding landscape that might be relevant to this audience.

As we have already acknowledged today both the arts sector and the wider non-profit sector are fantastically diverse – hugely different in size, activity, values and aspirations. How can one generalise about a sector where 6% of the organisations within it account for 90% of the income? Indeed, of the 190,000 registered charities in England and Wales, just 440, that's less than half a per cent, receive 44% of the sector's total annual income of about £30billion!

But there are connections to be made, common issues and preoccupations – not least:

- the universal hunt for the holy grail of long-term financial sustainability
- the ease with which an organisation's core mission can be diverted or distorted (sometimes fatally) by a short-sighted (albeit tempting) chase after new, but inappropriate, funding opportunities
- the persistent negative assertion (often by people with little or no direct knowledge of the sector) that non-profit organisations are grant dependent, feather-bedded by subsidy, risk averse and insufficiently hard edged financially.

In this brief presentation, I'll run through some of these common issues – and also pick out a few developments in the wider sector which may provide pointers for future moves by arts organisations.

First, though, an observation about the financial management and leadership of arts organisations. I've always marvelled at the ingenuity and entrepreneurial talent demonstrated within many arts organisations:

- skilfully juggling a complex mixture of different types of earned income, sponsorship, subsidy, donations
- cleverly translating aspects of what they want to do into funding proposals which connect with a new funder's interests and enthusiasms.

In the session before lunch we celebrated some terrific demonstrations of how non-profit organisations can implement and maintain complex funding strategies, which reinforce a clear mission – but also draw in resources from a long menu of possibilities. These include many achievements which entrepreneurs across the wider charity and social enterprise sector would love to be able to emulate – I suspect some entrepreneurs in the private sector would do so also. Far from there being lessons on funding elsewhere in the non-profit sector that may be relevant to you, it may be as important to find more ways of showing the rest of the sector what arts organisations have managed to achieve!

Sadly, this ingenuity is less often matched among those organisations that provide the funds – indeed, there is almost a perverse 'born to fail' element in much funder practice. Across the wider sector, as in yours, the funding environment is hugely uncertain. An American colleague wrote that:

> "changes in the economy, the interests of foundations and the priorities of government can quickly reduce or redirect money…The stress and effort inflicted by this uncertain funding environment…breeds a scarcity mentality that can shrink an organisation's ambitions."[1]

Vast amounts of staff and board member time and energy have to be invested in hunting out and negotiating lots of different bits of income – the transaction costs of securing each bit are often excessively high. I expect your annual reports list all the organisations that have provided grants – it makes me exhausted to think of the time that must have been spent by you preparing bids to all those funders – and to those that turned you down – and then filling in all those monitoring reports; and the hours the separate funders must have spent going through pretty well identical due diligence assessment processes.

The lack of collaboration between funders is a fantastically wasteful of everyone's time; and it's expensive, soaking up money that could – should – have been directed at the execution of the organisation's mission. The bit of the funder world in which I have worked most – that of charitable trusts and foundations – has to have produced the most inefficient way it is possible to conceive of getting money from A to B!

There are other features of the practice of funders – and especially of grant-making organisations, that seem almost designed to be perverse, to work against the aspirations of the grant-maker to make a positive difference and to have long term constructive impact. The wider non-profit sector struggles – as you do – with, for example::

- Short term project funding: voluntary and community organisations despair of the tendency of so many funders to tie their grants to very restricted purposes: 'project-itis', a disease that creates what has been described as a 'dance of deceit'[2] between funder and funded as the fund seeker tries ever more desperately and/or ingeniously to describe ongoing

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[1] Christine W Letts and William P Ryan *High Engagement Philanthropy* Stanford Social Innovation Review Spring 2003

[2] Jed Emerson: *Grantee-Grantor Relations: Mutual Accountability and the Wisdom of Frank Capra* Foundation News and Commentary March/April 2001

work in ways which enable it to be presented as a new (and no doubt 'innovative') project. Too many funders concentrate on short-term support, tied to tightly defined outputs and quantitative monitoring – success tends to be measured by compliance not by achievement.

- Second, inadequate funding: many funders are unwilling to pay the full price of the work they agree to support, excluding costs that are essential to an organisation's long term and healthy survival, the general operational costs, forward planning, the central overheads, or the margin that enables an organisation to take risks, to be creative and adventurous. As a consequence, a project grant can be awarded that is inadequate for the effective development and management of the project it is intended to support – leaving the grant recipient either to meet those costs from its own (probably limited) resources or to run the project knowing that it does not have sufficient funds to do so – or to refuse the grant.

- Third, lack of capital: Most voluntary and community organisations are chronically undercapitalised for the work they do – or would like to undertake. They often have insufficient reserves to meet the obligations (and levels of risk) they take on; and they have little or no working capital or funds to resource initial work on new developments. Very few funders have been prepared to address that critical problem.

These are not problems about which funders are ignorant – they are alert to the consequences; some are changing what they do, but many maintain the practices, creating the bizarre situation of grant programmes that can harm the organisations, causes and communities that they were intended to help!

So, other than lots of solidarity with your woes, what is happening in the funding of the wider non-profit sector?

A lot of debate, change and new initiatives – and a lot of it prompted by the present government's enthusiasm for strengthening the capacity of voluntary and community organisations and social enterprises and for extending the role of such organisations within community regeneration and the provision of publicly funded services. It's been significant, too, that the government has engaged very actively in consultation with the sector about how to address these aspirations. Arts organisations have not been, sadly I think, as centrally involved in these developments as they might be.

One development, for example, has been the introduction of a Compact between Government and the voluntary and community sector, setting out standards of behaviour which both should observe in their dealings with each other. One example of the potential importance of that development links back to the point I made about the high costs and inefficiencies of dealing with multiple funders: the Compact Funding Code[3] states that funders should:

> "take account of the monitoring procedures already agreed by the organisation's other funders and any quality assurance system introduced by the organisation itself. This approach will help reduce the staff/volunteer time spent by the funded organisation in reporting in a number of different formats and should in turn reduce the associated costs"

That is Government policy – as is the acceptance that the price paid to a charity or non-profit organisation to provide a service under contract should cover all the costs; it should not rely on the non-profit having to subsidise a publicly funded service.

Examples of Government supporting new approaches to the funding of the wider sector include

- setting up a social enterprise unit within the DTI[4]
- funding a range of community finance initiatives as a result of the work of the treasury backed Social Investment Task Force[5] on ways of encouraging and assisting investment in individual and social enterprise within the poorest communities
- the treasury led Futurebuilders[6] programme: £125 million additional money to enhance and extend the work of the sector in the delivery of public services
- the Adventure Capital Fund[7] supporting asset development which could increase income generating activity within community led organisations – like Futurebuilders, the distribution and management of this fund has been outsourced to a consortium of organisations within the non-profit voluntary and community sector.

These new funding schemes may be of only marginal direct relevance to many cultural organisations, but they are illustrations of current thinking about funding non-profit organisations and are spilling out into the worlds of individual philanthropy and the work of trusts and foundations. (Some of them also owe much to past funding developments within the arts sector).

They all link new and additional funding to organisational capacity building and the provision of technical assistance to try and ensure that the recipient organisation is fully 'fit for purpose' and 'investment ready' so that funds will be most productively used.

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[3] The Compact on Relations between the Government and the Voluntary and Community Sector in England: Funding – a Code of Good Practice 2000
[4] http://www.dti.gov.uk/socialenterprise/
[5] http://www.enterprising-communities.org.uk/
[6] http://www.futurebuilders-england.org.uk/
[7] http://www.lif.org.uk

They also all include funding systems which combine the use of grants and a variety of forms of debt – 'patient capital'[8] as the current buzz jargon calls them, a theme to which we can return later if there is interest.

These developments within government have, as I have indicated, been paralleled by developments among non-profit funders, for example:

- the setting up of Charity Bank[9]
- the growth of the Venturesome Fund[10]
- foundations exploring ways of building into their work mission related or social investment – investments and loans from which a double bottom line return is achieved, a financial as well as a social return.

These all involve the addition to the funding menu of forms of debt finance to address some aspects of the woeful lack of development or working capital that has so often frustrated or blunted ambition and entrepreneurial opportunities.

So – a lot is going on in the wider non-profit world. Almost all, however, is funder driven: it is the supply side that is coming up with new things.

The challenge to fund seekers is to ensure that imaginative and risk alert demand is forthcoming as the market for these funds develops.

And to challenge through achievement that negative assertion to which I referred at the beginning that the non-profit sector is grant dependent, and insufficiently business-like financially.

Any organisation in the arts or wider sectors can address this challenge by demonstrating that it can achieve three things:

- a diversity of income generating activity (from paying customers and service users, from appropriate marketing opportunities, from work done under properly priced contracts with statutory organisations) without exposure to risk or mission distortion
- a loyalty among regular users, audiences, its community that is reflected in a growing and unrestricted income stream (37% of the non-profit sector's income comes from donations from individuals – so a key challenge is to grow and hang onto those donors)
- a financial strategy to maintain and further develop its work that makes intelligent use of recyclable funds – recyclable from its own reserves and/or from borrowing.

If all three of these are in place, then the case for grant income and subsidy to meet the rest of the price of delivering the mission can be made without apology or defensiveness, but strongly, legitimately and with confidence.

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[8] http://www.homeoffice.gov.uk/comrace/active/item.asp?ID=45
[9] http://www.charitybank.org/
[10] http://www.cafonline.org/venturesome/

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