

Charting the Credit Crunch Waters

Financial events and the economy have dominated the news over the last weeks; the phrase “credit-crunch” (“a severe shortage of money or credit”) has entered the natural lexicon and is seemingly responsible for all of life’s woes. The current and potential impact on the arts sector can be apocalyptic at worst, or belt tightening and a differing risk attitude at best. The arts sector is used to operating in tough times, with a rapidly changing financial landscape and in some respects is more capable of surviving and prospering in a tough economic climate.

The root cause of the current situation can be traced back a number of years to the US. The US, as was common in a number of countries was enjoying a housing boom due to relatively low interest rates and a “light-touch” regime to the application process. Back in 2004 US interest rates increased and the US housing market begins to suffer, with prices falling and a rise in homeowners defaulting on their mortgages.

The UK and US government and financial authorities are worried that banks exposed to too many defaulting mortgages might collapse. In a credit based economy banks are considered to be an essential ingredient to the normal functioning of the economy. The cost and availability of credit affects all us in some way, arts organisations are not immune to these events.

The “current” situation seems to be at the pinnacle of a number of adverse events to affect the arts sector. There have been significant increased cost pressures from utilities, fuel and insurance costs. People’s levels of disposable incomes have decreased which has a knock on effect on National Lottery funds – feeding into funds provided to the Arts Council which feeds into the arts sector, the 2012 Olympic and Paralympics Games has not helped in this respect.

An increase in unemployment levels will have an effect on audience levels; the actual impact will need a closer evaluation and understanding of the relationship and mapping of respective demographics and profile.

The reduction of consumer spending does not directly affect all arts activities. For example, approximately 15% of consumers have cancelled insurance or pension contributions, car breakdown cover, dropped private health and dental insurance and have cancelled a life insurance policy to save money. This saving is a reduction in committed expenditure, discretionary spending such as that on arts activities and entertainment does not evaporate.

The potential loss of investments by Charities and local authorities in Icelandic banks will have a direct and indirect effect on the level of funds available to the arts sector. Estimates vary from local authorities losing £880m in deposits and UK charities potential losing up to £1bn. Figures are not immediately available for the potential impact on arts charities. Many of the largest charities appear unaffected by the Iceland crisis

The reduction of available funds by funders and customers, fuelled by actual and perceived circumstances has resulted in reduced ticket sales, a more competitive climate for obtaining sponsorship, donations reducing,.

The nature of investors have changed with overseas investors from countries as diverse as China, Russia, India, and Qatar providing significant investment capital - this may influence a business outlook in terms of developing relations with the arts sector.

Arts organisations and practioners are, and will be facing greater pressures due to the increased level of financial, environmental volatility and uncertainty. It is essential that there is still a focus on effective management and control to maintain stability and deliver core objectives – this would seem an appropriate general strategy for most arts organisations and is a major crtical success factor.

Arts organisations should already have an embedded proactive risk management strategy. A successful risk management strategy needs to identify, estimate and evaluate risk, and is needs to be kept up to date. Management and financial control, as in all circumstances is essential, management reporting, performance assessment, record keeping, costing and credit control are some of the main aspects.

Organisations will have to maintain and develop their sense of excellence, their USP and evaluate existing plans and subject them – if not already done - to sensitivity analysis and contingency planning, with an updated positional and situational analysis.

Trusts, Funders and Sponsors are taking a stricter approach to risk assessment of applications for funds and sponsorship. This will make the gaining and maintaining of sponsorship opportunities an even more competitive arena. Business organisations will have similar financial and operational challenges to arts organisations; there will be a significant number who will see the benefits of effective working relationships with the arts. Applications will need to be stronger, provide a solid business case and demonstrate capability and sound management.

Perception and reality are natural bedfellows, arts organisations and practitioners need to maintain a sense of focus and a clear vision and sense of purpose in an uncertain world.