Repayable finance in the arts and cultural sector

March 2018

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1 Foreword 4

2 Executive summary 6

3 Introduction 8

4 Demand for repayable finance is concentrated among a small proportion of organisations 9

5 The potential future demand for repayable finance is considerable 14

6 Repayable finance is expected to be used for entrepreneurial endeavours 17

7 Financial barriers are limiting demand for repayable finance 20

8 Appendix 1: Variation by region 25

9 Appendix 2: Methodology 30

10 Endnotes 33

1

Foreword

It's been a fascinating two and a half years since we launched the Arts Impact Fund. The central premise behind this pilot initiative is that use of loan funding alongside grant funding makes philanthropic and public money go further in times of scarcity, as well as encouraging arts organisations to take a more disciplined approach to their own growth. By blending capital from a variety of funders into a combined, targeted pot, we hoped to stimulate demand and prove the case for making loans to arts organisations, boosting their financial resilience and helping them demonstrate and grow their huge positive impact on individuals, communities and society as a whole. The team working on the fund has had a strong sense over the investment period that momentum is growing and the idea of taking on capital to invest in future revenue streams is taking hold within the arts and cultural sector. We were keen to put some more substantive evidence and analysis behind this observation, and commissioned MTM to undertake this survey and report on our behalf.

The headline finding that there is likely to be at least £309 million of demand for repayable finance in arts, culture and heritage over the next five years has encouraged us to continue planning for the future. We hope to build a social investment ecosystem bringing both sustainability and resilience to the arts and cultural sector, and vibrant and uplifting investment opportunities to social investors of all descriptions.

Social investment is not intended to be a panacea. Repayable finance will never replace grant funding – some projects and programmes, and even organisations, are not designed to be sustainable or self-funding, cannot be reimagined to attract consistent revenue streams, and will need to be subsidised in perpetuity. Our strategic partners in the Arts Impact Fund, Arts Council England, Esmée Fairbairn Foundation and Bank of America Merrill Lynch, will continue to make grant funding available for arts and culture organisations, as will many other vital trusts, foundations, local authorities, individuals, local businesses and other donors and supporters. As an organisation set up to preserve and strengthen arts and cultural organisations, the Arts Impact Fund is both hugely supportive of and indebted to the subsidy that allows artists and organisations to innovate, both creatively and socially, as well as having the freedom to pursue artistic and social avenues that are unlikely to lead to significant revenue generation.

However, we do firmly believe, both in principle and in practice with our growing portfolio of investees, that there are opportunities for arts organisations to invest capital and make a return. The purpose of our loans is to allow organisations to do this – and this makes financial sense for everybody where the **realised return is above the cost of the loan**. So, for example, at the small end, if an organisation wants to borrow to renovate a room for office or storage, and the projected rental income will more than cover the repayments on the loan, the Arts Impact Fund gets its money back and can lend it on to another organisation, boosting overall investment in the sector. After the loan is paid off, the organisation has a new, unrestricted revenue stream which it can invest in its own programming or personnel or outreach activities.

We wanted to ask about 'repayable finance' as distinct from 'social investment' because we are keen to explore all the tools with which money can be deployed in arts and cultural organisations, whether that be repayable grants, grants convertible to loans on success, unsecured loans, secured loans, equity or venture capital. We do feel that the survey, if anything, is likely to understate demand – we think there is a level of caution around repayable finance which we hope to alleviate by continuing to talk about the successful investments we and others have made, and the resulting increases in organisational resilience and impact. Whilst we believe that repayable finance will not be an appropriate tool for all organisations, the proportion of the sector interested in and excited about the opportunity to invest in their own resilience will grow as the concept becomes better exemplified, better understood, and more broadly publicised.

We welcome feedback and look forward to hearing from any individual or organisation who would like to talk to us about this report.

Fran Sanderson
Director, Arts & Culture Investment and Programmes
Nesta

2

Executive summary

Arts and cultural organisations contribute insight and cohesion to society as well as significant positive outcomes for individuals and communities, but are under serious financial pressure due to cuts in public funding at the national and local level. Nesta, with partners including Arts Council England, has therefore been exploring innovative approaches to help them access the appropriate finance they need to thrive and continue delivering their impact.

This survey-based research study examines the existing and potential future demand for repayable finance in the arts and cultural sector in the UK. We have used the term 'repayable finance' because it is a clear, yet broad term that incorporates all manner of financial instruments: repayable grants, loans, equity and bonds. This broad grouping is helpful in understanding the state of demand for all types of finance amongst arts organisations, irrespective of whether the financier expects social and artistic returns over and above or in part exchange for conventional monetary payback, what we consider to be social impact investment.

This research also provides a detailed account of the key issues related to repayable finance in arts and culture, such as barriers to taking on such financing. Survey responses numbering 1,068 were used to model the potential future demand for repayable finance across the sector, which is estimated at just under 3,000 active arts and cultural organisations above a threshold level of identifiable income (see Methodology on page 30).

In conclusion, the study has found that, while current demand for repayable finance is concentrated among a small proportion of organisations, the expected future demand suggests repayable finance is going to play a far larger role in arts and culture funding over the next five years. Overall, the study has found that:

- Repayable finance is currently used by a **small proportion of organisations**, and these are typically larger and based in London.
- There is **significant growth potential for repayable finance**, with expected demand of £309 million[1] spread over the next five years.
- Repayable finance is attractive for entrepreneurial purposes – **developing new revenue streams and scaling up existing activities** – rather than as a replacement for grant or other types of funding.
- Organisations not interested in repayable finance are concerned about **repayments and limited resources to manage the process**.
- Attitudes towards repayable finance are positively linked to organisations using it: there is **limited positivity among organisations which haven't previously used it**, but this improves significantly after organisations have.

Key statistics

15%
of arts and cultural organisations have taken out repayable finance to date

£29m
worth of repayable finance was reportedly received by the survey respondents in 2016

16%
of arts and cultural organisations expect to seek repayable finance at some point over the next five years

52%
of those who have sought or received repayable finance in the past are likely to take it out in the future

41%
of organisations considering taking out repayable finance in the next five years would take out less than £150,000

£309m
of repayable finance is expected to be sought over this period (extrapolating to the wider universe of arts and cultural organisations)

54%
of this extrapolated future demand is expected to come from outside London

64%
of organisations that have previously sought or taken out repayable finance say that it is a good tool to support their activities

3

Introduction

Nesta is committed to stimulating innovation in arts and culture funding in order to help organisations to become more resilient and economically sustainable. As public funding is under continuous pressure and there is growing competition for private investment from businesses and individuals, arts and cultural organisations need to look for new ways to develop their resilience. In this light, repayable finance presents a good alternative for arts and cultural organisations seeking additional sources of finance. As they often earn revenue through various trading activities, such as ticket or merchandise sales, many organisations should be able to repay such financing. For those organisations that have few commercial opportunities, traditional grants must continue to play a fundamental role. However, an optimised funding ecology would ensure that precious grant funding goes to those operating models that really need it, whilst those that trade repay investment.

To understand the appetite for repayable finance in arts and culture, Nesta – in partnership with Arts Council England, Esmée Fairbairn Foundation, Bank of America Merrill Lynch and Calouste Gulbenkian Foundation – launched the £7 million Arts Impact Fund in 2015. It is a pilot programme with the aim to provide affordable repayable finance to arts and cultural organisations generating social impact and to help them to develop resilient business models. As the Fund has completed its two-year investment period and is fully deployed, Nesta is keen to understand the impact that the Fund has had on the arts and cultural sector and test the hypothesis that there is a significantly greater and increasing demand for repayable finance across the sector, beyond the £7 million provided by the Arts Impact Fund.

Robust data demonstrating the nature and extent of the demand for repayable finance in arts and culture is not readily available, so Nesta commissioned MTM to conduct a sector-wide survey and study to help it understand the aggregate demand for repayable finance, key issues that organisations face when considering their funding options, and a picture of potential demand over the next five years. This resulting report will help to inform Nesta's future activities and policies in arts and culture funding.

The Repayable Finance Survey received 1,068 responses from arts and cultural organisations across the UK, detailing their existing demand for and attitude to repayable finance. The sample represents a range of organisation size, art form and operating region.

In order to estimate the potential demand for repayable finance over the next five years, the study then established a relevant universe of arts and cultural organisations for analysis by combining the Repayable Finance Survey responses with responses from the Private Investment in Culture Survey 2014/15, Charity Commission filings, and contact databases from the Heritage Lottery Fund, Arts Council England, and Nesta. This universe consists of a total of 2,851 active arts and cultural organisations with some form of measurable income. Then, the study used the figures provided by the 1,068 survey respondents and extrapolated them to the wider relevant universe of arts and cultural organisations.

Please see the Appendix for more detail on the method.

4

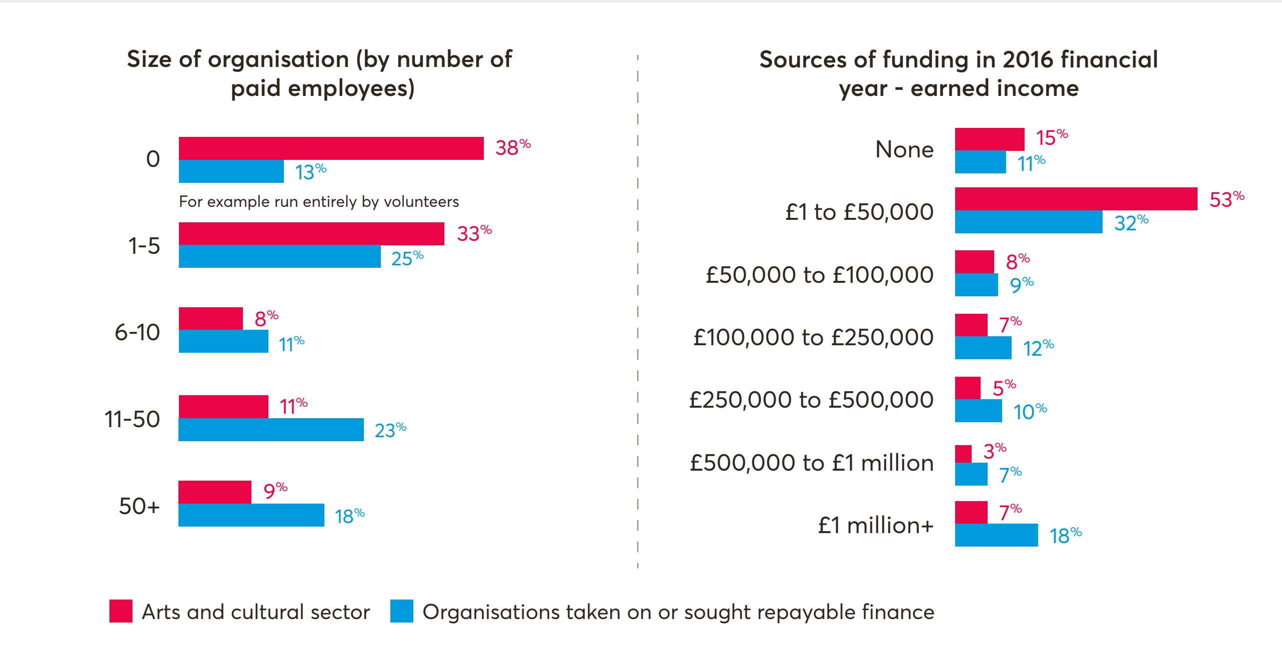
Demand for repayable finance is concentrated among a small proportion of organisations

4.1 Profile of current demand

Repayable finance is currently used by a small proportion of arts and cultural organisations. Only 15 per cent of organisations have ever taken or sought it and only 8 per cent currently have outstanding repayable finance.[2]

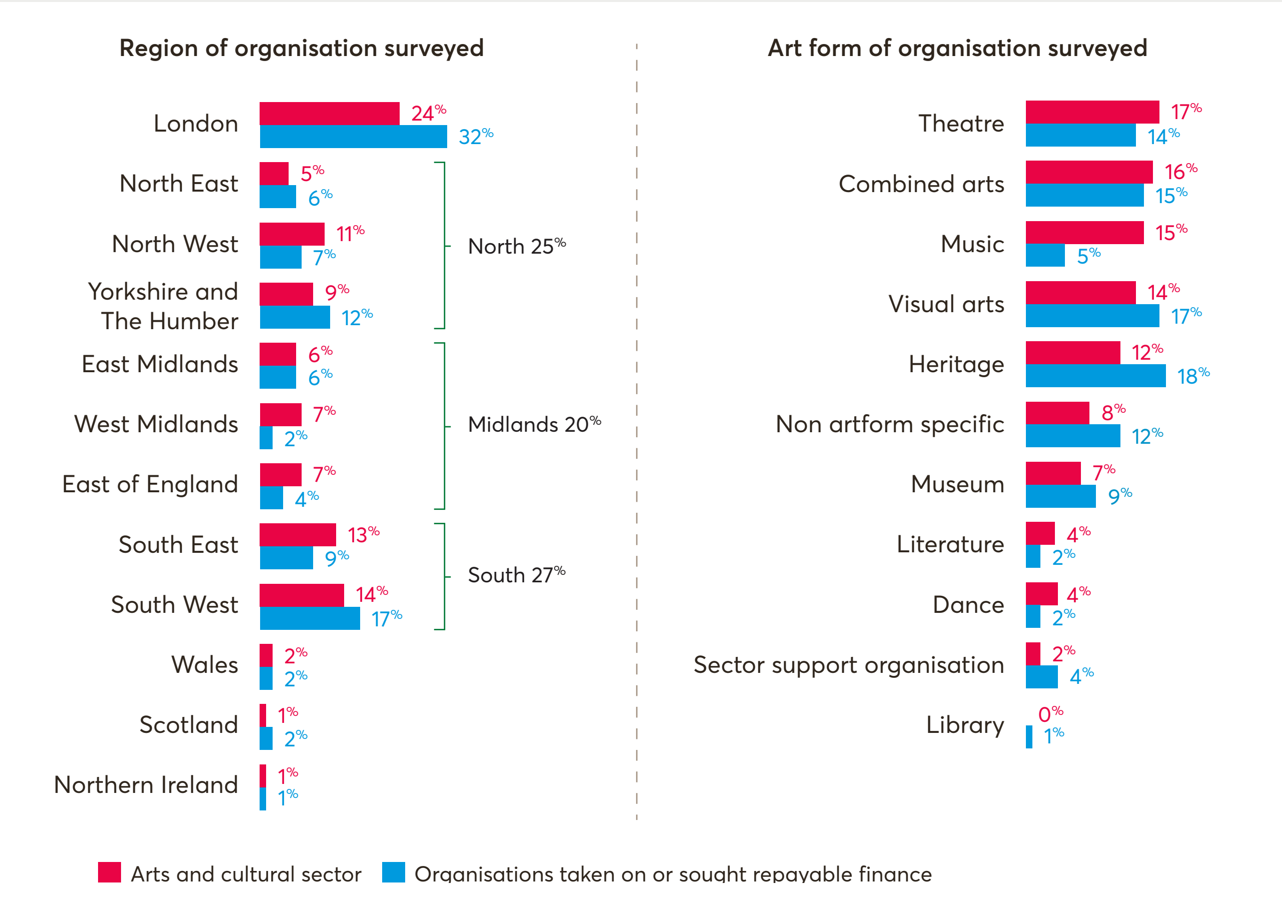
As might be expected, the size of an organisation is a key indicator of whether it has taken or sought repayable finance. Organisations that have taken out or sought repayable finance previously are typically larger, both in terms of the number of paid employees and earned income. Logically, organisations are more likely to consider repayable finance if they can maintain and predict a significant turnover with which to repay debt financing.

Figure 1: Size and earned income of organisations that have sought or taken out repayable finance[3]



Geographic location also appears to influence whether an organisation has taken or sought repayable finance, but art form does not. Those that have taken or sought repayable finance tend to be based in London, and to some extent in the South West and Yorkshire and the Humber regions. There is, however, a limited difference between artforms, with the only notable skew for music organisations, which represent a smaller proportion of existing repayable finance demand than seen in the wider sector (5 per cent vs 15 per cent sector average).

Figure 2: Region and art form of organisations that have sought or taken out repayable finance[4]

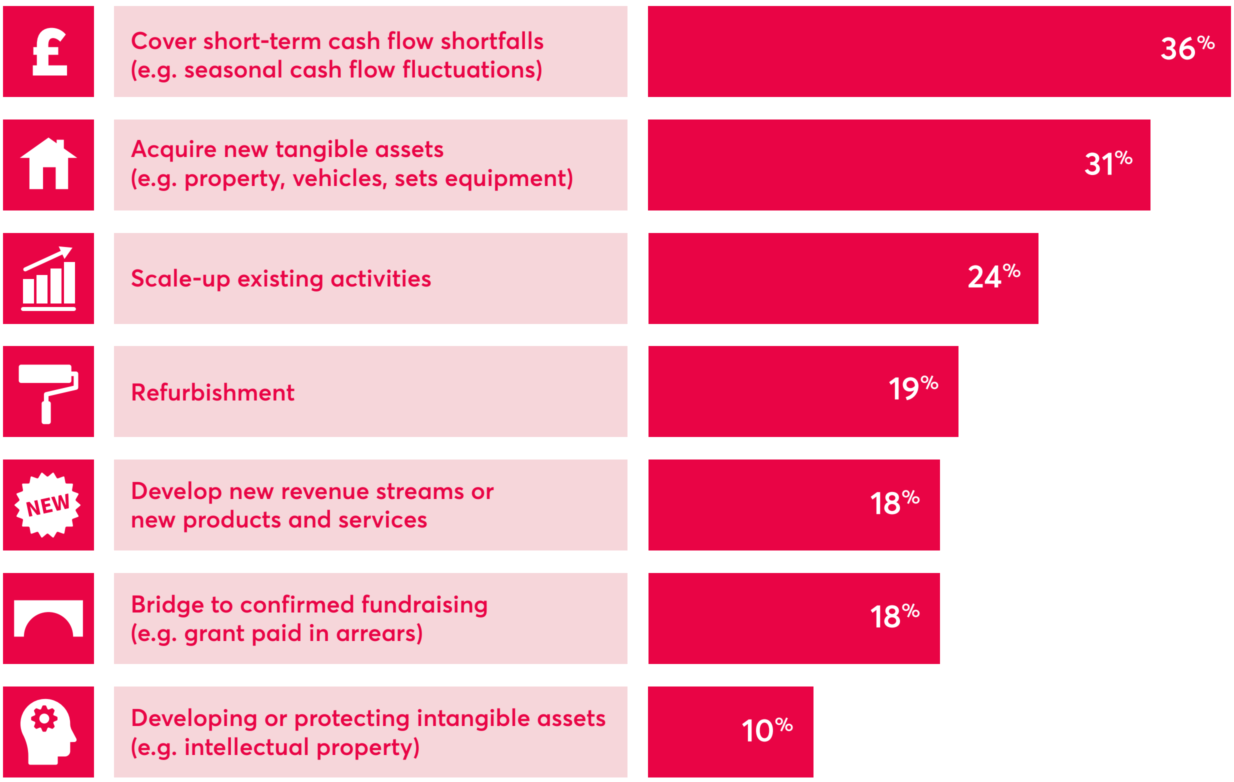


The repayable finance taken to date has typically been for small figures and for short-term purposes. Of 1,001 survey respondents, 15 per cent reported that they had received an aggregated total of £29 million of repayable finance in 2016. However, 31 per cent of organisations that had received repayable finance had taken out less than £25,000, and over half (51 per cent) had taken out less than £150,000. Having said this, the total amount of repayable finance taken out in amounts less than £150,000[5] reflects only 3 per cent of the total £29 million repayable finance taken out in 2016. Reflecting these low amounts, the main reason organisations have tended to take out repayable finance has been to cover short-term cash flow problems, rather than for developing new revenue streams or intellectual property.

Table 1: Repayable finance taken out

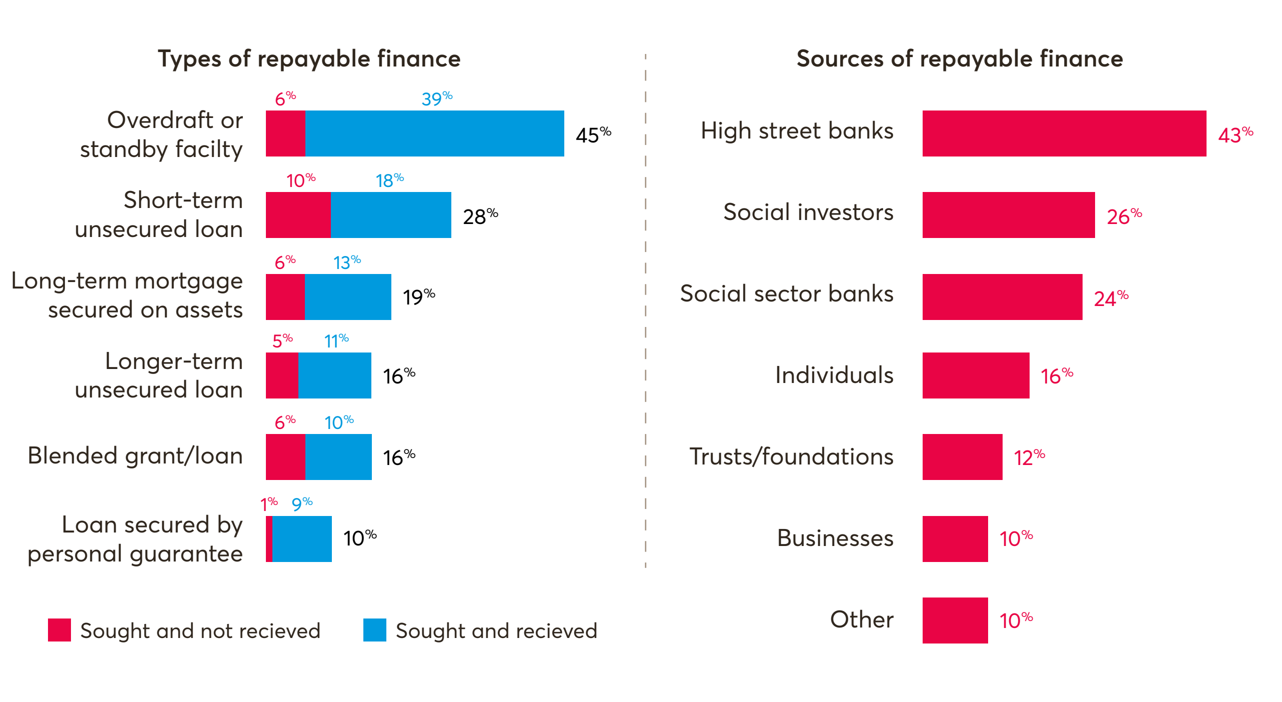
Repayable finance taken out	£1-£25,000	£25,000-£150,000	£150,000-£500,000	£500,000-£5,000,000	£5,000,000+
Percentage of organisations that have taken out repayable finance	31%	20%	16%	16%	1%
Percentage of total amount of repayable finance taken out (£29million)	1%	2%	10%	64%	23%

Figure 3: Purpose of repayable finance sought in 2016 financial year[6]



The simplest way to cover short-term cash flow issues is often via an overdraft or standby facility, so a large proportion of organisations taking out repayable finance are simply using overdrafts from high street banks. It is clear that, for many organisations to date, repayable finance has been seen as a short-term solution to financial shortages, rather than a long-term source of financing.

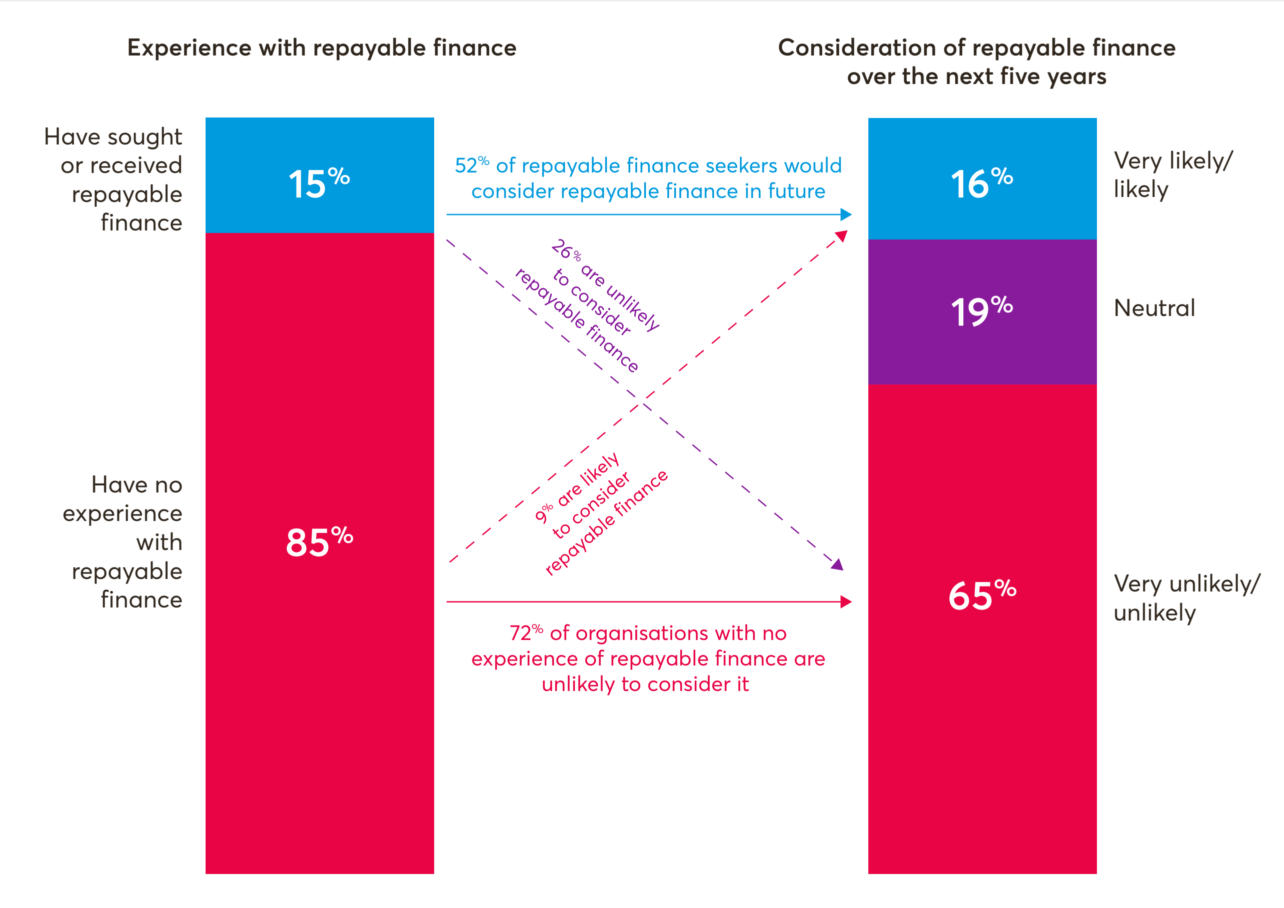
Figure 4: Types of repayable finance sought in 2016 financial year and sources used (by number of organisations)[7]



4.2 Experience with repayable finance

Organisations appear to have had positive experiences with repayable finance in the past, driving positive attitudes about taking out repayable finance in the future.

Figure 5: Consideration of repayable finance over the next five years[8]



Fifty-two per cent of organisations that have previously taken or sought repayable finance are willing to consider taking it out in future, compared to 16 per cent of the whole sector and 9 per cent among organisations that have no experience of repayable finance to date.

5

The potential future demand for repayable finance is considerable

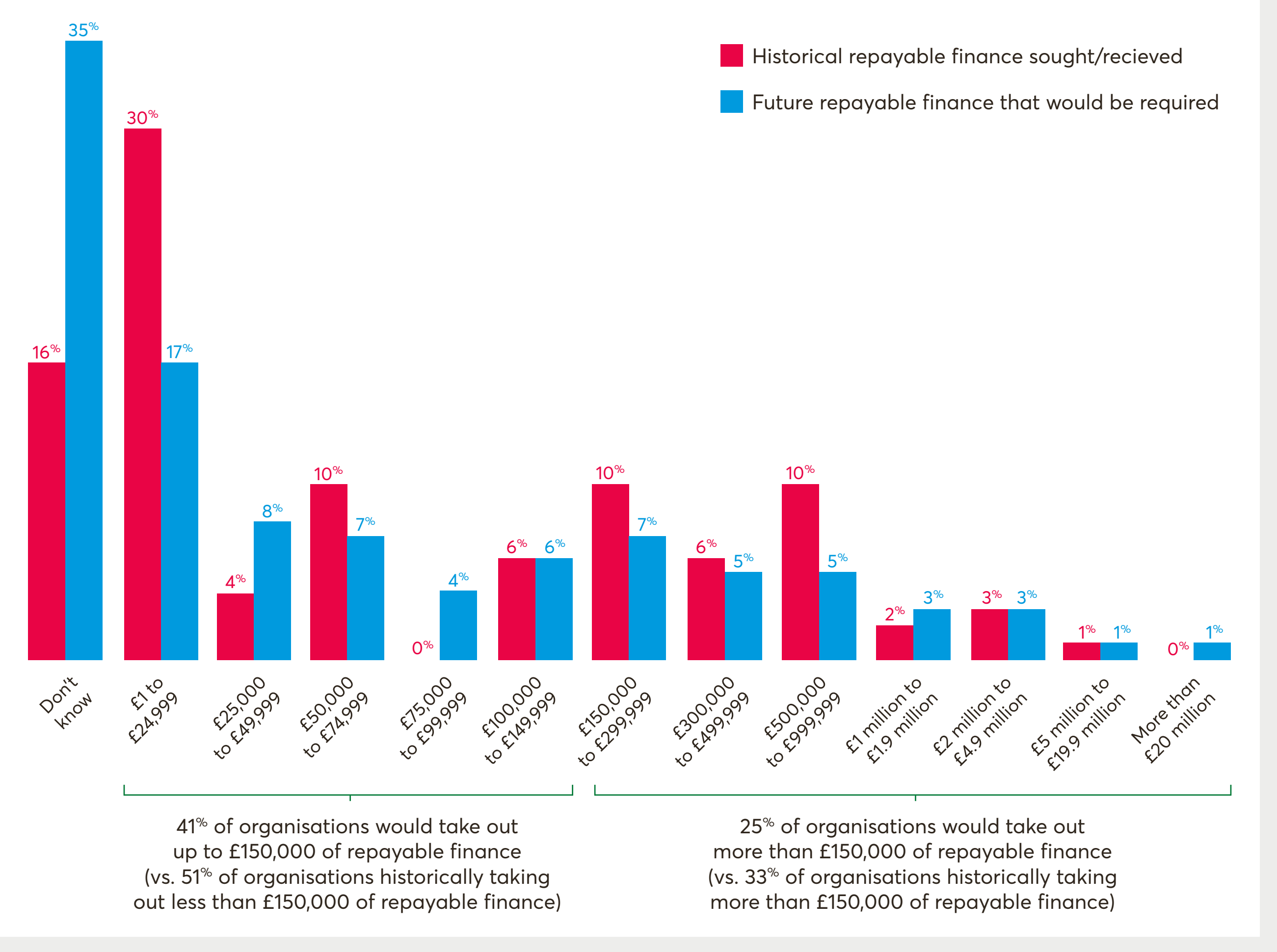
5.1 Those considering repayable finance for the future

Looking ahead, a similarly small proportion of arts and cultural organisations consider themselves likely or very likely to take out repayable finance over the next five years (16 per cent vs. 15 per cent who did in 2016). The profile of these organisations also mirrors the profile of those that have taken out repayable finance in the past: organisations particularly interested in taking out repayable finance are larger (18 per cent have over 50 employees, and 50 per cent earn over £50,000 in earned income) and tend to be concentrated in London (31 per cent) and the South West (18 per cent).[9]

The amount of repayable finance that organisations expect to seek is also similar to the reported demand in 2016. Forty-one per cent of organisations that would consider taking out repayable finance would seek less than £150,000, compared to 51 per cent in 2016.[10]

There is, however, some variation by art form when one looks at expected future demand. The art forms most interested in repayable finance are combined arts[11] (19 per cent would consider repayable finance in the next five years) and those who are not art or cultural form specific (18 per cent). Music organisations are the least likely to consider repayable finance (9 per cent), reflecting the fact that they are the only artform to skew lower than average in terms of having experience of repayable finance (only 5 per cent of organisations that have previously sought or taken out repayable finance are music organisations, where music organisations represent 15 per cent of the arts and cultural sector overall).[12]

Figure 6: Proportion of organisations that have received different amounts of repayable finance in 2016 and proportion of organisations that would take out different amounts of repayable finance in the next five years[13]



5.2 Potential sector demand

Despite only a small proportion of organisations expecting to seek repayable finance over the next five years, extrapolating the survey results to the wider arts and cultural sector suggests there is significant growth potential. Arts and cultural organisations in England are expected to demand a total of £309 million of this type of funding over the next five years (c. £62 million per year, on average): a considerable uplift from 2016, where 15 per cent of the 1,001 survey respondents reported that they had received £29 million of repayable finance between them.[14]

The largest proportion of demand comes from organisations requiring large figures, with 38 per cent of the £309 million coming from organisations seeking £5 million and 36 per cent coming from organisations seeking between £500,000 and £5 million. Far fewer organisations require smaller amounts of repayable finance, with only 3 per cent of organisations seeking up to £25,000, 7 per cent requiring between £25,000 and £150,000, and 15 per cent requiring between £150,000 and £500,000 (see Figure 4).

Table 2: Proportion of the total amount of repayable finance required by amount that would be sought

Repayable finance required	£1-£25,000	£25,000-£150,000	£150,000-£500,000	£500,000-£5,000,000	£5,000,000+
Percentage of organisations that have taken out repayable finance	17%	24%	11%	11%	2%
Percentage of total amount of repayable finance required	3%	7%	15%	36%	38%

Full details of this analysis can be found in the Appendix.

5.3 Future prospects for arts and cultural organisations

There is optimism around future business prospects among organisations that have taken out or sought repayable finance. An average of 57 per cent of arts and cultural organisations believe their earned income will increase substantially or slightly over the next five years, whilst 72 per cent of organisations that have previously taken out repayable finance believe this. This is even higher among those who would consider taking out repayable finance in the future, rising to 84 per cent.

There is room for repayable finance to grow substantially in the sector, as organisations become more evangelical – continuing to use repayable finance themselves and encouraging other organisations to use it. There's a slight skew in optimism towards heritage organisations (64 per cent) and combined arts organisations (63 per cent), with visual arts organisations the least optimistic (49 per cent).[15]

6

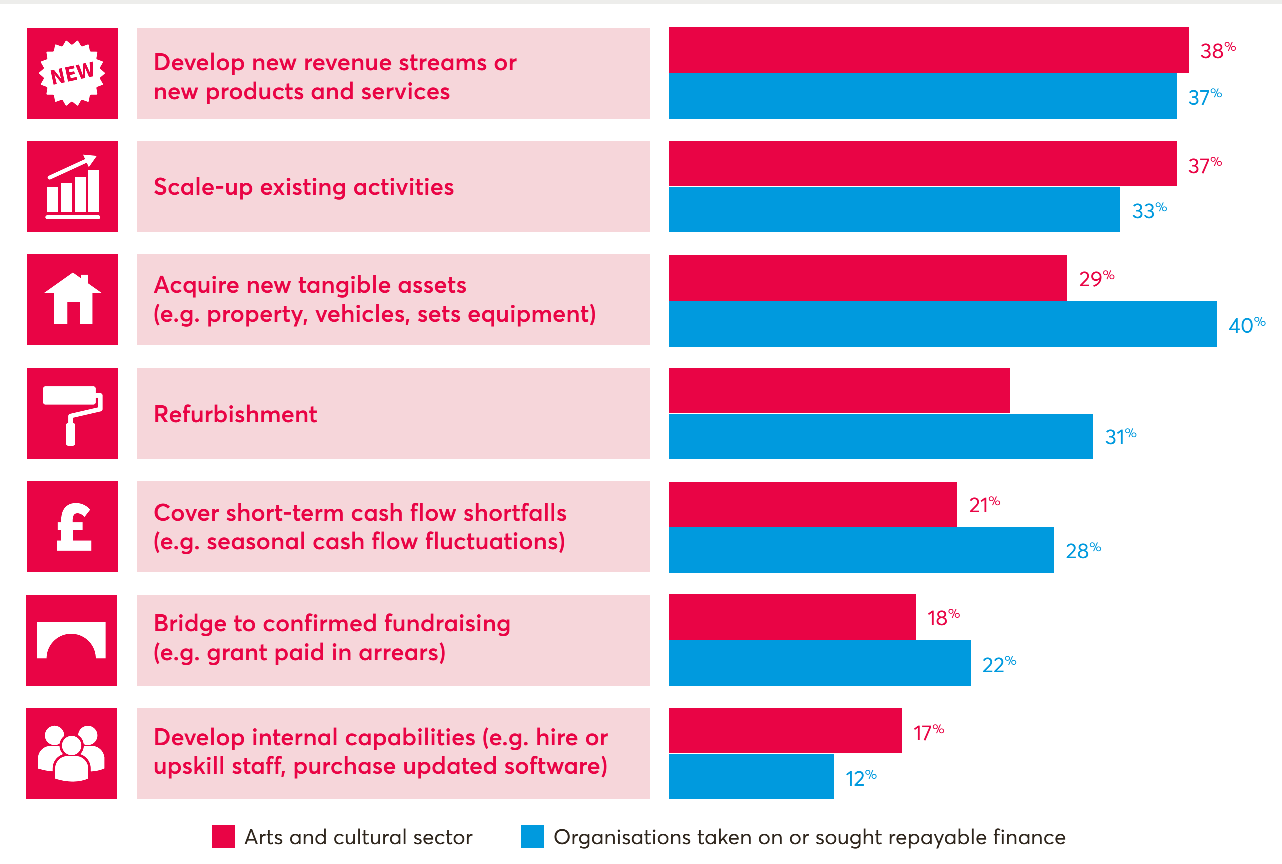
Repayable finance is expected to be used for entrepreneurial endeavours

6.1 Predicted purpose of repayable finance

Repayable finance appears to be attractive for future entrepreneurial purposes, especially developing new revenue streams and scaling up existing activities. For those willing to take it out, it offers new opportunities in addition to grant funding, rather than acting as a replacement.

The most popular purposes for future repayable finance are to develop new revenue streams, scale-up existing activities and acquire new tangible assets. The latter category is the most popular among organisations which have previously taken out repayable finance, and which are arguably in a better position to make more accurate future forecasts.

Figure 7: Purpose of repayable finance in next five years[16]



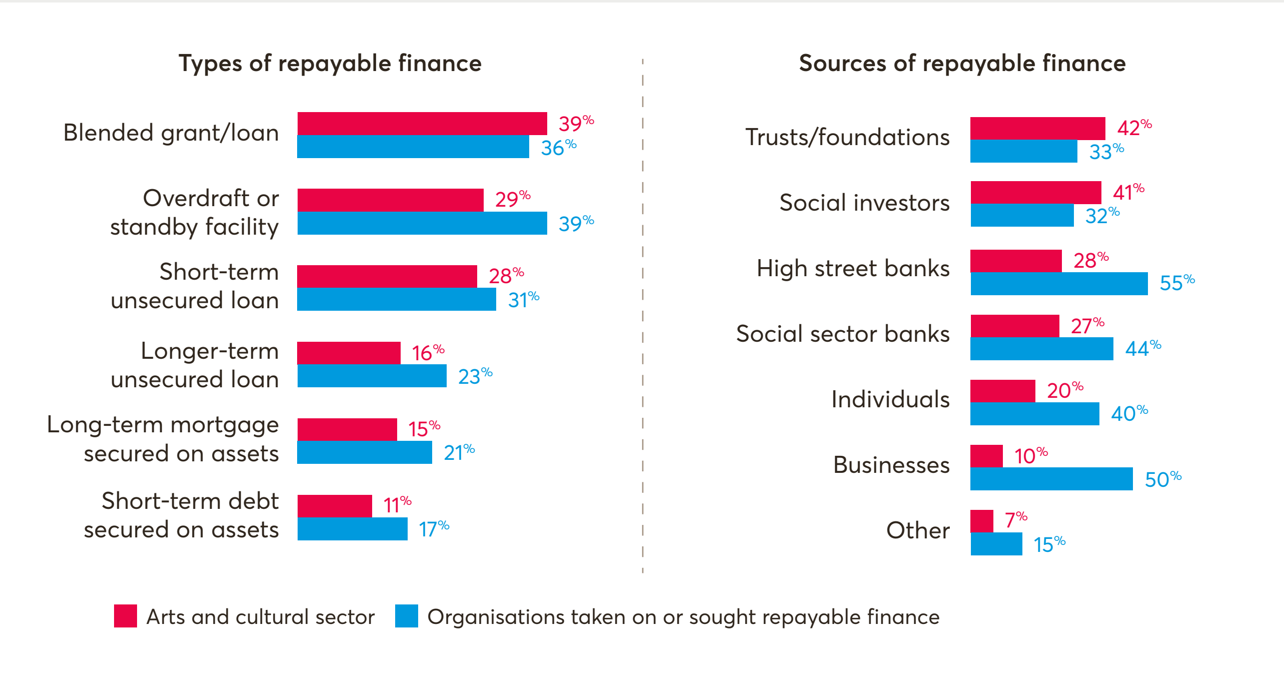
There is some variation across art forms, here, with **heritage** organisations most likely to claim that they would take out repayable finance to scale-up existing activities (75 per cent vs 37 per cent sector average) and least likely to claim they would take it out to develop new revenue streams (25 per cent vs 38 per cent sector average), reflecting their reliance on large fixed assets. **Combined arts** organisations, on the other hand, are most likely to claim they would use repayable finance for new revenue streams (47 per cent) and **theatre** organisations are most likely to claim they would take it out to cover short-term cash shortfalls (28 per cent vs 21 per cent sector average).[17]

6.2 Predicted types and sources of repayable finance

Three types of future repayable finance are expected to be the most popular over the next five years: those blended with grants; overdraft or standby facilities; and short-term unsecured loans. Organisations that have previously taken out or sought repayable finance, which are potentially better placed to make accurate future forecasts, are significantly more likely to claim that they would use an overdraft facility.

Whilst organisations who have previously taken out or sought repayable finance would look to more sources for repayable finance than the wider sector, there appears to be a greater future demand for social investment among organisations with limited experience of repayable finance. More inexperienced organisations in the arts and cultural sector are reporting that they would seek out repayable finance from social investors (41 per cent), compared to organisations that have previously taken out repayable finance (32 per cent).

Figure 8: Types of repayable finance that would be taken out in the next five years and the sources that would be used[18]



In the arts and cultural sector as a whole, organisations looking to take out more than £500k in repayable finance are significantly more likely to report that they would take out long-term mortgages and long-term unsecured loans (37 per cent vs 8 per cent of organisations reporting they would take out up to £150k and 29 per cent of organisations who would take out between £150k-£500k). On the other hand, organisations looking to take out less repayable finance are more likely to take out a short-term unsecured loan (40 per cent vs 34 per cent of organisations looking to take out between £150k-£500k and 19 per cent among organisations looking to take out up to £150k).

Again, there's a difference between organisations looking to take out larger sums of repayable finance, compared with organisations looking to take out smaller sums of repayable finance in the predicted source of repayable finance. Those looking to take out under £150k are significantly more likely to go to social sector banks (70 per cent vs 54 per cent of organisations looking to take out between £150k-£500k and 51 per cent of organisations looking to take out up to £150k).[19]

7

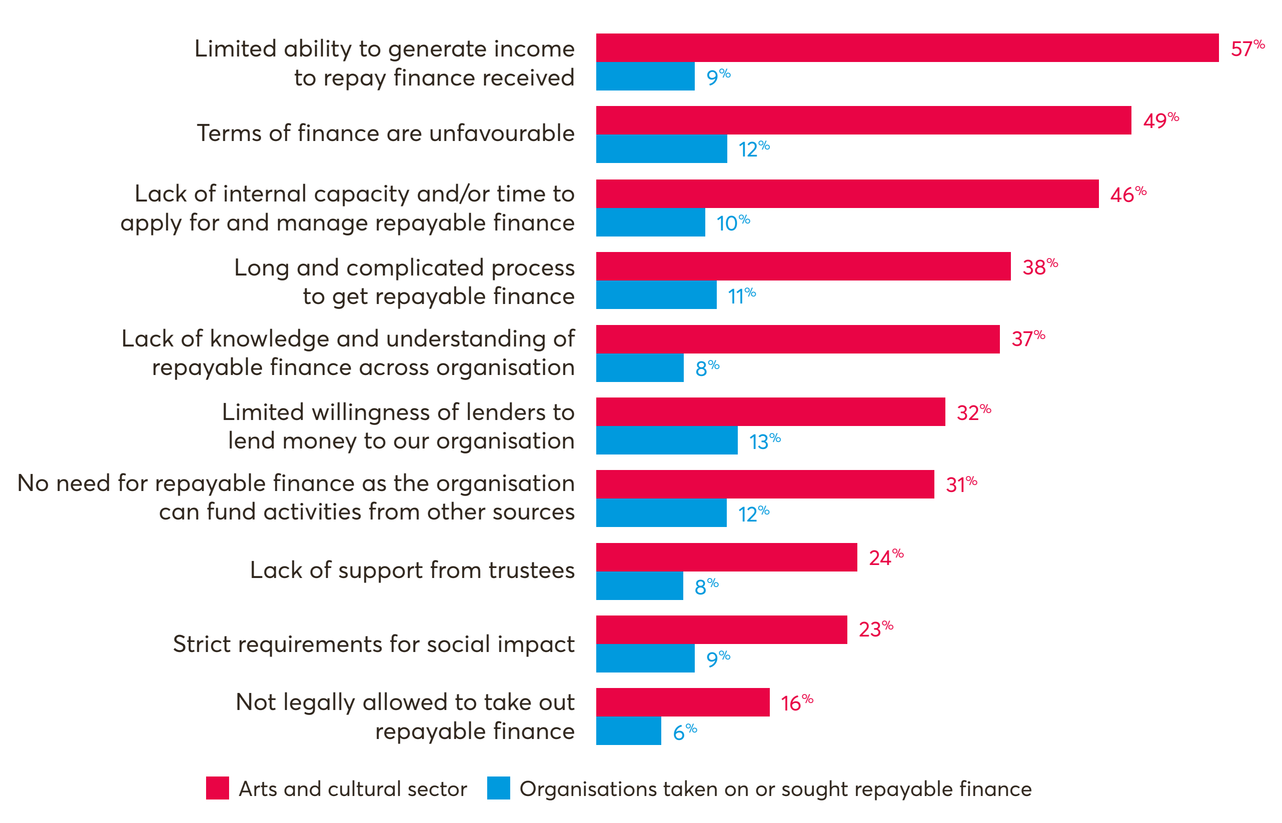
Financial barriers are limiting demand for repayable finance

7.1 Barriers to taking out repayable finance

There are several reported barriers to taking out repayable finance. Organisations are most concerned about repayments, especially in terms of being able to generate the income to repay the finance received (57 per cent) and the terms of the contract (49 per cent). There is also a concern over having limited internal resources to manage the repayable finance process (46 per cent), with a fear that the process of taking out repayable finance is long and complicated (38 per cent).

As described above, those who have previously taken out repayable finance appear to have had a positive experience, and are far less likely to cite any of the barriers. For this group, the greatest barrier was felt to be a limited willingness of lenders to lend money to their organisations (13 per cent). These findings suggest a wider perception issue in the sector, where organisations may be unduly concerned about the repayment terms for financing of this type.

Figure 9: Barriers to taking out repayable finance[20]



When asked for further comments within the survey, several organisations reported being concerned about not being able to repay repayable finance and cited a belief that public funding should render repayable finance redundant. For example:

*Our experience with loans, for bridging EU funding paid in arrears - **represents a significant risk to our organisation**. The loan involved (£23k) was considered too small by [the lender approached], so Cornwall Council provided us with a loan for non-profits - but at a 4.5 per cent interest rate which we cannot include in the project funding. With these overheads and no contractual obligation for the funding to be paid at the end of the project, we have currently put this project on hold to revisit in the New Year.*

Combined arts organisation – sought but not received repayable finance

*Repayable finance would never be able to support our core objective, which is an arts one, as **income earned is rarely sufficient to cover its costs, let alone make a profit**.*
Literature organisation – not sought repayable finance

*We think **repayable finance is a really dangerous concept**... it is being treated like the magic bullet to unlock money for organisations, but actually **it puts organisations into debt**, in a country where private and personal debt is at an all-time high. Instead, **we need a government that understands that charitable organisations need funding from the public purse** to undertake what the state used to do, but has now stopped doing.*
Heritage organisation – not sought repayable finance

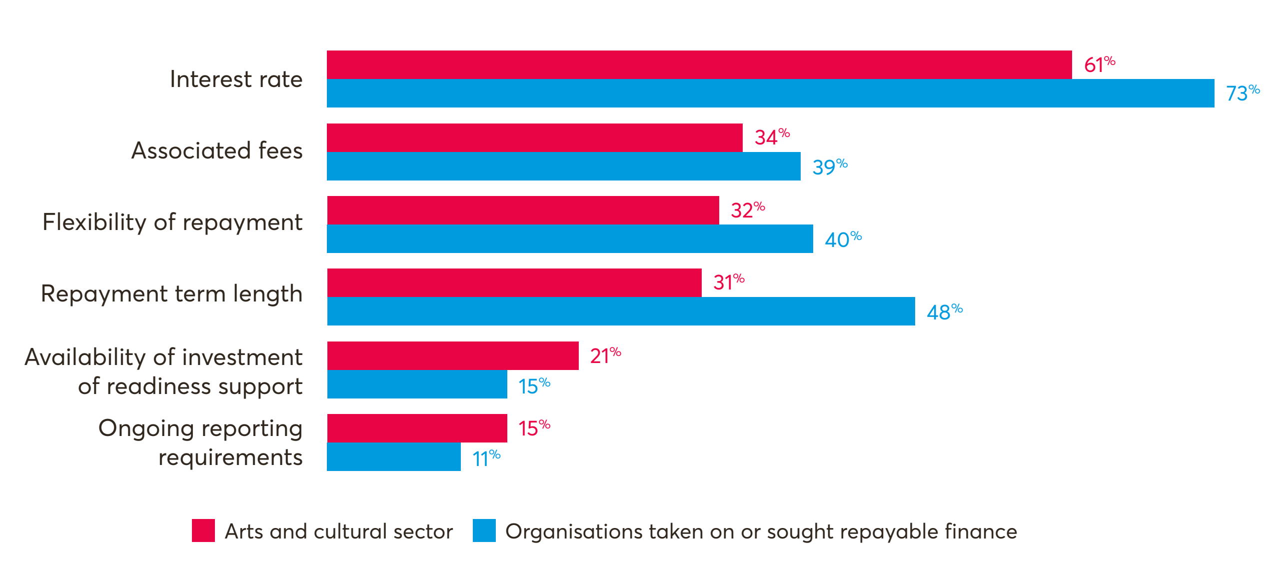
*At this point in our organisation's development we are able to generate sufficient income. **If we cannot generate sufficient income, how would we repay finance?***
Literature organisation – not sought repayable finance

*We're **strongly opposed** to being pushed into seeking repayable finance. **We believe in government funding for the arts**, for health and for wellbeing and believe this should be derived from tax and from the National Lottery.*
Dance organisation – not sought repayable finance

7.2 Important attributes of repayable finance

For the majority of organisations, in line with many of the open responses exemplified above, the interest rate is the most important attribute of repayable finance deals, with 61 per cent of organisations highlighting it. Associated fees, flexibility of repayments and repayment term length are also highly important, with organisations concerned about having limited time to generate repayments. Should the public sector wish to grow the supply of repayable financing for arts and cultural organisations, it should try to make these aspects of the financing contracts straightforward and easily communicated.

Figure 10: Most important attributes of repayable finance[21]



7.3 Demand across social outcome areas

The most common areas where organisations are delivering social impact are employment, training and education (62 per cent) and citizenship and community, including local economic regeneration (62 per cent); followed by mental health and wellbeing (52 per cent), whilst only 14 per cent of organisations deliver physical health outcomes.[22]

However, it is the organisations delivering physical health outcomes which are most likely to consider taking out repayable finance in the next five years (20 per cent), followed by organisations delivering employment, training and education (19 per cent), whilst 17 per cent of organisations delivering mental health and wellbeing outcomes and 17 per cent of organisations delivering citizenship and community outcomes are open to considering taking on repayable finance in the future.[23]

Those delivering outcomes of physical health are more clear on the amount of repayable finance that they would require, with only 29 per cent of these organisations reporting that they 'don't know' the amount. However, these organisations are also more likely to require less than £150,000 (45 per cent), compared to 38 per cent of organisations delivering outcomes across mental health and wellbeing. Those delivering on citizenship and community outcomes are also likely to require less than £150,000 (44 per cent), whilst 39 per cent of those delivering on employment, training and education require less than £150,000.

Table 3: Proportion of organisations that would take out different amounts of repayable finance in the next five years by target social outcomes areas[24]

Repayable finance required	Physical health	Employment, training and education	Mental health and wellbeing	Citizenship and community
Up to £75,000	26%	29%	20%	34%
£75,000-£150,000	19%	11%	18%	11%
£150,000-£500,000	10%	13%	13%	12%
£500,000+	7%	11%	13%	12%
Don't know	29%	35%	35%	32%

8

Appendix 1: Variation by region

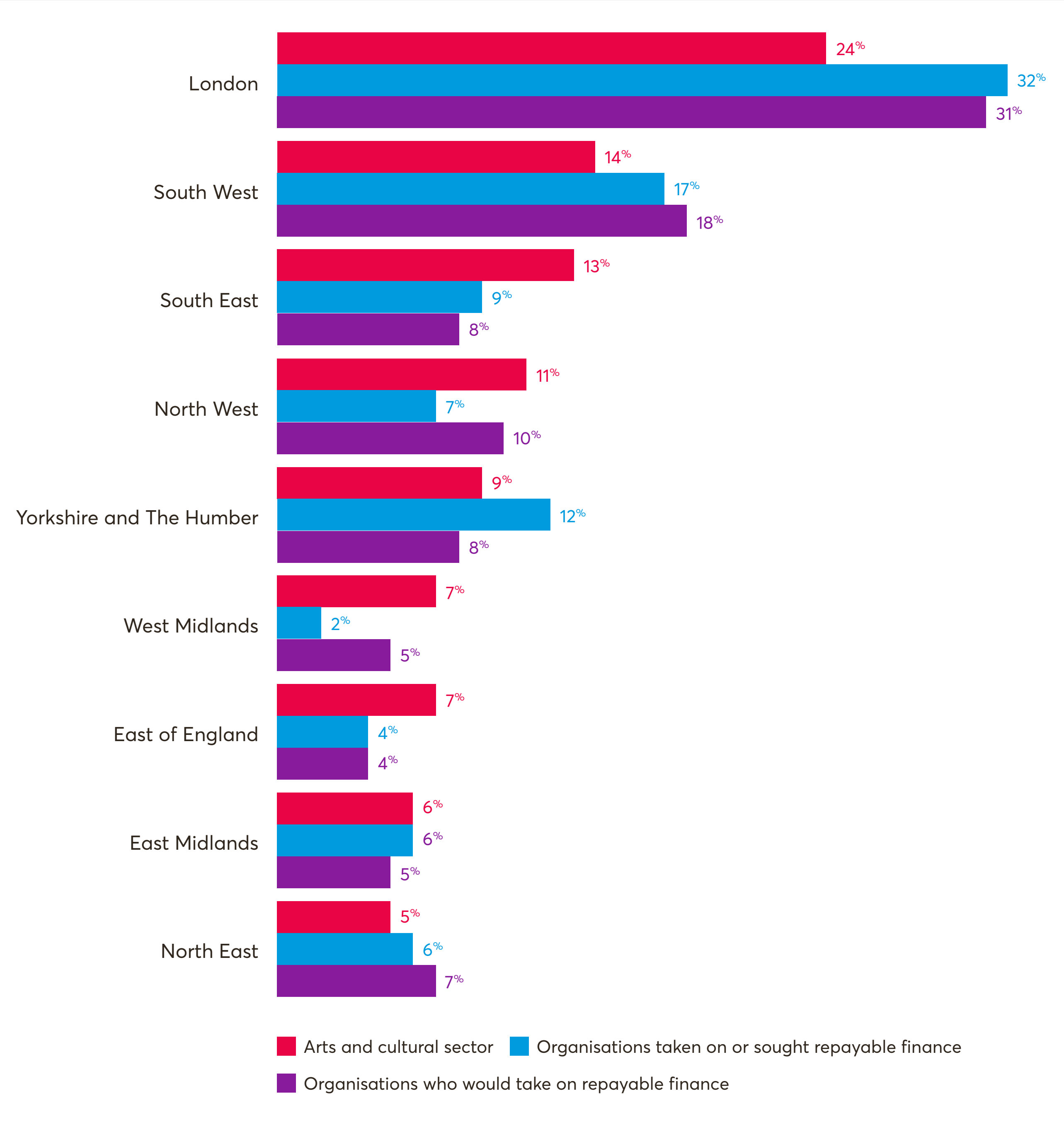
8.1 Current demand and future consideration

Repayable finance has historically been centred in a few regions – London, the South West and Yorkshire and the Humber. On the flip side, organisations in the West and East Midlands, East of England and North East and West are less likely to have experience with repayable finance (see Figure 10).

A similar picture is seen among organisations that would consider taking out repayable finance, with organisations in London and the South West more likely to consider taking out repayable finance in the future (20 per cent of organisations in London and 19 per cent of those in the South West). Organisations in the North East are very warm towards repayable finance with 34 per cent of organisations based in the North East reporting they are likely to consider taking out repayable finance,[25] despite being a small proportion of the organisations that have previously sought or taken out repayable finance in the past (6 per cent).

North East organisations remain a small proportion of those likely to take out repayable finance in future (7 per cent), whilst London (31 per cent) and South West (18 per cent) remain the largest proportions.

Figure 11: Regional profile of organisations[26]



The future demand for repayable finance can be split out between London-based organisations and organisations outside London (see Figure 11). The majority of demand comes from organisations outside London at £167 million, with London-based organisations requiring £142 million. However, among London-based organisations a larger proportion of the total amount required is over £20 million (53 per cent) compared to those based elsewhere (25 per cent).

Table 4: Amount of repayable finance sought: proportion of organisations across amount and proportion of total amount[27]

Repayable finance required	£1-£49,000	£50,000-£299,000	£300,000-£499,000	£500,000-£1.9 million	£2 million+ £19.9 million	£20 million+
London based						
Percentage of organisations that would take out repayable finance	27%	20%	7%	8%	5%	1%
Percentage of total amount of repayable finance required	1%	5%	2%	16%	22%	53%
Outside London						
Percentage of organisations that would take out repayable finance	24%	24%	4%	8%	5%	1%
Percentage of total amount of repayable finance required	1%	4%	5%	17%	47%	25%

8.2 Experience of repayable finance

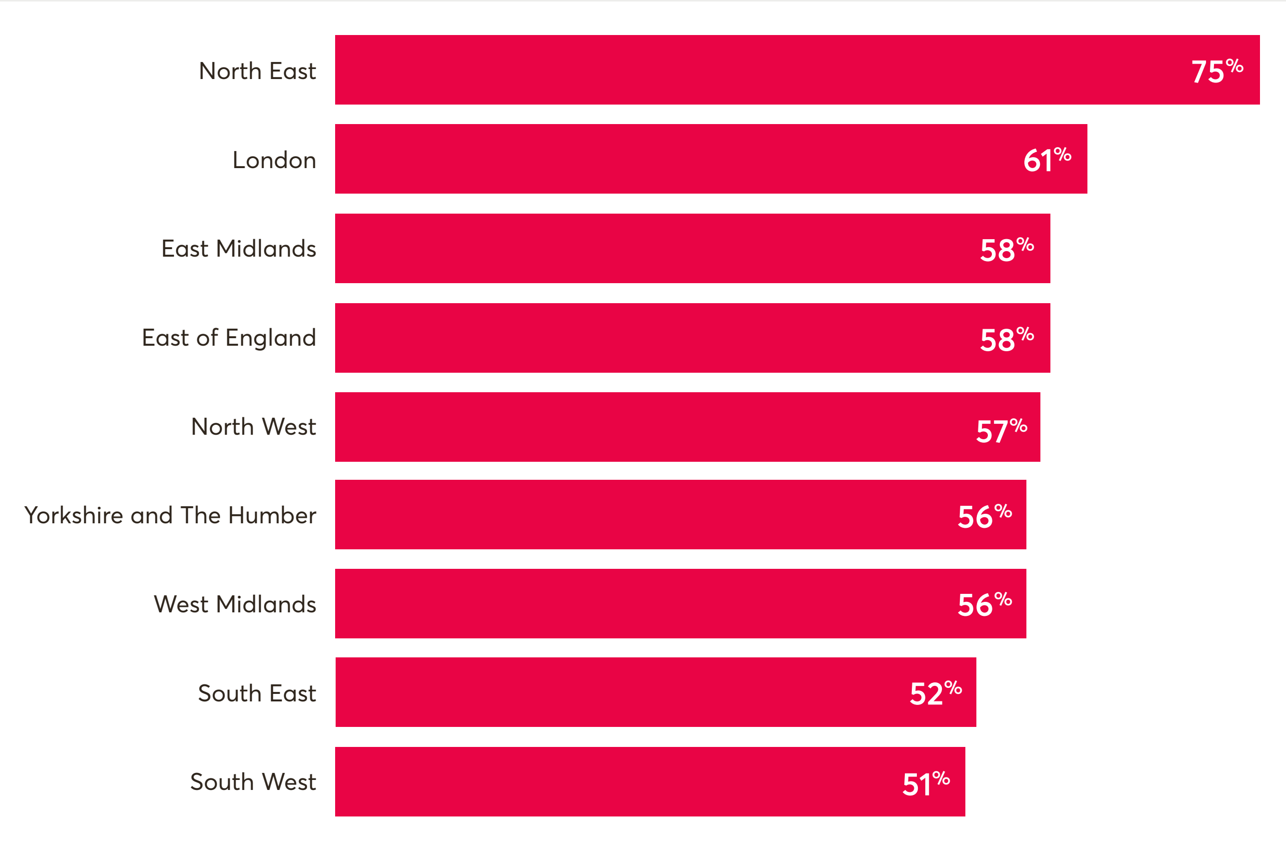
Organisations that have had experience with repayable finance are generally more positive about it. This pattern continues with organisations based in different regions. Twenty-eight per cent of organisations based in London agree that 'Repayable finance is a good tool for developing your organisation's sustainability' and 26 per cent of organisations in the South West agree. Again, organisations in the North East are extremely positive with 34 per cent agreeing.

Figure 12: Agreement (strongly/slightly) with 'Repayable finance is a good tool for developing your organisation's sustainability' by region[28]

8.3 Future prospects for arts and cultural organisations

Organisations in regions with experience of repayable finance are also more likely to be positive about their future prospects, with organisations in the North East and London most likely to claim that their earned income is likely to increase over the next five years. On the other hand, organisations in the East of England, South East, South West, and East Midlands claim that their earned income is likely to stay the same over the next five years (East of England – 29 per cent, South East – 27 per cent, South West – 27 per cent, and East Midlands – 27 per cent vs 24 per cent sector average).[29]

Figure 13: Estimated earned income change over the next five years by region[30]



9

Appendix 2: Methodology

9.1 The sample

We invited 11,125 arts and cultural organisations to take part in this study, using a database made up of organisations that have applied for funding from Arts Council England, as well as National Portfolio Organisations and museums included in the UK's Museum Accreditation Scheme.

We also shared the study more widely to ensure that we got as significant as possible a number of responses. We allowed responses from across the UK, and therefore the survey responses represent arts and cultural organisations across the UK.

We included some responses to the survey from organisations which did not complete all of the questions. We only included responses if the respondent had completed a large proportion of the survey. This means that we have a very robust sample of respondents which enables us to interrogate the data across sub-samples.

This also means that base sizes are changeable throughout the report, as not everyone completed all of the questions.

Table 5: Total sample achieved

Repayable finance required	Responses achieved using database	Responses achieved via wider sharing	Total
Completed full survey	842	157	**999**
Completed part of the survey	54	15	**69**
Total	896	172	1,068

9.2 The extrapolation method

This study used survey responses to identify a universe of active arts and cultural organisations that might seek out repayable finance over the next five years. The survey responses were then used to extrapolate the potential future demand for repayable finance onto this wider universe.

Step 1: A longlist of organisations was built by combining:

- Responses from the Repayable Finance Survey, including open link responses.
- Responses from the Private Investment in Culture Survey 2014/15.
- Charity Commission filings.
- Heritage Lottery Fund contact database.
- MTM's proprietary database.

Step 2: This longlist was refined to remove irrelevant organisations, leaving a list of 2,851 arts and cultural organisations currently operating in England and receiving some form of income. These organisations made up the relevant universe of organisations for analysis.

N.B. It is important to note that this list will not have captured every relevant organisation that might seek repayable finance in the future, but provides the best estimate given the lack of other publicly available information about a disparate and multifarious sector.

Table 6: Exhibit – Estimated universe of arts and cultural organisations in England with some form of income

Number of organisations	London based			Outside London			Total
Income band, 2016/Art Form	Combined arts/other	Performing	Visual arts/ exhibition	Combined arts/other	Performing	Visual arts/ exhibition	
£1-£49,000	44	126	24	193	264	106	**757**
£50,000-249,000	89	141	52	320	345	190	**1,137**
£250,000-£499,000	25	46	16	94	74	45	**300**
£500,000-£1.9 million	38	48	25	129	84	46	**370**
£2 million-£19.9 million	18	27	15	80	58	42	**240**
£20 million+	14	7	5	15	3	3	**47**
Grand total	228	395	137	831	828	432	**2,851**

Step 3: The data from the Repayable Finance Survey were analysed to understand the expected future borrowing needs of 1,001 respondent organisations (noting not all respondents gave usable data around their future demand for repayable finance). Survey respondents were grouped based on:

- Primary art form: Performing arts; Visual arts / Exhibition; Combined arts / other.
- Region: London; outside London.
- Income band: £0-£49K; £50K-249K; £250K-£499K; £500K-£1.9 million; £2 million-£19.9 million; £20 million+.

The groups' response data were then used to create borrower profiles for each group, detailing the average expected future borrowing needs for each profile, taking into account organisations that did not express future demand for repayable finance.

N.B. It is important to note that the survey responses only indicate future demand, and do not suggest that those organisations will be successful in securing repayable finance. The study identified and removed some outlier organisations which had indicated demand many times over their current income, on the assumption that these loans were likely neither to be forthcoming nor serviceable.

Step 4: The study then identified the number of relevant but non-respondent organisations in each of these profile types (1,850 organisations in total), and multiplied these numbers by the respondent profiles' average borrowing needs.

Step 5: The reported future demand for repayable finance was then combined with the extrapolated data to create the total potential future demand for repayable finance over the next five years.

Step 6: The survey questionnaire asked art and cultural organisations to predict their expected demand for repayable finance in bands (e.g. £1 to £24,999). The extrapolated forecast was therefore subjected to a light-touch scenario analysis based on the proportional weights of these bands given the number of survey responses in each. This scenario analysis produced high, medium and low forecasts of demand for repayable finance: £422 million, £365 million and £309 million respectively. The low scenario, suggesting the potential future demand for repayable finance of £309 million, was chosen as the headline figure for conservatism.

10

Endnotes

1. See Methodology in section 9.2 (page 31).
2. Base: All organisations (n = 1,068).
3. How many paid full-time employees, on average, did your organisation have in 2016? We'd now like you to think about the different sources of funding that your organisation has received during the 2016 financial year. Please provide the breakdown of your organisation's sources of funding for 2016 financial year. Base: Arts and cultural sector (n = 1,068), organisations that have sought or taken out repayable finance (n = 163).
4. Please select the region where your organisation is based. If you operate in more than one region, please select the one in which the main office or premises is located. What is your organisation's primary art or cultural form? Please select one of these areas in which your organisation is most active? Base: Arts and cultural sector (n = 1,068), organisations that have sought or taken out repayable finance (n = 163).
5. Base: Organisations that have received repayable finance in the last year (n = 75).
6. What was the purpose of the repayable finance sought in your 2016 financial year? Base: Organisations that have sought or taken out repayable finance in 2016(n = 84).
7. Which of the following best describes the types of finance that your organisation has sought and received in 2016? From which of the following sources did your organisation seek repayable finance in 2016 financial year? Base: Organisations that have sought or taken out repayable finance in 2016 (n = 58).
8. How would you describe your organisation's experience with repayable finance to date? Q15. How likely is your organisation to consider seeking repayable finance over the next five years? Base: Arts and cultural sector (n=1,068), organisations that have sought or taken out repayable finance (n = 163), organisations that have not sought or taken out repayable finance (n = 905).
9. Base: organisations likely to seek repayable finance in next five years (n = 168).
10. Twenty-four per cent of organisations expect to be seeking over £150,000, and 35 per cent are unsure about how much they would be seeking.
11. Combined arts organisations include festivals, studios, different venues, travelling groups, etc.
12. Base: Combined arts organisations (n = 173), not art or cultural form specific organisation (n = 85), music organisations (n = 162).
13. How much repayable finance would you estimate your organisation sought out and received in the 2016 financial year? How much repayable finance would you estimate that your organisation is likely to require over the next five years? Base: Organisations that have sought or taken out repayable finance in 2016 (n = 75), organisations that would take on repayable finance in the next five years (n = 342).
14. As the survey respondents are not perfectly representative of the arts and cultural sector as a whole, this study cannot robustly break down the potential future demand for repayable finance into more specific criteria, such as predominant art form, location and purpose of cash requirement. In the absence of this, the results from the survey provide a detailed exploration of the nature of this demand (see Section 5).
15. Base: all organisations (n = 1,018), organisations that have sought or taken out repayable finance in the past (n = 159), heritage organisations (n = 126), combined arts organisations (n = 171), visual arts organisations (n = 138).
16. What will be the likely purpose of the repayable finance sought over the next five years? Base: Organisations that would take out repayable finance in the next five years (including neutral): all organisations (n = 377), organisations that have previously sought or taken out repayable finance (n = 121).
17. Base: Heritage organisations (n=62), combined arts organisations (n=64), theatre organisations (n=65).
18. Which of the following types of repayable finance do you think your organisation is likely to seek over the next five years? From which of the following sources is your organisation likely to seek repayable finance? Base: Organisations that would take out repayable finance in the next five years (including neutral): All organisations (n = 377), organisations that have sought or taken out repayable finance (n = 121).
19. Which of the following types of repayable finance do you think your organisation is likely to seek over the next five years? From which of the following sources is your organisation likely to seek repayable finance? Base: organisations who would take out between £1-£150k (n = 139), organisations who would take out between £150k-£500k (n = 41), organisations who would take out over £500k (n = 43).

20. In your opinion, what are the main barriers for your organisation to take on repayable finance? Base: All organisations (n = 1,054) (Except 'not legally allowed to take out repayable finance' which was added part way through the survey and has a base of n = 793), organisations that have sought or taken out repayable finance (n = 163).
21. What are the most important attributes of a repayable finance product, to your organisation? Please select up to three attributes. Base: All organisations (n = 1,024) organisations that have sought or taken out repayable finance (n = 159).
22. Base: all organisations (n = 853).
23. Base: organisations delivering different social impacts: physical health (n = 123), employment, training and education (n = 634), mental health and wellbeing (n = 532), citizenship and community (n = 527).
24. How much repayable finance would you estimate that your organisation is likely to require over the next five years? Base: organisations who deliver on social impact and would consider taking out repayable finance in the next five years: physical health (n = 42), employment, training and education (n = 238), mental health and wellbeing (n = 179), citizenship and community (n=179).
25. Base: North East (n = 50), London (n = 264), South West (n = 158).
26. Please select the region where your organisation is based. If you operate in more than one region, please select the one in which the main office or premises is located. Base: Arts and cultural sector (n = 1,068), organisations that have sought or taken out repayable finance (n = 163), organisations that would take out repayable finance in future (168).
27. How much repayable finance would you estimate that your organisation is likely to require over the next five years? Base: London organisations (n = 104); organisations outside London (n = 236).
28. How much do you agree or disagree with the statement 'Repayable finance is a good tool for developing your organisation's sustainability'? Base: All organisations (n = 1,068) North East (n = 50), London (n = 264), South West (n = 158), North West (n = 119), Yorkshire and the Humber (n = 103), East Midlands (n = 62), West Midlands (n = 78), South East (n = 135), East of England (n = 77).
29. Base: East of England (n = 76), South East (n = 128), South West (n = 150), East Midlands (n=60).
30. Over the next five years, how do you expect the amount of earned income (e.g. ticket sales, trading) by your organisation will change? Base: All organisations (n = 1,068) North East (n = 48), London (n = 252), South West (n = 150), North West (n = 114), Yorkshire and the Humber (n = 98), East Midlands (n = 60), West Midlands (n = 72), South East (n = 128), East of England (n = 76).

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