

## INQUIRY INTO FINANCE FOR THE NOT FOR PROFIT SECTOR

### **New Models New Money Submission to The Senate Economics References Committee**

#### **Introduction**

Thank you for allowing us additional time to provide a submission to the Inquiry into Finance for the Not for Profit Sector.

New Models New Money is a coalition of organisations and individuals<sup>1</sup> exploring new financing opportunities for artists and the broader arts and cultural sector to create a strong ecology of artistic enterprise; including connecting culture and capital. The focus of our work to date has been two-fold:

- Researching the concept of a new funding mechanism for individual artists through government investment in a new Foundation for the Artist (final report recently submitted to the Office for the Arts<sup>2</sup>).
- Researching a range of new financing opportunities for the sector based on established overseas models and emerging Australian opportunities of debt financing and equity investing in the cultural sector, in line with the emergence of such models in the broader social sector.

#### **The Arts and the Not for Profit Sector**

The recent Productivity Commission Report on the sector clearly identified arts organisations as a core component of those 'not for profits' in the area of culture and recreation citing the performing arts as an example:

*Performing arts cover a range of activities, including popular music performances, symphony and choral performances, and drama and dance productions. Of the 726 organisations involved in the performing arts in 2006-07, around half (345) were NFPs. They put on an estimated 18 711 paid performances and attracted 5.8 million paying attendees. By comparison, the 381 for-profit organisations staged 24 769 performances with 6.4 million paying attendees. While the bulk of their income are received from own-sources (principally box office receipts), NFP performing arts organisations received 38 per cent of their income from government (the comparative figure for-profit organisations was one per cent).<sup>3</sup>*

The work of artists and creative practitioners can also be found throughout other not for profit sub sectors in education, health, environment and broader social and welfare services.

The focus of the work of New Models New Money to date has been on the individual artist and the organisations formed to create and distribute their work in the performing, visual, literary and media arts. However, some of the issues contained in this submission will have resonance for not for profits in other parts of the cultural sector including heritage, leisure and environment.

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<sup>1</sup> For further information contact Cathy Hunt, Director, Positive Solutions.

<sup>2</sup> For further information contact Celia Street, Acting Assistant Secretary, Office for the Arts.

<sup>3</sup> Australian Government Productivity Commission. Contribution of the Not-for-Profit Sector: Productivity Commission Research Report. January 2010, p82.

## Definitions

In entering into the discussion on new opportunities for financing not for profits in the cultural sector it is important to understand and recognise the nature of arts organisations – why they exist, their value proposition and their attraction to funders and investors.

There are a number of definitions currently being formed around the term ‘social enterprise’. New Money New Models uses the word enterprise to recognise that artists and the organisations they form, or are employed by to create and distribute their work, are entrepreneurial – they take risks through combining ideas, skills and capital. We recognise those organisations as being cultural, social or creative enterprises depending on their primary purpose. Those that are constituted as not for profits operate in the cultural as well as the social economy. For many their primary purpose is to deliver cultural benefits to the community. This includes having objectives that include but are not limited to; shaping our identity; challenging our emotions; encouraging our imaginations and enhancing our way of life.

Many arts organisations have traditionally been more entrepreneurial than their counterparts with a significant proportion their income coming from earnings on product and services; as well as development of retail and catering outlets for those that are building based.

Yet many of the **barriers** to accessing finance are the same as for other not for profits and hence the need for new approaches to financing. For example:

- Most are small organisations and nearly all under capitalised.
- There is constant uncertainty about future funding and considerable effort expended in chasing support from government.
- Through past experience there are obvious concerns that looking at new opportunities for finance is simply about reducing the government dollar and not value adding to the government dollar.
- There is a requirement for diverse forms of investment to build a sustainable organisation yet additional sources beyond the government grant are rarely accessed.
- There is a need for different forms of capital throughout the different stages of development as identified in the issues paper for this Inquiry from the Foresters Report.

Some of our thoughts on what needs to be considered in this Inquiry to ensure arts and cultural organisations benefit from new forms of financing and investments include:

- First and foremost an understanding of where the arts sit in any developing policy environment so it is not seen at its simplest as ‘all arts organisations must now be social enterprises’.
- The need for governments (and Foundations) and to stop funding arts organisations just for program outputs and outcomes, and to fund for organisational strengthening and capacity building.
- The need to consider changing the way existing government funding for the sector is applied – beyond and in addition to grant giving into other forms of incentive funding, loans and longer term funding agreements for successful organisations in order to build more sustainable business models and to access new forms of finance.
- The need to educate and skill up organisations (boards and management) in order to understand how new forms of capital could assist in the sector and for them to be investment ready, recognising the considerable professionalism that already exists in term of business planning due to the work of the Australia Council and State Agencies.

- Experience in impact investing (cultural and social) is also required for those with the funds to expend, although there are some clear signs of change in the philanthropic community.
- A need for a broader understanding of what is meant by cultural as well as social impact and how this can be measured in a meaningful way and then applied to new forms of financing.
- There are also the issues relating to the legal structures and tax environment we have in Australia raised by others submitting to this Inquiry and the Henry Review which would benefit the arts as well as the broader not for profit sector.

In summary, we believe key to a resilient ecology of artistic enterprises will be:

- Identifying appropriate strategies to match artists, enterprises and investors through an alignment of value propositions.
- Building the skills of artists and organisations to create the most appropriate business models through which to achieve their goals.
- Changing the ways in which traditional sources of funding can be utilised to build a stronger sector and encourage additional investment.