

Income generated by the Museums and Galleries



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 235 Session 2003-2004: 30 January 2004

Introduction and executive summary

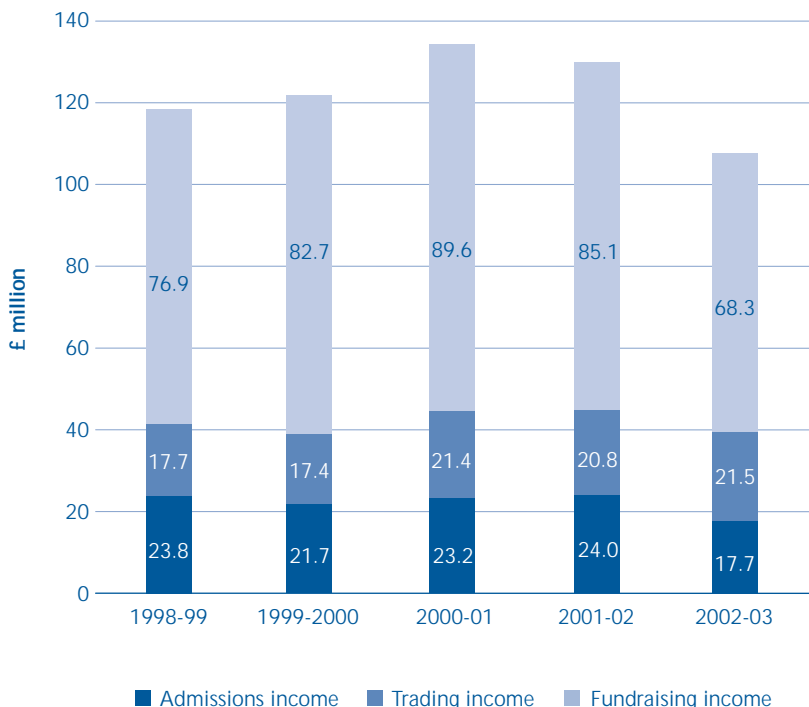
- 1 The Department for Culture, Media and Sport (the Department) provides annual grant-in-aid funding to 17 non-departmental public body museums and galleries (the sponsored museums and galleries) which in 2002-03 totalled £270 million. The museums and galleries also generate income themselves from fundraising, trading activities and admission charges. This self-generated income¹ amounted to £108 million in 2002-03.
- 2 This report looks at how the 17 museums and galleries go about their income generating activities and how they could increase their income. We asked the museums and galleries to complete a questionnaire covering their skills and organisation, how much income they have generated and their views about what is needed to generate more income in the future. We also surveyed a range of other organisations about their approach to income generation and looked at museums and galleries in other countries. The methods we used, and a list of the experts who helped us, are set out at Appendix 1.
- 3 We have not sought to rate and rank the individual museums and galleries. The museums and galleries are not a homogeneous group and many factors including inherent characteristics such as location, size and the nature of their collections influence their ability to generate income. Instead we have looked for generic success factors, potential barriers to achieving more and examples of successful ideas that might have a wider application. By way of background, the status of the museums and galleries and the regulatory framework in which they operate is set out at Appendix 2.



¹ Self-generated income includes income from all sources except grant-in-aid and the National Lottery.

1 Income generated by sponsored museums and galleries over the last 5 years

Total self-generated income rose between 1998-99 and 2000-01 but has since declined, mainly because of less fundraising towards capital projects.



NOTE

Income is shown at 2002-03 prices and refers to the gross income from admission charges and fundraising, and the profit on trading activities.

Source: National Audit Office

About performance and products

- 4 Fundraising has accounted for some 65 per cent of the museums and galleries' self-generated income over the last five years. Total fundraising income has fallen from its peak of £90 million in 2000-01 to £68 million in 2002-03 as a period of major expansion and building, fuelled by the availability of lottery funding, has come to a conclusion. However, funding from corporate sponsorship has doubled over the same period to £13 million in 2002-03 and at £22 million, trading profit on activities such as catering, retailing and the sale of reproduction rights was 18 per cent higher in real terms in 2002-03 than it was five years earlier (Figure 1). Looking across the 17 sponsored museums and galleries there are many examples of innovative ways of generating income.

- 5 In line with the Government's Wider Markets Initiative, launched in 1998 to encourage departments and non-departmental public bodies to engage in commercial services based on their physical and knowledge assets, the sponsored museums and galleries have been exploiting their assets in various ways for a number of years and are increasingly reliant on self-generated income to meet their operational costs. The range of their income generating schemes is broadly comparable with other organisations within the heritage and tourism sectors. In common with the overseas institutions we looked at, the museums and galleries have tended to have more success with initiatives to increase visitor numbers and spending on-site than with developing new markets away from the organisation.
- 6 The museums and galleries are on the whole optimistic about the prospects for growing their income over the next five years. They are looking to increase their income across a broad spectrum of activities including fundraising and a range of trading activities such as venue hire, catering, licensing of products, and retailing. Most expect some growth and seven of the 17 predict substantial growth.
- 7 Profit is not always the main driver for the museums and galleries' income generating schemes, which can be primarily about serving objectives relating to increased access, outreach and education. Nevertheless, they need to look more closely at the profitability of some of their trading activities. Nearly all the museums and galleries have good information on the profitability of their core retailing and catering operations, but most have information gaps about the cost of generating income through some of their other activities, such as publishing and venue hire. Where we were able to calculate profitability we found considerable variation between the museums and galleries, with a few making losses on some types of income generating activity. Venue hire achieved the highest profit margins, on average, of the trading income streams.
- 8 Most of the areas where the museums and galleries are pursuing growth are those which are already staple sources of income; for example most forms of fundraising, venue hire, retailing, catering and licensing. But museums and galleries are also looking for growth in newer areas such as e-commerce. Six are already involved in e-commerce, although total turnover is currently small, and a further nine are in the process of planning their involvement in on-line business. Eleven museums and galleries are also planning to increase income through membership schemes including three new entrants to this type of activity. These schemes can be costly to run, however, and do not necessarily make a profit, although they may help the museums in the longer term by developing relationships with potential supporters.

About the people

- 9 To make the most of their assets, grow their income and manage the risks associated with commercial activities, the museums and galleries need to ensure that they have the necessary attitudes, skills and understanding. The museums and galleries themselves confirmed that leadership, entrepreneurial culture and skills are key to successful income generation. This report illustrates a range of creative schemes, nevertheless the museums and galleries may need to do more to encourage an entrepreneurial culture at both grass-roots and management levels. The museums and galleries all recognise the need to develop their skills for income generation with most seeing entrepreneurship as a key staff development need: over half, for example, want their senior management team to be more skilled at entrepreneurship and business management.
- 10 The museums and galleries, however, have difficulty acquiring the skills they need, which they attribute primarily to an inability to fund new posts, the upgrading of skills and competitive salaries. But most see scope to do more to draw on and enhance the knowledge and expertise of their Boards of Trustees. The Department for Culture, Media and Sport, which is responsible for approving trustee appointments, has placed more trustees with income generation experience onto Boards in recent years.
- 11 Many of the museums and galleries have brought more commercial approaches and new skills to their trading activities by establishing trading subsidiaries. The ten that have trading subsidiaries see considerable benefits in terms of improved management focus on commercial objectives and the input of skilled and knowledgeable non-executive directors. But concerns about the cost and complexity of managing separate legal entities have prevented other museums and galleries, particularly smaller ones, from going down this route.

About the processes

- 12 We considered the following aspects:
 - i **Planning.** All 17 of the sponsored museums and galleries explicitly consider income generation as part of their corporate planning, but the extent to which they set out a clear strategy for income generation varies. While most museums and galleries' plans are good, amongst a minority the identification of opportunities and risks, and how they intend to take advantage of the scope for growth they have identified, is underdeveloped.
 - ii **Raising Finance.** As non-departmental public bodies, the museums and galleries are subject to Government controls over public sector borrowing, which prevent them from borrowing money freely on the open market, although some, mainly large, museums and galleries see this as a constraint on their ability to generate income. The museums and galleries obtain the money to invest in new income generating projects mainly from within their own resources or through partnerships with other organisations. Many have developed very successful partnerships which generate income from a range of activities, most commonly catering, consultancy, book publishing and the distribution of digital images from their collections.





- iii **Measuring performance.** The museums and galleries set and monitor internal targets for income generation, although the nature of the targets and the measures used varies between them. As part of its oversight role, the Department for Culture, Media and Sport has developed two common income generation performance indicators, one relating to fundraising and one for other income. The Department is looking to refine these measures to provide a basis for comparing the performance of the museums and galleries.
- iv **Sharing knowledge.** The museums and galleries share knowledge through a variety of formal and informal networks, nevertheless most see scope for further learning and collaboration and see this as an area where the Department for Culture, Media and Sport could play a facilitating role. This would be of particular assistance to the smaller museums and galleries.

Concluding comments and recommendations

- 13 The 17 sponsored museums and galleries are engaged in a wide range of income generating activities, including both traditional areas such as retailing and catering and more innovative projects. They have grown their trading income and corporate sponsorship in real terms over the past five years, although total fundraising income was lower in 2002-03 than in previous years, and it is encouraging that they see scope for growth across a wide range of activities.
- 14 The museums and galleries have not quantified the scope for growth. But even a one per cent increase in each of the next five years would be worth over £5 million a year to the museums and galleries by the end of that period. By maintaining current levels of growth in trading income and sponsorship, and returning other fundraising income to its 2001-02 level, the museums and galleries would generate in excess of £40 million a year more by 2008. However, much depends upon the economic and other external conditions for attracting visitors and securing donations and sponsorship.
- 15 Achieving the potential for growth depends not only on external factors such as market conditions but also on the success with which the museums and galleries can inject more entrepreneurial skills into their management and planning, and ensure that these are underpinned by full and accurate financial information. They also need to capitalise on the knowledge and experience available in the sector and find more effective ways of harnessing this. The difficulty of developing and obtaining some of the key skills needed, coupled with funding constraints, suggests that there may be scope to take collaboration beyond the sharing of information and into the pooling of some key resources. This might particularly benefit some of the smaller museums and galleries.

RECOMMENDATIONS

- Each museum and gallery should have a clear plan for its income generation. The growth areas, and those at risk, should be identified together with the action needed to maximise these opportunities and minimise the risks.
- The museums and galleries should convert their assessments of the scope for growth into achievable but demanding short and long term targets, to serve as a goal and to enable them to track progress. Communicating these targets and performance against them to staff in the museums and galleries at regular intervals in the course of each year would reinforce their 'buy-in'.
- While profit is not always the primary objective of income generating activities the museums and galleries should establish a clear understanding of the profitability of each income stream, and have a clear rationale for continuing with those which are unprofitable.
- Deciding which income streams offer the best prospects is a matter for individual museums and galleries, but the profitability achieved by most for fundraising and venue hire, both identified as growth areas by the museums and galleries, suggests that these income streams in particular should be targeted. For fundraising this could require initial investment in developing specialised skills.
- As significant numbers of the museums and galleries have common skills shortages in the key areas of entrepreneurship, business management and marketing they should collectively consider how the problem might be addressed. Possibilities worth exploring are:
 - the pooling of resources;
 - a structured programme of staff exchanges within, and to organisations outside, the museums and galleries sector;
 - greater use of external training; and
 - the scope for some smaller organisations to set up a joint trading subsidiary.
- To help ensure that the museums and galleries capitalise on the freely given skills and knowledge of their trustees, the individual museums and galleries should work with those trustees who have particular strengths relating to income generation and articulate a clear role for them. The Department and the museums and galleries between them should continue to use the trustee appointments process to strengthen the commercial and fundraising experience available on their Boards of Trustees.
- The Department, working with the museums and galleries, should further refine its measures of income generation to include measures of profitability and to improve the comparability of data on the museums and galleries' income generation performance.
- While income generation ultimately is a matter for the individual museums and galleries, the Department should respond to the interest expressed by museums and galleries in learning from one another by working with them to identify the types of information and other support they need and help them develop an action plan to meet those needs.