

# **Approaches to Public Service Investment and Competition in the Cultural Sector**

**Supporting Evidence for the Ofcom Public Service  
Broadcasting Review, 2008.**

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## Executive Summary

This Paper by the Tom Fleming Creative Consultancy looks at current funding models within the cultural sector as supporting evidence for Ofcom's 2008 Review of Public Service Television Broadcasting. Its brief was to examine whether there were competitive or institutional models of funding in the cultural sector from which lessons could be learned for the broadcasting sector. Its main conclusion is that the current model of funding for the delivery of public value within the cultural sector can be described as a **competitive ecology**, within which considerable indirect competition exists, but with very limited direct competition.

In examining the competitive ecology for funding in the cultural sector, this Paper introduces the three levels which drive the current model. These are:

- **The policy level**, flowing down from central government through non-departmental public bodies such as Arts Council England (ACE) and Museums Libraries and Archives (MLA). This sets out the framework for the delivery of public service in the cultural sector
- **The major institutional level**, where organisations such as the Tate, British Museum and National Theatre operate in the dual role of funder and funded, with their brand, leadership and capacity helping to shape and drive the overall ecology
- **The smaller institutional level**, where the great majority of cultural organisations exist, competing indirectly for funding from multiple sources, continually having to demonstrate their public service value to survive.

At the policy level, the current competitive ecology has been driven from the top down by the ongoing reform of public services and delivery of public value. In the cultural sector, these have been manifested not through the introduction of directly competitive funding mechanisms, but through debate on where the public value in culture is, how it is delivered and who the recipients are. It is an ongoing debate, but one in which recent developments such as ACE's Arts Debate, the McMaster Review of Excellence in the Arts and Government's strategy for the creative economy, Creative Britain, have shifted towards a greater focus around individuals, the development of talent, opportunity and the relationship between culture and the wider economy.

This Paper shows that the current success of major cultural institutions has been driven by tangible and intangible institutional strengths that enable them to reach large, committed and diverse audiences and transform places and communities in which they operate. These institutional strengths include organisational capacity, the ability to develop meaningful and successful brands, and the use of technology and new platforms. Part of their success in the indirectly competitive model of funding in culture has been the way they have adapted strategies and learning from the overtly commercial world, through innovative business modelling, revitalised relationships to consumers, and a clear focus on their core strengths.

Through their position as leaders within the cultural world, backed up by their role as gatekeepers and brokers for funding, they sit between the indirectly competitive ecology of smaller institutions and the policy level.

Smaller cultural institutions which don't have the scale, capacity, visibility and brand strength of major cultural institutions, exist in an often fragile manner, competing indirectly for funding from a range of public, third sector and private bodies. While their success may ultimately be seen in the quality of their cultural output and the way they connect with audiences, their sustainability as institutions is often dependent on their ability to demonstrate the relevance of their core artistic mission to broader public service objectives, such as regeneration, social cohesion, education and health.

For smaller institutions, the current funding model is often seen negatively because of the way it can lead to a constant struggle for resources, often at odds with the core artistic purpose of an organisation, within a system without clearly defined notions of what sustainability or even 'public service value' means. There are a number of initiatives, such as the Government's Cultural Leadership Programme, which seek to build institutional strength through learning from other sectors and individuals, designed to enable smaller institutions to compete more effectively. However, these are as yet nascent and unevenly distributed across the cultural sector.

### ***Three Main Lessons***

There are three main lessons that can be transferred from the cultural funding model to that of broadcasting. Firstly, the range of tangible and intangible benefits contained within major cultural institutions has been a vital part of their success in delivering public service benefits to large, diverse audiences. Without the scale, capacity, leadership and brand these institutions have, the wider regeneration and societal benefits which have been seen in Southwark, Gateshead or Salford would not have occurred. However, without these institutions learning and adapting models from the competitive commercial sector, they would not have been able to deliver as fully as they have.

Secondly, smaller cultural institutions are only now receiving the type of support they require to more successfully navigate the indirectly competitive ecology they exist within. To enable time-squeezed and capacity-poor institutions to compete efficiently and effectively for funding in an environment in which they are mainly reactive, requires investment in leadership, networks and transferable skills from other sectors. This is if the delivery of broader public service benefits is not to run successfully alongside the core artistic mission.

Thirdly and lastly, the current model of funding within the cultural sector is moving toward one which will see funders and fitter-for-purpose institutions (of all sizes) developing a common understanding of the way that culture delivers public value. This is to be welcomed as with it should come greater support for innovation and risk within an ecology which rewards excellence in delivery of public service benefits.

# 1. Introduction

This Paper sits as supporting evidence for Ofcom's 2008 Review of Public Service Television Broadcasting (PSB)<sup>1</sup>. In carrying out the Review, Ofcom must report on the extent to which the public service broadcasters (PSBs) have fulfilled the purposes of public service television broadcasting, and to make recommendations with a view to maintaining and strengthening the quality of PSB in the future.

To provide a full and open review and to ensure the full range of delivery models and examples of good practice are not overlooked, Ofcom has sought examples of public service provision in sectors other than the traditional broadcasting market.

For this Paper, Ofcom has commissioned Tom Fleming Creative Consultancy<sup>2</sup> to provide an introduction to the strategic context of and delivery models for public service delivery in the cultural sector<sup>3</sup>. This is intended to provide a wider perspective on how a different though related set of institutions and organisations are setting out their commitment to public service delivery – often expressed as *public value*.

In Phase 1 of the 2008 Review of PSB, Ofcom found that the existing model for delivering PSB is unlikely to be flexible enough to be able to take advantage of the opportunities and meet the challenges facing public service broadcasting in the digital age. A new model would need to be flexible, use a wide range of platforms and potentially a broader set of providers than the existing model. Ofcom sets out several tests of effectiveness:

- Are providers incentivised to deliver public service content that achieves reach and impact?
- Does competition between providers deliver the benefits of plurality?
- Is the model sufficiently flexible to respond to audience and market changes?
- Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes?
- Does the model complement, not discourage, market provision?
- Does it embrace the platforms, content forms and services that most effectively meet audience needs?
- Are providers' funding models sustainable?

This Paper uses a similar set of questions as a platform to explore the public service dynamic of the cultural sector. It seeks to provide an overview of the strategic debate at play across the cultural sector, to convey the policy outcomes of this, and to illustrate emergent delivery models. **This is to provide parallels with the broadcasting sector, but also to expose the differences that exist with the cultural sector, which continues to operate as a mixed economy and ecology where examples of direct competition for public service delivery remain emergent and under-developed.**

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<sup>1</sup> The 2003 Communications Act requires Ofcom to carry out a review of PSB at least once every five years. The Act sets out two core tasks for the review: to report on the extent to which the public service broadcasters (PSBs) have fulfilled the purposes of public service television broadcasting, and to make recommendations with a view to maintaining and strengthening the quality of PSB in future.

<sup>2</sup> [www.tfconsultancy.co.uk](http://www.tfconsultancy.co.uk)

<sup>3</sup> This is a broad umbrella term that includes the arts and creative industries: those sectors positioned under the responsibility of the Department of Media, Culture and Sport (DCMS): [www.culture.gov.uk](http://www.culture.gov.uk)

The mixed ecology and economy of the cultural sector means competition tends to be indirect and limited in scope: investments are not shaped by criteria where beneficiaries (conceptualised as deliverers of public services) are selected by pure competition. This would be viewed as a too rigid approach and inappropriate in a system where a range of values are upheld – such as the role of institutions in building audiences and providing a badge of integrity and quality for their service. Indeed, it would also pose practical delivery challenges in a sector made up of multiple organisational structures and investment models, with many organisations benefiting from more than one funder, each of which has a different interpretation of public service value and some of which do not recognise such an agenda.

The **most relevant learning for PSB** is located in the strategic debate and shifting policy landscape across the cultural sector. As will be shown, institutions such as Arts Council England are repurposing their investment strategies to prompt greater attention to and delivery of public service content and services from its funded beneficiaries. The challenge is thus passed on to such beneficiaries (which range from a national institution to an individual artist) to better define their 'public service value' as a basis for the receipt of investment. The investment framework for Arts Council England and others is correspondingly re-drawn by beneficiaries competing with one another for investment on the basis of their public service delivery credentials.

## **1.1. The Competitive Ecology: Public Service Delivery in the Cultural Sector**

*"Our booming arts economy is wonderfully mixed up. Glyndebourne, for all its self-sufficiency, employs two orchestras that rely on subsidy for their year-round concerts. The West End habitually takes shows which the National or the Donmar has developed in rehearsal for six months, a level of preparation untenable in the commercial theatre."*

(Norman Lebrecht, 'Time to break the stranglehold of state funding', 2006)

Cultural organisations in the UK operate within a mixed ecology and economy. Relatively few cultural organisations exist purely within the private or commercial sector, with the majority receiving some financial support from central or regional government, funding bodies such as the Arts Council England or from trusts and foundations. There are very few organisations that receive public funding for the delivery of a statutory public service. The exceptions include public libraries and the delivery of cultural activity as part of the national curriculum in the education system. This means that most cultural organisations effectively operate within a competitive ecology, *competing indirectly* against each other for funding.

Within the competitive ecology organisations often have more than one role and attempting to categorise institutions is not straight-forward. There are small service providers (from individual artists to regional theatre companies), which in the most part operate purely as funded organisations. There are medium-sized organisations, which operate as funder and funded, sub-contracting others to deliver projects or brokering new partnerships. There is also a tier of larger signature organisations and institutions, representing the established 'brand names' in the cultural sector, which aggregate and distribute funds to deliver their services. On the top of this there are a relatively small number of strategic bodies and funders, which may work nationally

or regionally, sub-sectorally or across the cultural sector, as government, as a non-departmental public body, or with independence (such as a Trust or Foundation).

### **Size and scale of the competitive ecology<sup>1</sup>**

Between 2003/4 through to 2005/6, Arts Council England received on average more than £410 million in grant-in-aid money and £180 million from the National Lottery<sup>1</sup>.

The DCMS provided direct grant-in-aid funding of £320 million in 2006/07 to museums and galleries<sup>1</sup>. The other main source of public funding is provided by Local Authorities whose total spending on sport, museums and libraries, parks and the arts was £4.37 billion for the financial year 2003/04.

The other key players in the funding system are businesses, individuals and charitable trusts and foundations. In terms of business support, it is estimated that contributions from business totalled £119.2 million in 2004/05. Trust and Foundation contributions totalled £88.7 million in the same period. Individual giving contributed £244.2 million in 2004/05, and has displayed a continuing upward trend since 2001/02, increasing by more than 43%. Therefore the total amount of non public source investment in the arts in 2004/05 was £452 million.

<sup>1</sup>Extracted from John Knell, *Art of Living Mission Models Money 2007*.

### ***The Competitive Ecology in Public Funding***

The system of public support and investment across the cultural sector is driven both by the needs and interest of funders and by the range of cultural organisations both of which have their own aims and objectives. Like any market this system is governed by 'rules' or conditions. In the case of the cultural sector, the market is increasingly driven by frameworks that articulate public service or public value benefits. From a funder's perspective, these frameworks define what will be funded and what the expected outcome and outputs are. From the institution's perspective, it is increasingly the case that they need to **demonstrate** how 'fit for purpose' they are to deliver within these frameworks. *Figure 2 maps the current range of funders for a cultural institution.*

In examining competitive versus institutional models of funding, we have divided the funding ecology into three levels:

- **The Policy Level:** this is where high-level central government policy, such as the reform of public services and the delivery of public value, meets the cultural sector. In the cultural sector it is mainly articulated and interpreted by the Department for Culture Media and Sport (DCMS) and Non-departmental Public Bodies including the Arts Council England (ACE) and Museums Libraries and Archives (MLA).
- **The Major Institutional Level:** Leading cultural institutions such as Tate, British Museum, and Royal National Theatre, hold a particular place in the funding ecology due to their institutional strengths that include high-quality brands, capacity and knowledge, international reputation and audience commitment. While indirectly competing for funding every bit as aggressively as smaller institutions, they also strongly influence the system through their leadership and commissioning roles.
- **The Smaller Institutional Level:** The vast majority of the cultural sector consists of smaller cultural organisations which are indirectly competing against each for funding - from a huge variety of public and private sources.

To be sustainable they are increasingly required to adopt new strategies and business models to compete, often through proving the public value of themselves and their activities.

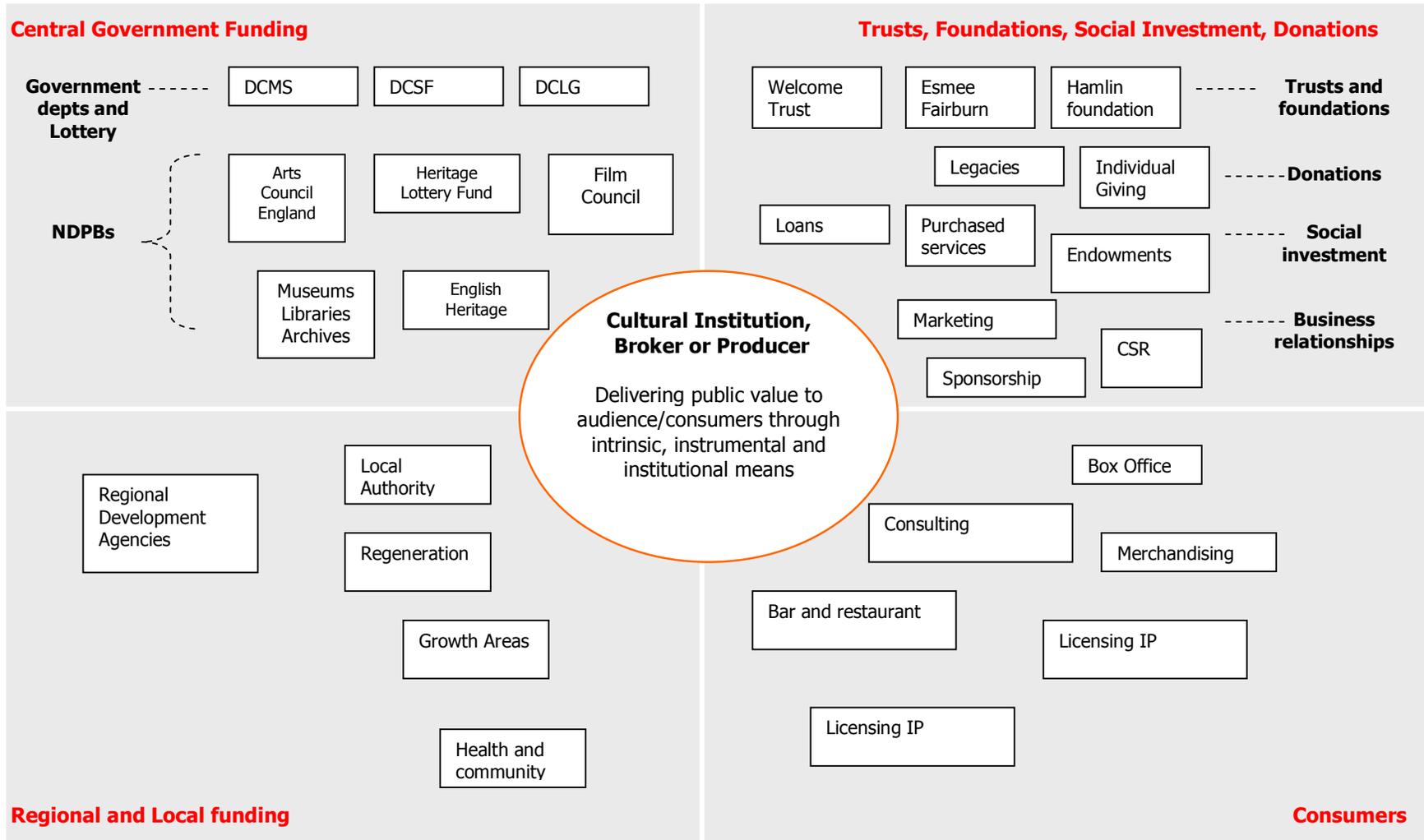
**Figure 1: The three levels of the competitive ecology**

<b>Policy level</b>	High level frameworks – mainstreaming public service and public value into investment priorities	National Government (e.g. DCMS, NDPBs (ACE, HLF, Film Council, English Heritage); regional and local government; growth and regeneration funding
<b>Major Institutional Level</b>	Self-starters in defining public value and tailoring mission to public service value; strong brands and deliverers of institutional value	Major cultural institutions (e.g. Tate Modern/Britain, National Gallery, National Theatre, British Library, British Museum)
<b>Smaller Institutional Level</b>	Future sustainability tied to ability to connect activities to public service value agendas, with new models and products continually emerging	Regional theatres; galleries; museums; mixed art-form venues; festivals; community facilities

The following sections explore the dynamics of this competitive ecology through a focus on these key areas. Case studies are provided to illustrate emergent models that can provide points of equivalence for the PSB Review.

**Section Two** looks at the policy level of the competitive ecology and the debate around public value with a focus on the position of the Arts Council. **Section Three** examines the major institutional level and the key drivers behind the success of large scale cultural institutions. **Section Four** concentrates on smaller cultural institutions within the competitive ecology. **Section Five** features analysis and conclusions based around the future development of the competitive ecology. **Appendix 1** features three case studies of different models of funding.

**Figure 2. Sources of funding within the cultural Sector**



## 2. The Policy Level: Setting the Framework for the Competitive Ecology

*"Better public services are at the core of the Government's mission to deliver social justice and increase social mobility, using the power of collective action to benefit each family and individual. If we are to compete effectively as a country in today's globalised economy and match people's ever rising aspirations, our public services must be able to bear comparison with the best in the world."*

(Cabinet Office Excellence and Fairness, 'Achieving World Class Public Services', 2008).

The conditions within which cultural organisations of all sizes indirectly compete for public funding have been shaped by a central argument over the last decade. This argument has been focused on what constitutes the public value of culture and cultural institutions, what the public benefits of culture might be, how these benefits are delivered, who receives them, and how they can be measured. This debate stems from a desire to capture the essential worth and value of publicly funded cultural provision in ways that relate to broader Government agendas around the reform of public services and meeting the increasingly complex and niche requirements of citizens in the twenty-first century.

The debate on the public value of culture, which goes to the heart of why and how culture should be funded, is linked to arguments which go back as far as the founding of the Arts Council in 1946. At a very basic level there are three main public value reasons which form the framework for the public funding of culture in the UK:

- **'Arts for Arts sake'**: the arts are inherently valuable because of the range of benefits they bring such as inspiring, challenging, informing, transforming, educating and entertaining people. Their primary function, which should be supported for this reason alone, is in the unique intellectual and emotional connection they have with individuals.
- **'Art as a key driver of social cohesion, regeneration, health'**: While the arts have inherent benefits, it is for their ability to deliver a range of other benefits to wider society such as building stronger communities, promoting diversity, helping people become more creative and innovative, that they should be funded.
- **'Art as a critical component of our creative economy'**: the arts are vital to the creative health of UK PLC, playing a pivotal role at the heart of our creative industries and providing a range of spill-over benefits to the wider economy through activities which generate innovation, economic productivity.

Running alongside these three arguments has been debate on where public service value is created and how it can be captured and measured. Is it at the level of artistic performance and activity or is it in the institutions which create cultural activity? Should we be measuring the impact of culture through the impact of books, films and performances on individuals and their quality of experience? Or should we be seeking to capture the wider, social and economic impacts of culture in communities, cities and rural areas? What is it that is trying to be measured? What metrics can be used?

These type of questions on capturing public service value may be circular, because gaining universal agreement and acceptance of something as intangible and unprovable as the impact of culture on individuals, communities and economies, is always likely to be impossible. However, they are still fundamental to the way investment in culture is currently aligned and distributed.

### **Arts Council England**

As the leading single funder for cultural organisations in the UK, responsible for distributing central government funding on an arms length basis to all but a handful of national museums and galleries (which are supported directly by the DCMS<sup>4</sup>), Arts Council England has been at the forefront in developing the agenda for public value in arts and culture. More than any other single organisation, its funding mechanisms and strategic decisions have shaped and re-shaped the current funding ecology in the Arts.

#### **Arts Council England: Funding model**

The Arts Council's means of funding the competitive ecology<sup>1</sup> is actually relatively simple. In 2006/7 Arts Council England received £578 Million of Exchequer and lottery funding<sup>1</sup> to spend on its three organisational objectives to:

- Develop and improve the knowledge, understanding and practice of the arts
- Increase accessibility of the arts to the public
- Advise and co-operate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland.

It distributed this money to the cultural sector via two main routes:

<b>Grants for the Arts for Individuals and Organisations</b>	Average grant for individuals £5,840 Average grant for organisations £ 28,073 4433 grants totalling £84.7 Million
<b>Regularly Funded Organisations (RFOs)</b>	Average Grant £312,107 1009 grants totalling £314.9 Million

RFOs, which are managed at a regional level by the Arts Council, receive three yearly funding settlements, which relate to both their needs and perceptions of past performance. Largely, if an organisation is seen by the Arts Council to have performed well and met its objectives (which have been agreed in advance), then it can expect to remain as an RFO. However, there is some churn. For example, only just over 50% of RFOs in 2006/7 had received funding from the Arts Council over the last 10 years. This reflects the organisation's aims to ensure that new and emerging arts forms, black and minority arts groups, regeneration agendas and new arts venues are supported.

Grants for the Arts, which has an open application process, is meant to provide funding primarily for organisations which are not RFOs (however in practice a high percentage are).

<sup>1</sup> NAO, Making Grants Efficiently in the Culture Media and Sports Sector, 2008

<sup>4</sup> These include Tate, British Museum, National Gallery, V&A, and Science Museum.

While in purely monetary terms, the Arts Council's investment in the cultural sector is dwarfed by that from local government (£4.37 billion if funding for art, sport, parks and libraries is included) and approximately equal to that from the multiple cultural trusts and foundations, the private sector, and consumers; its funding very much determines the landscape for cultural funding. The extent to which it has a role as the torch holder for the notion of 'public funding for culture' can be judged by the widespread uproar in the arts world which greeted its decision in 2008 to cut nearly 200 RFOs. Leaving aside issues to do with criticism of the way this decision was communicated, this showed that 'Arts Council cuts' are seen by many within the sector being symbolic of a general lack of understanding and sympathy in the public sector towards the needs of the arts.

Over the past three years, Arts Council strategic thinking and its attitude towards investment has been shaped by three main strategic initiatives: the **Arts Debate**, **McMaster Review** and **Creative Britain**.

**'The Arts Debate'** : In October 2006, ACE launched the Arts Debate a large and high profile piece of research into what people think about the arts and arts funding. The findings showed that most people believe the arts are important to individuals and society in the way they build people's capacity for understanding the world, enriching experience and creating links with different communities.

**McMaster Review of Excellence in the Arts:** The 2008 *McMaster Review on Supporting Excellence in the Arts*<sup>5</sup>, commissioned by the DCMS, placed particular emphasis on relationship between the arts and their audience. This places a premium on the arts ability to connect with audiences and argues that their primary aim is in delivering excellence and that this 'occurs when an experience affects and changes an individual'. McMaster couples excellence with a set of other attributes essential to the delivery of culture of the highest standard. These include innovation and risk, diversity, internationalism, governance, professional development and public subsidy.

**Creative Britain:** Launched in 2008, Creative Britain set out the Government's policy for supporting and growing the UK creative economy. It sees culture in particular as having a critical role in the development of creative individuals, improving education and in ensuring the ongoing strength of our creative industries:

*"The bedrock on which the strategy is built is the Government's fundamental belief in the role of public funding to simulate creativity and sharpen Britain's creative edge"<sup>6</sup>.*

The influence of these three reports is evidenced in ACE's recently published corporate plan – Great Art for Everyone 2008-2011<sup>7</sup> – which sets out an investment agenda for the arts with four main priorities. These are: Digital, Children and young people, Visual Arts and London 2012. Its aim across these priorities is in "*creating the conditions by which great art can happen, and then making sure as many people as possible can engage with the arts and discover what art can do for them.*"

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<sup>5</sup> Sir Brian McMaster Supporting Excellence in the Arts From Measurement to Judgement (2008).

<sup>6</sup> Creative Britain, New Talents for the New Economy (2008).

<sup>7</sup> Arts Council England Great Art for Everyone (2008).

### 3. Major Institutional Level: Shaping and Driving The Ecology

Major cultural institutions such as national galleries and museums play a hugely influential role in conditioning and shaping the cultural sector's public funding ecology. In funding and strategic terms, they straddle both competitive and institutional models through their dual roles as funded and funding organisations. As institutions they represent bricks and mortar confirmation that funders place real importance on the fact that their institutional strength is part and parcel of the way they deliver public service and benefits. The funding model they exist in reflects the fact that their sum is greater than their parts: their role is in training creative talent of the future, connecting with large and diverse audiences, providing intellectual and creative leadership; as well as more intangible institutional benefits such as promoting trust and social cohesion.

As institutions though they are developing a critical role as funders themselves, commissioning artists, developing partnerships with business, universities and other institutions, as well as supporting a range of social agendas from health to strengthening communities. In this guise **they are gatekeepers, co-creators, producers, facilitators and brokers whose influence stretches beyond their physical institutional footprints**. Their new role sees them as active players in the development of new types of funding in the cultural sector, which places a premium on partnership, inter-disciplinary activity, and research.

#### ***Increasing focus and challenge***

Leading cultural institutions in the UK – from the Tate to the Royal Opera House; from the British Library to the Sage – have enjoyed extraordinary success over the past five years because of the way that they have understood and then steered a course through the competitive ecology of the cultural sector. In a funding model which lacks direct overt competition, they have excelled in delivering an institutional model which attracts large diverse audiences to a quality product:

*"Wander into Tate Modern on an average day, and take a look at the way that young and old, black and white, rich and poor, tourist and non-tourist all mingle in a manner that would previously have been regarded as impossible for a major museum or gallery".<sup>8</sup>*

The underlying reason behind the institutional success of major cultural brands is based upon related factors:

- their ability to articulate how they deliver public service value
- communicating the tacit and intangible benefits of their value as institutions
- and through creating stronger, deeper connections with diverse and committed audiences.

Their skill in communicating this upstream to funders and policy makers has been critical, allowing for example the case to be made (and remade) for free admission to major museums and galleries and the widespread acceptance now in the UK of the

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<sup>8</sup> Chris Smith, Tate Modern: The First Five Years.

power of cultural institutions to transform areas as has been seen in Southwark, Salford and Gateshead.

Beyond their success in articulating their vision and purpose, leading cultural institutions have also led the way by introducing to the cultural sector lessons learned from the openly competitive commercial world and then applying these lessons to the delivery of public value. These are lessons in how to develop brands which convey meaning and difference in a crowded marketplace, understanding and interpreting what customers need (and giving it to them), and utilising technology to ensure that consumers can be reached in ways which suit their lifestyles and needs. This suggests that even though cultural institutions exist outside of truly competitive funding models, much of their success can be put down to what they have learned and gained from organisations that thrive in the commercial world.

The development of **strong, meaningful institutional brands** has been critical to the success of leading cultural institutions and the way that they deliver public services. In an era where consumers are ever more pressured for time and traditional leisure activities are being superseded or changed through technology, to compete for attention leading cultural institutions have developed brands which reflect the fact that their competition is as much the high street or out of town shopping centre as other cultural brands.

Just as any successful business brand is defined through the values it describes and codifies; so the way that the V&A, for example, combines consumption and production through its work in commissioning designers to produce goods for sale. This helps define it as relevant and modern. Tate Modern has developed Christmas decorations with Gilbert and George, while its posters have been sold in B&Q.

Where once the V&A was criticised for its 1998 Saatchi advertising campaign that featured it as being 'An ace caff with quite a nice museum attached', the brands of cultural institutions are now developed and robust enough for the café or restaurant to be seen as a vital extension and part of the user experience. Leading commercial restaurateurs now vie for contracts to run the restaurant franchise in leading cultural organisations - realising the reputational gain from the connection.

The connection between the creation of this type of user experience and the delivery of public services and value may not be immediately clear, but it has been as pivotal in the institutional success of Tate Modern as Herzog de Meuron's building:

*"It is no surprise that the public values quality, consistency, and being treated with care and respect. But does this add up to anything more than a great brand? After all, many businesses might claim they achieve the same thing, or at least aspire to. But there is a difference, for profitability and visitor numbers are not the only things at stake. Tate Modern is creating public goods: greater confidence in public spaces, social interaction among members of the public, trust in public institutions, and national and local pride. In this sense Tate Modern is an embodiment of democratic value"<sup>9</sup>.*

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<sup>9</sup> John Holden (2005), Tate Modern: The First Five Years.

**Connecting with audiences** has been critical from an institutional perspective for the delivery of public value. Leading galleries and museums such as Tate Modern and Tate Britain, British Museum and V&A, regularly feature in the top ten of UK visitor attractions. In some ways, this has been through a greater understanding of the role that institutions can play in the life of the individual; in others it has been through the application of commercial logic. The V&A, through carefully targeted exhibitions, extended networks and 'Friday Night Lates', has developed a relationship and closeness to the fashion industry so that leading figures now refer to it as a 'vital and inspirational resource'<sup>10</sup>. The British Library through its 'Business and IP Centre' has equally tried to become a resource for creative businesses through the provision of specialist services, space and resources to help entrepreneurs. While at the Tate the public literally have become the centre of attention, either running between the galleries in Martin Creed's latest work '850' at Tate Britain or through the way they have become inseparable from the experience as a whole:

*"But people don't just visit. When they come to Tate Modern they are not spectators, they are actors; the public are themselves part of the Tate Modern phenomenon. This can be accounted for in marketing terms – people reinforcing their own coolness through their alliance with one of Britain's Coolest Brands, or it can be thought of as something loftier forming identity and stretching the self."<sup>11</sup>*

Leading Institutions have also led the way in terms of using **new technology as a platform to deliver public value**. The Royal Opera House, a perennial target for those that have seen its high ticket prices and affluent audiences as signs of elitism despite its public subsidy,) has started to screen its shows in HD at cinemas as well as on big screens (learning from the Metropolitan Opera in New York). The Sage in Gateshead has pioneered the way that audiences interact with music through an integrated eight part strategic education programme covering Early Years, Work with Schools, Vocal and Instrumental Learning, Practitioner Development, Community Music, Further and Higher Education, Resources, and Music in the Workplace.

As well as challenging the cultural sector through the introduction of learning from the commercial sector, major cultural institutions also offer a series of challenges upstream to funders and strategic bodies. These challenges relate to how funders can build on their institutional success, by moving the funding framework forward in a way which pushes the institutions to be even bolder, more innovative, more creative and more successful. These challenges include:

### ***1. How to support innovation and risk while supporting existing excellence?***

Supporting innovation and risk means supporting failure in the market as well as success:

*"You could say the Arts Council has three main responsibilities: the big, landmark arts organisations which are critically important; localised, more socially orientated activity, that is just as important; and thirdly, the arts which are at the forefront of innovation, disruption and challenge. It is the latter to which the Arts Council must give added weight."<sup>12</sup>*

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<sup>10</sup> Vittorio Radice, [then] Chief Executive M&S

<sup>11</sup> John Holden, *ibid.*

<sup>12</sup> Professor Stuart Hall, Quoted in Peter Hewitt (2005) *Changing Places.*

The challenge for funders is to create systems which reward risk and innovation in an only indirectly competitive market, while at the same time to provide support for existing organisations. Disruptive innovation requires that models change, organisations die and parameters shift. Therefore, how can the system better enable this to happen?

## ***2. How to continually drive culture's ability to connect with new audiences?***

As Leadbeater writes<sup>13</sup>, "(S)uccessful arts organisations are arts led but audience focused." Funders have traditionally focused on funding 'supply' in terms of organisation rather than 'demand' relating to audience needs and requirements. Leading cultural institutions are already ahead of the funders in terms of reaching audiences. Therefore, how can funders ensure that major cultural organisations continue to push to reach audiences that are ever more demanding, fragmented and fragile?

## ***3. How to connect institutions more effectively to individual talent within the competitive ecology?***

Supporting creative talent is a major priority for the government and cultural funders. How can institutions create more effective mechanisms for Continual Professional Development (CPD) that can support talent at all stages of a career and for different types and 'success levels' of career?

## ***4. How to develop a richer and deeper understanding of sustainability within the ecology?***

How can the sustainability lessons learned from major cultural institutions be passed on downstream to the rest of the sector? Sustainability remains an under-defined area. On the one hand it means clearly developing the size and scale, ambition, drive and creativity which enables organisations to navigate the funding maze that is required to achieve a measure of stability within the current funding system. On the other, in terms of public sector reform, it means the ability of an organisation to stand on its own feet with a gradual reduction and removal of grant support.

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<sup>13</sup> Charles Leadbeater Arts Organisations in the 21<sup>st</sup> century: Ten challenges Arts Council 2005

## 4. Smaller Institutional Level: Surviving in a Competitive Ecology

Most of the cultural sector beyond major cultural institutions, engages in **an indirectly competitive ecology**, competing for funding from a range of public, private and third sector bodies. Unlike major cultural institutions these cultural organisations - forming the majority of the 900 or so Regularly Funded Organisations (RFOs) ACE supports – are typically less robust, more vulnerable to changes in funding frameworks and pressured to demonstrate how they give public service value at a micro delivery level rather than a macro institutional level.

With Government and large strategic bodies such as ACE and the UK Film Council (re)drawing the frameworks and (re)setting the agendas; leading cultural institutions operating as sector leaders and pro-active partners, this considerable part of the cultural sector, from a theatre to an individual artist, is to some extent *operating in response mode* to these *shifting agendas*.

One example of this is through the way that smaller cultural institutions have become far sharper and more focused on the delivery of public value and services over the past decade. This is partly as a result of major funding streams – such as the Heritage Lottery Fund and European Structural Funds – requiring organisations of whatever scale to think more broadly, deeply and specifically on the value they provide. It is also because national, regional and local government require an ever greater understanding and reassurance of the outputs that organisations provide and the way they connect with other socio-economic agendas. Finally it is because organisations themselves have a greater understanding of how their core 'artistic mission' relates to and delivers for a broader value set. This latter point is critical at a time when cultural institutions are effectively competing with sectors such as retail for a public saturated with 'leisure time' opportunities.

From the perspective of smaller cultural institutions, navigating the current system of public funding can be particularly challenging. This may be most keenly felt amongst those whose capacity it tests most. Some go as far as to say that the current funding system is 'dysfunctional' and that any successes achieved by cultural institutions are in spite of, rather than because of the system<sup>14</sup>. The current system is frequently criticised on many fronts: it is too bureaucratic, there is too little funding to cover core costs, under-capitalisation is rife, too much funding is tied to delivery of projects or outputs with little universal agreement on how those are judged, there is too much short term thinking and too little partnership working with funders.

The result of the short-comings in the funding system from a smaller institutional perspective can include an inability to plan properly for the future, distraction and diversion from the core mission of the organisation as funding is sought from wherever it can be accessed, and a lack of innovation and risk taking. From an institutional perspective, the experience of the current funding system has been described as 'like playing a frustrating game of funding twister':

*"Statutory and private funders have forced arts organisations to contort themselves in a game of funding Twister to accommodate the 'latest direction'. We desperately strain to keep*

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<sup>14</sup> See John Knell (2007), *The Art of Living*.

*our left leg on 'arts company' while arching backward to keep our right arm on 'trainer provider' and our right leg on 'education consortium'<sup>14,5</sup>.*

Clearly it is outside the scope of this Paper to discuss in depth the problems of the current funding system. However as well as the weaknesses outlined above there are some strengths in the current model from the perspective of smaller institutions. This indicates that funders are moving towards models which promote sustainability, partnership-working and common agendas: they are ultimately less concerned with outputs and more concerned with the delivery of excellence. The introduction of RFOs by ACE, which gives nearly 900 organisations a three year window of funding, allowing them to plan at least in the short to medium term, is an improvement on a system which previously relied on yearly funding announcements. Equally, funders as diverse as the UK Film Council, Regional Screen Agencies, MLA and ACE, while not operating to the same framework in terms of capturing and measuring public service value, do all recognise that such value is produced in a broad cross section of areas.

Co-operation and joint working between funding organisations, while not as prevalent as it could be, is now a regular feature - particularly in 'growth areas' such as the Thames Gateway or West Northamptonshire<sup>16</sup>. The agreement of organisations to come together behind joint investment frameworks provides smaller cultural organisations with more ability to work together to common goals. Equally, the sharing and shaping of key agendas, which flow from core government agendas, such as the importance to regeneration, knowledge transfer, and economic development, provide organisations with a set of common overarching agendas.

The recent McMaster Review<sup>17</sup> sets out an agenda which would nudge the system towards a greater focus on quality of experience rather than quantity of outputs delivered. The Review's recommendations on the future funding of arts organisations – that ten exceptionally innovative and risk-taking organisations should receive ten years of agreed funding, that peers should review work and that continual professional development is critical to future success – represent an attempt to re-establish the importance of the intrinsic and institutional worth of cultural organisations alongside the funding-bias towards their instrumental value (i.e. the value which performs to a wider set of strategic agendas such as social wellbeing and health).

### ***Sustainability and competitiveness***

Cultural organisations which currently indirectly compete for funding operate in a system where the pursuit of their core artistic mission must be balanced against a set of wider public service values if it is to be underpinned by sustainable funding models. It follows therefore that the most sustainable cultural organisations are those most able to articulate their public service value to funders and strategic overseers in a way that allows them to co-deliver their core mission. Another way of phrasing this is that *the most sustainable are the most competitive*.

Rarely, however, is this 'competition' expressed in a pure market sense as a contest for resources dictated by a pre-defined brief. Because there are multiple funders of culture and such funders often co-invest in the same organisations, competition is not demarcated as such and neither is it necessarily restrained by a limited set of

<sup>15</sup> A. Devitt (2006) '*Because We're Worth It*', Arts Professional.

<sup>16</sup> These are the areas identified by Government as priorities for housing and employment growth.

<sup>17</sup> Brian McMaster (2008), *Supporting Excellence in the Arts*.

available resources: there is no 'single pot' for culture. Therefore, if smaller cultural organisations are to survive and prosper, they must be entrepreneurial, explorative, flexible, fleet-of-foot and capable of articulating their value – the outcomes of their work – in multiple ways to more than one funder. As Dick Penny, Director of Watershed Media Centre in Bristol puts it:

*"We get investment from lots of different funders and the trouble is, they each want to fund a different part of what we do...and none of them want to fund the core things that hold it all together".*

This can be seen as a *demand-led response* from a cultural organisation seeking a joined-up approach to the framing of public service value and thus a coherent approach to its funding 'settlement'. For example, Watershed's core mission is to cross boundaries – in art form, agenda and in the relationship it has with its different audiences. In this context, it has pioneered audience programming and audience-driven commissioning of new work.

However, many smaller cultural organisations remain *supply-led*. Their sustainability is determined to a large extent by their response to strategic agendas supplied by government (local and national), NDPBs, and other key funding bodies. For these organisations, the ongoing challenge is to *retro-fit their cultural offer into the strategic lexicon and funding paradigm of their paymasters*, or to introduce new programmes and services that better fit the demands of funders, which often compromises their core mission or even their core audience.

The competitive ecology that characterises survival, let alone sustainability in the cultural sector, is not sufficiently mature to encourage the co-creation of 'public service value' at the level of most smaller cultural organisations. However, there are signs that the competitive ecology is maturing, exemplified by processes such as the Arts Debate, which connected ACE more closely to its 'end user' – whether this is a venue, organisation or individual practitioner. This illustrates the way that **feedback from less prominent parts of the cultural sector is starting to reach the decision makers with a clearer relationship emerging between 'funder' and 'funded' and/or 'commissioner' and 'commissioned'**.

### ***Developing organisational acumen and capacity building***

As was seen previously, major cultural institutions have the leadership, capacity, skills, brand and presence which make their organisations more able to proactively shape the funding ecology than smaller cultural organisations. One of the ways they have done this is through introducing lessons learned from the commercial world around brand building, connecting to audiences and using technology. Key strategic bodies and policy-makers have now recognised that for smaller cultural organisations and practitioners to perform to their maximum public service value and to be able to effectively articulate and monitor this, they require support: in systems, planning and leadership.

Evidence for this can be seen through the introduction of a mix of capacity-building and professional development programmes across the cultural sector. It is recognised as vital to the future health and value of culture and creativity in the

Government's Creative Britain report, which champions the role in particular of the Cultural Leadership Programme<sup>18</sup>:

*"The Cultural Leadership Programme...will expand its relationships with commercial and business partners to train future senior managers of arts and cultural institutions. This will help them to maximise their financial return on commercial activities, generating further revenue for their creative work"<sup>19</sup>.*

By brokering links between traditionally non-commercial cultural organisations and commercial businesses, the Government, through its delivery partners of ACE, MLA and Creative and Cultural Skills, is seeking to introduce new revenue streams for smaller cultural organisations which should help them steer a better course through the competitive ecology. It is also seeking to embed new organisational practices, with an emphasis on core skills and qualities such as entrepreneurialism, innovation and boundary-crossing partnership.

Clearly, the Cultural Leadership Programme<sup>20</sup> represents a *proactive attempt* by Government to support a cultural sector which has accepted that change is necessary for its organisations to survive and add real value in an increasingly competitive ecology. It is also a *response* by Government to a cultural sector that has requested support to ensure it is better equipped to deliver the increasingly explicit public service demands of its public sector paymasters.

This means that the terms for indirect competition in the allocation of funding to deliver public services through culture are now clearer and more negotiable than ever. It is clear, for example, that cultural organisations must change and renew if they are to continue to hold the status as an Arts Council England RFO. It is clear that cultural organisations which neatly reduce the diversity of what they do to a set of straightforward public service outcomes will be more competitive. It is clear that cultural organisations which do this while retaining their core intrinsic values and striving for excellence, will be even more competitive. And it is clear that cultural organisations are able, through strong leadership and partnership, to co-create notions of and metrics for public service value, and thus the conditions for competitiveness.

However, the competitive ecology does not operate consistently and there is much to be done to overcome the set of informational asymmetries that separate 'funder' and 'funded'. For example, seemingly similar cultural organisations do not receive similar types and amounts of funding. Factors such as geographic location and leadership qualities, mean that the market for funding is not always transparent. *Much therefore needs to be done to better define public service value in the cultural sector and more effectively make the link between the delivery of public service outcomes and funding.*

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<sup>18</sup> See [www.culturalleadership.org.uk](http://www.culturalleadership.org.uk)

<sup>19</sup> UK Government, *Creative Britain: New Talents for the New Economy*, 2008, p. 42.

<sup>20</sup> See: [www.cloreladership.org](http://www.cloreladership.org)

## 5. Conclusions: A Maturing Competitive Ecology

This Paper has provided an introduction to the complex and evolving ecology of funding and investment in the UK cultural sector. It has shown that while there is very little direct competition for funding to deliver public services, rather there is considerable indirect competition particularly between smaller cultural organisations. It has demonstrated that there are three main drivers within the current system – which can be called a competitive ecology – the policy level, major cultural organisational level and the smaller cultural organisational level. The framework which governs the current funding system tends to be set in the **policy level**.

**Major cultural organisations** because of their strengths in brand, leadership and capacity shape and drive the ecology through their unique status and their dual role as funded and funders while **smaller cultural organisations** face the most indirect competition for resources and hardest battle to show their public service value.

However, the status quo in the funding model for culture is evolving. This does not mean that there will be shifts towards competitive funding models as opposed to institutional funding models, but that organisations are being supported to compete more effectively within the current system. Often this is through learning from the way that major cultural institutions operate and from the commercial sector. There are three main ways that the system is currently evolving, representing activity driven by funders, organisations and in the wider environment:

- **Greater support for competitive practice:** funders are defining more clearly the public service outcomes that they expect for their investment and they are tailoring invitations to tender in relation to the capacity of cultural organisations and institutions to deliver such outcomes. In addition, funders are working more closely with the cultural sector to co-create and co-define 'public service value' and they are supporting the sector (such as through the Cultural Leadership Programme) to deliver such value.
- **Greater awareness of how to compete:** cultural organisations and institutions are more effectively defining themselves in terms of their public service delivery qualities and capacities. They recognise this as essential for competitive advantage, as well as a basis for organisational reform. The more persuasive they are in this context, the greater the number of 'investment ready' cultural organisations and thus the funding landscape becomes more competitive.
- **Wider environmental factors:** culture is recognised as a powerful tool across public policy – from improving our health to attracting inward investment. This means that culture is being mainstreamed across multiple policy agendas, which in turn is opening-up opportunities for cultural organisations and institutions to express their public service value in new ways. Parallel to this, digital technology is providing the sector with the means to deliver public value in new ways – reaching audiences, connecting communities, crossing boundaries of art form and sector.

This means that the three main features of the competitive ecology – the policy level, major institutional level and smaller institutional level – will remain for the foreseeable future, but they will increasingly overlap to co-create notions of public service value and thus co-design opportunities for new types of competition. While it is not foreseeable that in the near future cultural organisations will compete with

each other through an open tendering process to deliver public service value against criteria they have co-created with funders, The McMaster Review, with its focus on excellence, opens the door at least ajar for such processes to begin.

There are a series of internal and external factors which will govern how the funding system develops. These factors will see a more competitive ecology emerging, albeit with the major institutions continuing to play a central role in delivering public service value:

- The current main public funding model will remain the grant. However there will be a more sophisticated and nuanced understanding of outputs and outcomes to include a better appreciation of where and how value is created and delivered. Targets will focus around improving the delivery of public service value(s).
- Competition will not grow through normal market forces but through deeper and stronger relationships with different public and private funders. In addition, competition for funding from outside of the public sector will increase.
- New types of competition will arise allied to new cultural funding models. For example, **cultural voucher systems** may emerge as a means of better connecting culture to 'users' or 'customers'. Such a model exists in Finland as a deliberate attempt by the government to stimulate private investment in cultural goods and services. This is based on a tax-free cultural voucher system. Employers may encourage the artistic and cultural pursuits of their staff by providing culture vouchers, which are a tax-exempt benefit, and at the same time promote the well-being and working capacity of their staff. This follows successful models developed in Finland for investment in sport.
- There will be a noticeable shift towards valuing and celebrating the intrinsic value of culture. It will be interesting whether this leads to the development of a parallel line of cultural organisations which focus on the instrumental delivery of culture. For example, it may emerge that cultural infrastructure provision and cultural entitlement will be key areas where cultural organisations will be invited to compete through a competitive tendering process – especially in the 'Growth areas' such as the Thames Gateway.
- There will be considerable development of partnership delivery - such as the strengthening of ties between cultural organisations working with mainstream educational providers. This means that new 'rules of engagement' and ways of working that ensure fairness for all parties will need to be developed.
- In the run up to the London 2012 Olympic and Paralympic Games, the connection between culture and sport will naturally deepen, with joint agendas (around community cohesion, well-being and health) becoming increasingly important.
- New platforms and new technology will continue convergence in the cultural market. This will affect the current ecology as new forms of partnership and expertise between organisations of different scale and from varied sectors are recognised as having the potential to generate innovation and fresh thinking.

- At the supply-side level (such as through Arts Council England), there will be an ever greater focus on how delivery can be smarter, more efficient and driven by market needs. This will mean a more flexible approach to putting services to competitive tender, as well as a more sophisticated approach to building partnership across the cultural sector and engaging with and gaining feedback from audiences and 'end users' .
- 
- Internationalism and globalisation will become ever more important and critical through new types of technology-facilitated partnership and the growth of market-distorting mega-brands (such as Guggenheim).

This all bodes well for a dynamic, regenerative cultural sector. Fitter, leaner cultural organisations that have worked with the government and larger institutions to co-create notions of 'public service value', will relish the competition for funding and will deliver greater returns to that funding. **With clearer pathways to funding and increasingly clear metrics for the value required from that funding, a more competitive ecology will provide for a better performing and more rewarding cultural sector.**

However, though a positive development, the emergence of the competitive ecology does mean that some cultural organisations will continue over the long term to require public sector intervention – a modifying of the market perhaps. Critical here, as is always the case in the cultural sector, is support for cultural leadership:

*"The crucial role of leadership is to ensure an organisation is relentlessly seeking to change for the better. That means you have to paint the picture of what change will create and inspire the organisation to want to make it real"* (David Kershaw, Chief Executive, M&C Saatchi, Chair Cultural Leadership Programme)<sup>21</sup>.

Public service value or benefit, however it is defined, requires that some organisations take the lead by innovating and taking risks. The cultural sector, from the individual to institutional level, is replete with innovators. However, funding models in many cases pursue established, pre-defined working practices and do not encourage or foster collaboration between practitioners from different art forms.

If the competitive ecology of the cultural sector is to produce fitter for purpose organisations and institutions capable of (co)creating new types of public service value, then new support infrastructure and funding models need to be devised that embrace potential outcomes that are as yet unknown. Undetermined outcomes are very difficult to tender for. It is therefore likely that organisations and institutions with a track record of innovation and risk will be the preferred delivery partners for public service outcomes, marrying this track record with a set of visible and measurable qualities that relate to how they present their public service offer. Therefore, cultural organisations and institutions that operate successfully in the competitive ecology will be those that marry innovation and risk with a wider set of solid and reliable delivery functions. **This is perhaps where parallels with competition for public service delivery in television broadcasting are most convincing.**

<sup>21</sup> See: [www.culturalleadership.org.uk](http://www.culturalleadership.org.uk)

## **Acknowledgements**

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## Appendix 1: Traversing the Competitive Ecology: Case Studies

This Section presents three case studies which will introduce the mix of different funding systems across the cultural sector. Each case study contains a brief summary of the key elements of the funding mechanism, before analysing the scheme through a balanced scorecard approach. The case studies are:

- Regional Screen Agencies
- Culture Online
- Mixed Art Form Venues

### Case Study 1. Regional Screen Agencies: Partnership Approach to Public Value

The nine Regional Screen Agencies (RSAs) in England represent a sector-based regional approach to delivering public value in culture. Established between 2002-04, following the *Film in England* report **commissioned by the then newly formed Film Council**. The nine separate agencies deliver a shared vision across the regions, in ways which reflect the social, economic, cultural and sectoral foot prints of their particular region.

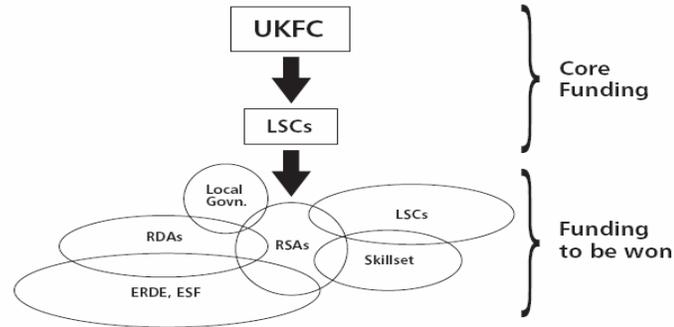
*"(F)ilm and moving images are the single most important source of education, information and culture in the world today ...[but] but the existing fragmentation of film interests across scores of small competing and under-resourced bodies is impeding the overall development of film in the regions"<sup>22</sup>*

The report recommended the establishment of a Regional Investment Fund for England (RIFE) which would support a sustainable and vibrant film and moving image culture. Underpinned by this fund, the nine RSAs emerged from a series of mergers of local organisations to form a network of screen agencies (who together form Screen England) with a clear mission to develop film.

From a funding perspective, the nine RSAs sit in a hybrid space. While they gain their core funding from the RIFE and UK Film Council (which is directly funded by the DCMS), they have been deliberately set up to ensure that they, as regional initiatives can tender and compete to win funding from other regional and national funding sources. The table below shows how the RSAs have been successful in developing funding from a range of regional sources, most particularly the Regional Development Agencies (RDAs), Sector Skills Councils (SSCs), Learning and Skills Councils (LSCs) and Local Authorities:

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<sup>22</sup> Film in England: A Development Strategy for Film and the Moving Image in the English Regions Film Council (2000).



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The extent to the success of RSAs in gaining funding from multiple sources can be seen in the North West, where Screen North West has been chosen to oversee much of the RDA's work around digital media.

As well as tendering for funding on a regional basis, each of the RSAs is very much geared towards bespoke sector-based funding. This means, for example, that they take a broad view on the definition of the screen and moving image sector they serve which is nuanced towards the relative strengths and needs of the creative industries in their region. This ensures that the RSAs are able to be responsive, relevant and proactive to the needs of the sector – such as working with 'Serious Games Institute' in the West Midlands. In their review of the RSAs, 'The Bigger Picture', demos describe the relationship between the nine RSAs and their regions as:

*"Put simply, the role that the RSAs play can be understood by thinking about how they relate to their geographical context (their region), the sector with which they work (screen) and their role in creating value in these two areas (agency)."*

Demos describe the RSAs as having a model for delivering public value in four main ways: through taking **initiative**, supplying **expertise**, making **connections**, and encouraging **development**. Demos then map this model against core policy areas within three main government agendas of social, economic and educational agendas. So, for example, in 'developing individual business expertise and a sustainable industry' the four part model of delivering public value contains:

- **Taking regional initiative:** The RSAs' role in being able to locate appropriate talent and then connect it to effective systems of support is crucial to sustaining this kind of growth. Screen South, for example, have partnered SEEDA's South East Media Network to launch Brighton's two-day D Media Conference, a chance for the region's freelance and SME digital practitioners to meet 200 practitioners, forging new partnerships and creating significant business opportunities.
- **Supplying regional and sector expertise:** South West Screen identified the need for screen businesses in the region to operate more as a network, building the critical mass that would enable them to attract major players to the area. Between 2003 and 2005, South West Screen established 5 media business clusters, aiming to ensure the stimulation of business growth across the entire region.

- **Making local, national and international connections:** South West Screen support Wildscreen, the largest natural history film festival in the world. Every two years, it attracts 650 delegates from 45 countries to Bristol, and is a forum where deals are made and talent scouted.
- **Encouraging sustainable development:** Established in 2003, and co-funded by the East of England Development Agency, Screen East's Media Development Fund supports growth in the screen industries by nurturing and investing in small and medium sized enterprises within the sector. Between its foundation and 2005, the fund made a total investment of £ 530,000 in 18 companies and has combined the risks and investment rationales of a traditional venture capital fund with the best features of a 'patient-capital social investment vehicle. The effect has been to lever a total of £ 1,958,180 into their business plans.

As Demos make clear, the RSAs, through their regional delivery are able to deliver holistic projects which produce a range of additional public value benefits to the wider community and society including regeneration and community building. Overall, Demos judge the RSAs as fulfilling the stated core mission of the DCMS by contributing so heavily to a range of agendas which together help to make Britain 'a Creative Hub.'

## Balanced Scorecard: Regional Screen Agencies

Theme	Commentary
<b>1. Terms of engagement</b>	The RSAs' flexible approach based on regional need, enables them to engage with the sector based on ways which are sustainable and based on the needs of the market in their area. Because they operate through a huge variety of programmes, they are at once commissioners, brokers, enablers and facilitators; changing hats as needed.
<b>2. The Commissioner/funding body</b>	The deliberately encouraged mixed funding model of the RSAs means they have strength and relative freedom. While the core funding from the UK film Council and RIFE provides them with a central mission, by being fleet of foot and connected to a range of regional partnerships they are able to access a wide range of funds which enables to have a greatly leveraged impact. The governance structure of each RSA is centred on a board made up of regional representatives, which should ensure the regional distinctiveness of each RSA. In terms of efficiency and process, as each RA is very much geared towards leveraging funding from a variety of partners for relatively low staffing numbers (an average of 15 per RSA) they are able to deliver far more than it could without being partnered and networked.
<b>3. Measurement and outcomes</b>	From a top down position one of the achievements of RSAs has been in aligning their activity with broader public sector agendas, which makes their contribution to public value easier to access. Each RSA reports back yearly on its own programme of activity. One of the achievements of the RSAs has been that their individual impact and reach is very much driven by the footprint of their own region. Quality is something that the RSAs gain through partnering and investing in recognised deliverers of excellence for activities.
<b>4. Commerciality and the marketplace</b>	The relatively small scale of the RSAs in comparison to the sector (a £21 million pound turnover against a sector worth in excess of £20 billion) means that any negative market effects they have on the sector is bound to be small. However through their contribution to talent development, investment in start-ups and small-scale production and leveraging of funds, their positive market influence is far more marked. In term incentives and benefits, they are proud of the fact that their invested money in film or computer game productions helps generate considerable additional investment. This in addition to the benefits that encouraging regional production itself brings to an area.
<b>5. Innovation and risk</b>	The RSAs' strong almost inbuilt belief in partnership delivery helps ensure that they themselves take innovative approaches. Because of the nature of the type of cultural activity they invest in, it is not surprising that their activities are often seen as innovative. EM Media were for example the first funder to channel ERDF monies into a computer game <i>Cueball</i> . The £110,000 investment according to the game's producer, enabled <i>"us to develop the Geon emotions concept to a high enough level to attract a major publisher. It also provided the financial stability necessary to implement our creative vision and get the finished product to market"</i> .
<b>6. Wider marketplace implications (tackling barriers to entry, R&amp;D funding etc)</b>	The RSA model is very much about opening up sectors that have previously been seen as having far too many barriers to entry. This is especially true of film and TV. Their concentration on developing talent and skills has been key in their regions to tackling some of the market fragility that exists. Through providing development funding, money for attending festivals and showcases and other flexible forms of funds, they play a role in developing the R&D pipeline for small players in the market. Through investment in festivals and showcases with international reputation, they help develop the overall competitiveness of the UK film and TV on a global stage.
<b>7. Impact of digitisation</b>	The RSAs, through their broad brush approach to what constituted the screen and moving image sector proactively responded to the challenge of convergence and digitisation. May of their programmes and investments have been in digital film production, digital screening facilities and cross-disciplinary activity which are at the cutting edge of activity. Their work with audience development in each region has seen them ensure that the audience for digital culture is nurtured and developed.

## Case Study 2: Culture Online: Procurement model

Culture Online, which ran from 2002 through to 2007, is unique in that it represents a large scale **commissioning approach (as opposed to a grant approach) to funding cultural projects**. Funded and run directly by the DCMS, Culture Online's vision was to 'build a bridge between culture and education using technology'. It had five main objectives, which connected directly to DCMS and (the then) DFES targets. They were:

- Enhance access to the arts for children and young people and give them the opportunity to develop their talents to the full
- Open up our cultural institutions to the wider community, to promote lifelong learning and social cohesion
- Extend the reach of new technologies and build IT skills
- Support wider and richer engagement and learning by all adults
- Promote good practice within the industry and within the public sector in regard to commissioning, process, usability and accessibility.

Initially envisaged as a large scale £140 Million project by Chris Smith, Culture Online launched in 2001 with a budget of 16 million to spend over 4 years. In 2005 it received a further £3million of funding. Headed up by Jonathan Drori, who assembled a team of cultural and technical experts, the project's initial call for ideas received 650 responses. In addition to this the team proactively approached partners with ideas for projects they thought would work with their audiences they wished to reach.

During its life Culture Online Commissioned 26 projects, each of which was delivered by a range of partners including leading cultural institutions, digital producers, charities and broadcasters. Funded projects included Stageworks (developed by the Royal National Theatre, this allowed users to interactively explore the making of productions), Mad for Arts (which was a collaboration between the Community Channel), Channel 4 and mental health charities (which allowed individuals to use the medium of art to discuss issues relating to themselves and their health), and Icons, a virtual collection of England's most cherished cultural treasures.

At the heart of Culture Online lay its commissioning process, which was a radical departure for the cultural sector. The process saw contracts drawn-up between Culture Online and the lead project partner, a system of payment against deliverables and a project management process involving regular board meetings and use of systems such as Prince 2. The successes of Culture Online were described by Demos as being in **five main** areas:

- Widening access to cultural institutions
- Learning – both of participants and partners
- Broking partnerships
- Social cohesion – through working with hard to reach groups
- Practical lessons – of project management, commissioning, Intellectual property.

Overall, the 26 projects won 25 major awards and were estimated to have reached an audience of 15.5 Million people.

## Balanced Scorecard: Culture Online

Themes	Commentary
<b>1. Terms of engagement</b>	<p>The culture online commissioning process was a radical departure for the cultural sector away from grant funding. By positioning itself as a broker, facilitator, producer (as well as commissioner) Culture Online was able to use its in-house expertise to ensure that the projects it funded met the needs of the hard to reach audiences and were delivered on time to budget. In doing this Culture Online learned many lessons – such as the need for project inception meetings and the benefits of having a lead partner. The negative aspect of this relationship from the perspective of the partners was that it meant they had less freedom than they were used to, which caused some friction.</p>
<b>2. The commissioner/Funding</b>	<p>Culture Online was run by the DCMS, using DCMS offices with senior staff appointed as civil servants. It therefore had very limited independence from government, however it did create its own guidelines on criteria for investment. Culture Online's process of commissioning meant that difficulties around complex culture and technology projects in terms of budget and delivery were largely avoided.</p>
<b>3. Measurement and outcomes –</b>	<p>Culture online had rigorous evaluation build into the contract and process for each of its projects. The fact that payment was based on deliverables meant that a close watch was kept on ensuring that projects delivered to their targets including audience reach. Culture Online built into its commissioning criteria that projects should 'delight' audiences – thereby showing that they realised their definition of success went beyond targets.</p>
<b>4. Commerciality/marketplace concerns</b>	<p>Through insisting that cultural organisations acted in partnership with industry produces and developers, Culture Online took a proactive stance towards marketplace delivery. One of the aims of Culture Online was to grow the market for culture and technology, through demonstrating the success that projects could have. It's project included a broad range of new and established players and represented opportunities for R&amp;D which otherwise would not have been possible.</p>
<b>5. Innovation and risk</b>	<p>The National Audit office praised Culture Online for the way it integrated risk management into the commissioning process. In particular it was praised for the way it persuaded cultural organisations to innovate in the way they worked with partners and for the way it ensured hard to reach audiences were targeted as part of projects.</p>
<b>6. Wider marketplace implications</b>	<p>Culture Online was meant to have wider marketplace implications – it was seen as an initiative which would demonstrate to cultural organisations the benefits of using new technology to reach audiences. It removed barriers to entry through providing funding, capacity , knowledge and expertise.</p>
<b>7. Impact of digitisation</b>	<p>Culture Online, through its insistence on interactivity with audiences actually preceded many of the developments of Web 2.0 including user generated content. Thorough encouraging multiple platforms and combining technology with outreach work, it pushed hard to reach.</p>

## Case Study 3: Mixed-art-form Venues – Crossing Boundaries to Reshape the Competitive Ecology

*"Once the initial barrier of engagement is overcome, audiences must be given the opportunity to deepen their experience and be introduced to more complex work... (D)igital technology offers extraordinary opportunities to do this (Sir Brian McMaster, 2008)<sup>23</sup>".*

Recent research by Tom Fleming Creative Consultancy has shown the role of hybrid, mixed-art-form cultural organisations as providing a leading role in redefining the relationship between funder and funded to deliver multiple public service outcomes at the heart of the competitive ecology of the cultural sector. **Crossing Boundaries: The Role for Mixed-Art-Form and Media Venues in the Age of 'Clicks', not 'Bricks'** - was commissioned jointly in 2007 by the UK Film Council, Arts Council England and the Arts and Humanities Research Council (AHRC).

The Study focuses on six venues that have film and visual culture at their heart – Broadway (Nottingham), Showroom (Sheffield), Cornerhouse (Manchester), FACT (Liverpool), Tyneside (Newcastle) and Watershed (Bristol) – with a view to decoding their institutional DNA and strategic offer, so that their role and purpose can be better understood and communicated. In particular, the Study explores the role of the venues as 'cultural intermediaries' and places of knowledge exchange and transfer within their cities and regions, how that role is evolving through digitalisation, and what the potential future role of the venues could be.

The venues profiled in the Study operate as strategic case studies for the UK's overall cultural and creative infrastructure offer, and introduce the **critical success factors for bricks and mortar infrastructure in an increasingly digitalised age**. They highlight opportunities for future cultural infrastructure and show how existing infrastructure needs to adapt to embrace those boundary-crossing processes that are so critical if consumption and production, art and economy, innovation and creativity are to successfully come together. This requires an embrace with digital technology plus a vigorous extension into new types of activity and partnership. By crossing boundaries, embracing change, and proactively brokering new types of collaboration across the economy and society, the Study shows that cultural and creative infrastructure must play a leading role across a **public service value range** that encompasses three thematic areas:

### ***Creative Place-Making***

Fit for Purpose cultural and creative infrastructure plays a leading role in regeneration and place-making: anchoring change, repositioning places, attracting investment, connecting communities, and bringing international attention and artistic integrity.

### ***Creative Economy***

Fit for purpose cultural and creative infrastructure offers the inspiration and interface for creative business growth through a genuine engagement with knowledge transfer and exchange, networking and showcasing.

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<sup>23</sup> Supporting Excellence in the Arts - From Measurement to Judgement, January 2008.

## ***Creative Infrastructure***

Fit for purpose cultural and creative infrastructure operates as a critical broker, commissioner and connector, generously linking activity, both physically and digitally. It is curated: making experiences, using facilities, and mixing collaborators. This is 'Infrastructure by You': where audiences play a more proactive and influential role in programming, in defining meaning, and in co-designing the infrastructure of the future.

### **Leading the Way – Watershed, Bristol [www.watershed.co.uk](http://www.watershed.co.uk)**

Watershed in Bristol is a leading innovator amidst the many cultural organisations and institutions that make up the competitive ecology of the UK cultural sector. Starting life in 1982 as Britain's first dedicated media centre, with an arts cinema at its heart, Watershed promotes creativity, collaboration, innovation and participation from cultural, commercial and community sectors. It regards itself as a facilitator, a hub, and a catalyst for the creative industries. It is committed to developing new skills and content by working in collaboration with artists, filmmakers, media companies, media groups and schools. This work is exhibited both on-site and on-line, with Watershed acting as a facilitator and a broker of new partnerships.

Critical to Watershed's core mission and to its subsequent and ongoing success is a commitment to putting the 'user', 'audience' or 'market' at the heart of its programming. Personalisation and user-generation have been consistently championed:

*"Two clear threads run through personalisation – firstly equipping the service user with the ability to tailor and personalise the service experience, and secondly inviting the user to co-produce the service by encouraging the individual service user to be an active participant in designing the type of service they receive"* (John Knell for Arts Council England: *Whose Art is it Anyway?* 2006)..

The key tool here has been digital technology: In 2005 Watershed developed an audience of 400,000 that came through its doors, but it also achieved 1.4 million visits (sessions) to their web resources from over 100 countries with a total of 1.9TB of data served. The most visited part of the site was <http://www.dshed.net> – a hub for creative collaboration and interaction with creative digital and artistic content. This web and digital content strategy allowed a huge audience to experience art and Watershed without ever visiting the venue.

The embrace with digital technology to build new interfaces with 'users' began digital in 1999, with a focus on creative skills development and to promote the interchange of creative representation and ideas. The first project was <http://www.electricdecember.org> which this year will go Europe wide with participation by young people from 9 countries.

Watershed's <http://www.dshed.net> and related channels now present creative work from Bristol to the world. Channels range from <http://www.bristolstories.org/> - local people sharing their passions and experiences to <http://www.depict.org/> - international micro film competition which regularly launches new talent and is currently providing shorts to the UK Digital Screen Network.

**The underpinning ethos is to provide wider participation and representation through collaboration; to celebrate diversity as an asset and create a community of interest which inspires new participation. This is public service delivery in a competitive ecology using digital technology as the critical enabler and interface.**

Cultural organisations and institutions such as the mixed-art-form venues are setting the pace in providing new open source infrastructure that is fitter for purpose in the contemporary creative economy. They are also redrawing the relationship between funded and funder because, by necessity, their hybrid offer requires a closer working relationship with funders and that different funders work more closely with the funded. This is a realignment of the way resources flow in the competitive ecology: in a convergent world, cultural organisations can no longer project a simple, one-

dimensional offer and funders can no longer expect a set of discrete, one-dimensional outcomes that can be linked directly to their investment.

However, there is also a long way to go. Firstly, funders need to be more flexible and partnership-driven in how they define public service value and the outcomes that go with it (i.e. the terms and returns of investment). Secondly, cultural organisations and institutions need to dynamically redraw their approach and reconceptualise and better articulate the 'value' of their activity – their public service. There are three main areas that must be addressed:

- **Engaging change:** Organisational structure, management, capacity and vision
- **Engaging partnership:** Actively brokering new boundary-crossing relationships in innovation and knowledge transfer
- **Engaging digital transformation:** Leading the way in programming, innovation, knowledge transfer and business through digital technology.

Within each of these areas exist a set of issues that cultural organisations and institutions need to address: such as how they are putting their users in control, the type of partner they require and the sorts of mechanism that can deliver the partnership and the degree to which any activity can be delivered across multiple (digital) platforms.

Positioned at a strategic and organisational crossroads, the *Crossing Boundaries* Study affirms four potential barriers to successful and sustainable change that apply across the cultural sector: the current lack of capacity and expertise, the need for modernised management and governance, the lack of capital to effectively push forward, and the degree of cultural resistance to change.

## Balanced Scorecard: Mixed-art-form Venues

Themes	Commentary
<b>1. Terms of engagement</b>	The Mixed-art-form venues have developed a close partnership relationship with their users based on core missions to embrace personalisation through digital technology and a proactive openness to moving with change in the creative economy. It has been more difficult to establish close partnerships with strategic bodies/funders, although this is changing. This is because much of the public service value provided by the venues does not fit into core funder-determined categories. There are also geographic variations – for example, each RSA (see Case Study 1) and Regional Development Agency (RDA) seeks a different set of public service outcomes from its delivery organisations.
<b>2. The commissioner/Funding</b>	Mixed-art-form venues come from different but related histories, and the names they used to go by - 'arts centres' and 'regional film theatres' - have historical associations which are unhelpful and no longer cover the breadth and complexity of their activities and intentions. This historical legacy and differences in funder priorities by region and art-form, as well as varying capacity levels to deliver and articulate different types of value, mean that there is no single funding model. Each venue operates at the heart of the competitive ecology, with core funding variously from ACE, the RSAs, RDAs, learning and skills providers, local authorities and private Trusts/Foundations/Sponsors. A core task for the venues is articulating how they can deliver for this diverse set of stakeholders while retaining a grasp of their core mission(s). The opportunity to build a more strategic, coordinated approach to funding the venues has emerged because of the way they are championed in the Creative Britain report. Commitment 21 of the report states that " <i>The UK Film Council, in association with Arts Council England and AHRC, will help develop 'mixed media centres'</i> ". Plans for this are currently under development, with opportunities to develop a professional network of venues a likely first step in enabling the coordinated co-creation of public service value.
<b>3. Measurement and outcomes</b>	The venues currently undertake measurement of their outcomes in response to the multiple, often very different, requirements laid down by their diverse funders. This means they are competing for resources in a marketplace where different notions of public value have currency.
<b>4. Commerciality/marketplace concerns</b>	The venues have not competed in a commercial marketplace to deliver services. Rather, they operate in the competitive ecology cited above. However, this is changing, with the venues promoting themselves as capable of delivering against agendas across the public and private sector – such as broadcasters of user-generated content, providers of learning and skills services, and as consultants in culture-led regeneration.
<b>5. Innovation and risk</b>	Undoubtedly, the venues operate as leading innovators and risk-takers in the cultural sector. This is a core principle but also guaranteed through their proximity to users – celebrating new content and providing platforms for its expression. The venues have also taken a lead in crossing boundaries to reach new partnership opportunities – such as the work of Watershed with Hewlett Packard Labs, which saw the creation of a new Alternate Reality Game.
<b>6. Wider marketplace implications</b>	Through Creative Britain, the venues are being heralded as leaders in their sector and as best practice examples of how to survive and be competitive.
<b>7. Impact of digitisation</b>	Digitalisation has driven processes of change and opened up opportunities for innovation and risk: the venues are leading digital innovators in the cultural sector.

