Theatre Touring in the 21st Century

An Exploration of New Financial Models

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1. The Brief and Methodology

We have been asked by UK Theatre to review aspects of theatre touring in the UK. Our brief was set out as follows:

The potential of the new tax credits may provide a shot in the arm for touring and help encourage more investment and working capital into a sector that needs it. UK Theatre wants to ensure the industry and the public benefits from further funding to support more, high quality tours in both the commercial and not-for-profit sectors. We would like to know:

- *Could there also be new models for investment and new sources of income?*
- *Are there untapped markets for commercial investment?*
- *Is there the potential for increasing the amount of social investment (which brings further tax breaks for investors)?*
- *Could we encourage the arts funders to look at other ways of supporting touring (particularly commercial touring) rather than just traditional grants? Guarantees? Combination of grants and loans?*
- *Are there things we can learn from the film sector on using Lottery funds to support risk and innovation whilst also encouraging (and benefiting from) commercial success?*

We approached these questions by undertaking a number of interviews with individuals in touring companies and venues, as well as representatives of stakeholders and technical experts on tax and policy issues. We also reviewed published information, some of which is attached as appendices, and were supplied with audience data by a number of companies and by Arts Council England and UK Theatre.

The interim findings of this report were presented to an advisory group of UK Theatre members in January 2015 and the contents of this paper to the UK Theatre Touring Symposium in March. Following feedback from that event, this paper was finalised.

We should acknowledge that the social, financial and cultural characteristics of England and the other three 'home' countries are different, not least in terms of the relative significance of different scales of touring. Where appropriate we try in this document to draw out common themes whilst recognising those differences.

We should also note that this project has presented something of a moving target. At the outset, the new Theatre Tax Credit had been announced but was not yet open for business; Arts Council England were reviewing and amending the guidelines for Strategic Touring and a new Arts Impact Fund was in development. These are discussed in sections 3.1 and 4.1

2. The Context

The cultural sector is going through a period of major change arising from the profound pressures at work in the political and financial landscape. This has involved significant reductions in the budgets of Arts Councils and local authorities, as well as the abolition of Regional Development Agencies that had a locus in culture in many areas. The impact of all these forces was clearly seen in the last NPO round and in 2015 arts organisations at all scales are under intense pressure to ensure maximum return on both public and private investment. The National Campaign for the Arts' valuable Arts Index 2007-2014 shows ACE funding declining by 35% from 2009-10 to 2013-14; Lottery funding was not consistent (having risen after the Olympics, there was a steep decline in 2013/14); and local government spending on the arts down by 25% since 2008/09.

These public sector funding challenges are compounded by insecurity about future audiences. Attendance patterns are volatile and box-office income often unpredictable. Whilst UK Theatre's *What the Data Tells Us* data shows that overall audiences are holding up well, reports from regions outside London and the South East suggest that the pattern is erratic with some companies recording historically low figures. This may, in part, be due in the words of one contributor to this study, to a high "level of risk aversion with audiences not wanting to try the new" but rather playing safe with their cultural choices. A number of interviewees evidenced this by referring to the strength of demand for the largest scale shows which seen as "hoovering up the audiences".

In addition, private sector contributions have been generally weaker than in recent years - either because businesses are in difficulty or because they are loath to be seen to be spending on anything that does not seem to offer obvious shareholder value. Similarly, it is thought that Trusts and Foundations may also be contributing less as historically low interest rates depress their disposable income at the same time as the demand on their arts and social programmes rises inexorably. Unfortunately, both of these impressions can only be anecdotal as the data collation behind them – previously provided by Arts & Business – has not been undertaken since 2011-12.

Against this, there is the much-discussed potential for high net worth individuals to take up some of the slack. However, it is unclear how much of the public sector deficit can be met through this source – or what conditions may be attached to it.

In these conditions, it is ever more important to explore new and different funding options.

The broader environment in which we work is changing with significant demographic and societal shifts, including the ageing of the population and increasing cultural diversity, which bring additional opportunities (and challenges) to the central agendas of access and diversity. These factors are compounded – and complicated – by the rise of digital media and social networking.

Within this broader context, the cultural sector has also seen particular changes and new demands, including:

- Diversification of leisure/entertainment option/platforms and major events
- Demographic shifts (in terms of diversity and age)

- Climate hange (with potential long-term implications for touring)
- The growth of digital media and social networking with an accompanying shift away from the traditional producer/consumer paradigm
- A greater awareness of global opportunities
- A new emphasis on entrepreneurialism in the arts
- Changing patterns of private giving
- The need to balance artistic imperatives and organisational efficiencies
- The need to consider new structural models of business and governance; and
- Significant changes to the touring ecology, arising from increased touring costs, financial pressures on local authority and ACE funded venues and, to an extent, a period of instability in ACE's own support for the touring sector.

These and other developments have led to a new environment, a landscape unimaginable when, thirty years ago, ACE commissioned its first review of drama touring, *Keeping The Show On The Road.* Despite the transformations over that period, some factors identified in that review may be familiar:

- Concerns about audiences
- The need to develop independent producers
- The differing perspectives of venues and producers
- The difficulty of attracting established artists to touring and
- A lack of joined-up thinking across the 'funding system'.

Illustrative of ACE's difficult position is the fact, pointed out by a senior ACE officer, that it has had no theatre (or any other artform-specific) policy since 2007. Nor does it collect and regularly analyse the sort of data that it once did. That contributor also noted that few ACE officers have an in-depth understanding of the entrepreneurialism that is becoming an increasingly important element of the cultural economy.
Contributors to this review also highlighted a number of other trends and/or challenges that affect touring, including:

- Changing audience patterns (as discussed above)
- Product availability: whilst the overall data suggest there is no shortage of shows on the road, more than one contributor observed that "there is not enough quality at the mid-scale and a glut of work – of variable quality at the small-scale".
- Tighter margins with fewer guarantees and venues adding new elements to contras. More that one contributor commented that deal structures should be analysed very carefully. It is to be hoped that UK Theatre's new Code of Practice for venues and producers will help address this
- The loss of some centralised services, once provided by ACE including research and data functions
- A new emphasis on collaborations and co-productions, largely driven by financial necessity; in the words of one contributor "without co-productions we couldn't tour at all".
- A flourishing large-scale, a challenged middle-scale and a small-scale that has to operate a different financial model due to the fact that – for most shows – box-office income cannot begin to meet the expenditure involved.

Overall, it has been apparent in the development of this report that theatrical touring is going through a process of considerable change with the relatively simple historical model of producing houses, receiving houses and touring companies morphing into a more complex ecology involving theatres presenting a more mixed programme of produced and received work; a greater emphasis on co-productions; and a need for funded companies to become more commercial and entrepreneurial. The growth of consortia and new touring networks is, in large part, a response to these factors

In the context of all this – and with a particular eye on the last two bullet points above, we have considered a range of current and potential mechanisms which are treated in the following sections under the headings of:

- Cultural support
- Social investment
- Entrepreneurial opportunities
- International models

These are not mutually exclusive categories. Indeed, organisations would be wise to consider how best they could be used in conjunction to create hybrid models – perhaps at different stages of a project's gestation or development.

3. Cultural Support

This section considers financial mechanisms deliberately designed to support cultural activity. This includes grants made by Arts Councils (from both Lottery and grant-in-aid sources), the new Theatre Tax Relief, piloted from autumn 2015, Stage One and various collaborative models of producing and touring.

3.1 Arts Councils

The Arts Councils of England, Wales and Northern Ireland and Creative Scotland all support touring theatre through a combination of Lottery and grant-in-aid funding.

Wales, NI and Scotland contain few large-scale venues. Those they do have will generally take touring product that is also being presented in England; they can therefore avail themselves of the same sorts of mechanisms as English large-scale theatres.

The vast majority of their performing spaces in the three non-English nations are, however, on the small-scale where the funding bodies recognise that there is an "uneasy fit" between their (and the companies') aspirations to see work that is artistically risky and the venues' (and audiences') attraction to commercially reliable work. All three of the non-English funding bodies use mechanisms to support work at this scale eg:

- In Wales through a Lottery national touring scheme
- Creative Scotland has identified touring as the "number one issue" for theatre and is working with the Federation of Scottish Theatres to help the market create productions or projects at all scales – for more sustainable (longer) tours
- ACNI encourages cross-border tours with the Republic
- In all three countries, some consortia are emerging – as are marketplaces or showcases where companies can present their work or pitches. These can be very valuable and are used internationally as well (cf Association of Performaing Arts Presenters in New York). We recommend that a similar initiative is developed in England (see also *house* in Appendix A).

Historically, there have been issues with companies crossing the internal borders within the UK; this was addressed in the early 2000s by the development of a cross-border touring scheme for the large scale. This seems to have worked well; however, it may be appropriate for that now to be reviewed to test whether the economic model is still optimal and to ensure it remains fit for purpose in the future.

In England, by far the largest arts economy of the four countries, ACE will be supporting 71 NPOs to tour from 2015, a reduction from 79 in the last three years. Whilst non-NPOs (including for-profit organisations and individual artists) can apply for G4A, NPOs not funded to tour as part of their funding agreement can only access support through the Strategic Touring Fund (www.artscouncil.org.uk/media/uploads/Strategic_touring_programme_Guidance_for_applicants_2015.pdf).

The creation of the Strategic Touring Fund is possibly the most significant development in publicly funded touring in recent years and has led to a growth in the availability of touring product in the UK. The ACE guidelines for Strategic Touring include the following: *For the Strategic Touring programme we are interested in encouraging more activity in the local authority areas with relatively low levels of attendance and participation. These are the bottom third for levels of arts engagement in England, according to a two - year average from the Active People Survey.*

This prioritisation is the reason that the STF to date has been seen by many as a strategic audience development programme rather than a pure 'touring initiative'. The recently reviewed guidelines continue to stress the programme's emphasis on "local promoters and consortia rather than companies. However, the intention for the future is to make it lighter touch with middle-scale touring as a new priority in new guidelines". Over the three years from 2015, the Fund will have a budget of £35m with the guidelines stating "we want to see stronger relationships between those on the demand and supply sides of touring; and to support a wide range of high-quality work on tour including, in particular, diverse work, international work and mid-scale theatre responding to a gap between demand and supply of quality theatre touring to venues of between 400 and 800 seats". This new prioritisation of the middle-scale is to be welcomed. Strategic Touring should have a locus in developing the health, strength and vitality of touring at all scales

3.2. Theatre Tax Relief
(https://www.gov.uk/corporation-tax-creative-industry-tax-reliefs#theatre-tax-relief-ttr)

As noted in Section 1, TTR was created just before this study was begun. Stimulated by the intervention of a few individuals and supported by UK Theatre, it was passed into law in 2014 and was operational from 1 September that year. It forms part a suite of 'creative industry' products that will benefit which also includes:

- Film
- Animation
- High end television
- Video games

The aim of these initiatives is to tempt investors and therefore more money into theatre productions. When a similar scheme was introduced for the British film industry in 2007, it resulted in a marked increase of productions being made in the UK.

The tax credit works either by claiming a deduction against the production company's corporation tax liability or the tax relief can be surrendered for a cash payment from HMRC in the event of a loss making production. The relief is applicable to 20% of total qualifying pre-production costs (25% for touring productions). These can include accommodation, directors' fees, set design and costumes (but not marketing or similar costs).

This has been much discussed by the industry through numerous UK Theatre roadshows and workshops. At the time of writing, the first projects to apply for this programme have only just taken place. Further analysis will be required to understand fully the practical implications and challenges (eg with respect to VAT issues around co-productions and partnerships; or overseas investment in shows). However, there is a broad-based confidence that it promises to be very beneficial – in the words of several contributors, a real game-changer.

3.3 Collaborations

As already noted, in recent years the sector has seen a number of collaborative models such as Music and Lyrics, Dance Touring Partnership and The Touring Consortium, including through the STF (eg with ETT leading a consortium).

Such collaborative models also exist overseas. The United States contains, for example, the National Performance Network (NPN) - a national organisation supporting artists in the creation and touring of contemporary performing and visual arts – which is discussed in Section 6.

A model has also recently been developed in the UK – Dionysus (the Regional Touring Investment Fund), designed to attract commercial investment into regional theatre productions (see Appendix B). This could be very helpful.

Co-productions between the subsidised and non-subsidised sectors are also becoming less rare. Hopefully UKT's Code of Practice can help nurture these.

At the smaller scale, the ***house*** *initiative (see Appendix B) is a strategic initiative developed by Farnham Maltings and Arts Council England to meet the perceived gap in provision of small-scale touring; it has now expanded to a network of over 150 venues across the South East and East of England, supported by an ACE grant and with a staff of three. This is an effective model and could be replicated in other parts of England – and across borders into and out of Wales and in Scotland where many of the same problems are identified.*

3.4. Stage One

Stage One (www.stageone.uk.com) is an initiative supported by the Theatre Investment Fund voluntary ticket levy to support producers by making investments in new productions. It can support up to 10% of the capitalisation of a production (to a maximum of £20,000) with any return on that investment being re-invested in new productions. Stage One also operates at Start-Up Funding programme to support West End or commercial touring productions that are mounted by alumni of the Stage One career development scheme who have less than two commercial credits. This can provide up to £50,000 of investment, to be matched by the new producer, giving at least £100,000 worth of producer share. It may be that the Start Up Fund could be used in conjunction with the Seed Enterprise Investment Scheme (see Section 5.2).

4. Social Investment

(https://www.gov.uk/government/publications/social-investment-roadmap/social-investment-roadmap)

Social Investment Tax Relief is a mechanism to encourage interventions with a social purpose. It is not restricted to the cultural sector and is designed for investors in social enterprise who might provide capital for social purpose organisations who are not profit-maximising; investors may be fund managers, HNW individuals or foundations.

This mechanism is based on the making of an unsecured loan or taking shares (both of which must be held for three years) in a business (or subsidiary) conducted with a view to profit, including companies with a parent that is a Charity or a Community Interest Company. 30% tax relief is available on a maximum annual investment by an individual investor of £1m. The main benefit of such a scheme will be income tax relief but capital gains tax relief is also available.

This was not initially seen as being a particularly appropriate mechanism for arts charities. Importantly, however, it is recognised that the arts are a social good – and so eligible. So this stream of investment is now seen to be worthy of consideration under certain circumstances – if, for example, an organisation has one or more potential investors (as opposed to donors) who might invest in the Charity and would be more liable to do so if the support were tax deductible. There is also the capacity for any such investment to return a profit.

In this model, a charitable arts organisation could seek to fund productions through SITR although – unlike usual Angel investments - the funds (and any returns) must be retained for three years so, in many cases, they might be allocated to a slate of productions.
A charitable arts organisation could also seek to raise investment for capital projects such as a new bar or refurbishment of a theatre. Such an arrangement could offer investors a small share of profits from business generated by their investment (eg a bar or restaurant). Investing For Good – the first Community Interest Company to be regulated by the FCA - has developed a mechanism to facilitate this sort of investment – the Arts Impact Fund (AIF).

4.1 Arts Impact Fund

The AIF (/www.artsimpactfund.org/) is a £7m loan finance fund, supported by a combination of public, private and philanthropic investment and works through loan finance to enhance the social, artistic and financial return created by arts-based organisations. Stimulated by Cabinet Office research which suggested there is an investment demand of £28m from arts-based organisations, it 'co-mingles' public, private and philanthropic investment (provided at present by ACE, Bank of America Merrill Lynch, Nesta, the Esmée Fairbairn and Calouste Gulbenkian Foundations) to provide an alternative to commercial loans or traditional grant funding, working through loan finance to enhance the social, artistic and financial return created by arts-based organisations.

The Fund aims to:

- identify a portfolio of artistically excellent organisations seeking to expand or scale up

- contribute to the debate on how to rack and report on artistic and social outcomes within the wider arts sector
- establish demand for social impact funding from arts-based organisations
- demonstrate how arts organisations can generate both financial and social returns
- establish the mechanisms to allow for a larger follow-on fund
- work with experienced arts investors, sharing risk and providing the opportunity to secure finance for core costs and accelerate development plans

The potential advantages of this mechanism are access to cheap money (through a time-limited bond) with the interest rate reflecting the perceived value of the social benefit; and the potential for supporting higher risk if the initiative offers the opportunity for exceptional social value or cutting edge practice. Individual investments are likely to be in the range of £100,000600,000 and made on the basis of three criteria – repayment capacity; artistic excellence; and social value. Borrowers will need to be able to pay back at term (or re-finance). The definitions of possible social outcomes are many and varied, based on those contained in the Big Society capital outcomes matrix. (www.bigsocietycapital.com/sites/default/files/pdf/3%20Income%20and%20Financial%20Inclusion_0.pdf).

This initiative has the potential to be of value to certain types of cultural organisation. It is to be hoped that the initial scheme, currently being piloted, will demonstrate its artistic, social and economic value and that consequently further funds will be made available in time.

5. Entrepreneurial Opportunities

This section considers some of the government-sponsored initiatives designed to encourage investment in industry in the broadest sense, rather than those specifically targeted at cultural or social-purpose organisations

5.1 Enterprise Investment Scheme
(https://www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction/enterprise-investment-scheme)

This is designed to help smaller higher-risk companies raise finance by offering tax relief on new shares. For the investor, it is a tax efficient way to invest in small companies – up to £1m per person per year.

- Tax relief of 30% can be claimed on investments giving a maximum tax reduction in any one year of £300,000, provided the investor has sufficient income tax liability.
- Tax relief and exemption from Capital gains Tax (CGT) only applies if the investment is for three or more years so this scheme would only be beneficial in particular circumstances (cf Social Impact in Section 4).
- Investments can also be made through an EIS Fund, which will invest on investors' behalf, spreading risk across a number of qualifying companies.

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The EIS scheme may be valuable for some for-profit cultural organisations (see Appendix B for Dionysus) but a trading subsidiary of a charity is not eligible as its shares are held by the parent charity. Nevertheless, cultural organisations should be aware of this mechanism: in particular, for small start-up companies the smaller Seed Enterprise Investment Scheme referenced below may, in certain circumstances, be of interest.

5.2 Seed Enterprise Investment Scheme
(https://www.gov.uk/seed-enterprise-investment-scheme-background)

SEIS is explicitly aimed at start-ups (ie recently incorporated companies) and has been used by companies in the wider creative industries. It may, however, also be of interest to small companies in the cultural sector, provided they are constituted as non-charitable businesses and have the following characteristics:

- 25 or less employees
- gross assets of up to £200,000

If these criteria are met, investors (who can be a director of the company, but not an employee) can take advantage of the SEIS. In that case, providing the individual's stake in the company is no more than 30%:

- Investors can receive initial income tax relief of 50% on investments up to £100,000 per tax year
- A CGT exemption can be offered in respect of gains realised on the disposal of assets

- This might be an attractive opportunity for individuals in the higher (45% or 40%) tax brackets as their exposure would be limited to 27.5% or 30% of the investment, even if the company were to fail.

5.3 Funding Circle
(www.fundingcircle.com/uk/?gclid=Cj0KEQjwxpipBRCap8PR2Om7vq4BEiQA6V7OVe85iU0BDsj0vzpHxllk8F9LBY9d6DS-iGzLeeeRvCwaAqhO8P8HAQ)

Backed by BIS, this is a peer-to-peer lending mechanism for businesses. It claims to be the world's leading marketplace exclusively focused on small businesses with more than £300m) lent to 5,000 businesses to date and £100m in equity capital raised. Whilst not likely to be a common source of funding in the arts, it might be useful in some circumstances (eg to close a funding gap).

5.4 Finance Finder (www.gov.uk/business-finance-support-finder/search) is a government-backed register of scheme (with 630 schemes on the website at the time of writing). This may be of limited use to the company looking for finance a tour as the level of risk for the majority of lenders may be deemed to be too high without significant collateral.

5.5 Crowd-sourcing
The increasingly prevalent phenomenon of crowd-sourcing through sites such as Kickstarter offers the potential for local groups to put together packages that maximise the opportunity for a tour to benefit from many small donations. This model is increasingly used by start-ups and companies working on the small scale, and is often used to match small lottery grants or similar.

6. International Models

6.1. The Anglophone Commonwealth

The Australia and Canada Councils both offer strategic support for touring through direct provision (eg by booking tours and providing integrated marketing support) – a model very akin to that which ACE and the RABs once operated. There is no likelihood of that sort of centralised operation being re-activated in the UK but initiatives such as *house* (see above) can pursue similar objectives through third party agency.

6.2 USA

The USA contains large-scale networks designed to optimise collaborations, co-productions and economic benefits (as referenced in Section 3.3).

From being a consortium of 14 organisations in 1985, the National Performance Network (NPN) now has 61 members which form an interconnected web of relationships with the objective of supporting artists in the creation and touring of contemporary performing and visual arts. It does this through subsidies to the NPN Partners who chose the artists they present. A second key objective is to facilitate the development of new work by supporting NPN Partners' ability to commission fresh, exciting creations and collaborations.

NPN also strengthens the management and community engagement capacities of Partners and the artists they present through a Community Fund, a Mentorship and leadership initiative and LANE, a programme (not dissimilar to previous UK initiatives such as Stabilisation) run in conjunction with the Non-Profit Fund for providing support for "organizations of color, geographically isolated, and/or small to mid-sized community-based groups" which have been particularly disadvantaged and at risk over recent years. (http://npnweb.org/whatwedo/programs/lane/).

NPN works to increase the skills and competencies of individual artists and presenters. It is also engaged in a larger, field-wide effort to build knowledge, connections and impact through annual and mid-year meetings. It also collaborates with other organisations through strategic partnerships and participation in national service organisations. These efforts help develop new markets and audiences for artists, leverage services to benefit the field, and increase artistic pluralism.

6.3 Mainland Europe

Touring, as understood in the UK, is rare in mainland Europe, where co-productions or exchanges are the more common mode of operating. Financially, the main cultural support mechanism in the EU now is the relatively new Creative Europe programme, the focus of which for 2014-20 is joint initiatives across borders which may be of use to organisations setting up multi-partner collaborations or co-productions but is unlikely to be capable of supporting the on-touring of British shows into Europe.

6.4. The Rest of the World

In a globally connected economy, arts organisations will naturally want to explore new markets such as East Asia, India and South America. The issues around those opportunities (eg visas, logistics, repatriation of fees etc) lie outside this study. However, we should note that companies who have successfully made inroads into major emerging markets have tended to do so through a strategic approach, often in conjunction with the British Council.

7. Options for the Future

Drawing on the analyses above, this final section briefly explores some approaches that might be developed in the future. The first part focuses on financial mechanisms; the second on structural or organisational ones. The appropriateness of each will depend on the individual needs and characteristics of organisations and situations. In most cases, therefore, we do not make blanket recommendations. Appendix A provides a summary of the funding mechanisms referenced in this document, their applicability, audiences, benefits and constraints.

7.1. Financial Mechanisms

7.1.1. Grants and Loans

Grants (whether from grant-in-aid or Lottery) are the predominant (and generally preferred by arts organisations) mechanism by which the Arts Councils offer financial support to cultural organisations. There are, however, occasions when other models – loans in particular - might be useful. These could:

(a) Help ease cash-flow pressures on a short-term basis in situations where there is confidence that the shortfall will be rectified in the near future (for example at the beginning of tours when the capital production costs have been expended and there is a delay is settlement of the box-office); and/or

(b) Provide longer-term security where a company, venue or network is engaged on a long-term initiative to develop its business (eg through audience development)

At present, there is little flexibility in ACE's grant-in-aid budget to enable it to deploy its funds in this way (although its Charter allows it) and Lottery (where there is much greater flexibility) has only been so used in exceptional circumstances. There is a popular belief that the Arts Councils are forbidden from using Lottery funds in this way; however, ACE's 2004 Statement of Financial Requirements expressly refers to 'grants or loans' (although there is no explicit statement of permission that funds can be used in this way) and ACE already funds another organisation which runs a small loans scheme for micro-loans to creative businesses. It should be noted that Creative England has successfully argued to DCMS that it be permitted to provide loans and operates a scheme through which loans are offered against 50% matching funds raised elsewhere.

We would recommend that the Arts Councils seek from their respective Finance Ministries permission to use both grant-in-aid and lottery funds for short term loans where there is a robust business case that demonstrates that the principal will be returned within a specified time. This would obviate the need for higher-interest loans from finance houses or other longer-term financial commitments. How and from which funding stream the Arts Councils could best achieve this is clearly a matter for them. It has been suggested that any such loans should best be settled before the financial year-end, to avoid them distorting the Arts Councils' balance sheet; however the Creative England practice referenced above does not apply this criterion. Interest-free awards (ranging from £50,000 to £200,000) must be repaid over three years, with low repayments over the first 12 months

7.1.2. Guarantees

Another mechanism discussed in the consultation process for this report was guarantees against loss. In the past, ACGB as a matter of course made a proportion (c 10%) of its grant awards as a guarantee. However, we suggest there are two drawbacks to this: (i) it encourages organisations to 'spend up' and (ii) in cases where a guarantee is not called on by the end of the year, the funding body finds it difficult to re-allocate the funds effectively. A third objection voiced by one funder contributing to this study, is that it "encourages failure". For all these considerations, we do not recommend that the Arts Councils consider returning to a guarantee system.

7.1.3. Return on Investment (RoI) schemes

Consultees also discussed the potential for investment in touring work by public funding bodies. For clarity's sake, we should be explicit that we are not here using 'investment' in the way that funding bodies and the not-for-profit cultural sector have come to understand over recent years ie grant support that produces a social or cultural benefit. Rather, we are using it in its more traditional sense of aiming to make a financial return on the investment, in some cases a profit.

The value of a non-governmental agency using some of "its" public funds on a commercial or quasi-commercial initiative is potentially three-fold:

- In common with its other expenditure, it aims to enable high-quality art to be developed

- Some part – or all – of that expenditure - can be recycled when the project is over;

- In some cases (eg successful shows such as *War Horse* or *Matilda*), the sum returned could be considerably more that the original investment, allowing for the development and exploitation of further shows

To those ends, we recommend that the Arts Councils explore the potential for developing an investment fund, probably through a third-party company which is not directly controlled by them; this might perhaps be a joint venture comparable to (but with different criteria from) the Arts Impact Fund, with the aim of investing in high-quality, potentially profitable theatre shows. That exploration would need to investigate thoroughly the legal and accounting implications, including State Aid and the risk of Treasury claw-back of any profits.

Any such model would need to be led by an individual with commercial expertise and reputation within the touring sector, supported by an authoritative board. It would require a thorough understanding of and an explicit policy towards risk.

7.1.4. Endowments

Endowments have been frequently referenced as a means of arts organisations becoming more self-sufficient and less dependent on public subsidy. However, the very low interest rates that have obtained over recent years have made this a less attractive option (at 1.5% interest, for example, an income of £75,000 pa would require an endowment of £5m). Despite this, some organisations have found mechanisms for deploying endowments as a short-term measure (where the terms of the endowment permit). In one instance a company borrowed from its own ring-fenced endowment at a low interest rate to part fund a capital development rather than going to an outside source. This eradicated the need for dependence on an external agency and ensured that interest payments (from the operating company to the designated fund) remained within the company's overall financial holdings. Such an arrangement might also be possible with respect to a designated reserve (again where the terms of the reserve allow).

This mechanism would not be advisable (or even, possibly, permissible) in a situation with a significant risk of the loan not being repaid. In certain circumstances, however, it could be useful to bridge a cash-flow challenge for a touring production.

7.1.5. Theatre Tax Relief

As noted elsewhere, this initiative has potential to be a 'game-changer' on the larger and middle scales. We recommend that UK Theatre review its operation after the first full year of operation and publish advice about the lessons learned.

7.1.6. Arts Impact Fund

Similarly, we recommend that ACE and its partners closely monitor this initiative as it evolves, undertake a thorough review at the earliest opportunity to identify its potential and, if evidenced, argue for the continuation and enhancement of the Fund (bearing in mind the Cabinet Office's original estimate of need was £28m).

7.1.7. Enterprise Investment Schemes

As noted in 5.1 and 5.2, the EIS and SEIS schemes may be valuable for some for-profit cultural organisations. We recommend that UK Theatre continue to keep its members abreast of the former and that it and ITC make start-up organisations aware of the potential of the latter.

7.1.8. Mix n'' Match

This report has identified (or suggested) a number of financial mechanisms based on a variety of public, social and commercial models. It would not be appropriate to recommend absolutely one above another as their suitability and affordability will vary depending on the needs and situation of individual companies (which may also be met by a combination of different elements into a hybrid model). We would recommend that UK Theatre (with the Arts Councils) offer regular (perhaps annual) briefings on the options available (cf the sessions offered on Theatre Tax Relief and the presentation of the findings of this paper at the Touring Symposium in March 2015).

7.2. Structural Mechanisms

7.2.1. *Consortia*

As noted earlier, there is increasing interest in the consortium model both at the larger, commercial scales (eg Music and Lyrics, Dionysus) and at the smaller (eg *house*).

Consortia are seen to offer considerable benefits to their members through cost sharing, amplifying marketing opportunities and critically creating potentially significant finance for commissioning or investment. Audience development is built into many consortium models and there is considerable capacity building potential for new or up-scaled entrants to the production process. Risk is shared amongst the consortium members allowing for investment in more adventurous or imaginative productions.

ACE's Strategic Touring Fund, in particular, acknowledges this importance. Consortia come in many flavours and consortium working can be time-consuming and sometimes challenging, both for intrinsic organisational reasons and, sometimes because of external expectations. By way of example, the Dance Touring Consortium is a National Portfolio Organisation but has no office or employees, a model that has proved difficult to reconcile with the demands of its NPO funding agreement.

We recommend that arts organisations continue to develop consortium working, that the Arts Councils support this and acknowledge that the structure of very light-touch, (sometimes almost virtual) entities such as Dance Touring Consortium may require flexibility in terms of NPO or other agreements.

7.2.2. *Replication*

We would further recommend that *house* – in itself a consortium – is encouraged to develop and that the UK funding bodies explore how and where it could be replicated (or adapted) to meet needs across the countries and regions, taking account of national and regional characteristics.

7.2.3. Service Provision

A number of wider concerns about the state of touring, implicitly if not explicitly related to the subject of this report, were raised during the consultation process - in particular, around the collection and analysis of robust data (as referenced earlier in this document); training issues; and professional development (with particular respect to venue management). Some of these functions were, in the past, delivered by ACE (and, previously, by ACGB). We recognise that the funding bodies are unlikely to revert to this sort of interventionist approach in the future; however, we suggest that, if these widely identified needs are to be addressed, some agency should take strategic and operational responsibility on a sector-wide basis.

We do not believe that it would be appropriate to recommend the creation of a new agency to deliver these services. Rather, we recommend that UK Theatre (perhaps in conjunction with ITC) seek to take on this responsibility and discuss the financial implications with the UK Arts Councils.

7.2.4. *Information exchange*

The potential of marketplaces or showcases for the selling of work was frequently mentioned by consultees (referenced by a number of domestic and international examples). We recommend that ACE consider how this might relate to its joint approach for showcasing with the British Council.

Related to 7.2.3, we also note the proposal for a new web portal – provisionally www.itsagobo.com - designed to enable a better dissemination of information between producers and venues and help identify touring opportunities. This could, over time, become a useful resource for the industry, enabling new partnerships and alliances. We recommend that UK Theatre continues to engage with this initiative as it develops to ensure that it can provide an optimal resource to the sector.

7.2.5. Co-location

Venues and companies are often wary of one another. However, given the financial circumstances in which all are working, we recommend that some consider exploring the potential for co-location, for both creative and financial benefit. The long-standing example of Pilot at York Theatre Royal is a possible model.

7.2.6. *Financial Instruments*

Finally, arising from the comments in 7.1.1 about financial models of public funding, we recommend that UK Theatre discusses with the Arts Councils and then with the respective finance Ministries across the UK, possible revision of their financial instruments and directions to enable a closer fit with the needs of touring productions.

APPENDIX A: Theatrical Touring: summary of funding models referenced in this report				
Financial Model	**Short description**	**Core Audience**	**Advantages**	**Constraints**
ACE G4A	Lottery funding, under £100k.	Smaller companies with a social remit.	Supports small scale touring, particularly to areas and communities with a cultural deficit.	Non-NPO arts organisations only. Unlikely to apply to commercial product.
ACE Strategic Touring	Lottery funding.	Producing and receiving houses, touring companies, consortia.	Increasingly provides a backbone of support for touring product and the development of new audiences. NPO's and commercial organisations may apply.	Rarely supports more 'traditional' work. Mid and large scale work has found it difficult to respond to the demands of audience development. although this is changing.
Trusts and Foundations	Support provided by major trusts and foundations.	Companies developing work with a strong social emphasis.	May provide additional support to complete a portfolio of funding for a project.	Support is infrequent and patchy. Will generally require high-level social benefit. See Arts Impact Fund.
Theatre Tax Relief	Tax relief on theatrical and touring productions.	All organisations investing in the creation of new work.	Significantly reduces the cost of creation and distribution.	Some cash-flow implications. Risk that the benefit gained will be used as a reason to reduce other forms of subsidy.

APPENDIX A: Theatrical Touring: summary of funding models referenced in this report				
Financial Model	**Short description**	**Core Audience**	**Advantages**	**Constraints**
Social Investment Tax Relief	Tax relief for projects with a social benefit.	The voluntary sector and socially driven commercial companies.	Mitigates the risk of investing in projects with a social benefit but which do not guarantee a return.	Not that many theatre projects will comply.
Arts Impact Fund	New loan investment vehicle that brings together funding from the public, private, charitable and philanthropic sectors.	Arts organisations and projects demonstrating social benefit.	Certain kinds of socially driven touring could apply.	Repayment of loan requires minimal risk. Untested for touring.
Enterprise Investment Schemes (EIS and SEIS)	Investment vehicle designed to support innovation through high levels of tax relief, thereby minimising risk.	Companies – particularly commercial and mid/large-scale producers – that have suitable product and projects for investment.	Investors receive significant tax relief, thereby mitigating risk.	Not designed with the arts in mind. Needs to be tested. Investors need to be identified.
Stage One	Investment/grant scheme supported through the Theatre Investment Fund voluntary ticket levy.	Commercial producers.	Will bridge gaps in commercial financing. Supports the production of new work for West End.	Limited applicability at a national level.
Funding Circle	Government backed peer-to-peer lending scheme.	All business types.	Can provide finance where commercial opportunities are limited.	Interest rates vary with level of risk. Has not been tested for theatre.
Crowd Sourcing	Internet driven individual giving schemes.	All business and charitable organisations.	Suitable for raising (mainly small) sums through personal, peer and professional networks.	Targets may be ambitious. Outcome not known until end of the crowd sourcing campaign.

APPENDIX A: Theatrical Touring: summary of funding models referenced in this report				
Financial Model	**Short description**	**Core Audience**	**Advantages**	**Constraints**
Endowments	Investment scheme using the interest and dividend of a large fund.	Any with access to an endowment or reserve fund.	Can be used as a source of cheap finance, particularly if the endowment is an asset of the organisation requiring such finance. Repayment can be flexible.	The endowment should ideally see all funds repaid to ensure maintenance of capital.
Potential new models				
Arts Councils' Loans (ACE, ACW, ACNI, Creative Scotland)	Currently does not operate for touring, although is permissible in Councils' charters.	Could be applicable to touring/producing companies with a strong (possibly tested) product that has a low risk.	May enable development of a project that is demonstrably robust.	Will require a policy change on the part of Arts Councils followed by a period of pilot projects.
ACE Investment Fund	A possible new arms-length model that enables ACE and others to invest in the production of certain kinds of touring work.	Theatres, touring companies and consortia, both subsidised and commercial.	Could provide investment to cover project development prior to any return.	Return on investment would be required in order to make the fund sustainable. Not a grant giving body.
Historical models				
ACE Guarantees	Guarantee against loss will minimise risk of creating new tours and productions. Has been operated in the past.	ACE clients producing touring product and the small, mid and large scales.	Mitigates risk. Guarantees company can complete tour. Secures bookings.	Lowers quality thresholds, does not encourage fiscal responsibility, may inflict reputational damage on the sector.

APPENDIX B: Two Case Studies – Dionysus and *house*

Dionysus

The Dionysus Syndicate is a new theatre production investment syndicate whose members commit to invest a certain amount of money in order to produce or co-produce theatre shows and stage entertainments. Investment will be channeled through a series of limited companies and it is intended that these individual companies should be SEIS/EIS qualifying and therefore a tax efficient way for UK income tax payers to invest in theatre production.

Dionysus will focus on investing in a variety of plays, musicals and stage entertainments to be created in conjunction with theatres, production companies and festivals based across the UK, for presentation in the West End of London and on UK and overseas touring. Initially, Dionysus will seek to do business by entering creative and business partnerships with theatres and creative artists across the UK.

Dionysus takes its cue from the wealth of creative talent and theatre production that is present across the regions and nations of the UK. With additional investment and nurturing, many plays, musicals and other entertainments currently produced could be given vastly extended lives, either on tour or in the West End of London or at festivals both nationally and internationally, providing investors with the opportunity to profit from artistic and commercial success. The underlying production companies invested in by the Dionysus Syndicate will act as a producer and co-producer with a range of carefully selected and vetted partners with proven experience in the business of theatre production.

Dionysus is focused on working with high quality regionally based UK partners creating new and exciting works across many genres and in this way will seek to manage medium and long term risk. Through investing in Dionysus investors will have an opportunity to spread their risk over a portfolio of commercial theatre productions rather than the more common means of investing in single productions. It is intended to take advantage where possible of regional development co-investment and grant support that may not be available to standard commercial theatre investment vehicles.

house
Started in 2012, house is delivered by Farnham Maltings. It is steered by a group of regional programmers and producers from varying scale venues within the network.

With a team of two full-time and two part-time staff house curates and underwrites a varied programme of around 15 contemporary theatre productions each year for a network of over 150 venues. In their first three years 176 artists, technicians and producers received paid work through their tours with house.

Their programming is informed by the views of the steering group, venue network and their audiences. Taking already existing contemporary performances, house is extending the life of the best work, and working closely with venues to develop audiences for it.

Each tour is supported with marketing and publicity strategies that sit alongside specific audience development strands. The four main programming strands are; *All The Family*, *Something Different*, *A Night Out* and *Young Imaginations*.

house is strengthening the theatre ecology of South East England by hosting regular training and networking opportunities and brokering conversations between companies and venues. Between 2012–2015their six Venue Network Days were attended by 407 network members and each year house subsidises a group of programmers from within the network to attend the Edinburgh Festival Fringe. In 2013 this programming group attended 699 performances during their visit to the festival.

house is also developing their website as a digital platform for the professional theatre sector, both in our region and beyond. The website is an open resource that shares ideas, templates, information and opportunities, as well as hosting a regularly updated blog. In 2014 the house website was visited over 53,000 times and their resources were downloaded 1,683 times for free.