



Creative
Industry
Finance

Creative Industry Finance Pilot Programme

Final Evaluation Report

Prepared in May 2014 by Tom Fleming Creative Consultancy.

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Executive Summary /

The Creative Industry Finance pilot programme provided free business development support and loans of between £5,000 and £25,000 to micro, small and medium size creative industry enterprises in London and Yorkshire and the Humber¹. It was set up to support Arts Council England's priority for ensuring that the arts are sustainable, resilient and innovative, as set out in its 10 year strategy (2010 – 2020), Great Art and Culture for Everyone². This strategy includes a focus on new business models with a reduced dependency on grant subsidy and new finance models where debt finance can and should play a role in the investment landscape for the creative industries.

The pilot was funded by Arts Council England using strategic funds (Grant in aid) which provided both revenue funding for the delivery of the programme and loan capital. It was delivered by Creative Sector Services CIC (trading as Creative United³): a Community Interest Company supporting the growth, development and productivity of the UK's creative and cultural industries. It operated in two regions: London and Yorkshire and the Humber. In London, it was delivered through a partnership with East London Small Business Centre (ELSBC) and in Yorkshire with the Key Fund.

This report by Tom Fleming Creative Consultancy (TFCC)⁴ presents the evaluation of the two year pilot.

¹ Elsewhere in this report, Yorkshire refers to whole Yorkshire and the Humber region.

² <http://www.artscouncil.org.uk/advice-and-guidance/browse-advice-and-guidance/great-art-and-culture-everyone>

³ www.creativeunited.org.uk; prior to the establishment of Creative United in 2013, the pilot was delivered by ArtCo Trading Ltd, a wholly owned subsidiary of Arts Council England.

⁴ www.tfconsultancy.co.uk

The principle aims of the Creative Industry Finance (CIF) pilot programme were to:

- provide access to finance for micro, small and medium size enterprises (SMEs) operating within the cultural/creative industries, enabling business growth and supporting talent development.
- improve the business skills and commercial experience of SMEs operating within the cultural/creative industries.
- improve the financial profile/lending history of creative industry SMEs with growth potential, enabling them to attract further investment from the private sector, thereby becoming more sustainable as independent enterprises.
- provide an evidence base for the demand and effectiveness of debt finance as an alternative to grant funding for commercially viable cultural and creative industry enterprises.

It is widely recognised that creative industry businesses face challenges in accessing finance to develop and grow⁵. The lack of information on or awareness of the business models of creative sectors has resulted in high costs for assessing loans for creditors and creative businesses are often perceived as high risk among finance providers. This relatively high risk profile is also due, in part, to a lack of tangible assets within the businesses; lack of track record (many creative businesses are run by young entrepreneurs or are relatively young businesses in the wider sense); and/or the challenge of guaranteeing demand for untested creative goods and services in a rapidly changing market.

⁵ Department for Business Innovation and Skills (2011) *Access to Finance for Creative Industry Businesses*; Creative Industries Council Access to Finance Working Group Report December 2012. European Commission (2013) *Access to Finance for Cultural and Creative Sectors*.

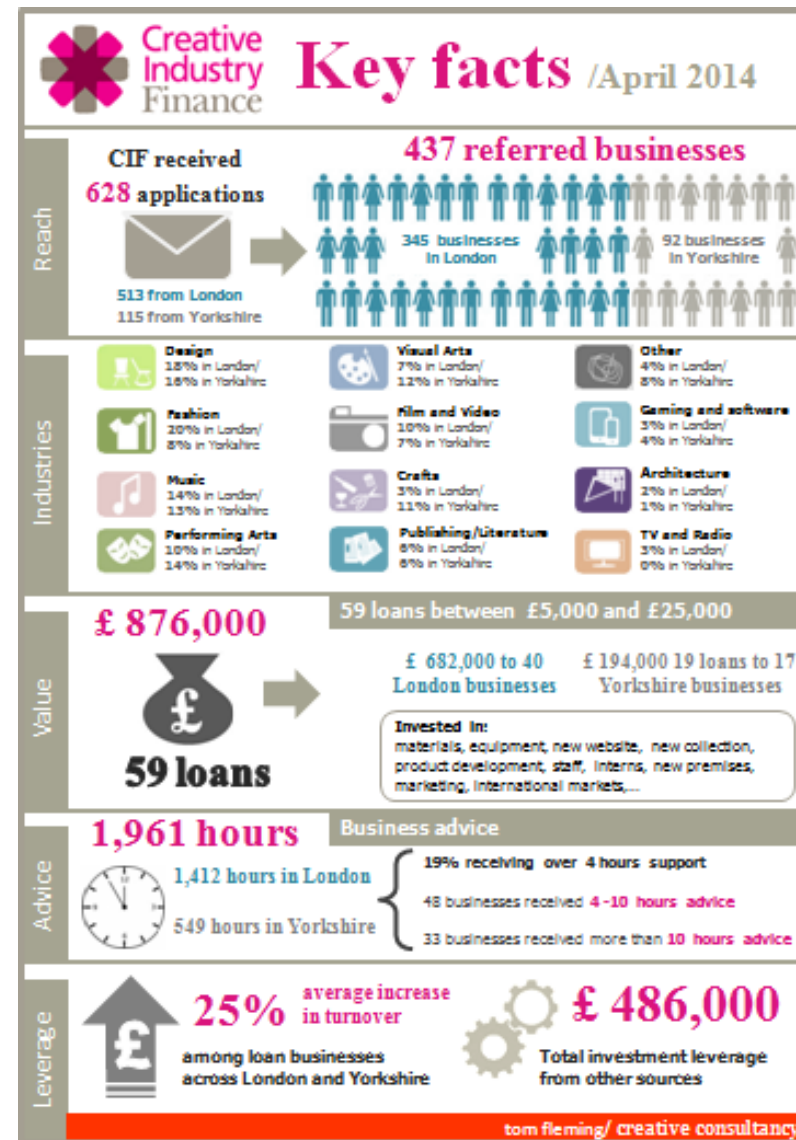
Furthermore, the need for specialist support to enable creative businesses to grow to their full potential and make them investment ready is also well documented⁶, with creative businesses often characterised as struggling to balance creative, management and commercial considerations. Creative businesses which have a history of accessing public investment (e.g. via grants), might particularly struggle to transition in language, approach and outlook to more commercially facing and growth driven outcomes.

What did the CIF pilot deliver?

The CIF model for the pilot was clear and straightforward. Applications from creative businesses were submitted to Creative United. An initial assessment was carried out before eligible businesses were passed on to ELSBC or Key Fund for business support and further assessment of the potential for the business to be considered for a CIF loan. Prior to being considered for a CIF loan, the business was required to demonstrate that they had been unsuccessful in securing loan finance from their own bank or other mainstream lender. This simple model delivered the following results⁷:

⁶ www.nesta.org.uk/home1/assets/features/a_manifesto_for_the_creative_economy

⁷ Creative United worked with the delivery organisations on the selection of businesses to progress to loan panel stage, to ensure a balanced portfolio of investments that represented all creative sub-sectors, for the pilot phase evaluation.



What were the main outcomes of the CIF pilot?

This evaluation report shows that the CIF pilot delivered a set of broadly positive outcomes for creative businesses from across the sector. While the report does point to areas where more could have been delivered, given the economic climate and perceived high risk profile of creative businesses, outcomes are impressive and for some businesses transformational:

✓ **CIF opened up access to debt finance for creative industries SMEs across London Yorkshire and the Humber – most of which were young and had never previously accessed a loan.** For example, 59 businesses received debt finance to a total of £876,000. All CIF businesses had previously been refused debt finance by banks. 75% of businesses had been trading for less than 3 years.

✓ **CIF leveraged additional finance for creative businesses.** More than 30 creative businesses accessed additional finance of £486,000. This included £191,000 of loan funds managed by ELSBC (including start-up loans and London Legacy Fund loans) and £30,000 from other Key Fund loans. A London fashion business is awaiting a decision on a £150,000 equity investment.

✓ **CIF improved business growth.** In total, the value of business growth was £1 million. Evaluation surveys show 47% of the year one businesses reported an increase in turnover, with 19%

reporting an increase of more than 10%. 55% report an increase in clients. CIF also contributed to job creation, albeit on a small scale, with increased use of freelancers a key employment outcome.

✓ **CIF had proportionately more impact on businesses from the arts and cultural part of the creative industries.** The overall increase in turnover between year 1 and year 2 following loans was 25%⁸. For more commercially focused design-led and digital media businesses, average turnover increase was 23%. For businesses that more traditionally may have accessed grant funding and public subsidy, the turnover increase was 35%.

✓ **CIF improved business skills and commercial experience.** With significant qualitative evidence of improved confidence and the perception that a range of business skills have improved since accessing CIF and its business support offer.

What did the CIF pilot Demonstrate?

✓ **Demand for debt finance from creative businesses.** With 628 applications received and 437 businesses referred for business support and/or a loan, CIF demonstrated that there is demand for debt finance from different kinds of creative businesses, including those which might,

⁸ Analysis based on figures from 18 of the 28 year 1 loan businesses.

historically, have been unlikely to be successful in securing a loan, or even consider applying for one.

CIF did not appear to offer a direct alternative to grant funding with only 10% of applicants having previously applied for Arts Council England funding. However, it did open up a new investment programme for businesses which might previously have pursued grants as a first priority or which might have been 'lost' between Arts Council-funded activities and activities funded by the banks and other sources.

✓ **The investment potential of the creative industries, including those in 'the arts'.** Creative businesses are not inherently riskier than other types of business (with effective support and due diligence). **None of the loans have so far been written off.** Repayment terms of between 12 and 36 months allowed businesses to manage the repayments of the relatively small loans over a period that worked for them. As a consequence of these favourable and flexible terms, the majority of businesses have or are paying back according to the terms agreed.

✓ **That effective support coupled with debt finance can deliver growth, lift confidence, leverage new investment and enable sustainability.** The CIF pilot has gone some way toward tackling some of the deep-rooted and structural challenges surrounding finance and creative businesses. The success of CIF businesses in leveraging additional funding is evidence that on an individual level the CIF pilot opened up previously unreachable finance for creative businesses.

What Next?

It was recently confirmed that CIF will embark on an England-wide roll-out in the current financial year (2014/15). Funding from Arts Council England will enable CIF to deliver a coordinated programme of business support and CIF has secured several different lending partners to provide a range of loans to creative businesses.

While programme criteria and lending terms are currently being negotiated (and will be informed by this Evaluation), the new national programme will be open to cultural and creative enterprises working across all media. It will require businesses to have 18 months trading. Loans will be larger than the pilot and have longer repayment terms (loans will typically range from £2,500 to around £75,000 repayable over a period of up to 5 years).

The national programme will target arts and cultural organisations (registered as charities, social enterprises or businesses) to accelerate reform in the ways they are funded. In other words, it will go a step further than the pilot programme in positioning debt finance as a desirable and deliverable means for achieving sustainability and growth.

However, even with a national roll-out, CIF will only ever reach a limited number of businesses. This makes the role of the pilot and of the forthcoming national programme, one of an advocate and demonstrator for creative industries investment. This, perhaps, is the most significant outcome: if for every business invested in, several more receive investment from other sources across the investment landscape, then CIF as a pilot and as a national programme will have been a game-changer for creative industries investment.

1. Why Set up CIF? / Attending to the Distinctive Investment and Development Profile of Creative Businesses

"For too long the creative industries have been seen as 'fluffy' and run by 'luvvies'. For too long, they have been over-talented and under-resourced. There is a real opportunity for designers, artists and creative technologists to realise the true wealth-creating potential of their creativity and innovation. In order to grasp the opportunity, investors must learn to understand creative innovators, and creative innovators must learn to make themselves investor-ready."

(Ian Livingstone, Chair of the Creative Industries Council Access to Finance Working Group)⁹.

The role of CIF needs to be understood in the context of ongoing debates relating to growth in the economy, access to finance for micro, small and medium-sized businesses¹⁰, the need for specialist support and finance initiatives for the creative industries, and the growing recognition of the interconnectivity of the arts and creative businesses¹¹.

⁹ Foreword to Creative Industries Council Access to Finance Working Group Report, December 2012.

¹⁰ See the range of guidance notes, strategic documents and instruments presented by the Department for Business, Innovation and Skills (BIS). For example: *SME access to finance schemes: measures to support small and medium-sized enterprise growth*, BIS, April 2013. <https://www.gov.uk/government/publications/sme-access-to-finance-schemes-measures-to-support-small-and-medium-sized-enterprise-growth>

¹¹ See: *Supporting Growth in the Arts Economy*, Tom Fleming Creative Consultancy for Arts Council England, April 2011. This Paper explores the interconnections and interdependencies between a traditionally subsidised arts sector and the commercial creative industries.

Report after report, including by the Creative Industry Council's Access to Finance Working Group¹² quoted above, has identified specific supply and demand side factors which mean that creative businesses (especially content or Intellectual Property driven businesses) struggle to obtain finance when compared to other sectors of the economy. These include informational asymmetries - investors don't sufficiently understand the sector; and credibility - investees don't present their businesses effectively. Perceptions and misperceptions abound: the creative industries are risky; they don't constitute a sector; they are always reliant on the odd hit and so on. The reality is that the risk profile of the sector varies hugely along with the ever-changing business models, but that investors don't get a full view of this because the sector has the tendency to not celebrate business success to the same degree it does creative success. The sector also lacks a compelling evidence base on the growth profile of different sub-sectors, or a clear narrative on the ways technological innovation is opening up opportunities for growth in different parts of the sector.

In the creative industries, it has long been recognised that support and investment has to be shaped to embrace rather than 'correct' the distinctive characteristics of the sector. Generally, the creative industries is a relatively small and micro-business sector, with high levels of freelance work and careers often defined on a project by project basis across a portfolio of clients. It is also relatively fragmented - with 13 sub-sectors¹³ overall and enormous variation in business model and approach yet, at the same time, significant convergence between activities across value chains. The creative industries is also, to an extent, socially and culturally distinct to

¹² Creative Industries Council Access to Finance Working Group Report, December 2012.

¹³ The 13 sub sectors were defined by DCMS in 1998. The classification and measurement of the creative industries by Government is currently under review www.gov.uk/government/consultations/classifying-and-measuring-the-creative-industries-consultation-on-proposed-changes

many other sectors – with many practices motivated as much by a love for the creative process as the commercial outcome, underpinned by exploration and innovation without clear economic goals, and shaped by a peer response which invariably values creative excellence over growth.

The education and wider support landscape has, in recent years, changed its approach to the sector in an attempt to reduce fragility and facilitate sustainability and growth. This includes reducing the subsidy dependence of parts of the sector, integrating entrepreneurial and creative teaching, and incentivising creative practitioners to diversify income streams and adopt management skills honed in other sectors. This is not to deny or inhibit the creative process, but to open up greater creative possibilities through improved capacity, professionalisation and confidence.

This can introduce some particularly tricky balancing acts. Investment in the creative industries needs to be sensitive to the links between activities in the 'arts and cultural sector' and the commercial economy. Many creative businesses are schooled in the former and have been funded via grants and subsidies. A challenge for the arts and cultural sector going forward is to diversify its income streams, increase entrepreneurial activity and generate creative business activities.

CIF needs to be understood in this changing landscape of a new generation of commercially savvy, creatively excellent businesses and an arts and cultural sector that faces challenges as it tries to adapt to reduced public investment and rapidly changing business models. CIF should therefore be understood as a development tool which seeks to introduce support and debt finance to creative businesses which might otherwise struggle to move into a fully commercial environment.

Overall, the CIF pilot was positioned within a complex, shifting, landscape of investment and strategic interventions to support the sustainability, innovation and growth of the creative industries and its sub sectors. These range from sector specific initiatives such as the Craft Council's Hothouse and Injection programmes¹⁴ to cross-sector collaboration encouraging projects, such as the Space from ACE and the BBC¹⁵, ACE and Nesta's Digital R&D fund¹⁶ and Creative England's Business Investment Fund¹⁷. Recently, numerous incubators, social and private investment funds, networks, mentoring schemes and local authority run schemes have been set up across the UK as access to finance and business support has remained central to national growth policy and local economic development activity.

To be a success beyond the initial pilot phase – in its national roll-out - CIF needs to develop a clear position within this wider landscape, to add value, accelerate connections and generate new interest in the creative industries from investment communities which have traditionally held back from a full embrace with the sector – notably the banks, business angels and venture capitalists. It also needs to consider its position among a new breed of investors such as those utilising crowdfunding platforms and /or seeking economic and social returns.

¹⁴ The Crafts Council's support programmes for emerging and more established Makers: www.craftscouncil.org.uk/what-we-do/hothouse; www.craftscouncil.org.uk/what-we-do/injection/

¹⁵ A digital arts service and commissioning programme established to: digital capacity in the arts, support digital creativity and experimentation and connect arts organisations with a wider audience. - See more at: <http://www.artscouncil.org.uk/what-we-do2/our-priorities-2011-15/digital-innovation-and-creative-media/programmes/space/#sthash.bYO6u3sA.dpuf> See: <http://thespace.org/>

¹⁶ See: <http://www.nesta.org.uk/project/digital-rd-fund-arts?gclid=CJWCiY6xgb4CFZShtAodQysAvw>

¹⁷ A £1m debt finance programme – supported by the Government's Regional Growth Fund: www.creativeengland.co.uk

1.1 The CIF model and process /

The CIF Model for the pilot was clear and straightforward. It comprised two main components:

- **Business support:** Up to 12 hours one-to-one business development support with a specialist business adviser.
- **Debt finance:** Following advice and development support, and an assessment by an advisor of the need and risk, the potential to apply for a business loan was provided. Between £5,000 and £25,000, the loans were to help develop and grow an existing business, with terms of repayment between one and three years at 10% APR.

Applications from creative businesses were submitted to Creative United. An initial assessment was carried out before eligible businesses were passed onto ELSBC or Key Fund for business support and further assessment of eligibility and suitability for a loan. A key eligibility criteria for entry to the programme was that the business had been trading for at least 6 months; for consideration for a loan the business must have been turned down for a loan from by their own bank or another mainstream lender. The programme was open to all creative industries sub-sectors, except antiques and advertising (which, according to CIF's founding partners, are too different from the other 12 sectors to allow a coherent approach; for example, advertising does not face the same investment challenges and antiques majors on selling old rather than newly created products).

Key Partners of the CIF Programme

Creative Sector Services CIC (trading as Creative United): a Community Interest Company supporting the growth, development and productivity of the UK's creative and cultural industries. Through the provision of access to a range of commercial tools, finance options, business skills and marketing channels, Creative United aims to drive up sales revenues - allowing creative businesses to maximise their commercial potential and supporting a thriving cultural landscape.

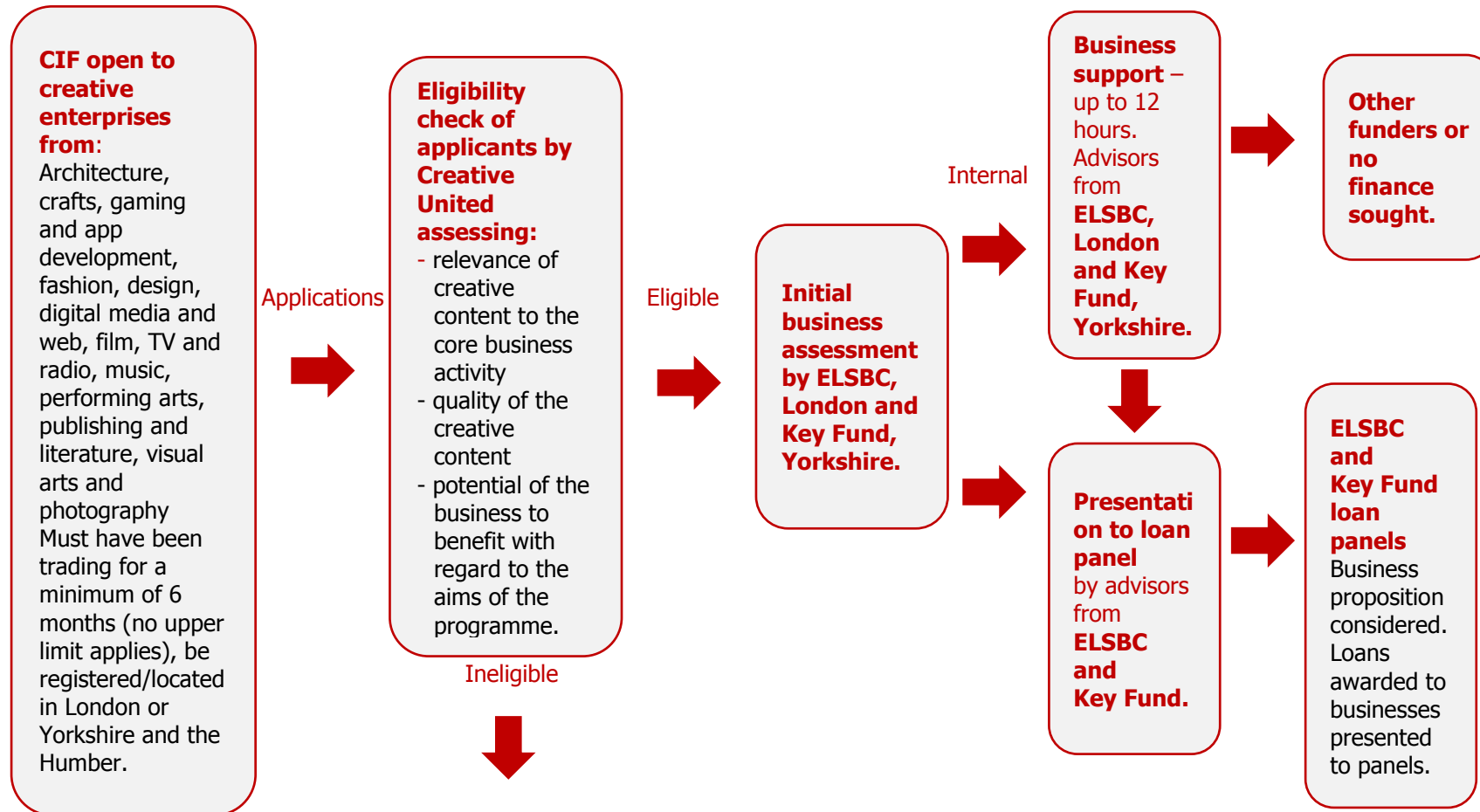
East London Small Business Centre (ELSBC), a not-for-profit enterprise agency with over 30 years of experience supporting start-up and existing businesses to grow and prosper. ELSBC has built considerable expertise in support and development of creative businesses (in particular for fashion and textiles) and has played a key role in catalysing sector development in the now vibrant creative economy of East London.

Yorkshire based, **Key Fund**, provide support and access to finance for entrepreneurs, social enterprises, charities, voluntary and community organisations, including many creative industry businesses. The Key Fund is working with a number of specialist advisors to deliver business support: Steve Mordin, Higher Rhythm (music); Gill Thewlis (design and fashion); Keith Evans, Cida Co.

Arts Council England was the main investor in CIF. The pilot supports ACE's current priority for strengthening and exploring new business models in the arts as part of its 10 year strategic plan for ensuring that the arts are sustainable, resilient and innovative¹.

Tom Fleming Creative Consultancy (TFCC) was commissioned in year one of the CIF pilot to carry out an evaluation of this new creative sector investment model over its lifetime. The evaluation considers how effective the pilot has been in delivering its principle aims (outlined above) and considers the role of specialist financial instruments and business support activities for creative industry businesses as part of the wider investment and support landscape. The evaluation is both formative (providing ongoing learning throughout), and summative (providing an overall assessment of the achievements). This is the Final Evaluation Report.

Figure 1. The CIF Model and Process



1.2 The evaluation methodology /

At the outset, an Evaluation Framework was developed with a core set of Outcomes and Key Performance Indicators to measure the effectiveness of the CIF programme against its principle aims (see **Appendix 1** for the Key Performance Indicators).

The methodology then involved:

- **Ongoing review of strategic context and external business sector research and analysis** – External scoping placing the CIF programme within a wider context of access to finance and business development policies, strategies and programmes (nationally and internationally).
- **Ongoing review of CIF monitoring data**, the applicants, referrals, business support notes, loans awarded, repayment profiles.
- **Consultation with CIFs' strategic stakeholders including delivery partners** – exploring perceptions of the programme and effectiveness of delivery (see **Appendix 2** for list of interviewees).
- **Attending loan panels** to observe the process of loan application and award.
- **Surveys of CIF businesses: Baseline and follow-up surveys** tracking impacts for businesses receiving CIF business support and loans. Baseline surveys 131 respondents (30% of CIF businesses), follow up surveys 103 respondents (24%) over 2 years.
- **Two business focus groups** with 13 businesses in London, exploring effectiveness of support and direct and indirect impacts for the businesses such as business growth and business development (see Appendix 3 for businesses consulted).
- **1-2-1 interviews**. 18 CIF businesses interviewed including follow-up with year 1 businesses. Where possible their business advisors, partners or staff in the business and other stakeholders, such as suppliers, clients and accountants, were also interviewed. Feedback from this wider interest group was used to inform the design and delivery of the programme up to interim stage (see **Appendix 3** for businesses and consulted).

2. Summary of Key Deliverables and Outcomes /

This evaluation measures a set of Key Performance Indicators (KPIs) which TFCC co-defined with Creative United and Arts Council England. Each KPI is linked to the main aims of the CIF programme. They include capturing the quality of demand for CIF (through monitoring applications and loan approval), the degree to which CIF enabled business growth, improvements in business skills and commercial experience and improvements to the financial and lending history of SMEs (including the ability of business to attract further investment). In addition, KPIs were developed to monitor the fit of CIF within the overall investment landscape (measured by referrals from other agencies and programmes).

The tables below chart the way that the CIF pilot delivered against these KPIs and can be viewed as representing the architecture of outcomes of the CIF Programme.

Main Differences between London and Yorkshire/Humber Pilot areas

London and Yorkshire and the Humber offer very different environments for the creative industries. London is perhaps the leading global creative city, with a sector of unparalleled scale and diversity. Yorkshire has a smaller sector overall, with key concentrations in the core cities of Sheffield and Leeds, spikes of activity in smaller cities such as York, Hull and Bradford, and a sector distributed across towns and rural districts.

By staging the pilot in two different regions, it is possible to explore different delivery structures and to understand how creative industries finance and support can offer progressive outcomes in a range of contexts.

Main differences

London attracted far more applications – 513 compared to Yorkshire's 115, with referrals showing a similar pattern (345 compared to 92).

Average loan size was significantly different between the two areas – in Yorkshire it was £10,210 and in London £17,050.

But similarities are significant

The spread of creative industries sub-sectors which participated in the CIF pilot was similar in each region, with Design and Fashion, followed by Music and the Performing Arts the predominant sectors in both areas. Visual Arts and Craft businesses were seen in higher proportions in Yorkshire than in London.

Programme Aims and Objectives and its Key Performance Indicators

Results recorded and tracked through personal interviews, surveys and data capture by CIF, ELSBC and Key Fund.



1. To provide access to finance for creative SMEs

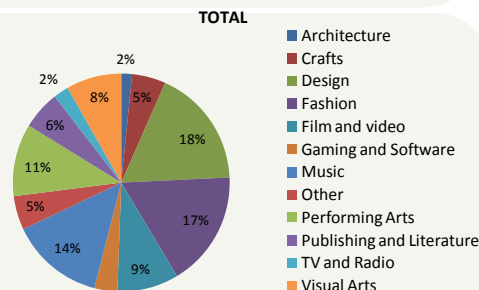
- ✓ **437 businesses** received support from the Creative Industry Finance Programme.
- ✓ Out of these **437, 59 businesses** received loans of between **£5,000 and £25,000**.
- ✓ The **total value** of the loans was **£876,000**. **40** loans were made to 40 London-based businesses (**£682,000**). **19** loans were made to 17 businesses in Yorkshire (**£194,000**).
- ✓ In London, £600,000 of loans were issued through ACE investment, a further 82,000 through a legacy fund created through recycled repayments.
- ✓ The **average value of the CIF loans** was **£14,850**: in **London £17,050** and in **Yorkshire £10,210**.

2. To enable business growth and support talent development

- ✓ **A total of 1,961** hours of business support were provided by ELSBC in London and The Key Fund in Yorkshire and the Humber. **1,412** hours in London and **549** hours in Yorkshire.
- ✓ **33** businesses have received more than **10** hours support. **48** have received between **4-10** hours.
- ✓ **Business growth:** Of the year 1 businesses that completed the follow-up survey, **47%** report an increase in turnover. **36%** report an increase in profits, **55%** an increase in the number of clients and **16%** say their number of employees has increased.
- ✓ An assessment of the figures provided by the two lenders shows an **average increase in turnover of 25%** for the businesses receiving a loan.
- ✓ Average increase for more **commercially focused design-led and digital media businesses 23%** and for **35% for businesses that more traditionally may have accessed grant funding and public subsidy**.
- ✓ **Jobs and staffing:** Average of **3 more freelancers** per business.

3. To provide evidence for the demand and effectiveness of loan finance

- ✓ **628** applications received, **513** from London and **115** from Yorkshire.
- ✓ Businesses were from **12 different sub-sectors**
- ✓ **10%** of CIF businesses had previously applied to ACE for funding.
- ✓ ELSBC: **27%** of the capital lent has been repaid by end March 2014. Key Fund: **20%** repaid
- ✓ 1 loan paid off in full; no loans written-off; 14 businesses rescheduled repayments.



4. To improve the business skills and commercial experience of SMEs

Business skills:

In the survey, businesses were asked to assess their business skills and knowledge development during the CIF programme:

- ✓ **75%** of the surveyed businesses rated the **business support as good or excellent**.
- ✓ **'VAT', 'HR issues/Employing staff' and 'Options for financing business growth'** were the weakest rated skills on the baseline surveys.
- ✓ **The greatest skills improvements had been in:**
 - ✓ **'Options for financing business growth'**: 11% increase in businesses rating skills as good or excellent in year 2 compared to year 1.
 - ✓ **Pricing strategies**: 14% increase in businesses rating skills as good or excellent in year 2 compared to year 1.
 - ✓ **Marketing**: 21% increase in businesses rating skills as good or excellent in year 2 compared to year 1.

5. To improve the financial profile/lending history of creative industry SMEs with growth potential

- ✓ **100% success rate of businesses being put before the CIF loan panel**.
- ✓ 3 businesses interviewed by TFCC stated that **banks had now offered them debt finance** when previously they had been turned down for a bank loan.

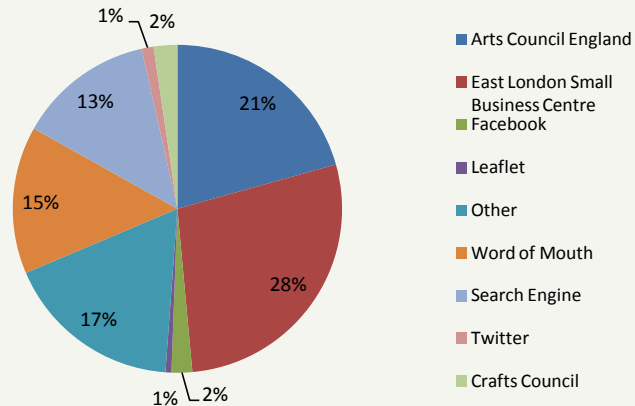
6. To enable creative industries SMEs to attract further investment

- ✓ **More than 30** businesses have secured finance from other sources as a result of the CIF programme.
- ✓ **£486,000 investment has been levered** from other sources by businesses through the CIF programme by 34 businesses.
- ✓ **Additional finance includes a business** receiving funding of **£40,000** from several local councils, trusts and foundations as well as private donations.
- ✓ 31 businesses have **secured loans through ELSBC and Key Fund**.
- ✓ Businesses awaiting confirmation of **further £350,000** in funding.

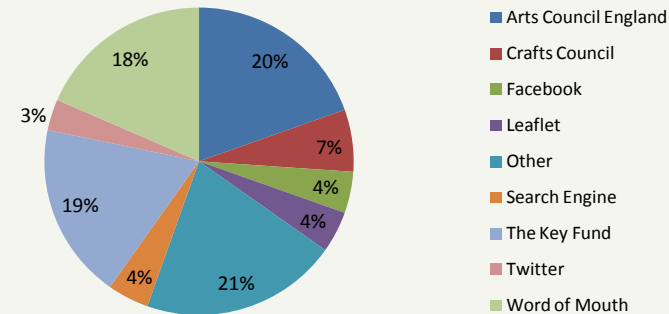
7. CIF fit within the overall landscape of finance and business support for creative industries

✓ Reach and Promotion channels:

London: Where did you hear about us?



Yorkshire: Where did you hear about us?



8. CIF supporting delivery of Great Art and Culture for Everyone Goal 3: The arts are sustainable, resilient and innovative

- ✓ CIF is helping organisations to be more sustainable through facilitating growth, improving business skills, improving processes, encouraging investment in R&D and innovation.

3. Summary Outcomes of CIF /

"The process has helped me clarify my aspirations, given order to my ideas and helped me prioritise them. I've built a pricing model which is easy to operate, created a long term plan and developed a strategy for structured profile building and marketing and ways to capture market intelligence to inform product and pricing decisions." (CIF business).

The two year CIF pilot provided specialist creative business support to 437 businesses from across London and the Yorkshire and the Humber region: 345 businesses in London, 92 in Yorkshire and the Humber. A total of £876,000 in CIF loans was invested in 57 businesses. Two businesses in Yorkshire successfully applied for a second loan during the pilot phase. The combined value of the two loans received by each of these businesses was below the maximum single investment of £25k allowed under the programme. £794,000 of the loan investment came from ACE capital funds (Key Fund had £6,000 still to be allocated as 31 March). £82,000 of CIF loans came from legacy funds.

Just under 20% of the businesses received more than 4 hours intensive 1-2-1 business advice and support.

Summary of Key Fund CIF loans:

- Total ACE capital fund: £194,000 allocated by the end March 2014 (£6,000 still to be allocated)
- By the end of March 2014, 19 loans had been approved
- Loan repayments received by March 2014 £38,025
- Most loans were for 3 years
- 1 loan paid in full when the business closed
- No loans written off to date
- **Legacy Fund created:**
 - In April 2014, the fund value stood at £205,000

Summary of ELSBC CIF loans:

- By the end of March 2014, 40 loans had been approved totalling £682,000 (including 2 awaiting draw down)
- Total ACE capital fund: £600,000 allocated by end of March 2014
- Loan repayments received by March 2014 £167,000
- Most loans for 3 years
- Arrears running at 15% against schedule but in all but one case rescheduled repayment
- No loans written off to date
- **Legacy Fund created:**
 - In April 2014, fund value stood at £645,511
 - In April 2014, 3 further loans of total value £50,000 were made through the Legacy Fund
 - In April 2014, the first full prepayment of an original pilot fund loan was made

Design, then Fashion, followed by Music and Performing Arts were the predominant sub-sectors of CIF businesses. Fashion representation was higher in London and Crafts in Yorkshire and the Humber but, generally, sub-sector representation was similar in both regions.

The full outcomes of the investment and support can only really be fully understood and appreciated over the medium term, particularly when looking at the financial return on investment. In considering the outcomes of CIF, analysis has been focused on businesses receiving support and/or loans in year one of the programme, up to end of March 2013.

This section provides a summary of key outcomes delivered by the CIF pilot – adding detail and illustrative case studies to the summary of KPIs provided in Section 2.

3.1 CIF opened up access to finance for creative industries SMEs across London and Yorkshire and the Humber /

57 businesses received debt finance: loans of between £5,000 and £25,000 (28 loans were made in year one of the programme). All CIF businesses had previously been refused debt finance by banks¹⁸.

CIF pilot businesses were predominantly young businesses (75% had been operating for less than 3 years). The relatively small size of the loans was likely to be a factor here with early stage businesses requiring smaller initial investment to develop and launch products and ranges, and take on additional staff and freelancers to support the first phase of growth.

In Yorkshire, the businesses tended to be more established, 35% had been operating for more than three years. In London only 21% had been in business more than three years.

Being more established does not appear to have translated into greater confidence with debt finance. The average loan size in Yorkshire was £10,200 compared to £17,050 in London.

Despite the difference in the regions, this dedicated creative SME finance programme played an important role in opening up access to vital finance for businesses who were otherwise struggling to secure the injection of cash they needed.

The targeted business approach to investment readiness (via business support) opened up additional financing opportunities for

a number of the businesses, beyond the CIF loans. As one business that benefited from the business support but did not receive a loan explained:

"Following the support through CIF we have received grant funding from several local councils, trusts and foundations as well as private donations - the majority of which I believe were influenced by the feasibility of our business model, which has been improved through the CIF business mentoring." (Performing arts business.)

More than 30 CIF businesses accessed additional finance of £486,000. This included £191,000 of loan funds managed by ELSBC (including start-up loans and London Legacy Fund loans) and £30,000 from other Key Fund loans. Businesses also accessed other investments including grants of £45,000, and investment of £10,000. A London fashion business is awaiting a decision on a £150,000 equity investment. The support through CIF was crucial in developing the pitch to the investor.

However:

CIF was not appropriate for all creative businesses seeking finance. Not all the businesses were able to access the finance they were hoping for through CIF. In total, 378 businesses received business support without being allocated a loan. This affected the confidence of some, at least in the short term.

"Not securing the loan has had a huge negative impact as has the time trying to secure it."

Of course, businesses are likely to have negative feeling when being turned down for any type of loan. These might have been more pronounced among CIF businesses, where the loan is marketed specifically to businesses not eligible for and turned down by other lenders. However, this does highlight the importance of

¹⁸ This was one of the criteria prior to debt finance being offered.

the ongoing need to manage expectations effectively from the start of the application process. This is something that Creative United and partners worked towards throughout the CIF pilot, with noticeable improvements in the numbers of people feeling the negative impact of not receiving the loan. For several businesses this outcome was positive:

"I applied firstly because I thought I needed a loan but with the help and advice from ELSBC I realised I just need to work smarter. The way I work currently it wasn't clear that I could afford the loan repayments. The advice I've been given has been outstanding." (CIF business).

Loans capped at £25,000 limiting growth. Some of the businesses felt they required larger loans or investment to finance their expansion:

"The CIF loan should help me to create the AW collection and help to fund the production of past designs. So, it actually made the difference that I expected. But it is still not enough money and my turnover is still very small and has not changed." (Fashion business).

"I hoped it would help me to attend/exhibit at more trade shows and develop my range further. But sadly, the shows were more costly than the loan and the product development was also too expensive to be worthwhile." (Fashion business).

For businesses with stronger growth potential, the £25,000 limit of the loan may have been restricting. For others, a larger investment may have been what they felt they needed, without fully understanding the risks for investors or themselves.

3.1.1 Opening up access to finance - Key learning points

- **Managing expectations.** As highlighted above, there was an ongoing need for clarity of message about what CIF can offer. This will become even more vital (and complex) as the programme rolls out and the multiple lenders join the programme with differing offers for different types of businesses.
- **Next stage investment – CIF as an investment pipeline.** Setting up partnerships with business angels, banks and other targeted programmes for CIF businesses ready for next stage investment. This happened on a case by case basis but a more systematic programme-wide approach to leverage would have benefited the businesses and helped to raise the profile of creative industries investment overall.
- **Business model innovation.** As developing sustainable business models becomes ever more complex, the roll-out of CIF will need to include research on how the programme aids the development of new models e.g. where creative businesses find new ways to monetise content, develop blended business models and /or open up international markets.
- **A more flexible approach to repayment.** Some businesses felt the repayment period started too early, when they had not yet implemented the investment and 'felt the benefit':

"I had to start paying straight from the beginning. On one hand, this was positive as it pushed me to perform rapidly. On the other, it didn't give me a lot of breathing space."
(Artist, London).

However, truly 'investment ready' businesses would not see this repayment period as a hindrance because they would be ready and willing to respond to the terms of the investment product they are applying for.

Investment on the rise – The Culture Space Ltd

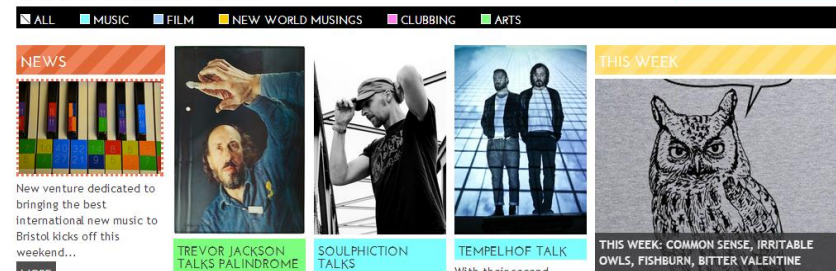
The Culture Space Ltd - a start-up which launched three projects. Starting in the electronic music sector, the company has moved into other creative sectors including film, arts and clubbing. CIF provided financial backing when other investors and lenders were reluctant.
Loan: £20,000

RAN\$OM
NOTE



YOUR TICKET OUT

BOOK TICKETS



The Culture Space Ltd, founded by Wil Troup, began as an online information and white-label ticketing-platform for London-based electronic music events and releases. The business grew fast and one of the platforms, The Ransom Note,

developed into a vital magazine for electronic music culture and the wider scene. As they grew, Wil's platforms required a more complex IT infrastructure but commercial banks were reluctant to finance such an emergent business model from a new company. Frustrated by the lack of understanding and knowledge he received, Wil applied to CIF and successfully received a £20,000 loan. This enabled him to improve the existing platforms and ticketing system (RSN) as well as financing the launch of a more holistic, user-generated platform, The Beat Manifesto.

Diversification and growth key

Business diversification and growth have been the primary outcomes of Culture Space's involvement with CIF. Funding has also opened up opportunities for next-stage investment: several business angels are interested in investing in the company. One of the commercial banks that rejected the business at the beginning has also now offered a credit facility.

"With the loan and the business support from CIF, it is going so well that the business is already growing and might need more finance to grow faster. We have also gained confidence and business skills. Our business advisor gave really straight forward advice and helped us achieve our goals. He also pointed us in the direction of some useful contacts."

Similar stories

"We wanted to invest in our growth and applied for bank loan, which we didn't get. Funnily enough, after we received the CIF loan (£25,000), the bank called us up and offered us £10,000 credit. CIF improved our financial profile for lenders."

Music recording business

"We have received grant funding of £40,000 from several local councils, trusts and foundations as well as private donations - the majority of which I believe were influenced by the feasibility of our business model, which has been improved through the CIF business mentoring."

Performing arts business

3.2 CIF supported business growth /

A number of the CIF businesses showed early signs of business growth.

The programme has demonstrated the value and importance of combining debt finance and specialist business advice, to maximise the investment outcomes. The advice has helped businesses, particularly those in the early stages, to focus on where they need the investment most.

"Definitely the combination of both-business advice and access to finance is what I need. They are incredibly complementary, without the business advice, we wouldn't have known how to start using this money-opportunity."

(Record, Publishing and Management business.)

Increasing turnover

In the surveys of businesses, 47% of year one businesses surveyed in year 2 reported an increase in turnover, with 19% reporting an increase of more than 10%. 36% reported an increase in profits and over half (55%) reported an increase in clients. Analysis of the accounts of year 1 businesses receiving loans showed 72% of businesses had an increase in turnover with an overall increase in turnover of 25%¹⁹ between year 1 and year 2.

In total, the value of business growth was £1 million. Increases range between 12% and over 600%. (See case study of Muf Architects who experienced a nearly 60% increase in turnover). The highest increases were among businesses with a starting turnover of less than £25,000.

¹⁹ Analysis based on figures from 18 of the 28 year 1 loan businesses.

Three businesses (all in London) experienced no growth and two experienced a small decline in turnover (1 Yorkshire; 1 London).

Increasing jobs

While only a small number of businesses have grown sufficiently to directly employ new staff, there has been an increase in employment of freelancers. The average number of freelancers rose from 6 to 9. For many, particularly smaller creative businesses, working with freelancers is the appropriate model, giving them flexibility to increase their work force and bring in particular skills as and when they are needed. As the case study of Kempadoo Millar shows (see below), this can drive the business to focus on new products and services.

Return on investment

Turnover Increase

Overall increase in turnover between year 1 and year 2 following loans: 25%

For more commercially focused design-led and digital media businesses: **23%**

For businesses that more traditionally may have accessed grant funding and public subsidy: **35%**

Examples of how loans were used and turnover increased

Relatively commercially-facing creative businesses

- A London Visual Arts training business **invested their CIF £12,000 loan in employing an administrator**. The business had a **33% increase turnover** as the Director had more time to focus on marketing and delivery of workshops.
- A Yorkshire photography business **invested in new equipment** with the £10,000 CIF loan. The business had a **67% increase in turnover** through the innovation in process brought about with the new equipment.

Creative businesses which, historically, were more 'grant-leaning'

- A London music business **invested their £15,000 loan in expanding their recording studio**. They experienced a **108% increase in turnover** through the new business the expanded studio enabled them to take on.
- A London craft business **invested in marketing and product development** with their £25,000 CIF loan. The business had a **33% increase in turnover** through a more focused approach to generating sales and new products for new markets.

However:

Not all businesses experienced business growth. 9% of year one businesses surveyed said they experienced a decrease in turnover. For some of the businesses, increases in turnover, and the ability to employ additional staff, will come later following a period of consolidation and change of business model.

The pattern of growth for creative businesses is not smooth and shows peaks and troughs especially during the first five years. Therefore, judging growth by staff numbers may not provide as round a picture as looking at other business fundamentals.

3.2.1 Supporting business growth - Key learning points

- **Growth was not confined to 'digital or media' businesses.** CIF shows that sustainable creative businesses from across all sectors can develop healthy growth through concentration on good business practice including focusing on quality, innovation, access to markets and developing capacity.
- **Growth needs to be understood and measured 'across the value chain'.** If we are to fully understand the multiplier effects of investing in relatively small creative firms this needs to include freelancers and even the clients of creative companies.

Muf Architecture – Doubling turnover

Since 1994 Muf Architecture has established a reputation for pioneering and innovative projects that address the social, spatial and economic infrastructures of the public realm. While a very successful company, with numerous awards to their name, they have found it difficult to get commercial banks to understand the way that cash flow works for a dynamic creative company. **Loan: £25,000**



Despite an average annual turnover of £500,000, their bank of 18 years refused them credit at a very critical moment, deeming their fluctuating cash flow as presenting too high a risk. So they came to CIF and were soon successful in getting a loan. The payoff has been rapid: In the first year, turnover increased by 20% to £600,000. This financial year they expect even better things with a predicted turnover of £957,000.

Working capital is key

Before applying to CIF, Muf Architecture had 5 full time and four part-time employees. They realised that to pay salaries and finance vital new computer equipment they urgently needed more working capital. Their CIF loan gave the company enough solvency to give them the space to regroup and grow. Since then they have doubled full time staff to ten. Muf say that while the loan was key, the support package they received from CIF was equally vital:

"Our business advisor had an extraordinary understanding of a creative business and our particular needs. Definitely, we have done loads more in terms of cost and time management thanks to the business advice."

One of the results of this is that the bank that rejected them, has now offered them an overdraft facility. Now, after nearly 20 years the company is in better shape than ever. They are confident of further growth and looking forward to further work with their CIF business advisor.

"We have certainly moved to the next stage and we would love to keep on receiving this extraordinary support! I think we need our advisor even more than before!"

Similar stories

"The turnover for this year is experiencing a very positive growth, we are expecting to double turnover."

Design business

"We are expecting an increase over 100% (up to £100,000) for this financial year."

Music, design and film business

"During my second year of trading my sales have been much steadier and have been increasing gradually with more and bigger clients. I've also been developing new areas of work which promise to enhance the businesses future growth prospects."

Performing arts business

Kempadoo Millar - Increasing jobs

Kempadoo Millar mixes finest Yorkshire made cloth and tweeds with luxurious vibrant silks to produce exceptionally beautiful flat caps with a cool contemporary twist. In the last 12 months, CIF has allowed this business to significantly expand, working with 8 creative practitioners in the production of its luxury products.

Loan: £10,000



New collaborations:

Working with local crafts people is central to Kempadoo's business philosophy, helping it produce contemporary designs based on traditional expertise. CIF's support has played an important role in enabling this. Kempadoo received a loan of £10,000 allowing them to place larger manufacture orders and to outsource work to freelancers. In the last 12 months, Kempadoo Millar has been able to contract five additional freelancers in the design process. This has freed-up the founder, Rhian, to focus on new designs and innovation to widen the product range of the business.

"Through paying professional freelancers to do parts of the business that are not my specialist area I have found my time has been free to be more creative within the business. This has included designing a new winter collection, working on bespoke designs and a children's range of hats."

Marketing:

In addition to design support, Rhian has also been able to employ a marketing agency which is helping to ensure that national and international sales will rise more than 10% this year. She has also had time to visit trade shows and gift markets to sell directly to the public, which is great for both profits and product feedback. She expects an increase of over 10% in turnover and profits.

Similar stories

*A **publishing company** has increased its collaboration with freelancers from 1 to 6 in the last 12 months.*

*An **architecture studio** has hired 4 people full-time since the support from CIF.*

*A **contemporary art gallery** in London will start to pay for an intern, in the near future.*

*For a **jewellery business**, the entire loan was invested in freelance support, giving the designer time to focus again on the designs.*

The Juniper Tree Card Company - A sustainable business

At a time when limited cash flow was threatening to stifle growth, the CIF loan has allowed the business to grow and respond to expanding orders. **Loan: £25,000**



The Juniper Tree Card Company designs and prints environmentally friendly greeting cards using original fabric stitched artwork. Everything is designed, printed and hand-finished in Yorkshire. The CIF programme has been crucial in supporting the business in its early stages, helping it through a period when it had lots of orders without the finance or capacity to properly cope.

Helping expansion and sustainability

The opportunity to move into larger premises was essential and would have not been possible without the £25,000 CIF loan. It also enabled cash flow to finance the production of larger orders, thereby enabling it to trade in a bigger market and to increase its product range. This has resulted in an increased turnover and the hiring of 8 freelancers to collaborate in the design process.

"In a short time, Juniper Tree Card Company has more customers and sales are still growing and tend to be larger. Moving to bigger premises has allowed us to satisfy orders in a much more efficient way."

The next steps

For Juniper Tree Cards, another key benefit of participating in the CIF Programme has been the way it has boosted confidence and self-sufficiency, helping to establish a healthy and sustainable business structure. Since applying to CIF, The Juniper Tree Card Company has experienced an increase of over 10% in turnover, profits, clients and sales:

"As a result I hope to make sure the business goes from strength to strength and supports its own development in the future. I also have plans for new products, wrapping paper and note cards..."

Similar stories

"CIF has helped us to gain confidence and clarity. This financial year, we expect a turnover of £600,000, 20% more than last financial year."

Architecture business

"CIF funding for equipment purchase has improved the quality of my product, my efficiency and marketability. Targeted advertising has helped increase my client base."

Design business

"CIF has given us business insights - strategic planning, understanding of finance and clarity of what we offer and how much it is worth."

Fashion business

3.3 CIF improved business skills and commercial experience /

The specialist sector support offered by CIF played a valued role in supporting the development of broader business skills for both loan recipients and those that did not secure loans.

This included a focus on technical business management aspects (understanding business management systems, exploring markets and identifying skills needs). It also included support to improve skills and increase confidence.

Improving business skills

CIF impacted directly to develop core competencies that creative businesses (and all businesses) require for sustainability and successful growth. In particular, CIF increased businesses' options for financing business growth (11% of businesses reported an improved competence in this area), pricing (14% of businesses reported an improvement). The largest impact was in marketing (21% of businesses reported an improved competence). CIF also had a noticeable impact in terms of business planning and identifying new business opportunities.

Increasing confidence

The combined effect of receiving a loan and business support improved the confidence levels of some businesses as they felt better equipped to tackle the challenges that come their way. The opportunity to access objective business counselling, to explore a combination of commercial and creative concerns in a trusting and supportive environment, were just as vital for some businesses as the loan.

However:

Not all businesses felt they received the advice and support they needed. Despite the creative sector specialisms among the advisors, some business still felt misunderstood by their advisors and that they didn't have sector-specific insight required.

"I need a 'real mentor' who understands my business and my own ambitions and helps me to grow my business in my expected direction and cope with the finance. As I didn't get through CIF I hired a private financial coach." (Art gallery).

Specific business counsellors were cited on several occasions as delivering excellent service, while reviews for others were less favourable.

For some of the **businesses focused solely on securing the loan** as the solution to developing their business, they have been less open to taking on board the advice they have been given:

"Nothing has changed because I have not received any financial support". (Design business).

3.3.1 Supporting improved business skills and commercial experience - Key learning points

- **Specialist business advisors with relevant sector knowledge help businesses feel more confident that advisors understand their business models.** However, if a business is matched to an adviser who lacks the sector-specific knowledge or 'personal touch' required to offer valued support, some transactions can even damage the business. Effective brokerage of businesses to advisers is so important.

- **Establish a network of CIF businesses.** Increased networking among the CIF businesses might have facilitated shared learning and potential collaborations. The consultation events held as part the evaluation were a forum for collective reflection on the business development process but also allowed the businesses to share their learning and present their businesses.
- **A network of mentors.** The business advisors in many instances were seen as mentors. The experience of being mentored was hugely valuable for the businesses. A number of the early stage businesses expressed an interest in becoming mentors for the newer CIF businesses. In the future, a network of mentors could be facilitated through an extension of the wider CIF network (proposed above).

Ditto Press - Improved management skills /

Ditto Press is an independent publishing house and printing company based in London, specialising in the arts and creative print. Thanks to CIF's financial support and business advice it has moved into much needed new premises and is well set for the future. Loan: £25,000



Designed by Kate Moross for Tom Vek.

Ditto's reasons for applying to CIF were twofold: to help it develop a better and more sustainable business model and to help it expand into new premises with room for a shop and gallery. The £25,000 loan from CIF enabled Ditto to pay moving costs including agent fees, deposits and fit-out costs, but equally importantly business advice sessions ensured that with the move came a new sustainable business model.

New management systems

Ben Freeman, co-founder of Ditto, explains that at the heart of this new business model lies a new structure and better cost management. Along with this he has also assumed more responsibility and bought out his business partner. One of the consequences is that he and his team have improved their business skills and are working much more professionally. Ditto Press has widened its product range and services and has also reached new clients.

"The business advice from CIF is very good, and I hope that we can continue working together after phase 1: the new premises."

Similar stories

"For my business, the greatest impacts of CIF were improved understanding around pricing and a better understanding about the fashion industry."

Fashion business

A small **Yorkshire based theatre company** stated that the three key impacts were: *"Business planning, realistic outlook and expert advice."*

"My business advisor really helped me with marketing advice, improving my financial planning, record keeping and cash flow management."

Design studio

"The greatest changes from the CIF support have been better strategic planning, financial management and clarity of what we offer and how much it is worth."

Yorkshire-based craft business

Tobyboo – Growing in Confidence

For Tobyboo, business advice from CIF helped the business to focus on allocation of resources. With more effective management of finances it became apparent that the loan wasn't necessary. Loan: Decided not to apply after business advice.



Tobyboo, created by Tina Crawford in 2010, creates unique illustrations using a free machine embroidery technique. These are then used in tableware, cushions and textiles. All their manufacturing is done in the UK and they currently supply leading retailers including House of Fraser and specialist shops including the shop in the Museum of London. Tobyboo has won many plaudits from leading names including Sir Paul Smith, Elle Decoration and Mary Portas.

Why did Tobyboo approach CIF?

Because Tobyboo operates in a series of competitive and broad markets, Tina assessed that she needed external help, space and capital so the company could reach its full potential. The support received through CIF helped her to restructure her business, and she soon realised that the financial loan was not necessary, as long as she remained focused on effective management of the company.

"The three major impacts of the CIF support were, confidence, confidence and more confidence. Never underestimate the power of positivity and support - I would have given up if it wasn't for my business advisor. His belief in me has given me confidence. That has been worth much more than investment."

What other benefits were there?

A 'virtuous circle' has been created via the support. New confidence and positivity has helped to give Tina the intellectual space to be even more creative with her designs, which in turn has brought even wider appeal. Moreover, Tina states that her turnover has already doubled since the last financial year.

"The support from CIF has meant that I've pushed along - not giving up. As a result I now have offers of a licensing agent, a distributor and John Lewis added to my stockists! My forecast is to focus more on design and profit, and spend less time manufacturing and then storing products."

Similar stories

"The three major impacts of CIF have been a confidence boost, a better marketing strategy, and a renewed focus. (...) Working with a mentor where the focus was on my business (rather than a group workshop) gave me a real positive mental boost."

Fashion business

"Apart from working capital at a very tricky moment when we could get NO support from our bank of 18 years, was the support which meant we did not feel isolated."

Architecture business

Fettle Animation – Improved Business Systems

Fettle Animation is a Yorkshire based hand-drawn 2d animation company, who thanks to CIF's help in sorting out the fundamentals, have been at the forefront in taking up the tax credit for animation.

Loan: Did not apply after business support.



Established in May 2012, Fettle Animation produces 2d animation for clients ranging from the Royal Armouries to the BBC. While director Kath Shackleton was very experienced in managing projects, including running a northern animation network, the challenges of running an animation studio were new to her. Therefore in 2013, with a potentially game-changing big new commission from the BBC on the cards, she realised she needed support and came to CIF. Key to her thinking was to get things in order so that Fettle could take up the new Animation tax credit – which for the first time gave animators the same sort of tax break that film makers have enjoyed and which should enable them to make more and better quality work:

"There are 2 partners in the company and we've had up to 8 people working on productions. I knew that if we were to be able to use the tax credit I would have to get our systems in order as HMRC demand that you are very open with them."

Kath thought about a CIF loan, but decided that for now she wanted to focus on getting the business model right. After targeted advice and technical planning support from CIF, her systems are all in place, and the team have produced an animation series on Holocaust Survivors for BBC learning:

"Not only do we now have control over our finances and cash flow, but I think we have produced some important and challenging animations which capture people's experiences of historically terrible events which otherwise might have been lost."

Taking on apprentices

Another benefit of working with CIF, and properly organising the company, has been that they have been able to take on trainees from Creative Skillset's Trainee Finder programme. Fettle are looking to build on their current knowledge by taking part in the Growth Accelerator Programme.

"Because we now have our systems in place, we can benefit from the 25% credit and sell our IP to international markets. It is a very exciting time."

Similar stories

A London-based **publishing company** has been able to adjust its business to a more innovative model, entering the digital e-book marketplace. Investment and specialist business support has enabled the company to diversify its business model:

"Without the loan we would not have been developing our business model as we are doing. It improved the development of e-books and marketing associated with the e-book market."

4. CIF: Evidence for the Demand and Effectiveness of Debt finance for Creative Enterprises /

CIF provided an important source of finance for a broad range of cultural and creative industry enterprises. The 628 applications received and the 437 businesses referred demonstrate the demand for the fund.

Applications came from the traditional Arts Council England (ACE) - supported sectors of theatre, dance, literature, and visual and combined arts. But, well over half were from more commercially focused design-led and digital media businesses – which have not historically accessed support or subsidy from the public sector and fall outside the ACE target categories.

CIF did not appear to offer a direct alternative to grant funding with only 10% of applicants having previously applied for ACE funding. However, it did open up a new investment programme for businesses which might previously have pursued grants as a first priority or which might have been 'lost' between ACE-funded activities and activities funded by the banks and other sources.

As has been highlighted above, CIF provided an important source of investment for creative businesses and there was a demonstrable demand – in London (where this might be expected) and in Yorkshire.

Repayment terms of between 12 and 36 months allowed businesses to manage the repayments of the relatively small loans over a period that worked for them. As a consequence of these favourable

and flexible terms, the majority of businesses are paying back according to the terms agreed. **None of the loans have so far been written off.** In a small number of instances where businesses encountered cash flow issues or other challenges with repayment, they had been able to renegotiate the terms.

4.1 CIF succeeding against a balanced scorecard

"While the UK has an almost unique record in generating creative products and services, from music and television to architecture and design, we have a less enviable track record in turning that creativity into sustainable and scalable businesses... Access to finance has long been reported as a key challenge for the UK creative industries when it comes to realizing their economic potential."

(Creative Industries Council Access to Finance Working Group Report, December 2012).

"Access to finance" and investment / investor readiness overall has been one of the key 'chicken and egg' issues in the UK creative industries for 20 years or more: is it that banks and others won't lend the money or that creative businesses ask for it in the wrong way and simply don't make good candidates for investment? One of the strengths of CIF is the way it shifted the debate beyond this ultimately sterile position, testing a far more fertile set of questions and issues related to sustainability, growth and innovation.

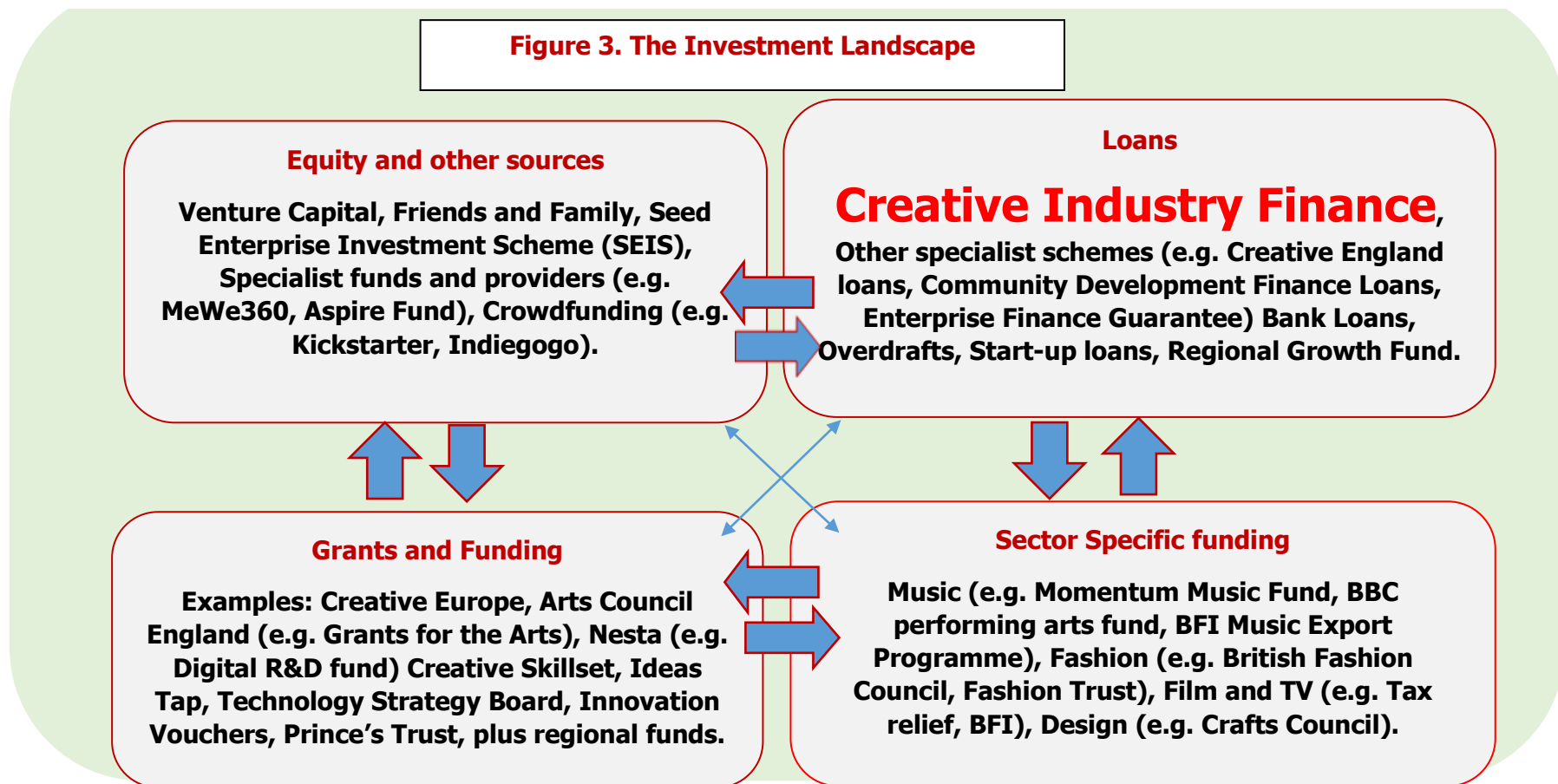
On this front it is possible to create a 'balanced scorecard' which assesses CIF's outcomes against a wider set of criteria relating to success factors for creative businesses. This is presented in **Figure 2** below:

Figure 2. A Balanced Scorecard for CIF

Criteria	CIF performance	Comments
Demonstrating the value of loans to a wide variety of creative businesses	75% of loans recipients have been operating for less than 3 years and none have defaulted or been written off 12-18 months after receipt of the loan.	CIF successfully opened up debt finance to micro and SME creative businesses from sub-sectors which struggle to get finance. Many businesses said they would look at another loan in the future.
Demonstrating the investment potential of the creative industries	The vast majority of loans are being repaid. Future roll out plans show CIF is already convincing key financial institutions that sector is a worthwhile risk.	CIF has not operated alone in changing perceptions of investment potential, but it has played a valuable role in shifting attitude and perception as judged through its ability to take the scheme national through new partnerships. Particularly important is the way CIF highlighted the investment potential of historically non-commercial creative businesses in the wider 'arts ecology'.
Demonstrating return on investment for different types of creative business – including those which might have historically been grant dependent and/or more arts-focused	Businesses in receipt of a CIF loan showed an overall increase in turnover between year 1 and year 2 following loans. For more commercially focused design-led and digital media businesses, turnover increased 23%. For businesses that more traditionally may have accessed grant funding and public subsidy, turnover increased 35%.	CIF has shown that micro and SME businesses who are normally turned down for debt finance, are viable investment propositions and that they can develop, grow and become commercial successes with small amounts of debt finance and appropriate good quality business support attuned to their sector characteristics.
Demonstrating the value of finance in a wider support package	CIF delivered over 1,961 hours of support to 437 creative businesses. CIF support was perceived by the majority of businesses as vital in developing sustainable and growing businesses.	CIF's support package demonstrated that business mentoring and advice should go hand in hand with financial support for micro and small businesses which often lack critical business skills and knowledge but not the access to talent to succeed.
Accelerating investment readiness, building entrepreneurialism	CIF's impact on core business areas – including growth, turnover, financial profile, product development and innovation – was significant and game changing for many.	CIF enabled businesses to change gear and provided the conditions such as increased capacity, access to markets, heightened confidence, that enable entrepreneurs to flourish.
Boosting Innovation and R&D	CIF firms were able to invest in new products, services and R&D due to the loans they have received.	Lack of R&D and innovation holds back UK business including in the creative sector.

4.2 CIF in the creative investment landscape /

The CIF pilot needs to be understood as part of a wider investment and support landscape for the creative industries. This is an ever-changing landscape. It is subject to changes in national policy and the strategic priorities of organisations such as ACE, Creative England, Crafts Council and the multiple Local Enterprise Partnerships (LEPs). It is also sharply affected by changes in regulation (e.g. tax credits for film, animation, games, and soon theatre) and the shifting capacity or willingness to invest from the banks, equity funds and business angels. New and forthcoming opportunities from the European Union (e.g. via Creative Europe) also shape strategic investment agendas for the creative industries. **Figure 3** below presents a simplified overview of the investment landscape for the creative industries in England.



5. In Summary /

As a pilot programme, CIF succeeded in delivering debt finance and business support to a range of creative industry businesses from different parts of the sector. It has shown, with the low rate of arrears it receives and the impressive growth experienced by some of the creative businesses it funded, that small and micro creative businesses can meet the risk profile needed for debt finance. Key to CIF's success was that it did not set out on a narrow brief to target high-growth scalable businesses. Its broader approach in helping to fund sustainable businesses means that it has been effective in supporting the necessary wider pool of small and micro businesses which otherwise do not access debt finance.

Without effective support for such businesses – in a nation where small and micro are steadily becoming the lifeblood of the economy and in a sector where they are in the majority – we would be missing a huge opportunity to enhance productivity and growth. It is also probable that those with the potential to grow to become large 'aggregator' creative businesses, would miss out on that critical source of investment and validation at a vital time in their development.

CIF has gone some way toward tackling some of the deep-rooted and structural challenges surrounding finance and creative businesses. It enhanced the investment readiness of participating businesses and, through data, evidence and advocacy, delivered improved credibility to the sector which in turn is improving overall investor readiness. With time (as CIF goes national), this evidence base will grow, which can only help in understanding the risk-profile of different creative business models and dealing with misperceptions of the sector.

The success of CIF businesses in leveraging additional funding is proof that on an individual level CIF has opened up previously unreachable finance for creative businesses. However, even with a national roll-out, CIF will only ever reach a limited number of businesses. This makes its role as an advocate and demonstrator for creative industries investment perhaps more significant than its direct impact to specific businesses. If for every business invested in, several more receive investment from other sources across the landscape, then we could genuinely say that CIF has been a game-changer for creative industries investment. CIF's role in redirecting otherwise grant-facing businesses to loan and other investment sources can also be seen as a mark of success – with 35% turnover increase shown by such businesses.

But for these more systemic outcomes, it is too soon to comment on CIF's overall performance. Currently, we can say with confidence that the CIF pilot:

- Demonstrated the value of debt finance (loans) for a wide range of creative businesses.
- Demonstrated the investment potential of the creative industries.
- Demonstrated the value of debt finance in a wider support package.
- Accelerated investment readiness, building entrepreneurialism.
- Improved confidence and shaped new career trajectories.
- Provided investment opportunities for a fresh cohort of creative businesses.
- Supported the development of sustainable (mostly small scale) creative businesses.

For the proposed national roll out of CIF, the opportunity exists to:

- Leverage new and additional investment for the creative industries from across the investment landscape, notably bringing new players to the table as direct and follow-on investors.
- Build a network of supporting intermediaries and intelligent links to talent pools – e.g. universities and ACE's National Portfolio Organisations²⁰. This is to build bespoke investment readiness packages to improve deal flow and lift sector performance overall.
- Work closely with ACE National Portfolio Organisations to open up new business models for the arts and cultural sector and introduce debt finance as a key element in more blended business models.
- Build in innovation and demonstration as a core activity – with an ongoing portfolio of pilot projects. These can test, for example, targeted investment to accelerate cluster development, for export, for collaboration and for skills.
- Internationalisation – of model and knowledge. Creative Europe is offering a new era for cultural and creative investment, and multiple creative industries projects are driven by the European Regional Development Fund and other programmes such as Horizon 2020²¹. A future CIF can play a leadership role to attract co-investment and follow-on investment from key markets across Europe.

²⁰ Arts Council England currently provides 3 year funding for a 'national portfolio' of 696 arts organisations across England.

²¹ <http://ec.europa.eu/programmes/horizon2020/>

In summary, this evaluation shows that CIF has made a real difference to creative businesses in London and Yorkshire and the Humber. It has had a clear positive impact on growth (especially turnover), and equipped businesses with improved investment readiness overall.

But perhaps of most importance, it has demonstrated that creative businesses from different disciplines can access debt finance, make it work for them and make it work for the investor. At a time of reduced public investment for grant finance, this is a profound message for the arts and creative industries.

Appendix 1: Evaluation Framework with KPIs

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
1. To provide access to finance for SMEs (including micro businesses) operating within the cultural/creative industries.				<u>Access to finance</u> 1.1 Number of Creative Industry businesses that receive loans from Arts Council CIF fund Target: To loan total allocation of fund Year 1: London £300,000, Yorkshire £100,000.	Achieved 59 Loans £876,000 London: £682,000 – 40 loans £600,000 ACE capital, £82,000 legacy Yorkshire: £194,000 – 19 loans £6,000 still to be allocated
	✓	✓	✓	1.2 Number of CIF applicants (both those receiving loans and those that don't) that receive loans/finance from other sources as a result of support received under the CIF programme. Target: 10 businesses across whole programme	Overachieved: 34 businesses secured additional investment as at 31 March 2014 with a further 3 awaiting decisions on equity investment.
				<u>Access to finance - Additional qualitative measures</u>	
		✓	✓	1.3 Statements from businesses that the CIF programme has enabled them to access finance that otherwise would not have been possible.	See case studies in report e.g. <i>We have received grant funding of £40,000 from several local councils, trusts and foundations as well as private donations - the majority of</i>

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
					<i>which I believe were influenced by the feasibility of our business model, which has been improved through the CIF business mentoring.</i>
2. To enable business growth and supporting talent development (for talent development see indicators under objective 4).	✓	✓	✓	<p>2.1 Number of hours of business support Target: London 900 hours, Yorkshire 600 hours</p> <p>2.2 Number of CIF applicants reporting business growth (increased turnover, new staff and staff retained – number of jobs created, number of jobs safeguarded) as a result of support received. Target: Target of 40%</p> <p>2.3 Total value (£) of business growth Target: Target of £400k by end year 2 (i.e. 100% of capital investment in Year 1)</p> <p>2.4 Total jobs created Target: Target average 0.5 FTE per business supported</p>	<p>2.1 Achieved: Total: 1961 hours of business support London: 1412 hours. Yorkshire: 549 hours</p> <p>2.2 Achieved: 47% of year 1 businesses surveyed in year 2 report an increase in turnover 36% an increase in profits 55% an increase in the number of clients 16% an increase in employment</p> <p>Analysis of figures of 18 year 1 loan businesses show 72% experienced increase in turnover</p> <p>2.3 Achieved: Total value of business growth £1 million</p> <p>2.4 partly achieved. Not FTE but freelance</p>

	Areas of investigation													
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2									
					posts 1 job created - confirmed. Many more freelancers employed. Average of 3 more freelancers per business.									
				Additional qualitative measures										
	✓	✓	✓	2.5 Statements from businesses about business growth and profile raised, growth in customers/audiences reached.	See case studies									
3. To provide an evidence base for the demand and effectiveness of debt finance as an alternative to grant funding for commercially viable cultural and creative industry enterprises	✓			Demand: 3.1 Number of enquiries received Target: 600 per annum 3.2 Number of applications received/referred Target: 400 per annum 3.3 Amount of income requested/offered (see 1.1) Target: Average of £10k per application 3.4 Classification of applications based on industry segments Target: support and loans across all sectors	3.1 Achieved: 730 enquires each year 3.2 underachievement against target 628 applications received over the 2 years London: 513, Yorkshire: 115 Referred 437 over 2 years London: 345, Yorkshire: 92 3.3 Achieved Average loan £14,085 Yorkshire £10,210, London £17,050. 3.4 Achieved <table><tr><td>Architecture</td><td>7</td><td>2%</td></tr><tr><td>Crafts</td><td>22</td><td>5%</td></tr><tr><td>Design</td><td>77</td><td>18%</td></tr></table>	Architecture	7	2%	Crafts	22	5%	Design	77	18%
Architecture	7	2%												
Crafts	22	5%												
Design	77	18%												

	Areas of investigation																																		
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2																														
					<table><tr><td>Fashion</td><td>75</td><td>17%</td></tr><tr><td>Film and Video</td><td>40</td><td>9%</td></tr><tr><td>Gaming and software</td><td>15</td><td>3%</td></tr><tr><td>Music</td><td>61</td><td>14%</td></tr><tr><td>Other</td><td>22</td><td>5%</td></tr><tr><td>Performing Arts</td><td>47</td><td>11%</td></tr><tr><td>Publishing/Literature</td><td>25</td><td>6%</td></tr><tr><td>TV and Radio</td><td>10</td><td>2%</td></tr><tr><td>Visual Arts</td><td>36</td><td>8%</td></tr><tr><td></td><td>437</td><td></td></tr></table>	Fashion	75	17%	Film and Video	40	9%	Gaming and software	15	3%	Music	61	14%	Other	22	5%	Performing Arts	47	11%	Publishing/Literature	25	6%	TV and Radio	10	2%	Visual Arts	36	8%		437	
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Publishing/Literature	25	6%																																	
TV and Radio	10	2%																																	
Visual Arts	36	8%																																	
	437																																		
	✓		✓	<p>Effectiveness:</p> <p>3.5 Repayment record of clients</p> <p>3.6 % of write-offs over repayment period Target: 7-10%</p> <p>3.7 % of loan recipients that have previously applied successfully/unsuccessfully for grant funding from ACE/other sources Target: 20%</p>	<p>3.5</p> <p>ELSBC 27% repaid – 15% arrears against schedule Key fund 20% repaid, just 1 loan in arrears</p> <p>3.6 overachieved No loans written off</p> <p>3.7 underachieved 10% of CIF applicants previously ACE funding applicants</p>																														
	✓	✓	✓	See also 2.2	See 2.2																														

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
				3.8 Number of CIF applicants reporting business objectives met (other than growth) as a result of support received during 2012/13 Target: 40%	
				Additional qualitative measures	
	✓	✓	✓	3.9 Statements about business growth and other objectives reached.	See case studies
4 To improve the <u>business skills</u> and <u>commercial experience</u> of SMEs operating within the cultural/creative industries	✓	✓	✓	<p>4.7 % increase in the financial skills among applicants that receive both loans and business support under this programme Target: 70% of businesses</p> <p>4.8 % increase in marketing skills of applicants that receive both loans and business support under this programme Target: 70% of businesses</p> <p>4.9 % increase in leadership and management skills of applicants that receive both loans and business support under this programme Target: 70% of businesses</p> <p>4.10 % increase in confidence to develop their business as a result of support received under this programme Target:</p>	<p>See also cases studies and 2.2</p> <p>Limited growth in businesses reporting their skills as good or excellent in year 2 compared to year 1.</p> <p>21% of businesses feel their marketing skills have improved 14% feel their skills with pricing have improved. 11% feel their understanding of options for financing their business has improved. 6% feel business planning skills have improved.</p> <p>The surveys indicate a slight decrease in businesses feeling confident about their management skills, however the figures</p>

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
				70% of businesses	on growth contradict this somewhat
				Additional qualitative measures	
	✓	✓	✓	4.11 Statements from businesses about skills, and business confidence development, evidence of accessing new markets, developing new business models – including use of emergent technologies, IP literacy	See case studies
5 To improve the <u>financial profile/lending history</u> of creative industry SMEs with growth potential,	✓	✓	✓	5.7 Number of Programme Beneficiaries with an improved risk profile at the end of the pilot period Target: All artform businesses	5.7 Achieved 34 business have levered additional investment from across art forms
	✓			5.8 Success rate of applications being put before the investment panels for CIF and other investments Target: 85%	5.8 Achieved
6. To enable creative industries SMEs to attract <u>further investment</u> from the private sector, thereby	✓	✓	✓	6.1 Number of Programme Beneficiaries that are successful in securing debt from a lender other than CIF during the course of the programme (see indicator 1.2) Target: 8 businesses across whole programme 6.2 Number of Programme Beneficiaries that are successful in securing other private investment (ie equity) during	6.1 Considerably overachieved 31 businesses secured loan finance from other lenders 6.1 partly achieved

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
becoming more sustainable as independent enterprises				<p>the course of the programme (See indicator 1.2) Target: 2 businesses across whole programme</p> <p>6.3 Value of additional income leveraged by companies as a result of participation on the programme Target: £200k (= 20% of ACE capital investment)</p>	<p>1 business with a further 3 awaiting decisions</p> <p>6.4 Overachieved</p> <p>Value £486,000</p>
				Additional qualitative measures	
	✓	✓	✓	6.5 Statements from businesses about skills and confidence development	
Additional aims research questions for the evaluation					
7. CIF fit within the overall landscape of finance and business support for creative industries	✓		✓	<p>7.1 Number and % of business applicants referred to CIF from different sources</p> <p>7.2 Number and % of applicants referred to other support and finance programmes</p>	<p>21% heard about CIF through ACE</p> <p>3% through Crafts Council</p> <p>26% through the delivery organisations ELSBC and Key Fund</p> <p>15% through word of mouth from other businesses</p>
				Additional qualitative measures	
				Statements from businesses, delivery partners and wider stakeholders on the brand, accessibility and role of CIF within the support/finance landscape for CI businesses	

	Areas of investigation				
Programme Aims and Objectives	Delivery	Business Impact	Strategic Added Value	Key Performance Indicators	See also KPI summaries in section 2
8. CIF supporting delivery of Great Art for Everyone <i>Goal 3: The arts are sustainable, resilient and innovative</i>				See indicators under objective 1,2,4,5 and 6	

Appendix 2: Strategic and delivery partners consulted

Chris Rayner	ELSBC
Jeff Gilbert	ELSBC
Pauline Barnett	ELSBC
Dawn Austwick	Esmee Fairbairn Foundation
Matt Smith	The Key Fund
Garry Brown	The Key Fund
Richard Russell	Arts Council England
Yvonne Harris	Arts Council England
Samuel Middleton	Arts Council England
Beatrice Mayfield	Crafts Council
Sophie Jeffrey	Thanet District Council
Sarah Wren	Kent County Council
Tim Joss	Rayne Foundation
Vanessa Reed	PRS for Music Foundation
Brendan Moffatt	Creative Sheffield
Kevin Osbourne	MeWe360
Sian Prime	Goldsmiths
Ann Branch	Creative Europe
David Gilbert	Creative United
Caroline Parkinson	Creative Scotland
Charlie Philips	Association of Independent Music
Beatrice Pembroke	British Council Creative Economy Team
John Newbiggin	Creative England
Eddie Berg	British Film Institute
Rosy Greenlees	Crafts Council
Nick Henry	University of Coventry

Appendix 3: CIF businesses consulted

Businesses interviewed:

1. Liza Fior, Muf Architecture
2. Geraldine Mattis, Geraldine Mattis Ltd
3. Maria Soriano, Radio Days Ltd
4. Gary Baker, Blacklight Music
5. Sabrina Gross, Degross Design
6. Claire Spooner, Quaintrelle
7. Ben Freeman, Ditto Press
8. Kelly Shaw, Kelly Shaw Ltd.
9. Monika Kashimbaya, La Poesie
10. John Sivak, Libri Publishing
11. Reedah El Saie, Mica Gallery
12. Ben Freeman, Ulteria Ltd
13. Wil Troup, The Culture Space Ltd.
14. Heidi Mottram, Heidi Mottram Ltd.
15. Hasmik Harutyunyan, Music of Armenia
16. Kath Shackleton, Fettle Animation
17. Emma Hamilton, The Juniper Tree Card Company
18. Kim Hopkins, Labor of Love Films

Businesses attending workshops:

19. Paul Jervis, Libri Publishing
20. Sally Beerworth, The Joy of Ex Foundation
21. Reedah El-Saie, Mica Gallery 1
22. Margo Selby, Margo Selby
23. Kat Barry, Kat and Bee
24. Sarah Haines, For All We Know
25. Sabrina, Degross design and innovation
26. Sam Fisher, Anonymous Visuals
27. Joana Guedes de Carvalho and Jubulani, Black Olive and Pink Pepper
28. Jacqueline Kibacha, Heart 365
29. Yvonne Eba, Life Creations
30. Ben Summers, Ben Summers Art (Beats In My Brush)
31. Wil Troup, The Culture Space Ltd.



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