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Llywodraeth Cymru
Welsh Government

Christine Chapman AM
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Cardiff Bay
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Dear Christine,

COMMUNITIES, EQUALITY AND LOCAL GOVERNMENT COMMITTEE – UPDATE ON ACTIONS ARISING FROM MEETING ON 16 SEPTEMBER 2015

You will recall that during my attendance at the Communities, Equality and Local Government Committee meeting on 16 September 2015 I agreed to provide you with updates on a number of key policy priorities.

One of these key areas related to the work that has been undertaken in evaluating best practice from across Europe in levering in alternative sources of funding for the arts.

I am now pleased to provide a copy of the report on this area that has been prepared by the Arts Council of Wales.

I would also refer to another of the action points from the 16 September meeting where I agreed to provide you with an update on the situation regarding the impact of funding and the performance of Arts & Business Cymru (A&BC). This work is well in hand and a report has been completed and shared with A&BC on 20 October.

A&BC are currently considering their response to the content and recommendations of the report while my officials are considering how best to take forward its recommendations, in consultation with ACW.

These deliberations are at a very early stage although all parties are aware of the need to identify a suitable way forward as a matter of urgency.

A further update on this action will be provided in due course.

*Yours ever,
Ken*

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Deputy Minister for Culture, Sport and Tourism

Briefing

Levering funding for the Arts: a note on European approaches

1. Introduction

The current period of economic austerity, and the ongoing pressure on public funding, is focusing attention on alternative methods of funding arts and cultural activity. One response is to encourage grant-aided organisations to reduce their dependency on public support, either by increasing earned income or developing additional sources of income. This mixed funding model, if it can be achieved, is generally felt to offer a better prospect of financial sustainability and resilience.

This briefing note focuses on the primary tools adopted across Europe to encourage and incentivise private investment in arts and culture.

The information set out in this note has been informed by discussion between the Arts Council of Wales and colleague members of the European chapter of IFACCA (the International Federation of Arts Councils and Cultural Agencies). It also draws on data and information contained in *Encouraging Private Investment in Cultural Sector* (European Commission 2011).

Our European peers confirm that ongoing financial pressures are obliging most countries to experiment with different mixes of public/private support. However, the financial context is reported as being “challenging” and the results of this experimentation “mixed”.

Two sources of funding in particular – sponsorship and trusts/foundations – are reported as being under increasing stress. In the 1980s and 1990s levels of business support in European countries were generally on the rise. Now, however, it is diminishing. Private foundations in Europe have also tended to cut grant-giving, albeit on a temporary basis, as they nurse their capital during an era of low interest rates.

This has tended to focus attention on the incentives (usually around taxation) that governments can enact to stimulate individual and corporate investment. This is explored in more detail below.

2. Defining terms

For the purposes of this note, “private investment” refers to the investing in, giving to or spending on culture undertaken by individuals, businesses or non-public organisations.

It should be noted that investing, giving and spending are driven by different motives. **Investing** is driven by the principle of gain measured in terms of profit or return on investment. **Giving** is prompted by different motives, usually driven by the principles of individual or corporate social responsibility.

Public support

This includes direct and indirect support:

- *Direct support* is the support to arts and culture made by government and/or other public bodies, such as the Arts Council. This support includes grants, subsidies, awards etc.
- *Indirect support* consists of measures, adopted by governmental and/or public institutions for the benefit of the arts, that usually involve legal instruments or interventions. Indirect measures usually revolve around the treatment of taxation – the income that local and national governments forego because of tax reductions and/or exemptions granted to arts and cultural institutions.

Private support

Private support includes business support, individual giving and support from foundations and trusts:

- *Business support* usually refers to direct financial investment designed to achieve specific outcomes. These can vary from involvement in public-private partnerships, sponsorship, donations or the commissioning/purchasing of works of art
- *Individual giving* includes all transactions made by individuals with the intention of donating or contributing arts activity. (This is different to purchasing tickets for attendance which would generally be described as earned income.)
- *Foundations and trusts* are predominantly intermediary bodies, charitably constituted and usually founded by law. They nearly always supported by

private endowment and serve specific purposes defined in the body's founding objectives.

Earned income

This would include all individual spending for cultural purposes, such as entry fees to cultural institutions, the purchase of tickets or the buying of cultural objects.

3. The political context

There are a number of EU documents addressing cultural industries that refer to partnerships among the arts and business sectors. The European Parliament Resolution on cultural industries in Europe (2007/2153(INI)) calls on:

“the Council, the Commission and the Member States to take the action required, recommending mixed methods of funding and financial security, and promoting a regulatory and fiscal framework that favours cultural industries as well as creative communities, and more particularly by applying tax credits and reduced rates of VAT to all cultural products, including online works.”

Business and arts cooperation is also referred to in the European Green Paper on *Unlocking the potential of cultural and creative industries*, COM(2010) 183, as well as in the European Council's observations regarding the contribution of the cultural and creative sectors to the achievement of the Lisbon objectives. The latter pay special attention to promoting

“contacts and cooperation between the creative sector and the business world in order to increase the awareness of the latter regarding the potential of the cultural and creative sector.”

4. Encouraging private investment

The principal means of encouraging private investment in the cultural sector area as follows:

1. **Tax policy.** An important advantage of tax policy is its neutrality as tax incentives do not generally relate to specific artistic content. Instead, criteria tend to be general and are linked to types of beneficiaries. It is therefore left

to individuals, corporate businesses and non-profit foundations to make their own cultural decisions.

Examples across Europe include tax reliefs, tax breaks, tax deductions, tax exemption, tax allowance and tax incentives etc and specifically branded schemes such as the transfer of art in lieu of payment of tax.

Example: Throughout the 1990s Sweden had applied its standard VAT rate of 25% to books. Lowering the VAT on books in Sweden was intended to lower prices and increase sales, in order to promote readership, quality of books and diversity of content. In 2002 a decision was reached to bring down the level of VAT on books to 6%. The VAT reduction was immediately reflected in lower prices and in the following year sales rose by 16%.

2. **Sponsorship.** Sponsorship is a feature of cultural investment in all European countries. However, its scale is not consistently measured and it is difficult to provide accurate figures, although the general consensus is that this is static at best and reducing in many countries as companies move away from traditional sponsorship programmes to community based programmes based around corporate social responsibility.

Sponsorship generally represents a small proportion of the incomes of most arts organisations. It is also more prevalent in the metropolitan centres and in support of larger, higher profile arts organisations. A small community based organisation in a rural area would generally struggle to achieve significant levels of corporate sponsorship

Example: The Office for Cultural Sponsorship, established by the Greek state, encourages private sector sponsorship of the arts. The value of the sponsorship is deductible from the taxable income of the ratepayer or the gross income of the business offering the sponsorship. Once a year, the Minister of Culture awards prizes for particularly enterprising examples of support.

3. **Public-private partnerships (PPP).** These are usually an agreement between a government and the private sector to provide public services or physical infrastructure. Under these arrangements the public sector is relieved of the burden of managing large capital expenditures and transfers the risk of cost overruns to the private sector. There are few examples of this in the arts.
4. **Levies.** This is a requirement to pay an additional amount on top of the identified cost of the cultural product. Examples include booking fees, credit

card charges and charges levied for a specific purpose (such as general fundraising or capital refurbishment).

Levies can be voluntary and mandatory.

Another variation of this approach would be initiatives such as % for Art that seek to identify a specified amount of the funding of a larger development to be available for public arts work. % for Arts schemes were widely adopted by a number of local authorities in the 1990s and coincided with the launch of the National Lottery

Example: The Community Infrastructure Levy allows local authorities in England to raise funds towards infrastructure needed to support the development of their areas. The Community Infrastructure Levy allows charging authorities to raise funds, usually through planning gain and developer contributions, towards the cost of infrastructure needed to support an area's development. The Planning Act (2008) defines cultural facilities as within the definition of relevant infrastructure.

Example: In the Netherlands, the integration of art in state buildings has been an element of government policy from the beginning of the nineteenth century. The current percentage for art scheme stipulates that for the building, conversion or renovation of state buildings, depending on the total building sum, 0.5 to 2% of the budget must be spent on the visual arts. As a result of the percentage scheme the Rijksgebouwendienst (Government Buildings Agency) is the biggest commissioner in the field of the visual arts in the Netherlands. More than 2,500 works of art have been realised in the last 40 years in the context of this scheme.

5. **Percentage legislation.** This is a tax measure through which taxpayers may designate a certain percentage of their income tax to be allocated to a specific non-profit, non-governmental organisation). Among EU Member States, percentage legislation systems exist in Eastern European countries, such as Hungary, Lithuania, Poland, Slovakia, Romania and Slovenia.

Example: In 2007, the Nonprofit Information and Training Centre (NIOK) Foundation conducted a research study evaluating percentage legislation in the five Eastern European countries identified above. The study concluded that, in societies with no tradition of donation and no models for the population to follow in order to take part in philanthropy, application of percentage legislation can be an effective way to stimulate giving.

6. **Individual donations.** These are one-sided business transactions from which the donor expects no direct benefit. Donations can be made in cash or in kind. A number of EU Member States have implemented measures to encourage individual donations. Several countries offer deductions for individual donors, following examples from the US and countries such as Italy, Greece and Germany who have special incentives around inheritance tax.
7. **Corporate donations.** Gifts in cash or in kind, made by companies and other legal subjects to cultural organisations or individual artists. Measures supporting corporate donations most often take the form of tax incentives for donors.
8. **Transfers in lieu of tax.** Many countries allow taxpayers to transfer their property, including works of art, in lieu of payment of different taxes, such as estate tax. Such a system effectively acts as a 'tax credit' rather than a 'tax deduction'

Example: In December 2014 artworks worth around £45 million were left to the nation in lieu of tax. They included an early work by Vincent Van Gogh, a collection of political posters and more than 40 sketches and paintings from the personal collection of the late Lucian Freud. Van Gogh's oil painting Head of a Peasant Woman dates to around 1884 and has been given to the National Gallery. The collection of 99 political posters, which mostly date from the first quarter of the 20th century, were collected by Bristol University librarian Geoffrey Ford and have been given to the university.

9. **Matching funds/grant.** These usually reflect a requirement or a condition that stipulates that private donation in money or in kind has to be matched by a certain amount proportional to the value of the donation from a third party (for example, state or local community). One of the advantages of this arrangement is that private investors are reassured about the value of this investment by seeing the *imprimatur* of government support.
10. **Lotteries.** Lottery schemes exist across Europe. As in the UK, the model usually involves the collection of earmarked taxes which are then reallocated for designated or specific cultural purposes.
11. **Voucher schemes.** In general, a voucher is a credit of a certain monetary value that can be used only for a specified purpose. In the culture sector,

vouchers are used as a manner of stimulating demand for cultural products or allowing discounted access to specified events.

In Europe, the most well-known voucher system is in Slovakia although similar schemes have been tried in Germany.

Example: An initiative organised by the Ministry of Culture of the Slovak Republic in 2006 saw the issuing of cultural vouchers (each with the value of SKK 200, approximately EUR 6) to students and teachers of primary and secondary schools free of charge. The vouchers could be used for visiting a cultural event or for access to cultural heritage institutions (museums, galleries, libraries) in the organisations that were registered with this scheme. The Ministry issued a total of 900,000 thousand vouchers for students and 100,000 thousand for teachers. The Ministry then reimbursed individual cultural organisations the amount of money that they received in the form of vouchers. Some 527,000 vouchers were used, with a total value of SKK 105.5 million (approx. EUR 3.1 million).

12. **Banking schemes.** These direct bank support to the cultural sector. Banking schemes can include loan schemes that give a preferable interest rate to cultural activities, or any other instruments that favour cultural activities. There are several examples in Wales of the Charity Bank adopting this approach
13. **Trusts and Foundations.** Usually non-profit organisations that either donate funds and support to other organisations, or provide the source of funding for their own charitable purposes. Most foundations in Europe support social issues, while culture is the focus of activity of a smaller and more limited number of foundations.

Example: Malta has a vibrant trusts and foundations sector supporting artists and the arts (for example, Malta Arts Fund, Malta Film Fund, Extended Public Service Obligations, Francis Ebejer Prize, Investment Funds, Kreattiv, Malta Arts Scholarships, Malta Enterprise supporting the arts and creative industries, and the National Book Prize).

14. **Venture philanthropy.** This emerging form of private investment applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sectors. It is often described as a form of 'engaged' philanthropy.
15. **Crowd funding and online fundraising.** These are new mechanisms in the digital arena designed to encourage private investment in culture. The UK-

based Crowdfunding Centre estimated that in the month of March 2014, 442 campaigns were launched globally on a daily basis

Crowd funding usually operates in one of three ways of offering a 'return' to the investor: through the offer of a reward, by taking an equity stake, by financing debt.

Example: In Sweden, Crowdculture works like a regular crowd funding platform except for the fact that artists and cultural workers can also seek financing from public funds through the system. The money pool is both private money (members) and public money (part of the government cultural budget). It is the members' voices that control where the public money goes. Once a member votes on a project, it corresponds with money from the public pot. Success depends on sufficient numbers of members being persuaded to support a project.

16. **Own organisation earned income.** Arts and business organisations can often provide a range of income-earning services through their training activities, friends schemes, awareness raising activities and linkage between the arts and business sectors. The establishment of specialised agencies, such as Arts & Business Wales, encourage engagement between business companies and the arts sector, enhancing private involvement in the cultural sector.

3. Observations and conclusions

Consultations with European colleagues have elicited the following observations:

- indirect public support measures via tax incentives in Europe are well developed, but the take-up of these by citizens, cultural organisations and businesses varies across different countries. There is a consensus that more needs to be done to promote a culture of giving
- the temptation to over-emphasise the potential of private support to serve as an alternative to public support is controversial. Private funds in many European countries are decreasing rapidly in the period of crisis. There is also a growing body of opinion to suggest that there is a positive correlation between the roles of the state and private investment in culture.

- public intervention in terms of matching funds or fiscal encouragement builds trust in the importance of culture for sponsors and donors who want to capitalise in an already successful and important sector.
- Crowdfunding tends to be viewed with a mix of enthusiasm and suspicion. It is undoubtedly providing new sources of income and can be a practical way of identifying new customers/supporters. However, repeated campaigns risk donor exhaustion and are rarely able to provide for an organisation's core costs. There can also be a public fear of abuse over what is an unregulated investment instrument
- more could be done to set up supportive and financially sustainable Friends scheme. Too many Friends scheme offer more in benefits and discounts than they receive in cash
- the professionalism of fundraising is not adequately developed. While the for professionalism is evident, the critical decision to employ fundraisers is very difficult to make when there are often not enough funds to properly pay for core cultural or artistic activities, or to appoint external fund-raising consultants. Therefore, fundraising is not sufficiently included as an integral part of the operational structure in most cultural organisations.

Arts Council of Wales
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