

SOCIAL INVESTMENT INSIGHTS SERIES

April 2015

Social Investment in the Arts, Heritage and Sport

The arts, heritage and sport all can play an important role in people's lives. They can also be used as innovative ways of tackling social problems. In common with much of the voluntary sector, funding is under pressure. This paper discusses the role that social investment could play in supporting arts, heritage and sports organisations as they evolve business models and develop new revenues in order to build organisations more able to sustain themselves.



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The Social Investment Insights Series are occasional papers drafted by members of Big Society Capital's team on areas of interest to the social investment market.

Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has signed more than £160 million in investments to specialist organisations who lend to charities and social enterprises. Over five years Big Society Capital will be capitalised with approximately £600 million, from a combination of English dormant bank accounts and the four main UK high street banks.



EXECUTIVE SUMMARY

The arts, heritage and sport have an innate benefit - they enhance and enrich people's lives. Arts, heritage and sports organisations are also tackling social issues or working with vulnerable people. There are arts, heritage and sports charities whose mission is to address homelessness, mental health and domestic violence and organisations working with at-risk young people and isolated older people. This is resulting in an increasing focus on evidencing the social value of the arts, heritage and sport – particularly in a challenging funding environment.

Arts, heritage and sport organisations represent 14% of the voluntary sector, the second largest sub-sector¹. Organisations range from large national institutions to small, community groups. They undertake a variety of activities, from poetry to football, and some own and manage material assets, such as theatres, leisure facilities and historic buildings.

Arts, heritage and sport organisations are facing significant reductions in public spending at central and local government level. This is driving a need to evolve business models and develop new revenues in order to build organisations more able to sustain themselves.

Social investment may be able to support organisations undergoing this transition. The principal opportunities we have identified are in relation to investment in facilities, growth capital and working capital to develop new revenue streams and expansion, finance for the transfer of assets to the community and innovative approaches to fundraising such as crowdfunding and community shares.

¹ Source: NCVO Almanac 2013



SOCIAL NEED

The arts, heritage and sport enhance and enrich our lives. People get pleasure, inspiration and a sense of meaning from activities such as singing in a choir, seeing a play, participating in sport, or visiting a local monument. For many, life without culture or sport would be considerably diminished.

The arts, heritage and sport can also have positive effects on many aspects of society. Participation can improve the educational attainment and behaviour of children or young people and have benefits for both physical and mental health. Studies have reported that applied arts and cognitive interventions can have a positive impact on dementia, depression and Parkinson's disease². Volunteering in heritage has been found to have mental health and well-being benefits.³

There is also a strong and proven link between sports participation and individual level health benefits. Sport England data shows that one in six deaths are caused by inactivity, and that only 56% of adults meet the guidelines of 150 minutes a week of moderate intensity exercise. For over two thirds of those that do undertake this level, sport is part of the activity mix⁴.

Engagement with the arts, heritage and sport can also strengthen our communities, helping people communicate with each other and express their sense of identity and reducing social isolation. An evaluation of the Heritage Lottery Fund's Young Roots Programme found that engagement with the programme improved young people's awareness of their local area and community, and had a direct impact on how they viewed their personal identity⁵.

For some, these are incidental benefits. But increasingly there is recognition that interventions based on the arts, heritage and sports can be effective ways of tackling specific social problems and of working with vulnerable beneficiaries such as ex-offenders and isolated older people. These interventions often build on the 'intrinsic' benefits of culture and leisure. Programmes that are stimulating and enjoyable help people sustain participation. They are also often 'asset-based' – they focus on people's strengths and potential, rather than their problems.

Levels of participation in the arts and heritage are not equal across society. Participation is lower among people over 75, black and minority ethnic groups and people with long-standing illnesses or disabilities. There are similar inequalities in participation in sport and women are less likely to play sport than men. Barriers to access can include a lack of accessible facilities, affordability and transport – and cultural factors can contribute. There have been improvements in participation in recent years as a result of initiatives by the Arts Council and Sport England.

² Source: Arts Council England, The Value of Arts and Culture to People and Society: an evidence review

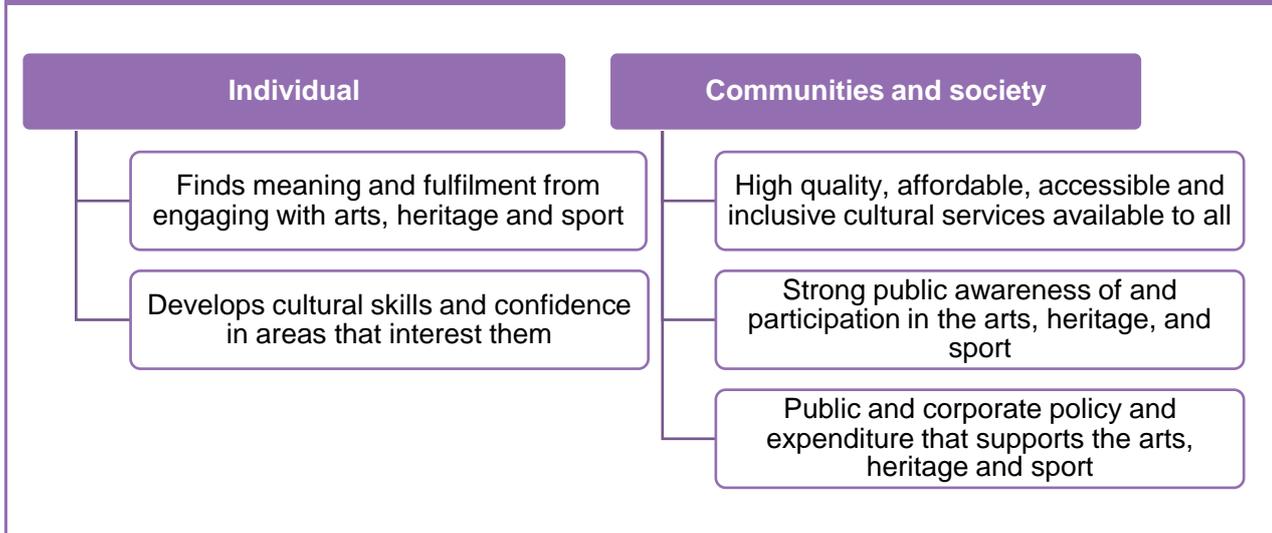
³ Source: Heritage Lottery Fund, Assessment of the Social Impact of Volunteering in HLF-Funded Projects: Yr 3, BOP Consulting

⁴ Source: Sport England health infographics

⁵ Source: Heritage Lottery Fund, Evaluation of the Young Roots programme (2008 – 2011), The Centre for Public Innovation



Big Society Capital's Outcomes Matrix: The Arts, Heritage and Sports⁶



Please see Big Society Capital's full outcomes matrix for related outcomes in Physical Health, Mental Health & Well-being, Employment, Training & Education, and Communities, *inter alia*.

www.bigsocietycapital.com/outcomes-matrix



CURRENT LANDSCAPE

The NCVO Almanac identifies over 22,000 charities in culture and recreation, accounting for 14% of the voluntary sector and the second largest sub-sector after social services⁷. Within the broader definition of civil society, there are a further 49,000 amateur and voluntary arts organisations in the UK⁸ and 135,000 sports clubs⁹.

There is considerable polarisation within the sector, with a relatively small number of large, professional organisations and a large number of small, local amateur groups, many of which are unregistered. Around half of the organisations identified by NCVO are micro-organisations with income of under £10,000, but there are also over 500 organisations with income between £1 million and £10 million and 75 major organisations with over £10 million income.

The arts, heritage and sport encompass a broad range of activities and organisations:

- Theatres, dance and music
- Museums, galleries and libraries
- Community leisure and culture facilities
- Historic buildings, industrial maritime and transport heritage
- Education and outreach initiatives
- Sports associations
- Local sports clubs and amateur arts groups
- Preservation of oral histories and cultural traditions
- Natural heritage and wildlife (see also Big Society Capital's Outcome Area: Conservation of the Natural Environment)

There are also social sector organisations that intentionally seek to address specific social issues using arts, heritage or sports-based interventions. Examples of these include: Streetchance, which uses cricket to engage young people at risk of anti-social behaviour; and Streetwise Opera, which uses opera to build confidence in people experiencing homelessness.

Other organisations use the arts, heritage and sport to tackle both physical and mental health issues such as dementia or falls amongst older people. Core Arts exists to promote the artistic and creative abilities of people who experience severe and enduring mental health issues. The Inclusive Archaeology Education Project in Yorkshire and Humber worked in partnership with 17 care services to engage 300 adults with learning difficulties, mental health service users and with physical disabilities in archaeological learning and visits.

⁷ NCVO Civil Society Almanac 2014

⁸ Per DCMS survey. Please note these include organisations not captured in the NCVO/Charity Commission data

⁹ NCVO Civil Society Almanac 2014



FUNDING CONTEXT

Sources of funding

Private and corporate giving	Arts and Business (2013) estimates that total private investment in arts and culture is worth £660 million per year, of which individual giving is £373 million, Trusts and Foundations £174 million and £114 million from business investment. Much of individual support takes the form of membership schemes, while corporate support is typically through sponsorship. Major national arts institutions receive the majority of individual giving, and around 90% is directed to organisations in London.
Statutory funding	The Department for Culture Media and Sport (DCMS) spent £394 million on the arts during 2013/14 (through the Arts Council), £387 million on museums and galleries, £133 million on heritage (largely via English Heritage), £164 million on sport (largely via Sport England) and £109 million on libraries. The Arts Council funds 696 National Portfolio Organisations (NPOs) through DCMS and Lottery funding. Among medium and large organisations, Arts Council England funding accounts for 13 – 14% of total income ¹⁰ .
Lottery	A significant proportion of National Lottery funding has been directed to arts, culture and sports activities within the voluntary sector. Of the twelve independent distributing bodies, five are focused on sport (including Sports England) and five on the arts (including Arts Council) in addition to the Heritage Lottery Fund. Arts, sports and heritage organisations are allocated 60% of Lottery grants which in 2013 amounted to £1.4 billion (£308 million to the arts, £664 million to sport and £416 million to heritage).
Local authorities	In 2013/14, local authorities provided £2.8 billion of funding for cultural services, representing 2.5% of their net current expenditure and down from £3.5 billion in 2008/09 ¹¹ . Smaller local organisations tend to rely more heavily on public sources of funding. Councils co-fund c. 60% of the Arts Council’s National Portfolio Organisations ¹² .
Trading activities	Arts, heritage and sport organisations generate revenues from box office or admission charges, as well as merchandising or sponsorship. The largest organisations generally derive the highest proportion of income from trading.

NPC found that over half of arts and cultural organisations received public funding, which accounts for around a third of total income on average. This is comparable to the rest of the voluntary sector, but arts-specific funding is a significant component. Non-arts funders are largely local authorities or other local organisations.

Public funding for the arts, heritage and sport is reducing significantly. The 2010 Spending Review resulted in DCMS cuts of 32% by 2014/15, with a cut of 30% to the Arts Council, 32% to English Heritage and 33% to Sports England. The 2013 Spending Round will see further reductions of 5 – 10% by 2014/15.

Local authorities are also substantially reducing discretionary spending to preserve social care budgets. The average cuts to culture and leisure services since 2010/11 were 29% per National Audit Office data¹³, and some local authorities have cut funding by 50%. Others have spun out services to newly created trusts or transferred assets to the community. This trend is particularly affecting community arts, heritage and sports organisations.

¹⁰ Source: “Opportunities for Alignment: Arts and cultural organisations and public sector commissioning”, NPC, June 2014

¹¹ Source: Local authority revenue expenditure and financing in England: 2013 to 2014 final outturn, DCLG

¹² Source: Local Government Association

¹³ Source: The Impact of Funding Reductions on Local Authorities, 19 November 2014



CHALLENGES FOR SOCIAL INVESTMENT

There can be a tension in balancing pure cultural, heritage or sporting goals (where the focus is exclusively on the achievement of excellence within the field) with wider social outcomes such as increasing participation amongst vulnerable or underrepresented beneficiary groups.

However, social and cultural/sporting outcomes are not mutually exclusive and that there can be multiple benefits for individuals and communities arising from arts, heritage and sports interventions. It can be challenging to articulate and measure the social impact of these, as the interventions are often defined by their approach rather than their outcomes¹⁴. There is also a shortage of rigorous evidence of the social impact of arts interventions, particularly in respect of longitudinal studies, although there are proven links between sport and health.

In common with other voluntary and community organisations, entities that have historically been funded via grants may not be ready to take investment. This may be due to a lack of experience in preparing and presenting business plans to investors. However, it may reflect more fundamental issues with the sustainability of business models.

Cultural organisations have historically received a lower proportion of revenue via government contracts than other social sector organisations. Between 2014 and 2016, NCVO and the Arts Council's Cultural Commissioning Programme is supporting arts and cultural organisations to engage more in public sector commissioning. However, as NPC discuss in their report for the Cultural Commissioning Programme, payment-by-results contracting can be more difficult since arts, heritage and sports interventions may focus on "softer outcomes or forms part of a wider intervention where cause and effect is harder to prove."¹⁴

In the near term, these challenges may result in lack of demand for social investment due to less direct experience of commercial models and a preference for grants where this can be secured on a medium to long term basis. This may be compounded by lower levels of investor familiarity with arts, heritage and sport business models.

Possible solutions

A number of initiatives seek to address the evidence gap and demonstrate the social outcomes that the arts, heritage and sport can deliver. The Arts Council has undertaken an evidence review of the value of culture. DCMS's Cultural and Sports Evidence Programme (CASE) built tools and a database of research about engagement in sport and culture, and Sport England's Value of Sport monitor collated and commissioned research on the benefits of sport. The Aesop arts in health initiative has developed a framework for research into arts in health, adapted from the Medical Research Council's guidelines for complex medical interventions.

Further solutions to these barriers could include further investment readiness funding for arts, heritage and sports organisations, as well as dedicated 'incubators' which would help organisations transition their business model, or support new ventures to develop to a point where they could take on investment. Research for Heritage Lottery Fund has identified demand from grantees for training and signposting¹⁵. Creative Industry Finance is a programme which provides creative enterprises with tailored business support, to help them apply for a loan from a range of lending partners.

¹⁴ Source: "Opportunities for Alignment: Arts and cultural organisations and public sector commissioning", NPC, June 2014

¹⁵ "Non-Grant Finance in the Heritage Sector: Research findings for the Heritage Lottery Fund", NPC, July 2014



Sector specific investment funds would help raise awareness and demonstrate the relevance of social investment to the arts, heritage and sport.

Arts Impact Fund – demonstrating the potential for social investment in the arts

The Arts Impact Fund is a new £7 million collaboration between public, private and charitable partners and supporters who share a commitment to supporting the arts and a belief in their importance to society.

The fund offers repayable finance to arts organisations working in England that can show how they are sustainable, have great artistic ambitions and have a positive impact on society. The fund seeks to support more organisations to become enterprising and resilient, and to promote the wider positive social impact art has on society, individuals and communities. By lending to growing organisations, they want to attract more social investors to the arts.

The partners behind the fund are the Arts Council England, Bank of America Merrill Lynch, Nesta, Esmée Fairbairn Foundation and as well as Calouste Gulbenkian Foundation.



OPPORTUNITIES FOR SOCIAL INVESTMENT

Reductions in grants are requiring innovation in business models and funding approaches. Organisations are seeking to develop new revenue streams to reduce their reliance on grants or to fund activities for which grants are not available.

Arts, heritage and sports organisations often have substantial tangible and intangible assets which offer the potential for new revenue streams or support investment. For example, additional revenues could be generated by:

- expanding or diversifying core activities: for example increasing ticket sales or membership fees by tapping into new audiences or through new media
- utilising skills and intellectual property: for example through development of training courses for the public, corporate programmes or digital products
- maximising use of facilities in order to cross-subsidise core programmes and outreach work: for example, operating cafes or restaurants, or renting out space for events

Some culture and sports organisations are also seeking to secure public contracts, including on a payment-by-results basis, building on evidence of the social impact they can deliver (for example, Street League – see below). There is potential to offer services to schools, or GPs through social prescribing.

Community organisations are taking on the running of services such as libraries and leisure centres and the ownership or management of heritage buildings.

In order to support organisations through this transition, social investment could play a number of roles:

Investment in facilities and equipment

The NCVO Almanac shows that charities in the arts, heritage, sport and faith have aggregate assets of over £7 billion. Assets can provide stability as well as a source of additional revenues – for example, space can be rented out when not in use. However, properties also require maintenance to ensure they continue to meet the needs of their beneficiaries and assets may not be readily realisable. Secured loans can be used to refurbish properties and to invest in new facilities or equipment, potentially in combination with unsecured investment.

Case Study: Folkestone Sports Centre Trust

Folkestone Sports Centre Trust provides affordable sport and leisure activities to local people and works with disadvantaged youths, cardio patients, and various community groups. They are the only multi-sports and leisure facility in the district, and are focused on the needs of the community. Commercial banks were not willing to lend to the Trust and they faced the possible closure of the facilities. The Trust was able to use a combination of social investment in order to help refurbish their centre, with Charity Bank providing a secured loan and Big Issue Invest lending the remaining amount on an unsecured basis. Charity Bank was also able to help the Trust secure a five year grant from the local authority.



Investment in new revenue streams and growth

As organisations seek to develop new revenue streams and business models, they require growth capital for product development, new staff, systems and marketing. They may also have additional working capital needs as new revenue streams lag upfront expenditure. For social sector organisations, this type of capital can be provided by unsecured loans, quasi-equity and, for some, equity investment.

Case Study: Live Theatre

Live Theatre is based on the quayside in Newcastle and has been a national leader in developing new strategies for developing income and assets for the charity, which has built resilience to public sector cuts. Over the past decade it has launched a gastropub, which cross-subsidises its core arts programmes and an online playwriting programme, which builds on its track record as a new writing and producing theatre. Esmee Fairbairn Foundation and CAF Venturesome provided unsecured loans to support this diversification of the business model. In 2014, Live Theatre announced LiveWorks, a £10 million capital development to purchase and develop quayside-fronted land and buildings adjacent to the theatre, to create new commercial office space, a public park and a children and young people's writing centre.

Successful organisations require growth capital to allow them to expand their operations into new regions, or to win new contracts from government.

Case Study: Street League

Street League seeks to change the lives of young people aged 16-25 who are not in employment, education or training (NEETs) through award winning football and employability programmes. Impetus-PEF, a venture philanthropist, has provided a combination of financial support, pro bono expertise and management support since 2008. This has seen the charity expand its operations from three regions to nine regions across England and Scotland.

In 2013 Social Investment Scotland invested £300,000 to enable Street League to expand its work across Scotland where it operates in some of the most deprived communities and delivers programmes for the Department of Work and Pensions, Scottish Government, Skills Development Scotland and Job Centre Plus.

Street League has also rapidly grown its commissioned income, much of which is from payment-by-results contracts. In 2014, CAF Venturesome invested £125,000 working capital to match a further grant from Impetus-PEF. This will enable Street League to expand into new cities.

Transfer of assets to the community

A possible response to local authority budgetary pressures is to transfer culture and leisure services as well as buildings to independent charitable trusts and community organisations. This is facilitated by the new Community Rights introduced with the Localism Act of 2011, which are discussed further in our insights piece *Communities and Social Investment*. In addition, certain communities have taken action in order to save locally important heritage buildings and bring them back into use in the community. Community organisations typically require funding to purchase buildings, refurbish them and develop sustainable business models for the assets and services. Different types of investment are appropriate at various stages in this transition and there is potential to blend higher risk capital with secured loans.



Case Study: **Unity Hall**

Unity Hall was built in 1876 as the headquarters of the Wakefield Industrial Co-operative Society and had been largely unused since the mid 1990s, by which time it was privately owned. An Industrial and Provident Society (IPS) was established in 2011 in order to convert Unity Hall into a national music, conferencing and events venue and centre for creative entrepreneurs. This project requires £4.5 million funding, which was raised from a combination of grants (from ERDF, Social Investment Business and Wakefield City Council), social investment loans from Key Fund and the Architectural Heritage Fund and community shares raised from over 400 individuals.

Innovative approaches to fundraising - crowdfunding and community shares

Arts, heritage and sports organisations often have a large pool of engaged supporters – communities of interest. Emerging approaches such as crowdfunding can be effective ways of building on this shared passion, as is evidenced by the use of Kickstarter to fund creative projects and the Art Fund’s recent campaign to save the Wedgwood Collection.

While these channels have principally been used to raise donations, there is scope to also access investment. Community shares are withdrawable shares which can be offered to members of co-operatives and community benefit societies. Hastings Pier raised over £500,000 through community shares which enabled them to complete the funding required to rebuild the pier. This is alongside £11.4 million from Heritage Lottery Fund, and £2 million from other public and institutional sources.

Social Investment Tax Relief (SITR) is a new relief designed to support investment in charities and social enterprises in accessing debt and equity finance from individual investors, by offering 30% income tax relief. Arts organisations have typically attracted significant donations from high net worth individuals and SITR could be used to complement existing donor models. For more information, please see www.bigsocietycapital.com/social-investment-tax-relief

Case Study: **FC United**

FC United is a football club wholly owned by its 3,223 members and set up as a Community Benefit Society. It is building a new home ground and community facilities with a project cost of £6m, and is one of the first organisations to use SITR with a loan stock offer to individual investors. This will top-up existing funding from a £1.9m community share scheme, donations and grant funding from Sport England, Football Foundation, Social Investment Business and Manchester City Council.



PRIORITIES FOR BIG SOCIETY CAPITAL

Big Society Capital investees make investments in arts, heritage and sport organisations. Examples include:

- Charity Bank – Half Moon Young People’s Theatre, Folkestone Sports Centre Trust
- Social Investment Scotland – Willow Tea Rooms, Factory Skatepark
- Rathbones Charity Bond support fund – Greenwich Leisure

Big Society Capital expects much of its investment in this sector will continue to be through the intermediaries in which it has invested, but will selectively look at new initiatives if there is enough demand and co-investors. Big Society Capital’s focus in terms of investment is:

- Well evidenced arts, heritage and sports interventions addressing specific social issues
- Programmes targeting increased participation in deprived communities, or among beneficiary groups with evidence of exclusion from culture and recreation
- Community arts, heritage and sports organisations, including asset transfers

Big Society Capital would be unlikely to consider proposals from institutions that are focused primarily on artistic or sporting excellence or on heritage preservation without social outcome goals for specific beneficiary groups. In addition, creative industries would only be within Big Society Capital’s scope if the underlying organisations have an explicit social mission and operate as regulated social sector organisations.

Big Society Capital would also consider proposals from ‘general purpose’ culture and leisure charities that seek to promote advancement of culture and sport, provided they are accessible, affordable and inclusive. Big Society Capital’s preference would be for organisations that can demonstrate how they are addressing an underserved community, or possibly cross subsidy models where commercial activity enables culture and recreation organisations to fund community programmes.



Thank you to the following people and organisations that provided insight and knowledge into this area:

Ross Burnett – Arts Council

Jim Beirne – Live Theatre

Darcy Hare – Sport England

Alison Holdom, Marcella Kelshaw - Esmee Fairbairn Foundation

Tim Joss – Aesop

Mary Locke – Charity Bank

Susie MacDonald – Tender Arts

Abigail Rotheroe, Farooq Sabri - NPC

Mary-Alice Stack – Creative United

Anne Young - Heritage Lottery Fund



The information and opinions in this report were prepared by Anna Shiel, Senior Investment Director, on behalf of Big Society Capital.

Titles available in the Social Investment Insights Series

- Growing Social Enterprise Through the Holding Company Model: Groupe SOS (June 2014)
- Social Impact Bonds: Lessons Learned (June 2014)
- Growing the Market for Charity Bonds (July 2014)
- Housing and Social Investment (August 2014)
- Health and Social Care (December 2014)
- Financial Inclusion and Social Investment (December 2014)
- Long-Term Unemployment and Social Investment (December 2014)
- The Criminal Justice System, Those It Affects and Social Investment (January 2015)
- Social Investment in Education (February 2015)
- Communities and Social Investment (March 2015)
- Social Investment for Families, Friends and Relationships (March 2015)
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