CAPITAL MATTERS – AN ANALYSIS OF FINANCIAL CAPITAL IN THE ARTS COUNCIL ENGLAND RFO DATA

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SUMMARY

- This analysis gives an initial overview of the capitalisation of Arts Council England's Regularly Funded Organisations (RFOs), and there is a need for further evidence gathering and analysis to take the findings of this report further.
- The majority of RFOs have annual income of less than £500,000, whilst they only receive 8% of the income of RFOs. Organisations with a turnover of more than £10m are less than 5% of all RFOs but receive 40% of the income to RFOs. Because of this, the analysis presented in this report draws on the data for organisations with turnover of £10m and under.
- A set of ratios has been designed to assess resilience of revenue model, extent of intangible asset ownership, utilisation of fixed assets, working capital position, access to finance, and strength of unrestricted reserves.
- The data was segmented by artform and whether the organisation was a significant property owner, here assessed as holding land or property assets on their balance sheet in excess of £200,000.
- Incomplete data led to a large volume of records being excluded from the analysis, and this in itself is evidence of a need to improve financial literacy and the capture of data on financial performance in this sector.
- The analysis reveals a sector heavily reliant on grant income and thus suggests vulnerable revenue models, but much a more detailed breakdown of income sources and expenditure should be used in future analysis.
- Owning land or buildings can help to leverage income, but not all artforms manage this. Combined arts organisations do well in doing this to achieve a resilient revenue model.
- Intangible assets are not substantially valued and accounted for outside of visual arts and theatre. More consistent valuation of intellectual property could open up new revenue streams.
- Working capital overall is surprisingly healthy, but organisations have weak cash positions and are not accessing cashflow finance - this suggests weak money management.
- Unrestricted reserves are low, typically below 12 weeks of turnover (a level we see as being the minimum in practice, necessary to wind-up solvently) so there is little internal capacity to respond to the unexpected or to self finance development.

The analysis highlights a role for:

- long-term development of resilient revenue models
- more cashflow finance to boost liquidity amongst otherwise solvent organisations
- greater venture philanthropy or equity-like investment to boost reserves and offset the vulnerabilities in unpredictable revenue models.
- a pooled fund or insurance model could also be explored so that risks could be shared across the sector
- more detailed data capture and analysis, especially around revenue model (income and expenditure).

BACKGROUND AND BRIEF

The brief for this project was:

- To provide quantitative data to support the assertion that arts organisations have insufficient financial capital and are therefore not resilient
- To segment the data to demonstrate levels of financial capitalisation by use of capital (fixed assets, working capital, development and growth, reserves) and by likely business model
- To develop and test quantitative models for assessing financial capitalisation and financial resilience based upon common and emerging business models in the arts and cultural sector

The project has worked primarily with the data from the Arts Council England survey of Regularly Funded Organisations

The report presents:

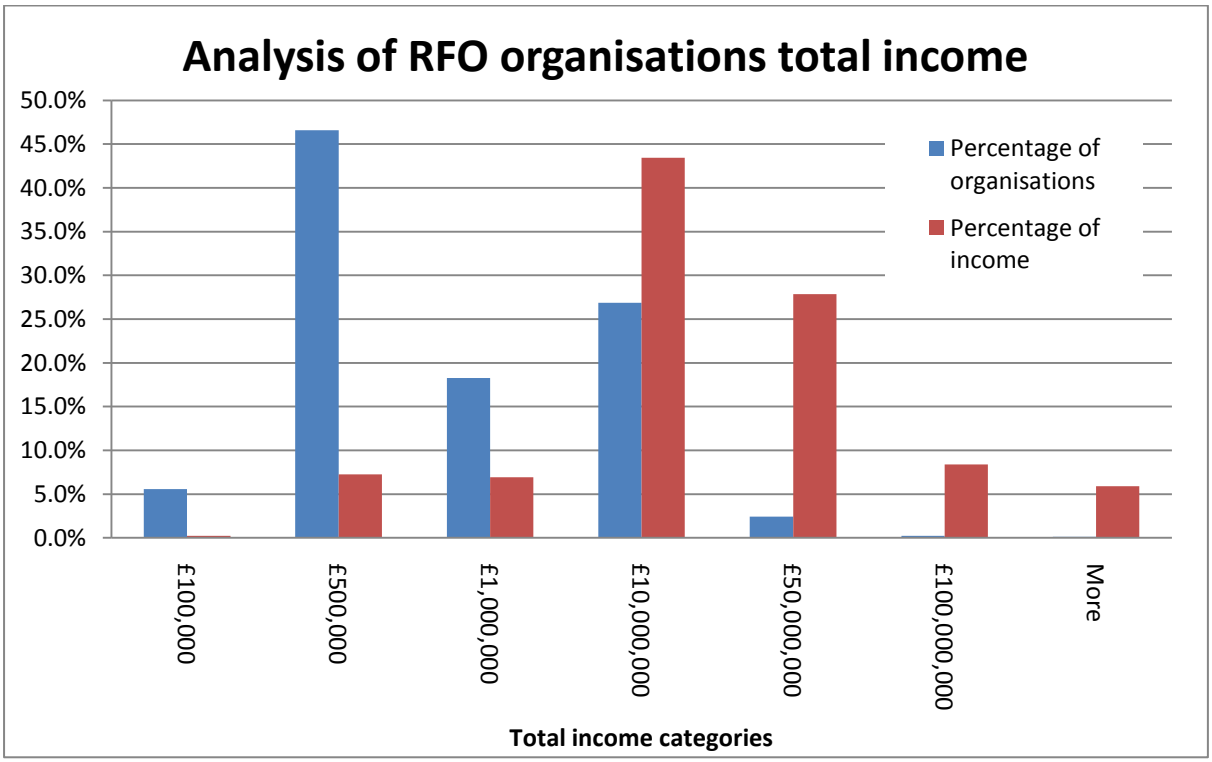
- An analysis of the ACE data based looking at income model and levels of capitalisation in terms of property ownership, working capital position and reserves.
- A commentary on the features of the financial models in the RFO dataset with theoretical benchmark ratios for assessing capitalisation where relevant.

THE DATASET

The data received from Arts Council England (ACE) is drawn from the annual submission of regularly funded organisations (RFOs) to ACE. The data received covered three years – 2006/7, 2007/8 and 2008/9. The data in 2006/7 did not include certified / audited results for 2005/6 and was excluded. The 2007/8 and 2008/9 datasets do include certified / audited figures and these were taken as the data for analysis. In total this represents 1670 records.

Figure 1 demonstrates how the raw financial data is dominated by the very largest organisations. The majority of RFOs have annual income of less than £500,000, whilst they only receive 8% of the income of RFOs. Organisations with a turnover of more than £10m represent 45% of the income of RFOs. Because of this, the analysis presented in this report draws only on the data for organisations with turnover under £10m – 49 records were excluded.

Figure 1: Distribution of income in the ACE RFO dataset



Several of the records in the dataset were incomplete – for example, several organisations submitted nil returns for unrestricted, undesignated funds. These returns were determined to be inaccurate – a negative position would be valid, but a precise zero highly unlikely. This suggests weak financial literacy or a need to

improve the reporting process. These records were excluded from the data for analysis, and sadly represented 813 records (c50%).

Finally, no data was provided about the nature of expenditure of RFOs. As will become clear in the analysis that follows, closer inspection of the nature of expenditure in arts and cultural organisations is crucial to understanding the vulnerability or resilience of an organisation's financial model and this should be included in future data analysis.

METHODOLOGY OF ANALYSIS

The aim of the analysis was to quantify the levels of capitalisation of RFOs generally, and to segment the data to draw out differences in levels of capitalisation as they relate to the financial model employed.

An initial discussion with David Hall of Foyle Foundation helped to identify how the data might be segmented in two ways which were felt to be indicative of different financial models. The two key factors of importance were felt to be:

- whether the organisation's practice is based around a building
- the artform practiced

THE SIGNIFICANCE OF BUILDING OWNERSHIP TO FINANCIAL MODEL

Owning premises is often essential for the delivery of an organisations artform, but has particular financial consequences for its revenue model and balance sheet.

The operating costs of building ownership are mainly fixed i.e. they are not proportional to the outputs or income of the organisation. They are likely to included heating and lighting, insurance, maintenance and security. The significance of a substantial fixed cost base is an immediate lack of flexibility in activity levels - a minimum level of activity needs to be undertaken at a minimum level of gross profit (income less the direct costs of delivery) to cover fixed costs. A drop in income cannot easily be responded to with cuts in the costs of building ownership. So in terms of revenue model, building owners are probably less flexible. The extent to which building ownership leverages additional income, and whether building owners earn more income through trading than non-building owners are key questions in assessing the benefits to revenue model resilience of building ownership.

Building ownership has a clear consequence for balance sheet size, but this is often confused with balance sheet strength and resilience. Beyond the building's utility value in delivering the artform, a building can be seen by organisations as an investment – a growing source of unrestricted funds. But this is based upon: (i) an assumption of increasing commercial property values; (ii) an ability to turn a reserves into cash should it be needed, either through borrowing or sale of the asset. Some organisations are using capital investment in buildings to re-engineer their revenue model e.g. a theatre investing in new or additional bar facilities to increase their earnings from their audience.

The key questions here are therefore:

- do building owners have greater earned income?
- are building owners able to borrow more?
- do building owners have better working capital positions?
- do building owners have more free reserves?

In order to explore this, the dataset was segmented between:

- organisations with land and property assets in excess of £200,000 (labelled "building-based")
- and those without ("not building-based").

DIFFERENTIATING FINANCIAL MODEL BY ARTFORM

The amount and purpose of an organisation's need for financial capital is ultimately driven by the nature of its revenue model – the sources of income and areas of expenditure it faces.

The different artforms represented in the RFO data might be distinguished by their revenue model, and their capital structure. As noted above, data on the nature of expenditure would be particularly helpful in analysing the connection between income, expenditure and capital.

In particular, when thinking about the need for financial capital of different artforms, we note:

- Music and dance companies often need to retain a group of professionals e.g. an orchestra as a fixed cost with little connection between income and expenditure (tickets sold or grants to develop new work). This drives an increased need for working capital.
- Theatre and dance companies need to commit significant development capital to new productions ahead of generating income from them.
- Visual arts are less people intensive and therefore more flexible in expenditure and might need less working capital.
- Artforms with stronger earned income flows may need greater working capital to fund product development costs and working capital ahead of payment in arrears.
- Artforms with an artistic programme that relies upon a small number of substantial outputs (e.g. one major production, two large exhibitions etc) will have highly irregular income flows and need additional working capital to mitigate this issue.

53 records in the dataset recorded no specific artform and were excluded from the analysis because of this.

DEVELOPING RATIOS AND THE ANALYSIS

Having identified the need to segment the data by building ownership and by artform, the measures of capitalisation were developed with the objective of describing the extent to which different artforms are appropriately capitalised.

The analysis of capitalisation has been broken down by balance sheet structure, therefore addressing:

- Intangible assets – the value of intellectual property created, owned and formally recognised by the organisation
- Fixed assets – the capital tied up in property, equipment, long-term investments (e.g. endowments without utility in delivering the artform) and intangible assets
- Working capital – the funds needed to manage timing differences between receipt of income and expenditure, represented by debtors, stock, cash and short term creditors
- Development capital and reserve capital – the proportion of the balance sheet not used for fixed assets or working capital and therefore available for managers to use as (i) investment in future products or services; or (ii) insurance against the unknown
- Access to external investment – the use of long-term loan finance or equity investment by the organisation.

Ratios have been designed in order to provide a useful assessment of the capitalisation within the dataset. Two existing analysis frameworks were drawn upon in considering ratio design.

Tuckman and Chang (1991, 65) suggest four key ratios to assess financial vulnerability of non-profit organisations:

- Equity ratio = Reserves / Total revenue as an indicator of balance sheet resilience

- Revenue concentration = $\sum^{x}$(revenue line x/total revenue)^2 as a measure of how reliant on a small number of revenue sources the organisation is
- Administrative cost ratio = administrative (or overhead) costs / total revenue as a measure of the flexibility of the revenue model
- Profit Margin = surplus or profit / total revenue as a measure of the organisation's ability to be self-financing.

Without detailed information about income and expenditure in the ACE dataset, the admin cost and profit margin ratios were not possible to calculate. Detailed revenue concentration calculations were not possible, but a ratio of earned income to total income gives some indication of reliance of grant income which tends to be more concentrated in few large contracts.

The interim findings of the evaluation of the Government's Modernisation Fund for the Third Sector also identified some potentially helpful financial indicators for assessing resilience, and these are summarised in Table 1.

Table 1: Financial considerations in assessing resilience (adapted from Cordis Bright Consulting)

Area of interest	Factors to assess
Solvency	Ratio of net assets/unrestricted funds to monthly expenditure (ideally between 3-12 months). Ownership of tangible assets Ratio of current assets to current liabilities
	Pension liabilities
Risk	Number of funding sources
	Sources of income: Percentage individual/public/contract
Ability to obtain future income	Ratio of fundraising costs to total income
	Expertise and sophistication of fundraising/revenue generation activities
	Percentage of time spent by director fundraising
	The skills and resources available to bid for future contracts
Efficiency	Contribution made by services to core management costs. Core costs as % of total expenditure
Flexibility in use of income	Ratio of restricted to unrestricted funds
Good financial management	Number of contracts let on a full cost recovery basis. Level of reserves as a % of income.

The ratios developed draw on this background research and the structure of the data available.

Financial need	Ratio / Measure	Explanation
Robust revenue model	Ratio of Earned income to Total Income	The data available on revenue model is limited. This ratio helps compare the reliance on grant funding between artforms. Greater earned income in itself does not imply greater resilience.
Intangible assets	Number of organisations valuing intangible assets on balance sheet	This test the hypothesis that relatively few organisations formally value and represent their intellectual property as an asset.
	Distribution of intangible assets by artform	This shows which artforms are more likely to value intangible assets
Fixed assets	Asset utilisation: ratio of fixed assets to total income for building based organisations	This shows which artforms are more able to leverage building ownership to generate income. Lower ratios show greater leverage.
Working capital	Working capital ratio: ratio of current assets to current liabilities	This is an indicator of solvency – the ability to pay liabilities as and when they fall due, and on working capital management. Any organisations should have a ratio greater than 1. A ratio greater than 2 suggests

Financial need	Ratio / Measure	Explanation
		financial conservatism or poor management as assets are not being invested.
	Cashflow: ratio of cash holdings to total income, expressed in weeks of turnover	This ratio indicates the number of weeks of turnover an organisation can cover from its cash resources. It is a measure that indicates management's ability to plan ahead, over focusing on short term cash generation.
Access to finance	Ratio of long term finance to turnover	This demonstrates the extent of take up of third party finance across artforms, and whether building ownership is a key factor in doing so.
Unrestricted or free reserves	Ratio of unrestricted funds to turnover	This indicates the capacity of the organisation to (i) respond to the unexpected within its own resources; and (ii) self-finance development and growth. Unrestricted reserves in excess of 12 weeks should be seen as a minimum expectation in order to *wind up* solvently i.e. more than 12 weeks might normally need to be held in order to finance working capital requirements without use of external finance. New Philanthropy Capital[1] suggests an organisation should hold between 12 and 26 weeks in Reserves.

BENCHMARK RATIOS

Initially it was envisaged that alongside designing ratios to measure resilience and capitalisation, a set of ideal values for those ratios could be determined and the data compared with these ideals. In practice, determining ideals seemed somewhat arbitrary – there is such diversity of business and financial models at work across the data set.

Therefore the approach taken has been to identify the statistically most likely value for each ratio, across segments and to reflect upon what this means for capitalisation.

[1] Copps, J; Vernon, B. *The Little Blue Book.* New Philanthropy Capital. London. 2010 p36

THE RESULTS

EARNED INCOME VERSUS GRANTS AND DONATIONS

The RFO dataset distinguishes between earned income and grant funded income, and this can be used to make some initial analysis about the resilience of revenue models amongst RFOs. However we must recognise that differences exist in the characteristics of revenue sources at a finer detail. Earned income may be further differentiated as: revenue earned through delivery of the primary artform such as ticket sales for a ballet performance; or earned through a secondary activity, such as a museum bookshop or cafe. For some artforms, such as the visual arts, the opportunities to earn income from primary activities are limited by audience expectation and market norms e.g. viewing an exhibition should be free. In the context of likely substantial public sector funding cuts, we must also recognise that public sector funding may be in the form of grants, but also in earned income as contracts.

Figure 2: Ratio of earned income

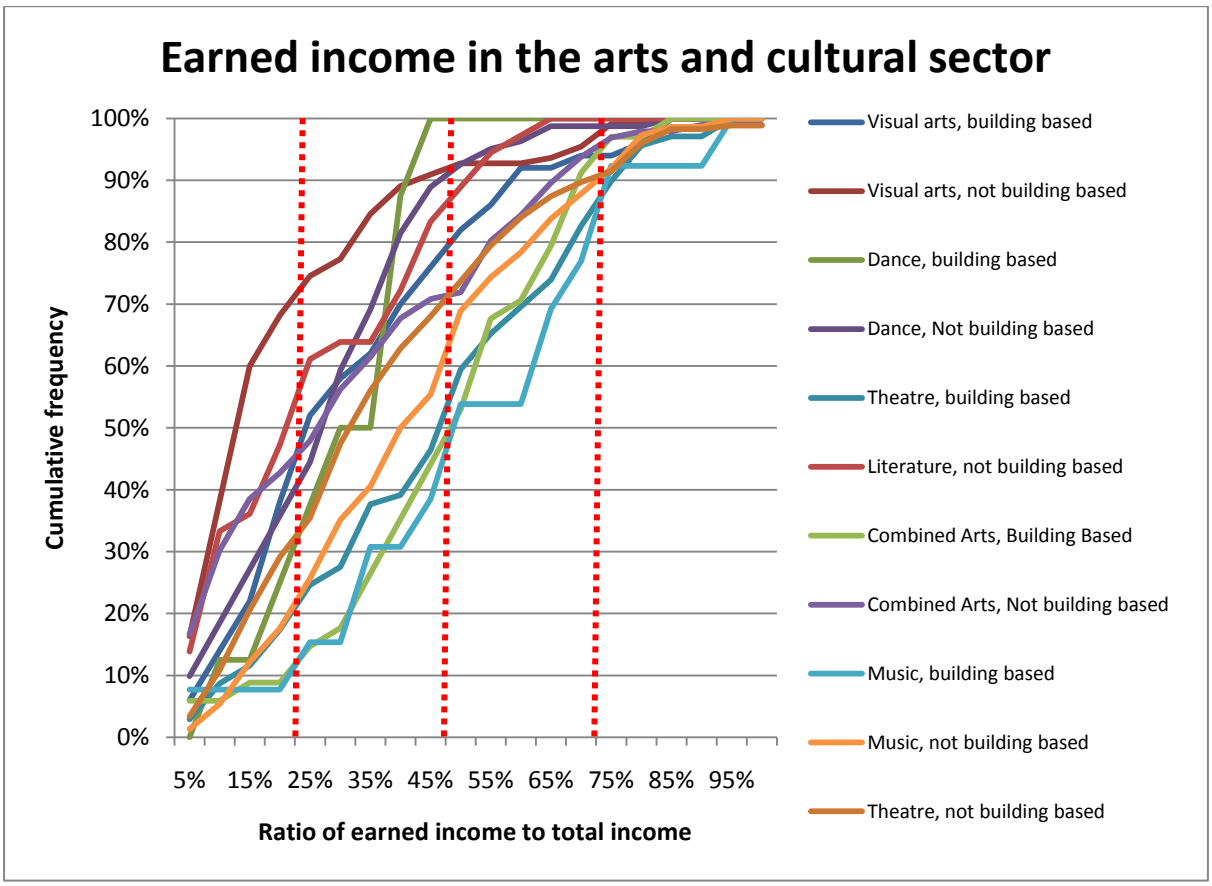


Figure 2 plots the cumulative frequency distribution for the earned income ratio. It illustrates the likelihood of an ACO earning a given proportion of its income from trading.

- Visual arts organisations not based in a building are highly likely to earn less than 25% of their income (75% probability that the ratio is below 25%)
- Building based music organisations earn a greater proportion of their income, and are likely to have a ratio between 25% and 75% (80% probability)
- Building based organisations across artforms are more likely to have higher earned income ratios, with the exception of visual arts (as discussed above) and dance. This does not therefore support the hypothesis that the fixed costs of building ownership require a greater level of grant subsidy than more flexible non-

building based organisations. It may infact indicate the greater opportunities to diversify revenue streams through building ownership, by for example, allowing hire for events or earning revenue from catering and hospitality.

KEY HYPOTHESES AND SUGGESTED BENCHMARKS FOR EARNED INCOME

Across all artforms, it is unlikely that an organisation will be majority funded by earned income.

A realistic benchmark for earned income might be 25%. On this basis, the visual arts not building based and literature segments would need to be the focus of efforts to improve performance.

Given this analysis, it is important to focus on the consequences for resilience and capitalisation of grant funding. Grant funding paid in advance to organisations and committed for multi-year periods provides a form of insurance and a source of working capital. Equally, reliance on a small number of grants received sporadically and paid in arrears will leave organisations feeling vulnerable and seeking additional capital to mitigate the risk they feel exposed to.

Public funding of the arts is being reduced, and given the sectors reliance on grant funding this will no doubt lead to a perceived reduction in resilience, and a desire for increased capital positions.

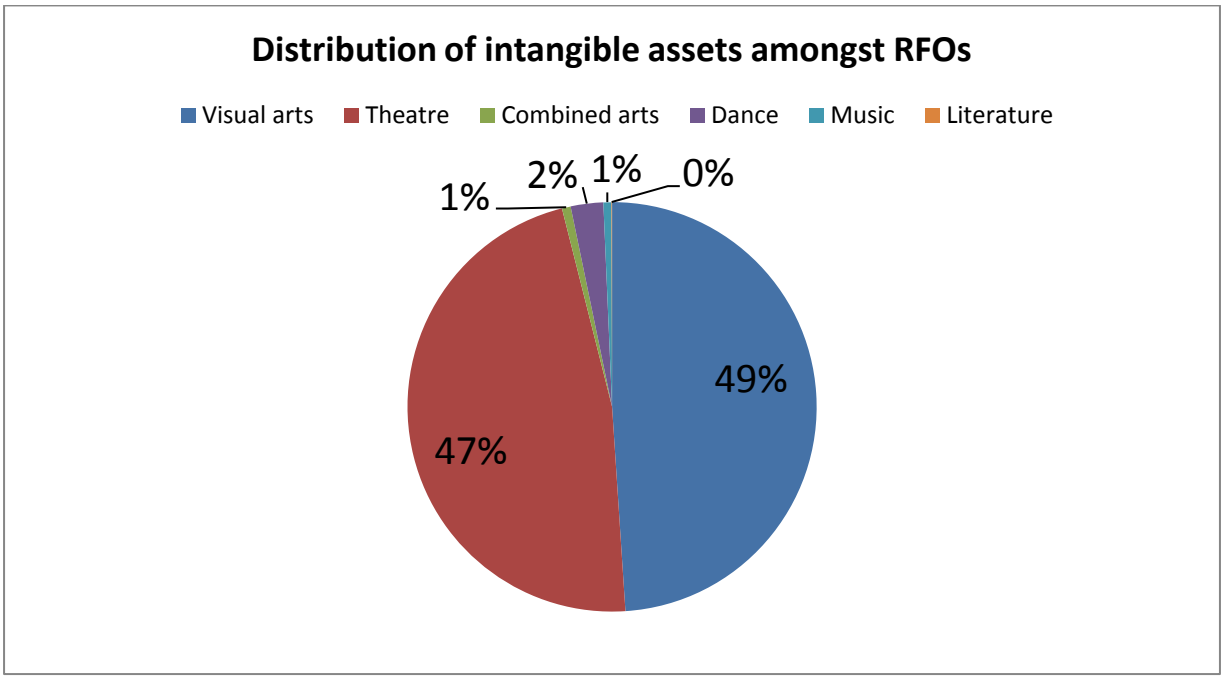
INTANGIBLE ASSETS

The arts and cultural sector is widely perceived to be good at building brands, personal and organisational reputations and in creating intellectual property in productions and performances. These are assets which have cultural and potentially financial value.

However, the data shows only 52% of organisations show any intangible assets in their balance sheets, with total value of £6.5m, only 3% of the £195m of unrestricted funds held by RFOs in our dataset.

Figure 3 shows that Theatre and Visual Arts are the dominant holders of intangible assets.

Figure 3: Intangible assets of RFOs



KEY HYPOTHESES AND SUGGESTED BENCHMARKS FOR INTANGIBLE ASSETS

This analysis may suggest that:

- arts organisations do not recognise the intellectual property they create; and /or
- they need support to protect and appropriately value it.

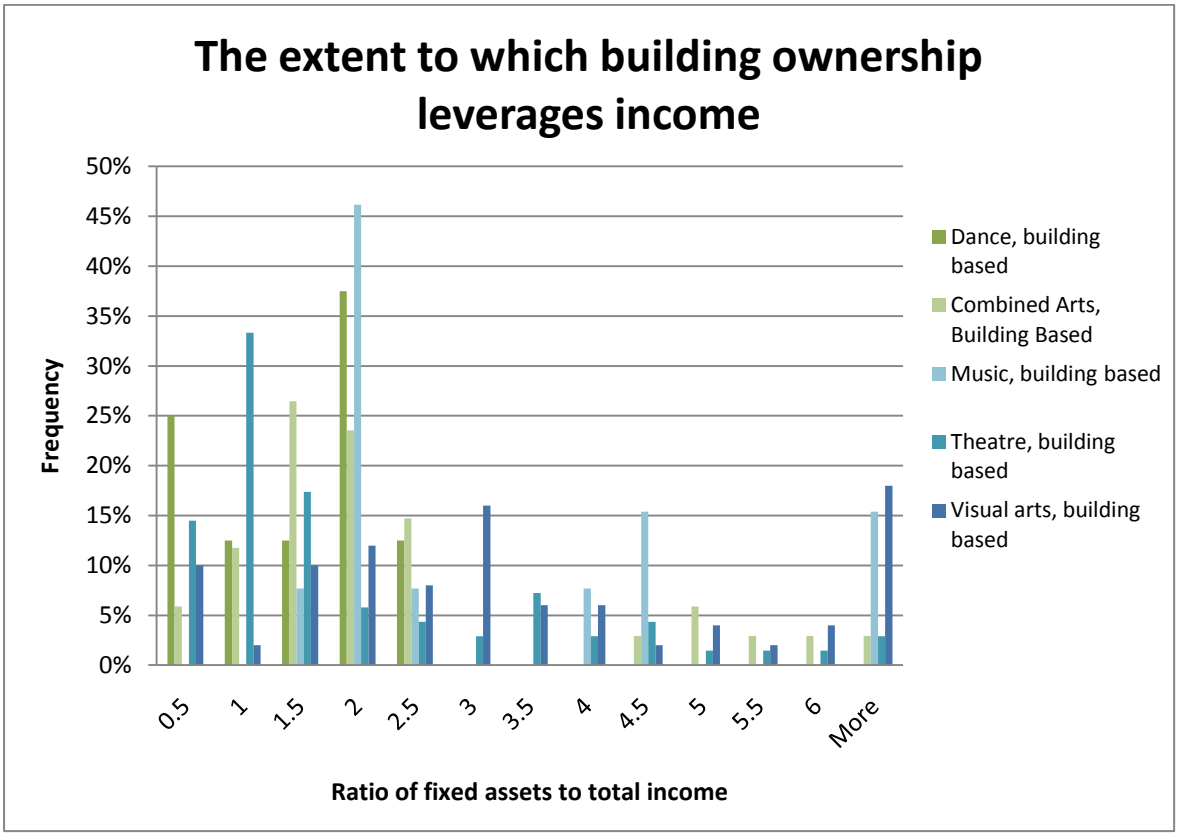
The basis of any valuation is ultimately 'what could it be sold for', and the process of valuation may well drive a greater flow of income to organisations as they realise the value in their intangible assets.

Arts and cultural organisations should be encouraged to undertake an annual intellectual property audit and valuation as part of their annual financial auditing process.

ARE BUILD-BASED ORGANISATIONS ABLE TO LEVERAGE THEIR ASSETS TO ATTRACT INCOME? DOES THIS ADD TO RESILIENCE?

Figure 4 plots the ratio of fixed assets to income. Non-building based organisations have been excluded as their overall levels of asset ownership are very low. This graph illustrates where asset ownership leads to a high income multiple (and so a low ratio in the graph).

Figure 4: Ratio of fixed assets to total income



This analysis should be viewed in combination with the analysis of earned income and building ownership. The analysis suggests that some building-based artforms are able to leverage their asset base to achieve additional income. However, in the case of dance Figure 2 suggests this is primarily grant funding, whereas for combined arts organisations this is likely to contain a substantial earned income element.

Building based Visual arts organisations perform substantially worse than other artforms in leveraging income from their asset base and their earned income performance is also mediocre. As noted in the section on

earned income, visual arts organisations are limited in their ability to earn income from their primary activities, and the data suggests they have not been able to compensate for this from secondary earned income sources. This suggests the revenue models seen in the visual arts segment are vulnerable and management may well feel they are not resilient organisations.

KEY HYPOTHESES AND SUGGESTED BENCHMARKS FOR INTANGIBLE ASSETS

Where organisations are able to leverage their asset base to drive increased income, and achieve a good balance between earned and grant funded income they are more likely to have a resilient revenue model. This is likely to reduce their need to hold substantial working capital and free reserves.

Building based organisations ought to aim for a fixed assets to income ratio of less than three.

DO ARTS AND CULTURAL ORGANISATIONS HAVE SUFFICIENT WORKING CAPITAL?

Working capital is the money required to manage timing differences between making expenditure and receiving payment of income. The availability of working capital has been assessed in two ways:

- Figure 5 looks at the value of cash, debtors (money owed to the organization) and stocks in comparison with the value of current liabilities (moneys owed and due to be paid within a year). This gives a theoretical indication of working capital, assuming all debtors and stock can be turned into cash.
- Figure 6 looks at the more short term, but practical measure of available cash relative to the turnover of the organisation.

Figure 5: Ratio of current assets to current liabilities

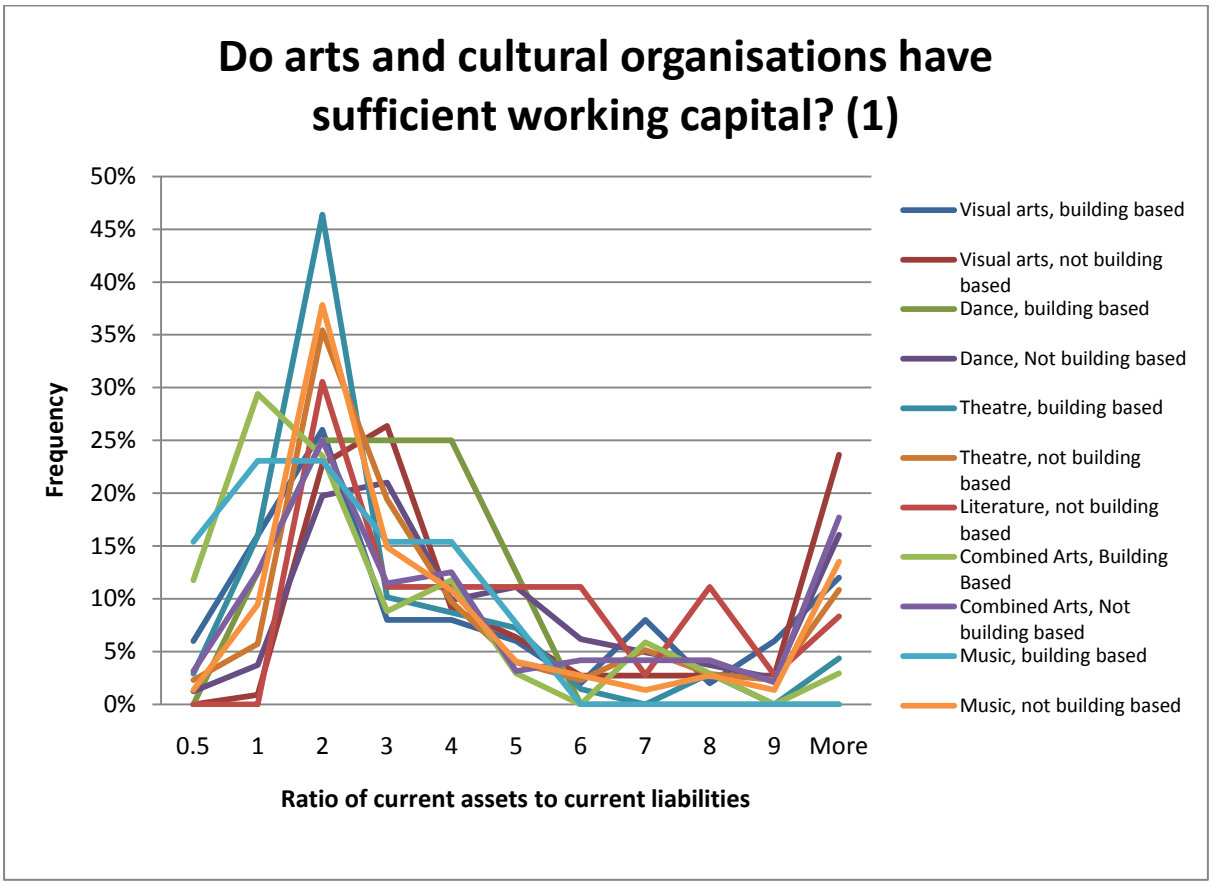


Figure 6: Ratio of cash to turnover

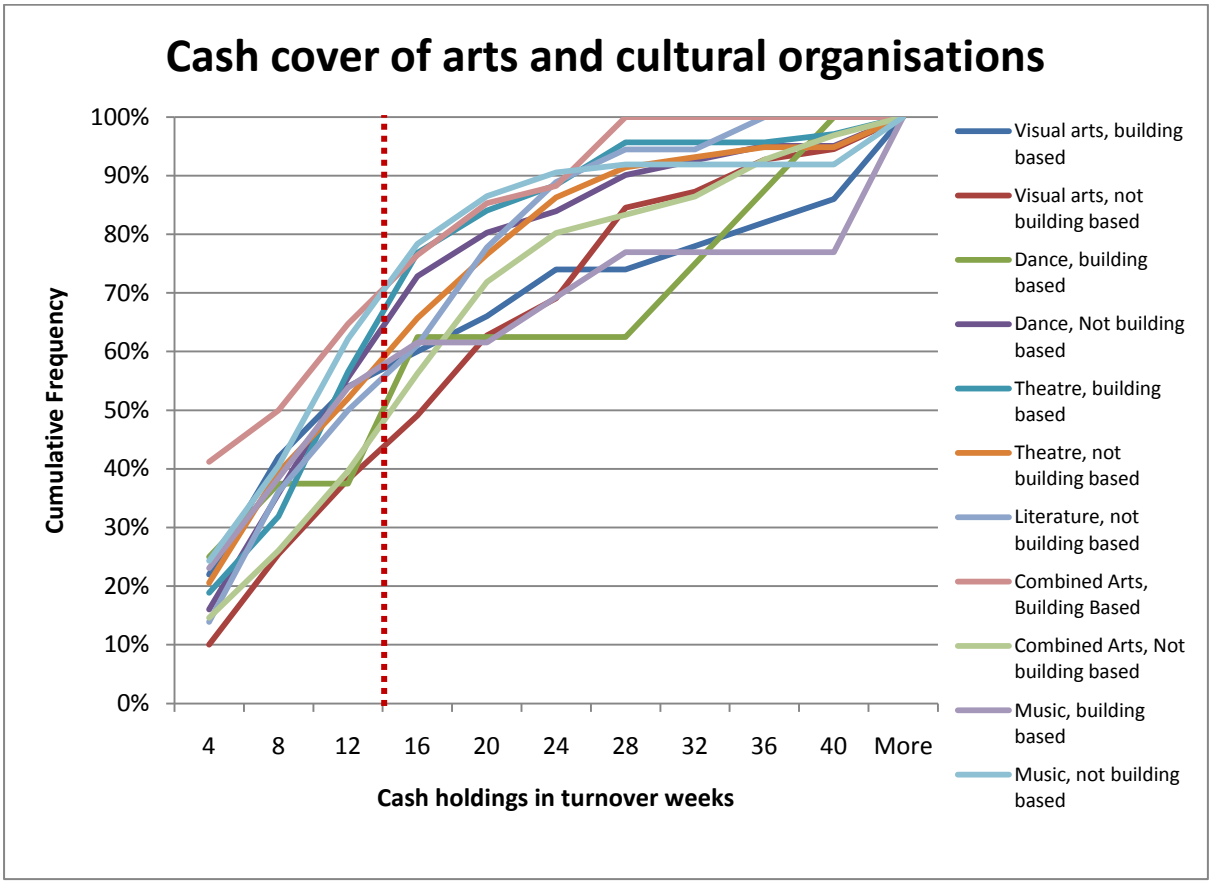


Figure 5 paints a surprising picture, showing across artforms the substantial majority of organisations show a positive ratio at least greater than 1. This ratio includes non-cash assets – debtors and stock and can be deceptive. Equally, whilst a positive ratio is good, this is also an indicator of a low propensity to borrow money in the arts and cultural sector (see Figure 7 below) and could indicate that a sector carrying too much inventory not appropriately managing its money.

Turning to cash, Figure 6 indicates a relatively tough cash position across artforms, with the likelihood of an organisation having less than 12 weeks cash ranging between 40% and 70%. Non-building based visual arts organisations carry more cash than other artforms and when combined with their low earned income ratio, this illustrates the cash benefits of grant funding paid in advance.

There is no obvious distinction between building based and non-building based segments in this data, and when combined with access to finance information (Figure 7) we can conclude that building ownership has no significant benefits for working capital position – through self-finance or borrowing.

Considering a relatively weak cash cover with overall positive working capital position suggests that liquidity (access to cash) is a key issue for the sector. Alongside more access to finance, better money management is needed to ensure debtors and stocks are converted into cash.

KEY HYPOTHESES AND SUGGESTED BENCHMARKS WORKING CAPITAL RATIO

A minimum of 12 weeks cash in hand – via deposits or access to overdraft finance -is critical to medium term management. This allows CEOs and Finance Managers to take strategic financial decisions rather than

firefighting to pay the latest bill or payroll. *Note, 12 weeks cash holding is **different** to holding at least 12 weeks expenditure in unrestricted funds.*

The data shows this is a predominantly grant funded sector, and it is common for income patterns to feature significant peaks and troughs. In this context, positive working capital ratios are encouraging. However, the inadequate cash resources suggest a strong need for:

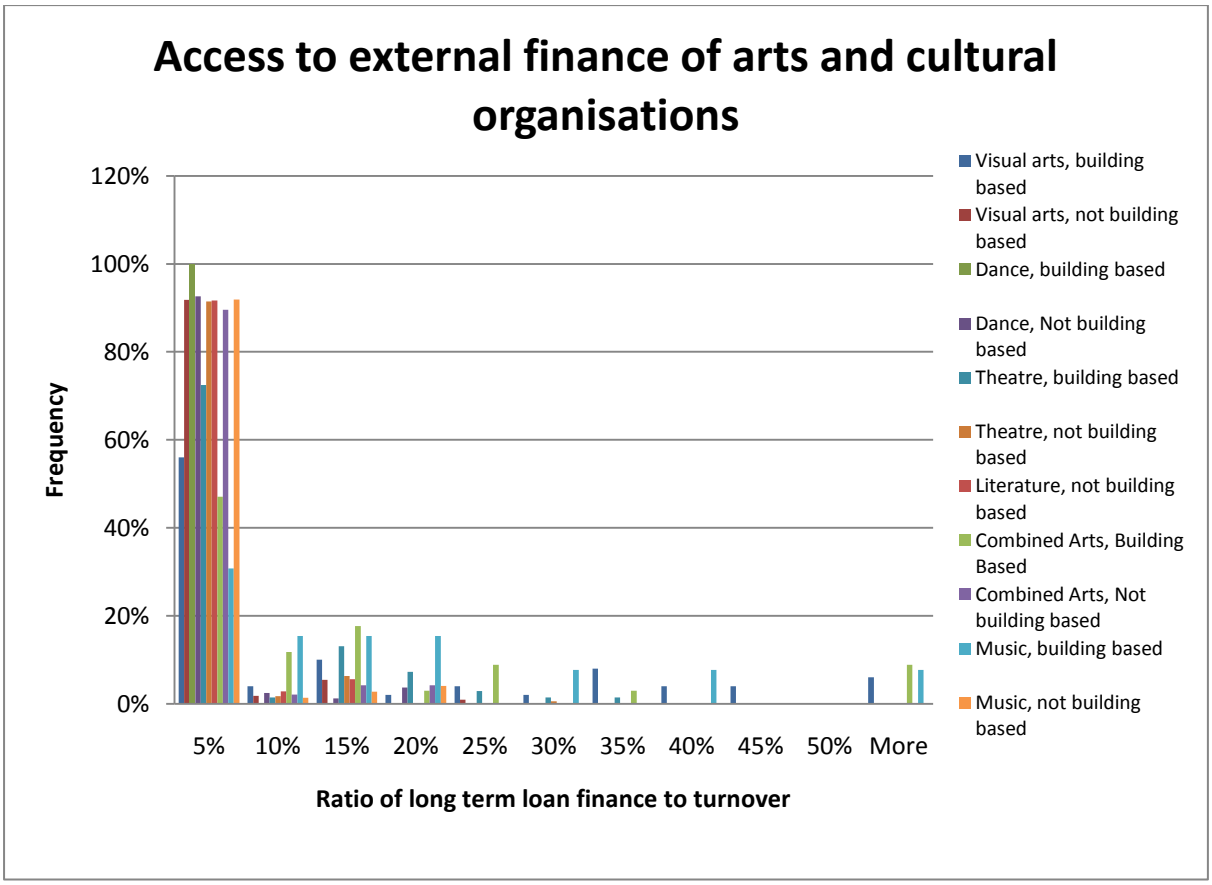
- arts and cultural organisations to access working capital finance – overdrafts, invoice discounting services and standby loans;
- better internal money management practice to ensure large debtor books or inventories are not built up.

ARE EXTERNAL SOURCES OF FINANCE BEING USED?

Figure 7 looks at the use of external finance across artforms, and expresses levels of borrowing as a proportion of turnover. It comprehensively demonstrates very low use of external finance by arts and cultural organisations, despite the apparent need for working capital finance described above.

Building based organisations are more likely to access finance, and this is not surprising as the building represents a security they are able to offer to lenders to access funds.

Figure 7: Ratio of long term finance to turnover



KEY HYPOTHESES AND SUGGESTED BENCHMARKS FOR EXTERNAL FINANCE

Given the need for working capital, the low level of financing may seem surprising. However, loan finance needs to be repaid and this requires the generation of profits / surpluses. Whilst expenditure or profitability data was not part of the data set, we may speculate about aversion to borrowing from the low levels of earned income relative to grant funding shown in Figure 2:

- Grant funding is often tied / restricted to expenditure budgets and does not allow for inclusion of a profit margin. This in turn constrains grant funded organisations' ability to repay borrowing
- Organisations whose financial model is majority grant funded may see trading income as funding to fill a gap in their expenditure budget, rather than budgeting for an operational surplus. They may not therefore perceive they have the ability to generate surpluses and repay finance
- Loan finance may well be perceived as adding to the risks an organisation is exposed to – experience in the voluntary sector would suggest such a mindset. If an organisation feels its revenue model is vulnerable, due to uncertain income flows it may well be scared of borrowing.

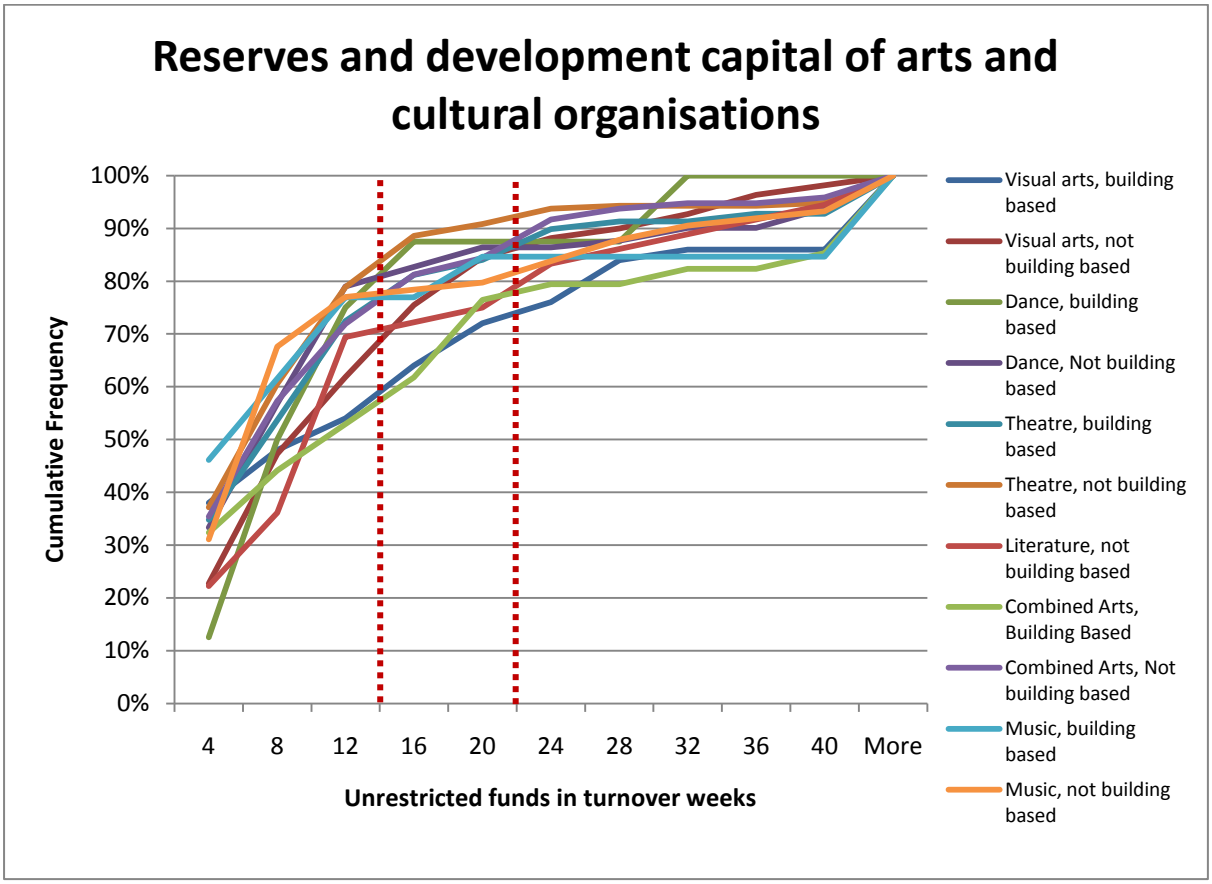
No direct benchmark for borrowing is realistic, but organisations should be borrowing sufficient funds to ensure their working capital position is healthy.

WHAT CAPACITY IS THERE TO FUND DEVELOPMENT AND WITHSTAND THE UNEXPECTED?

Figure 8 below plots the level of unrestricted reserves held by arts and cultural organisations and expresses this in numbers of weeks of turnover. This is a relatively crude measure of the capacity for self-funded development and resilience to the unexpected, as it includes illiquid fixed assets - including land and property - held in unrestricted funds. The dataset was not sufficiently comprehensive to drill down to a more fine level of analysis. Nevertheless:

- Across artforms, **the majority of organisations hold less than 12 weeks turnover in reserves**. We have used **12 weeks as an absolute minimum benchmark** because we believe that most organisations would require up to this level of funding to cover the costs of winding up. By implication, organisations below this level would need to increase reserves before they could, in practice, wind up solvently. This suggests real vulnerability **and takes no account of an organisation's need for working capital in excess of this level**
- Building based segments do have more organisations with strong reserves in this measure – but that is likely illiquid (tied up in the value of property) and would require more use of third party finance to access it in a crisis or for development

Figure 8: Ratio of unrestricted funds to turnover



KEY HYPOTHESES AND SUGGESTED BENCHMARKS FOR RESERVES

The sector is primarily grant funded, and although we don't have specific profitability data, it is assumed that margins are low. The vulnerability of lumpy grant income flows with little margin creates a vicious circle – organisations need more reserves to protect them from uncertainty but have little capacity to generate this themselves.

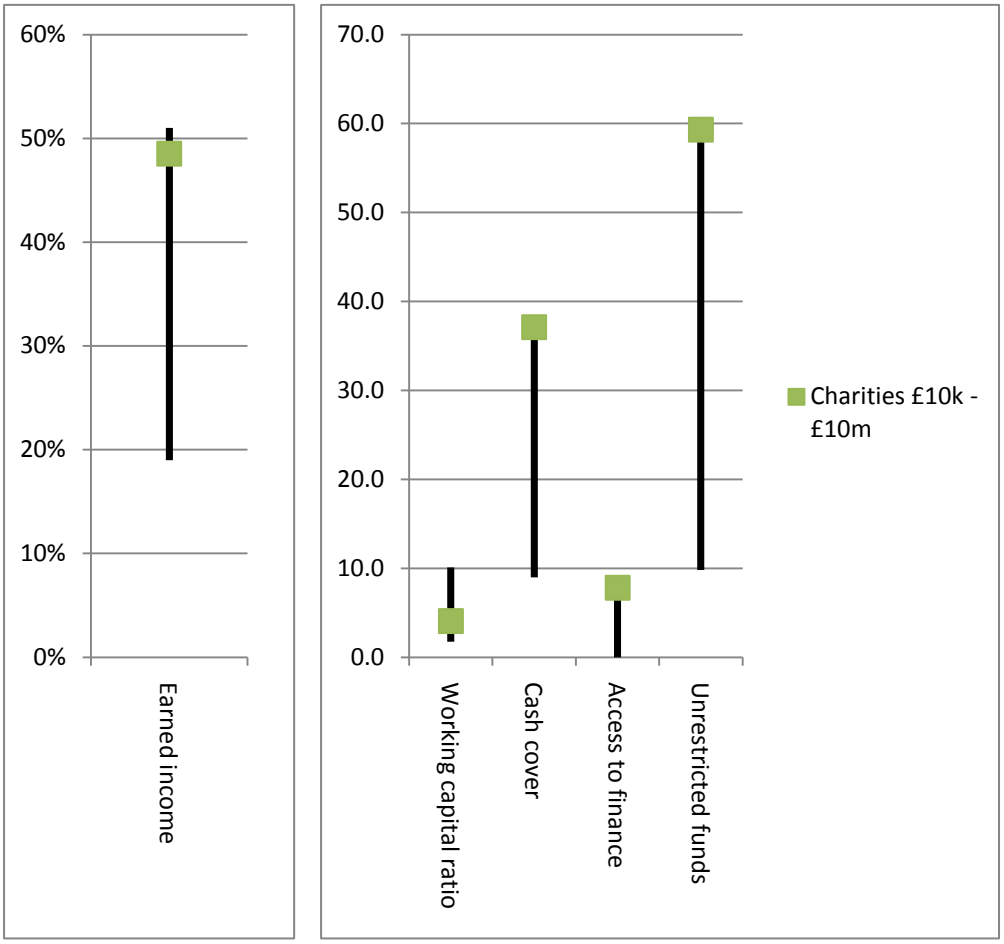
Financially vulnerable organisations are less well able to think strategically and long term, and do not have development capital to fund innovation or grow. This has an overall consequence for the quality and impact of the sector.

Particularly weak organisations will have less than twelve weeks of reserves. Organisations holding in excess of 20 weeks of reserves have both the capacity to withstand change and potentially to invest in development.

Across the segments, there is an argument for more equity-like investment or venture philanthropy. This funding would build the reserves and working capital positions of organisations and therefore offset their vulnerability in weak revenue models. It should be used alongside efforts to support the building of stronger revenue models.

HOW DO RFOS COMPARE WITH GENERAL CHARITIES?

Figure 9: Comparison of RFOs with charities (with thanks to NCVO)



The charts in Figure 9 compare the range of mean results for RFOs (the black line spans the range) with the mean ratio for charities with turnovers between £100,000 and £10m. This shows that, with the exception of the working capital ratio, RFOs are less well capitalised than equivalent sized charities – the green dot towards the top of the black bar.

This comparison adds weight to the earlier criticism made of RFOs on working capital management. Charities have worse working capital ratios, but generally much better cash cover i.e. they are better at turning their debtors and stock into cash. Charities are more likely to access external finance too.

RESILIENCE AND CAPITALISATION OF RFOS – WHAT MIGHT WE CONCLUDE?

Ultimately, an organisation's balance sheet should be structured around the revenue model of the activities it undertakes. The dominance of grant funding of revenue in this sector is critical to the need for capital and the current levels of capitalisation. Grant funding which:

- is lumpy and unpredictable
- paid in arrears
- allows for no profit margin

will drive a need for an organisation to hold substantial cash and reserves, whilst precluding their access to loan finance.

LONG TERM MEASURES

So, in the long term arts and cultural organisations need to focus on building resilient revenue models by:

- spreading their funding across a range of sources
- developing earned income streams with good profit margins
- valuing and realising the value of intellectual property.

Also in the long term, funders need to be encouraged to adopt practices which minimise the consequent need for capital of their fundees (paying in advance, giving longer term commitments, allowing margin).

Regulators need to gather and analyse data on resilience of revenue model and balance sheet, and could ask organisations to report on a set of ratios similar to those we have used in this analysis.

IMMEDIATE ACTIONS

The large number of rejected records in the dataset points to an urgent need to build financial literacy so that arts and cultural organisations can understand and analyse their own position appropriately.

The data shows strong working capital positions but weak cash holdings and this must drive provision of more cashflow financing – means of incentivising demand and supply of overdrafts and standby facilities should be developed.

Whilst revenue models remain vulnerable, greater reserves and insurance need to be available. A venture philanthropy approach which provides reserve capital / equity-like investment alongside support to strengthen revenue models could have a medium term role. A mutual insurance fund which seeks to share the risks arts and cultural organisations face across the sector could also play a role.

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