Potential funding models to drive philanthropy

This research was undertaken in December 2020, when the arts and culture sector was mired in the COVID crisis, exposing issues in the sector's resilience, but also presenting opportunities to advance cultural life in the UK.

A sub-group of NPAC members came together to consider two core questions:

1. How could new funding models help the sector rebuild following the pandemic and what could NPAC do in the short term to accelerate these?
2. How could these funding models support arts organisations to innovate their business models, and attract new funds?

This table summarises the different funding models researched that could be used to drive philanthropy within the arts and culture sector:

FUNDING MECHANISM	DESCRIPTION	ADVANTAGES	CHALLENGES
Significant matched funding programmes	Building on DCMS August 2020 matched funding programme and the outcomes of the ACE catalyst evolve funding programme, a new large-scale matching programme could be developed. Consideration to be given to how matched funding might be used not just for grants, but [repayable] loans / social investment, and source of capital. Potential for partnership between Government and foundation funding sources	• Simple to understand • Matching mechanism appeals to many donors • Funds could be distributed through existing agencies, community foundations or cultural compacts or private foundations • Recent DCMS precedents	• Sources of 'new' funds as matches • How to ensure funding is widely available (particularly small orgs) • Matched funding criteria must not be too complex • Would need backing of large scale public campaign
Art Bond	Conceived originally as a Government backed financing arrangement where capital would be put up by investors, trusts, foundations and philanthropists, with the funds on-lent to arts organisations. Coupon would be attractive to investors at c. 2 %, but interest servicing not attractive to arts sector. Arts sector clear preference for grants: could funding be blended (as in CAF Venturesome programmes)?	• Creates new approach to funding the sector • Creates investment rather than grant mentality • 2% coupon would be attractive to investors in current low interest environment • Could be perpetual / quasi equity [cf Esmee Fairbairn paper]	• Government seems unlikely to borrow at 2% given gilt market • Only likely to secure Government guarantee if 'off balance sheet' for HMT • Repayment obligations/defaults • Complex programme to administer
Social impact bond (eg Arts in Health)	Develop a funding mechanism in partnership, for example, with the Academy of Social Prescribing, to secure funding for specific arts interventions through savings in the NHS budget [NB NHS restrictions on social prescribing] Partnership / matched funding could be tested by way of pilot smaller scale arts in health projects	• Less onerous financial burden on participating arts organisations. • Requires Gvt buy in • Potential to explore other departments such as education	• SIBs have to date not raised substantial amounts

Social investment	Create an investment pool to make available repayable grant finance; there would be no interest charged, but investors would require social outcomes. Could alternatively take the form of [low] interest loans as per NESTA Arts Impact Fund. There could separately be an opportunity to create a partnership with existing funds to introduce philanthropic contributions.	• Social investment funds could be recycled to fund consecutive projects	• Complex for grantee organisations; are they 'investment ready'? • Impact measurement inconsistent between arts organisations
Hardship funds for artists	Create a new campaign to secure large scale funding to support existing hardship funds Potential to create a new fund, subject to admin/overheads issues; a simpler solution might be to partner with existing organisations	• A number of philanthropists have expressed concern for artists who have lost significant income and been ineligible for support	• Significant work involved in assessing hardship and need and monitoring grants • Some discussion among funders as to whether funds should be pure hardship funds or directed at creating work
Regional theatre co-funding programme	The idea would be to seek local [matched?] philanthropic support to enable cash strapped regional theatres to present new material created elsewhere. The original commissioning theatre would in turn benefit from (potentially increased) theatre tax relief	• Scheme has been conceived to create artistic content for regional theatres with lower costs • Opportunity to test local philanthropy model	• Balance to be struck between presenting and producing houses
Use of property assets within sector	Property assets owned within the cultural sector could be used to secure significant loan finance; in the event that recipient organisations demonstrate, over a period of time, that they are viable commercially, they would be able to keep the funds (either as a loan or, potentially a grant). If not, the theatres could be reappropriated by the relevant local authority for [approved] social use and repay the loan.	• Significant assets available against which to borrow • Funders likely to seek charge over assets	• Many arts venues have existing charges over them, particularly where public funding was used to finance any capital [re] development programmes • Care needed re use of appropriated property assets in case of default
Funding for retraining	This might work in a similar way to the student loan scheme: recipient artists would receive funding to retrain elsewhere within or outside the sector. Loans would be repaid once artists were established in a new career. This idea has obvious sensitivities, but for example a singer might choose to take a masters in marketing to develop a career in opera marketing. Others might seek teaching qualifications.	• Anecdotal evidence suggests that a significant number of arts professionals are seeking employment outside the sector	• Obvious sensitivities following previous retraining campaigns

A number of additional ideas were suggested, but not explored in further detail:

- Extension of existing instrument investment schemes
- Shareholdings in visual artists' portfolio
- Large scale extension of Commercial theatre angels scheme
- Replication of ENO Create funding model to support new productions
- Repackaging of arts and cultural bounce back loans (which have government backing)

Learnings

- **Matched funding works**: of the funding models considered above, matched funding provides an already proven method of achieving new philanthropy. Alternative models may support arts organisations to move to more of an 'investment' mindset but the complexities of moving to these models in the short-term pose a risk to these organisations as they attempt to rebuild following the significant and ongoing impact of the pandemic.

- **Business model innovation is important to would-be supporters**: a matched funding programme could also be used to support organisations to innovate their business models with increased demonstration of social outcomes opening up further opportunities for philanthropic support, be that financial and/or sharing of business expertise.

- **A place-based approach is key**: this work took place against the political backdrop of the Government's 'Levelling Up' agenda: a focus of initiatives in a particular location was therefore strongly indicated both by this work, and the early research into philanthropic motivations.

- It was felt that funding should be targeted towards **activity in particular places** and therefore that the postcode of the relevant activity was important to take into account, rather than that of the delivery organisation's head office.

- **Location of wealth**: The review of ONS/Savanta data suggests that there is the potential to drive significant incremental philanthropy in the arts and culture sector nationwide, including in those areas of the country where there is the greatest wealth (London and the South East).

- **Partnership possibilities**: Community Foundations; Big Give; Local associations

- **Time required**: the work required to launch a matched funding model on a national scale is significant.

- **Matched funding as a significant catalyst**: NPAC members felt strongly that a major funding programme across the country would be required to mobilise meaningful new philanthropy. As an alternative, pilot programmes in selected areas could perhaps test this matched funding model.

- **Pilot**: There is the potential to explore pilot programmes either in partnership with national organisations such as The Big Give or through matching initiatives in particular locations.

- **No replication**: through discussions with arts philanthropists, we determined that there is a lack of appetite to replicate the systems and expertise of ACE; it requires significant infrastructure to co-ordinate and assess grants; far better to use existing infrastructure.

Local matched funding programmes could be co-ordinated by Community Foundations for example, or local umbrella charities.

- Individual donors are generally interested in **supporting a particular organisation** - we learned that some major philanthropists are unwilling to contribute to a central fund; however they would be willing to create a matched fund to benefit a specific organisation (for example to create a double match).

Recommendations

The conclusion of the financial models research and discussions were that a significant matched funding programme, which focused on place based cultural activity provided by collaborating arts organisations and delivering substantial societal impact in that location, would provide the optimal structure for attracting new philanthropy.