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1. Introduction

Scope

Non-public funding of the arts isn’t a stand-alone source revenue, separate from public funding. It’s part of an inter-connected ecology of funding and investment that sustains a wide range of subsidised and commercial activities.

We therefore look at four issues:

1. The funding profile of Wales’ main publicly funded organisations – the Arts Portfolio Wales (APW). This is the nation-wide network of revenue-funded arts organisations who in total receive some £27m of Arts Council grant-in-aid and local authority support of around £4.6m.

2. Strategic initiatives designed to help alleviate pressures on the publicly funded arts

3. Initiatives and projects currently underway in Wales to encourage greater non-public investment into the arts.

4. An examination of some of the tools adopted, nationally and internationally, to encourage and incentivise non-public investment in arts and culture.

For the purposes of this paper, public support is assumed to also include the funds raised from the National Lottery.¹

The public funding context

Economic austerity, and the consequent pressure on public funding, is focusing attention on alternative methods of supporting arts and cultural activity. The scale of the challenge is increasing as year-on-year funding cuts bite.

The Arts Council of Wales manages and distributes Government grant-in-aid and funds received from the National Lottery. The ‘real terms’ value of this funding has reduced significantly in recent years (although there has been a welcome increase of 3.5% this year in Government support for the arts).

¹ A proportion of the cost of each Lottery ticket is allocated to four “Good Causes”, of which the Arts is one. Funds are allocated on a formula basis across the four UK nations. The Arts Council of Wales is the distributor of Lottery funding to the arts in Wales. We receive 1% of the total funds allocated to the Good Causes.
More than a decade of sustained public and Lottery investment in our cultural life in the 1990s through to 2010 enabled more people to enjoy and take part in the arts. However, five years of funding cuts in the early part of the present decade have meant that previous growth in Welsh Government funding has now been eroded.

Actual levels of funding from 1995 to 2017 are set out in the chart below. However, combined grant–in–aid and Lottery funding – once adjusted for inflation – is actually less than it was 21 years ago. From 1995/96 to 2016/17 total RPI adjusted funding (the red line in the chart below) fell from the original cash figure of £29.5m to an RPI adjusted value of £26.7m. This is a real–terms decrease of nearly 10%.

One response to diminishing levels of funding has been to encourage funded organisations to reduce the extent of their dependency on public support, either by increasing earned income or developing new sources of income. This mixed funding model, if it can be achieved, is felt to offer the prospect of greater financial sustainability and resilience in the longer term.

This aligns with the Welsh Government Government’s Well–being of Future Generations legislation. The well–being principles encourage us to arrange our
activities on a more sustainable basis – socially, environmentally and financially. We see this as being consistent with our work in helping the arts to be less dependent on public subsidy.

The international context

The arts in Wales operate internationally. For example, between 2007 and 2016, over 150 projects in Wales are estimated to have received around £23m in European Union (EU) funding. Although EU grants are another type of public funding, the match-funding requirements attached to them have often helped to lever other sources of non-public funding.

Developing a mixed economy of public/non-public support has been a long-standing objective of EU policy. In particular, EU policy encourages partnerships between arts and business. For example, a European Parliament Resolution on cultural industries in Europe (2007/2153(INI) para 24) 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.

At the Arts Council of Wales we’re able to draw on international connections through our membership of the International Federation of Arts Councils and Cultural Agencies. Our international peers confirm that ongoing financial pressures mean that many countries are examining different models of public/private support. The financial context is reported as being “challenging” and the results of this experimentation “mixed”.

Two sources of funding – sponsorship and trusts/foundations – are reported as being under particular stress. In the 1980s and 1990s levels of support in European countries were generally on the rise. Now, however, this funding is

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2 Euclid research – “Assessing the European Union’s contribution to the arts in Wales since 2007”
diminishing. Private foundations in Europe have also tended to limit grant-giving, at least for the time being, 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 put in place to stimulate individual and corporate investment as part of the mixed economy approach. This is explored in more detail later.

**Brexit**

This paper is not the place to consider in exhaustive detail the practical issues that might arise from the United Kingdom’s disengagement from the European Union. However, there are issues that could potentially add to organisations’ costs and adversely affect their financial stability.

For two decades the Arts Council of Wales and its international arm, Wales Arts International, have developed and nurtured a wide range of international and European cultural partnerships. Some of these have been funded by specific projects and focused programmes of exchange. Others have been longer-term, building connections that have fostered enduring relationships with countries around the world.

Whatever Brexit brings, there are issues that will need to be addressed if Wales is to continue to benefit economically, culturally and socially from its international relationships. There are three key areas of particular risk in which the interests of the arts and creative industries might be adversely affected.

They are:

- **Talent and skills** – including freedom of movement for specialist workers, skills shortages, visas and touring. At present, “frictionless” movement across national borders saves time and money

- **EU funding** – including access to Horizon 2020, Interreg, Erasmus+, Creative Europe, cultural exchange and export opportunities. EU-funded partnerships often include non-public funding and support

- **Regulatory frameworks** – including Digital Single Market, intellectual Property rights, copyright protection. Current arrangements help protect assets and enable the generation of income through commercial exploitation.
The Arts Council’s Remit Letter 2017/18

Our 2017/18 Remit Letter from the Welsh Government encourages us to help the arts to become less dependent on public funding. It says:

“You should continue to work on your business development services, to support your clients to maximise their non-public funding. This includes work to secure more funds from charitable trusts and foundations, and from individual and corporate giving. Some arts organisations are becoming more skilled at exploiting the commercial potential of their output, through better marketing and more effective use of technology. Others are less confident about this. So I would ask you to work with your portfolio organisations to develop a tailored plan for developing their business and marketing skills, to include clear annual targets for increasing self-generated income.”

2. Defining terms

Non-public support

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

It’s difficult to impose a rigid separation between different types of funding and investment. In practice, the arts in Wales depend on diverse sources of funding and investment, many of which straddle public and private. For example, the UK Government has given important support to cultural organisations through a package of new tax relief measures, including for theatre and orchestral touring. These are now an important part of a mixed economy of income streams that support subsidised activity but which also helps to generate commercial income.

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 philanthropy or corporate social responsibility.

Public support

This includes direct and indirect support. For example:

- **Direct support** is the support to arts and culture made by government and/or other public bodies, such as the Arts Council, a local authority or the European Union. This support includes grants, subsidies, awards, contracted services etc.

- **Indirect support** consists of measures, adopted by governmental and/or public institutions for the benefit of the arts that involve legal instruments or public sector interventions. Indirect measures usually revolve around the flexible application of taxation policy – the income that local and national governments forego because of tax reductions and/or exemptions granted to arts and cultural organisations.

Forms of private support

Private support can include business support, individual giving and support from foundations and trusts:

- **Business support** usually refers to direct financial investment designed to deliver specific outcomes. These can vary from involvement in public–private
partnerships, sponsorship, donations or the commissioning/purchasing of works of art. Private support can also involve in kind assistance or *pro bono* services that an organisation might otherwise have to purchase.

- **Individual giving** includes transactions made by individuals with the intention of donating money and goods. This is usually described as individual philanthropy.

- **Foundations and trusts** are predominantly intermediary bodies, charitably constituted and usually founded by law. They are nearly always supported by private endowment and serve specific purposes defined in the body’s founding objectives.

There is also the individual as private citizen, purchasing ticket sales for attendance and ancillary products (such as refreshments and merchandise), and cultural objects (such as books, recordings, films, works of art).

**The personal investment of individual artists and creative professionals**

One of the most significant sources of non-public funding in the arts is the unpaid time committed by professional artists and creative professionals to delivering projects that they’re involved with. When public funding is tight, arts workers will often absorb the costs themselves by reducing the fees that they take for their work. This isn’t public funding. Nevertheless, it represents a significant hidden ‘subsidy’ to the arts.

Research commissioned by the Arts Council of Wales on “Support for Creative Professionals” (Fieldworks 2016)[6] noted that:

> “Quantitative and qualitative research highlights that the level of pay is generally very low. Individuals that manage to sustain livelihoods do so through passion, conviction, a sense of social responsibility, inherent creativity and, often, private support. Research highlights the current culture of not paying or inadequately paying artists.”

**The purposes of public funding**

If we’re to be clear about the scope and potential for non-public funding, we need to be equally clear about the **purposes** of public funding and where the lines of demarcation rest between the subsidised and non-subsidised.

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[6] [http://www.arts.wales/research/latest-research/research-creative-professionals](http://www.arts.wales/research/latest-research/research-creative-professionals)
Public funding (or subsidy) for the arts has traditionally been built on the five pillars of:

1. Increasing choice and availability
2. Encouraging and promoting creative activity through the medium of Welsh
3. Reducing costs to offer greater affordability
4. Enabling innovation, experimentation and risk-taking
5. Mitigating 'market failure' (i.e.: the inability, or unwillingness, of 'the market' to pay the real cost of certain types of cultural activity).

In other words, public funding helps to ensure that affordable and diverse programmes of quality activity are more widely available to more people.

It shouldn’t be assumed that publicly subsidised activity is of lesser value or is in some way elitist. Educational and community-based arts activity can have great cultural and social importance, but have little prospect of sustaining itself on a commercial basis.

So market failure isn’t just about the failure of arts within the market, but about the failures of the market itself – the ways in which economic forces can undermine and cut against, innovation, choice and affordability.

There will be many instances where ‘the market’ will see no merit, or financial gain, in supporting certain types of activity. We obviously shouldn’t be spending public money where it’s not needed – where the market can sustain an activity without compromising its creative integrity. However, if we’re to offer real variety of product – and help to retain talent and keep intellectual capital in Wales – we need a nuanced investment and funding strategy that recognises that a vibrant cultural economy depends on the right mix of public and non-public funding.
3. The Arts Portfolio Wales

The Arts Portfolio Wales (APW)

The APW is the nation-wide network of 67 organisations who receive grant-in-aid revenue funding from the Arts Council of Wales. The APW forms the foundation of the arts in Wales, providing year-round opportunities across the country for people to enjoy and take part in the arts.

The Portfolio includes the full range and type of organisation, from large-scale internationally significant companies (such as National Theatre Wales, Wales Millennium Centre and Welsh National Opera), to more community focused organisations (such as Valleys Kids, Cwmni’r Frân Wen and Theatr Felinfach). ARW organisations are located across Wales.

Arts Council of Wales revenue funding

2015/16 is the most recent year for which we have a full set of audited accounts for the APW. The analysis set out below is therefore drawn from confirmed financial figures.

Excluding Wales Millennium Centre (WMC) from the analysis (because of the distorting impact of WMC's very significant commercial model), the extent of funded organisations' reliance on Arts Council revenue funding remained roughly the same in 2015/16 compared to 2014/15 (at 31% of the total income).

Comparisons with portfolio organisations funded by other UK Arts Councils are set out below.

<table>
<thead>
<tr>
<th>Portfolio Organisations 2015/16: revenue funding as a % of total income</th>
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<tbody>
<tr>
<td><strong>Arts Council of Wales</strong></td>
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<tr>
<td>31%</td>
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</table>


The figure for Arts Council England’s Portfolio organisations is the most marked. This reflects, in part, the large number of significantly-sized organisations based in London and other metropolitan centres with bigger catchment areas and greater access to business sponsors.

In summary, the funding profile of the APW in 2015/16 shows that:
- total income to the APW saw a –1.5% drop £1.2m to £78m, although earned income actually increased by roughly 6% (£1.4m)
- 3% (£0.7m) of this increase was due to the opening of a new arts facility, Pontio in Bangor
- £0.5m of theatre tax relief was also received by qualifying APW organisations
- there was a reduction in other grant and donation income of –3% (£0.5m)
- Portfolio organisations saw reduced local authority funding of around £1.9m in 2015/16, (£0.8m of the reduction in local authority funding related to the RCT Theatres and the closing of The Muni in Pontypridd.)

Local authority funding reductions to the APW represent a stark trend in recent years.

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2014/15</th>
<th>2013/14</th>
<th>2012/13</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,495,864</td>
<td>6,367,641</td>
<td>10,430,296</td>
<td>10,824,913</td>
<td>10,995,455</td>
</tr>
</tbody>
</table>

This is a reduction over the five-year period of around –59%. It’s to the Portfolio’s credit that this substantial loss of funding has not fatally de-stabilised the sector.

The funding profile of the APW

The scale of Arts Council funding across the Arts Portfolio Wales can be summarised by allocating the total number of organisations to one of four levels of funding – 0–25%, 25–50%, 50–75%, and 75% to 100%. 
Between 2010 and 2015, the number of organisations with the lowest level of Arts Council funding (0–25%) reduced significantly. This is not what we were hoping to see. However, it’s in part a consequence of the reductions in local authority funding. If the two lowest categories (0–25% and 25–50%) are combined, the shift is more marginal.

In other words, Arts Council funding for most funded organisations is less than 50% of total income, with fewer organisations in the highest category of funding now than in 2010.

**Revenue funded organisations showing revenue funding as a % of Total Income**

**APW Sponsorship and fundraising**

There’s no wholly accurate analysis of sponsorship/fundraising in Wales or the wider UK. Arts & Business UK used to publish an annual survey, but this ceased in 2010. In Wales, Arts & Business Cymru reports that it generates around £1m from
business per annum, of which about half is cash support (the remainder being an estimate of the value of in–kind services and *pro bono* support).\(^\text{10}\)

Some of this benefits the APW. However, sponsorship as a whole represents a relatively small proportion of overall APW income, a trend mirrored across most of the UK (other than in the metropolitan centres). Nevertheless, there are some impressive Welsh fundraising stories, such as Welsh National Opera’s unprecedented gift from the Getty family of £1.2m in 2012.\(^\text{11}\)

The low number of FTSE 100 companies or high net worth individuals based in Wales is also likely to be a factor, as are the costs of fundraising (which can make it difficult for all but the larger APW organisations to mount significant fundraising campaigns).

There are a number of Trusts and Foundations who regularly support arts activity in Wales. These include the Wales–based Colwinston Trust\(^\text{12}\) as well as others such as Paul Hamlyn Foundation,\(^\text{13}\) Esmée Fairbairn Foundation\(^\text{14}\) and Wolfson Foundation.\(^\text{15}\) All have supported the APW at one time or another. None of them provides support to organisations’ core costs.

\(^\text{13}\) [http://www.phf.org.uk/](http://www.phf.org.uk/)
\(^\text{14}\) [https://www.esmeefairbairn.org.uk/](https://www.esmeefairbairn.org.uk/)
\(^\text{15}\) [http://www.wolfson.org.uk/](http://www.wolfson.org.uk/)
4. Developing capacity, resilience and innovation

Wales' history of self-help

It shouldn’t be forgotten that there’s a proud tradition within Wales of developing self-help solutions that don’t depend on public funding.

For example, the Co-operative movement saw societies established in communities across Wales with intention of providing good quality products and services at affordable prices. However, co-operation was about more than trading; it was a way of life for many and provided a range of social, cultural and economic activities.

These early principles of innovative social provision continue today with initiatives such as Social Impact Bonds and Community Shares schemes. (These are discussed in section 5 below.) In a period of economic austerity there might be a persuasive case for giving more attention to the development of low-cost models of mutual self-help.

Developing skills and capability

There are compelling arguments for maintaining levels of public funding as part of a mixed economy funding strategy. However, in straitened times this shouldn’t be at the expense of exploring new ways of making public investment work harder, or helping arts organisations to explore new approaches to generating income.

We’re committed to supporting high quality business development services. Our goal is to achieve a thriving arts sector in Wales where strong leadership and entrepreneurial ambition delivers a resilient and successful arts sector.

In doing so we’ve been careful not to replicate or duplicate services currently available through the Creative Industries team at the Welsh Government. Government’s business advice is tightly focused. So instead, we’ve sought to identify organisations and/or individuals who understand how to develop projects and partnerships that are appropriate to the potential business needs of the arts and cultural sector.

Last year we launched our “Resilience” programme for the Arts Portfolio Wales (see below). This is delivered through joint-working between the Arts Council and change management/ business development specialists People Make it Work.16

16 http://www.peoplemakeitwork.com/
We’re also developing further programmes and initiatives that extend business development services beyond the APW.

We’re working to develop capability in three areas:

- **Governance and Leadership** – nurturing effective and skilled leadership enabling organisations to perform to their optimum capability.

- **Strong and durable organisations** – building successful organisations that are audience focused and agile in their business practice. We’re helping to develop the skills to maximise income and to lever additional investment through the entrepreneurial use of public funding.

- **Innovation** – strengthening the prospects of survival in an uncertain world, responding imaginatively to change.

**Clore Leadership Programme**

Supported by the Clore Duffield Foundation, the Programme is the UK’s first leadership initiative across the cultural and creative sector. It has particular expertise in Governance and Leadership. The Arts Council has partnered with Clore to bring events, seminars and professional training to Wales.

The Arts Council also supports Clore’s Fellowship Programme offering high quality opportunities for Wales–based individuals to develop their leadership skills. There are now over a dozen Arts Council–funded Clore Fellows working in the arts in Wales.

**Collectorplan – generating sales for the individual artist**

Collectorplan is the Arts Council of Wales’ interest free loan purchase scheme that encourages members of the public to buy contemporary works of art. Over 50 galleries across Wales participate in the scheme. In 2016/17, we agreed around 1,200 Collectorplan loans generating sales to individual artists in excess of £1m.

**Arts & Business Cymru**

Arts & Business Cymru (A&BC) is a broker of relationships between arts and business organisations. A&BC has operated as an independent charity in Wales since 2011. Arts Council funding has enabled Arts & Business Cymru to develop a range of services and projects, many of which are now supported with non–public funding.
These include:

- **CultureStep**: a match-funding programme that invests around £60,000 per annum into business/arts partnerships
- **Professional Development Programmes** bringing free of charge business skills to the arts through board placements, mentoring and skills transfer
- **Creative Internships Programme**: over a three-year period this programme has resulted in 13 recent graduates becoming full-time professional arts fundraisers

We’re currently working with Arts & Business Cymru to support the delivery of their own financial resilience, encouraging the organisation itself to become a business exemplar by developing a range of professional services that can be offered on a financially self-sustaining basis.

**Building resilience and sustainability**

We’re working with our Portfolio organisations to help them to develop practical solutions to continuing economic austerity.

Many organisations – especially the national companies – are already adept at using their public funding to lever other financial investment:

- Welsh National Opera’s co-production hire income from 2013/14 to 2016/17 amounts to just over £2.25 million. WNO also received £700,000 of theatre tax relief for the 2014/15 season, and fundraised around £1.6 million in the same year

- in just five years, National Theatre Wales secured over £4m of funds. Earned income increased by 49% between 2014/15 and 2015/16 alone. Since its creation, NTW has moved from being 100% reliant on its APW funding when it was established in 2009 to this funding representing just 60% of its income by 2015

We want to nurture a sense of entrepreneurial spirit across the Portfolio as a whole. So a key aspect of our work during 2016/17 has been the development and launch of our “Resilience” programme.

53 members of our Arts Portfolio Wales are participating in the programme. They understand that the Resilience Programme isn’t simply ‘another grant scheme’, but a new approach to developing sustainable business models.

The initial first stage of “Resilience” – analytical diagnostic workshops – took place in September 2016. Most APW organisations are seeking help to explore new
business models that look in earnest at how income can be maximised and new income streams created. It’s particularly heartening to note a number of innovative and unique commercial propositions which are ripe for further development. For others, development of digital capacity is key, as is rebranding and improved marketing know–how. The exploitation of Intellectual Property – companies’ ‘back catalogue’ of successful projects – is another strong theme.

Capital investment to enhance existing facilities is a recurring feature of the plans. Projects under development include improvements to IT systems/digital technology, better energy management, improving the commercial offer and reconfiguring current spaces to encourage greater use by artists and audiences alike. These capital proposals are firmly embedded within well considered plans to improve financial sustainability. These proposals will take more concrete form over the autumn.

Alongside bespoke programmes for individual organisations, we’re also developing a series of masterclasses and leadership workshops. These are being organised in response to needs identified by the Portfolio and will cover a wide range of issues such as change management, fundraising, Intellectual Property, tax efficiency and partnership building.

Innovation

Innovation is the life–blood of creative expression. It’s a natural way of working for many arts organisations. However, innovation need not be limited to creative outcomes, but can be applied to other areas of an organisation’s work – operational and financial.

In partnership with Nesta, and working with others including the Arts & Humanities Research Council, The Space and the BBC, the Arts Council of Wales has been exploring the partnership between arts and technology. Through our Digital R&D Fund, and subsequent Digital Investment Fund for the Arts in Wales, we’ve been looking at ways of creating new business models and/or reaching new audiences.

The initial projects that we supported brought together arts and technology companies:

- UCAN/Calvium. UCAN GO – ‘app’ that verbally maps venues but doesn’t rely on hardware at the venue itself. Developed for/by people with visual impairments, the downloadable technology means that they can confidently and

http://www.nesta.org.uk/project/digital-innovation-fund-arts-wales
independently access venues. UCAN and Calvium are now offering this service to third parties.  https://calvium.com/products/ucan-go/

- Theatr Genedlaethol/Galactig – a further development of traditional translation software, Sibrwd is an ‘app’ that ‘whispers’ real–time information about the performance to widen access to non–Welsh speakers using their own mobile phone. Sibrwd has been used for other languages and a business plan has been developed for next stage investment which is currently under discussion with Nesta.  http://sibrwd.galactig.com/?lang=en

- *Community Music Wales/Zeus.* Tocyn – a ticket site that allows buyers to use their booking fee to crowdfund projects

- *Hijinx/Salesforce/Proper design* – improving reporting of the company’s deployment of actors with learning disabilities allows Hijinx to develop the ‘market facing’ side to their work – a newly launched professional agency for actors with a learning disability.  https://hijinxactors.co.uk

- *G39/Golant Media* – iBeholder is an ‘app’ that captures responses (and data) from attendees at non–ticketed events, particularly developed with visual arts and galleries in mind. Discussions are progressing with partners including Nesta on the next stage of its development and how it might benefit visual arts organisations in Wales.

In addition to directly supported projects, we’ve also taken advantage of initiatives such as BBC Connected Studio and The Space to work with many artists and arts organisations to develop their digital capacity. (We have formal partnerships with both BBC Cymru Wales and S4C.)

We’re now working with Nesta to develop the third iteration of our partnership to offer further support for arts organisations wishing to access skills, training and hands–on experience of new technologies.

**Collaboration and resource sharing**

We’ve been encouraging members of our Arts Portfolio Wales to explore opportunities for collaboration and resource sharing. There are already a number of long–standing examples of collaboration. Larger building–based organisations such as Wales Millennium Centre, Chapter and Galeri are providing a range of space and professional services to smaller organisations, reducing costs and/or returning rental income to the host organisation.
We’re starting to see more examples of artistic collaboration. Some are natural and straightforward (such as the partnership between Sherman Theatre and Clwyd Theatr Cymru) and Welsh National Opera co-produces on a regular basis with international partners across the world. However, we’ve been encouraged to see the development of other less obvious collaborations, such as that between Theatr Genedlaethol and Music Theatre Wales to jointly commission a new Welsh language opera from composer Guto Puw.18

National Endowment for Music

An Endowment for Music, targeted at young people, was one of the ideas that came out of the work in 2015 of a Welsh Government Task and Finish Group on Music Services.19 The Arts Council was a participant in the Group.

Once formally established, the Fund will be operated by an appropriately constituted not-for-profit charitable independent company. Its focus will be the creation of new opportunities for young people’s musical talents to be identified and nurtured.

The Fund will support musical activity in all its forms and at its heart will be a commitment to ensuring that opportunities are available to all young people, regardless of the ability to pay.

It’s expected to start offering support from 2020, will depend on attracting a range of partner investment and support. It will need the participation of corporate and industry sponsors, one-off dedicated deals, high net worth individual philanthropy, the voluntary sector, and legacy giving. This is a mid to long-term initiative.

We welcome the Welsh Government’s adoption of the Endowment idea and we’re now advising the Government on its development and establishment.

Growing new international markets

It’s difficult for many companies to build financially sustainable programmes of work in Wales alone. Through our longstanding partnership with the British Council, our international networks and more recent work with other UK agencies, we have contacts that can leverage export and employment opportunities for our sector around the world.

18 [http://musictheatre.wales/productions/y-tw]
Our staff have helped to run the Welsh Government’s Creative Europe desk. We’ve also contributed cultural expertise to the preparation and delivery of international trade missions, by the UK and Welsh Governments. We coordinate the Welsh Government’s Memorandum of Understanding with the Government of China’s Culture Ministry and provide regular intelligence on Welsh cultural links internationally ahead of Ambassadorial meetings by the First Minister.

Although there’s much good work, there are a number of ways that more co-ordinated support could be given to companies and micro companies (often creative professionals) to grow new international markets:
- running Export Preparation workshops and advice in identifying new markets (country focus events – e.g. China and India)
- researching market opportunities for the sector as a whole
- participating in Strategic Export visits to/from key markets – including with UK wide bodies
- networking – bringing arts and creatives together around key opportunities e.g. Chinese New Year, St David’s Day
- organising international business mentoring to mainstream international market opportunities into companies’ business plans
- promoting international exploitation of artistic content and rights produced in Wales (Theatre and TV / film formats / literature for films/ dramas etc.)
- supporting representation and participation in key market showcase, trade and cultural events (such as Frankfurt Book Fair, South x South West, Venice Biennale)
- hosting buyers from key markets in Wales (e.g. hosting WOMEX, British Dance Edition, World Harp Congress)
- piloting new models of collaborations to increase revenue from international markets (e.g. Google Garage and Tramshed; NoFit State)

Building the resilience of the Arts Council of Wales

The public expects the institutions they fund to be efficient and cost effective. The Arts Council of Wales distributes public funding. So while we must first of all demonstrate the public benefit that our work delivers, and the difference we’re making to the quality of the arts in Wales, we must also show that we deliver value for money for the Welsh taxpayer.

In response to the financial pressures in 2016/17, we undertook an Organisational Review. The Arts Council has consistently taken the view that when funds reduce,
we should mitigate the impact on the sector by shouldering some of the burden of these cuts ourselves.

Comparative running costs for the UK Arts Councils are set out below.

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<tr>
<th></th>
<th>Arts Council of Wales</th>
<th>Arts Council of Northern Ireland</th>
<th>Creative Scotland</th>
<th>Arts Council England</th>
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</thead>
<tbody>
<tr>
<td>Grant—in—aid (£m)</td>
<td>36.2</td>
<td>10.9</td>
<td>50.7</td>
<td>463</td>
</tr>
<tr>
<td>Lottery (£m)</td>
<td>19.2</td>
<td>10.8</td>
<td>34.4</td>
<td>269</td>
</tr>
<tr>
<td>Running costs (%)</td>
<td>7.3%&lt;sup&gt;20&lt;/sup&gt;</td>
<td>18%&lt;sup&gt;21,22&lt;/sup&gt;</td>
<td>8.4%&lt;sup&gt;23&lt;/sup&gt;</td>
<td>7.2%&lt;sup&gt;24&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

(Arts Council of Wales is unique among its peers in integrating into its operational budgets the costs of providing a fully bilingual public service in two languages.)

Our most recent Organisational Review reduces still further an already stretched staff resource. Over the past five years we’ll have reduced staff numbers by 25%.

There are limited opportunities for us to generate additional income, although we have secured significant funds from Europe in previous years. We have, however, received two individual bequests which enable us to offer bursaries to young artists in the name of the donors.

We don’t compete with arts organisations to raise sponsorship. Instead we focus on ‘niche’ activities, such as Collectorplan.

We also build relationships with Trusts and Foundations, advising on applications submitted from Wales. We also partner with Foundations on strategically important

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projects, such as the Baring Foundation’s investment in the Arts Council/Age Cymru “Arts and Older People’s” initiative.25

We work hard to reduce costs by achieving greater efficiencies. We’ve done this by:
− reducing the number of our staff
− reviewing our terms and conditions of employment
− moving to cheaper office accommodation
− automating services (eg: online grant applications, HR processes and payments)
− tendering for services
− using IT more effectively (eg: greater use of video-conferencing)
− using shared and pooled services (eg: the Public Sector Broadband Aggregation, shared pension scheme, National Procurement Service)
− reducing consumption (we have highest level of Green Dragon scheme environmental accreditation)

5. Models that encourage income generation

There are many examples in Wales and around the world of organisations or schemes that operate outside of the traditional grant-aiding models. Some are supported through a mix of public and private funding, others operate wholly on a non-public basis.

The most common types of model are described below. Most are straightforward. Some, however, operate at the more innovative end of social investment and non-public funding. Although some examples do already exist in Wales, their complexity means that they’re not yet widely adopted.

1. **Sponsorship.** Sponsorship is a feature of cultural investment in most culturally developed countries around the world. However, statistics aren’t consistently collected and it’s difficult to provide an accurate analysis of scale and type by country. The general consensus, however, is that levels of sponsorship are currently static at best and reducing in some countries.

Sponsorship tends to be 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 corporate sponsorship.

There are a number of organisations around the world that encourage non-public support by building relationships between business and the arts. Such organisations offer a range of services similar to those of Arts and Business Cymru in Wales. The founding philosophy of such organisations has historically been to act as an intermediary, connecting arts organisations seeking support with businesses who wish to sponsor (sometimes by offering financial incentives).

**Example:** Some countries have experimented with offering incentive schemes to encourage business to sponsors. Cash incentives and match-funding schemes – especially those designed to encourage new business sponsors – used to be popular. However, these have largely been phased out over time as public funding pressures have increased and models have moved into new ways of working. Such a scheme used to operate across the UK – the Government-funded Business Sponsorship Incentive Scheme. However, this was discontinued when funding was withdrawn from the managing agency Arts & Business UK.
In recent years the model has evolved as the nature of corporate giving has changed. Now a business is less likely to offer traditional sponsorship, and will often be more interested in developing community-based programmes attached to a company’s social corporate responsibility objectives. This approach has offered opportunities for smaller locally-based organisations, albeit with more modest levels of support.

Business sponsors have always been reluctant to support core costs, seeing this as the responsibility of the state (or its appointed agent). However, as the market has changed, new organisations have entered the marketplace offering business development products and services that adopt a more commercially innovative approach to the relationship between the creative and business sectors.

Example: London-based Creative United has received Arts Council England funding to develop a range of financial products and services designed to enable the growth and development of the UK’s cultural and creative industries. Creative United is an independent Community Interest Company that provides finance-based products and services designed to deliver economic growth to the arts, creative and cultural sectors. Its mission is to build a sustainable and resilient creative economy, making the arts accessible for all.

Creative United’s publicly funded programmes have included:
- **Own Art** – interest free loans for the purchase of contemporary art and craft to support artists and art galleries
- **Take it away** – interest free loans for the purchase of musical instruments
- **Creative Industry Finance** – business support and access to finance for creative enterprises
- **ArtsCard** – the UK’s first employee benefits scheme to focus exclusively on arts, culture and creativity
- **Prosper** – a programme designed to improve confidence and capabilities within businesses to build resilience and investment in the sector as a whole
- **Consultancy services** – working with public and private sector clients interested in developing new financial models to support the growth and sustainability

2. **Individual giving and philanthropy.** These are one-sided business transactions from which the donor expects no direct benefit. Donations can be made in cash

[26](http://www.creativeunited.org.uk/)
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 United States and from countries such as Italy, Greece and Germany who have special incentives around inheritance tax.

Individual Philanthropy is well-established in most developed economies. The 2016 BNP Individual Philanthropy Index\(^ {27} \) measures and reflects the commitment of philanthropists in four regions – Europe, Asia, the Middle East and the United States.

The Index is derived from a survey of 457 high net worth individuals in the four regions. The United States leads the way in individual philanthropy with ‘Health’ attracting the largest volume and value of donations.

According to Coutts’ Million Dollar Donor Report (2016),\(^ {28} \) there were over 355 individual donations in the UK of £1m+ totalling £1.83bn. As in previous years, London retained its status as the centre of UK philanthropy with 71% of the total value originating in the capital. Wales accounted for 1.5% of the total value.

A number of organisations and online platforms now encourage individual giving to the arts.

Example: Grant Hero\(^ {29} \) is a new not for profit foundation in the United States that has created an online platform to encourage individual giving. Individuals create a grants campaign and invite applications. The individual donor selects the projects they want to support and Grant Hero manages the payment of the donor’s grant.

Example: Creative Partnerships Australia\(^ {30} \) provides artists and arts organisations with resources to develop their fundraising capacity. It also manages the Australian Cultural Fund, a fundraising platform for Australian artists. It was established by the Australian Government in 2003 to encourage donations to the arts. In its first year online, the Australian Cultural Fund supported 118 individual artists and 149 arts organisations. Together, they

\(^ {28} \) http://philanthropy.coutts.com/en/reports/2016/united-kingdom/findings.html
\(^ {29} \) http://granthero.ngo/
\(^ {30} \) https://www.creativepartnershipsaustralia.org.au/about-us/
generated 4,253 donations from 3,958 arts lovers, for a total of A$1.9 million investment into arts and cultural projects.

3. **Crowdfunding and online fundraising.** In some ways, Crowdfunding is a very old form of finance, sharing many of the characteristics of the subscription–based giving that saw the founding of museums, monuments and churches in previous centuries. However, the new innovation is the move to use digital technology to encourage private investment in culture.

Crowdfunding can take a number of forms. For instance, there are differences between pledging to develop a product that you want (and can access anywhere) and a live event that you need to be able to attend. Many Welsh artists have successfully used platforms such as Pledgemusic\(^{31}\) to fund recordings and find new backers on the platform.

For productions, it’s often an organisation’s usual audience pledging what they would spend on a ticket. Interestingly, by offering more expensive packages as part of a menu of fundraising opportunities, organisations are able to identify who among that audience are potential givers of more substantial support.

The costs (in time and money) of resourcing such campaigns shouldn’t, however, be underestimated. Constant communication is vital. When working on “Karen”, their app–based production with National Theatre Wales, Blast Theory recorded their experiences in great practical detail and made the guide\(^ {32}\) freely available to the sector. This sets out a useful and practical explanation of the Crowdfunding pros and cons.

**Example:** Nantgarw in South Wales was once the creative base in the early 19\(^{th}\) century for the production of arguably the finest porcelain ever made. However, due to its fragility, up to 90% of the porcelain was destroyed in the kilns. Despite the exceptional quality, the factory closed after only four years of operation. Today, individual pieces of Nantgarw porcelain are rare, highly collectible and can swap hands for many thousands of pounds. Coded documents discovered in the Nantgarw Chinaworks Museum offered clues as to how the porcelain might be re–created. The Museum launched a £15,000 crowdfunding campaign earlier this year and recently announced that it had exceeded its target.\(^ {33}\)


Example: One of the most well-known of crowdfunding platforms is Kickstarter. Kickstarter helps artists, musicians, filmmakers, designers, and other creators find the resources and support they need to make their ideas a reality. To date, tens of thousands of creative projects — big and small — have come to life with the support of the Kickstarter community who pledge individual amounts against a larger target total. Kickstarter is established in the US as a Benefit Corporation. Benefit Corporations are for-profit companies that are obligated to consider the impact of their decisions on society, not only shareholders. Since Kickstarter’s launch in 2009, 13 million people have backed a project, US$3.2 billion has been pledged, and 129,745 projects have been successfully funded.

4. In-kind support. Not all support need be cash. Arts organisations can benefit from in-kind exchanges of space, resources and services. One step removed from traditional philanthropy, this type of support is usually based on the creation of mutually beneficial partnerships.

Example: As part of an innovative sponsorship relationship, Holyhead Boatyard provides a full range of financial and accounting services to arts centre Ucheldre, saving administrative costs and time for this small arts organisation.

The foundations of these types of relationship can sometimes be hard to pin down. Artists often benefit landlords through reducing their business rates by occupying empty space. Alternatively, exchanges can be based on anything from reviving a local area and bringing in footfall, to running workshops or childcare facilities.

Example: The Tobacco Factory Theatre in Bristol, which has been housed in the former Tobacco Factory since 1998, secured a 25-year rent-free lease on part of its space in 2009. This reflected a long-running relationship with the building and its landlord (and saviour from demolition), former Bristol mayor George Ferguson. Established now as a popular Bristol landmark, the Tobacco Factory building has become a local hub for residential and leisure services and is credited with leading the regeneration of the Bedminster area of south Bristol.

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34 https://www.kickstarter.com/about?ref=nav
35 http://tobaccofactory.com/
5. **Endowments.**

Endowments can be defined as cash or another asset which has been donated to a charity where the conditions of the donation require that the asset be held (or invested) to generate income to support ongoing activities.

In the UK, charity law permits the establishment of two types of endowment:
- **permanent** – an asset or funds are given to a charity to produce income, with the requirement that they must be held in trust in perpetuity
- **expendable** – funds must be invested as with a permanent endowment, but trustees can convert all or part of the endowment into income

The ‘perpetual’ nature of an endowment is designed to provide a degree of financial security that safeguards day-to-day activities for the foreseeable future. However, with interest rates at historic lows, the large sums of capital tied up in endowments aren’t always able to deliver a significant level of return. For example, assuming a 4% return, income of £1m per annum would require an endowment of around £25m.

The Endowment model is most highly developed in the United States where boards of management comprise high net worth individuals who see it as their civic duty to donate and fundraise.

**Example:** US cultural endowments are a well-established mechanism for supporting cultural institutions. Statistics for all endowment-funded activity is not systematically collated. However, museums sector holds around $14 billion in endowments. The Metropolitan Museum of Art In New York alone has an endowment of $3 billion, whilst that of the Boston Symphony Orchestra is in excess of $3.5 billion.

**Example:** The Cultural Endowment Act of Estonia\(^{36}\) receives 3% of the excise duties on alcohol and tobacco and 30% of taxes on gambling. The Endowment is directed by a 9 member Council chaired by the Minister of Culture. In 2013, over 1,000 awards were made of nearly €200,000.

6. **Trading subsidiaries.** A number of charitably constituted arts organisations have a wholly-owned trading subsidiary through which non-charitable trading activities are managed. Profits from these activities are then covenanted back to the parent charity.

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**Example:** Cardiff’s Chapter Arts Centre has over 30 studio spaces situated in its main building and in the adjacent Market House site. The tenants include dance and theatre companies, individual artists, animation studios and filmmakers, audience development agencies, graphic designers, motion and interactive design houses, all providing a rental income to Chapter.

**Example:** As well as providing an important cultural programme in Caernarfon, Galeri has transformed a number of unused properties in the town which are now occupied by several companies and as residential property. In addition, the Galeri venue houses 23 business units available to rent. This delivers income that supports Galeri’s cultural programme.

**Example:** Cardiff Theatrical Services (CTS) is a wholly–owned trading subsidiary of Welsh National Opera. One of the most in–demand scenery building operations in the UK, CTS last year provided services for many different organisations including: BBC Worldwide, English National Opera, Headlong Impossible Touring Ltd, Importance of Being Ernest Ltd, Lyric Theatre Hammersmith, Lyric Opera Chicago, National Theatre Wales, Old Vic Productions, Opera North, The Royal Opera House, Royal Court Theatre, The Royal Shakespeare Company, Sonia Freidman Productions, National Theatre, Vaudeville Productions, Chichester Festival Theatre, West Yorkshire Playhouse, Young Vic and Wales Millennium Centre.

Some arts organisations are adopting even more radical approaches to developing income and assets for the company.

**Example:** When developing its new theatre building in Newcastle, Live Theatre decided to increase future income through capital and digital projects. It was intended that these would develop a social, cultural and commercial return and build resilience for Live Theatre for the future. Its £10.5m capital scheme enabled Live Theatre to purchase and develop the Quayside frontage, land and buildings adjacent to the theatre. It has created new commercial office space, a new public park, Live Tales (a children and young people’s writing centre) and a gastro pub. Pump–primed by the public sector (a prudential loan of £6 million from Newcastle City Council and a £1.73 million grant from the North East European Regional Development Fund ERDF Programme), these new assets are now delivering a commercial return.

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7. **Corporate donations.** These are usually Gifts in cash or in kind, made by companies and other constituted bodies to cultural organisations or individual artists. Unlike sponsorship, a donation does not require specific benefits in return. There are a number of examples of organisations working to connect the arts to corporate donors, including Arts & Business Cymru in Wales.

Many businesses link their support for arts to their corporate their social responsibility (CSR) goals. The nature of the relationship can sometimes be quite complex, focusing on longer term outcomes rather than specific outputs, and skills exchange rather than one–off experiences.

Organisations such as Business in the Community\(^\text{38}\) specialise in developing CSR programmes and brokering partnerships.

**Example:** Americans for the Arts\(^\text{39}\) works to strengthen partnerships between the arts, businesses and foundations. There’s no significant tradition of public funding for the arts in America compared to Europe. However, corporate sponsorship and individual philanthropy are well–established as companies and individuals invest in civic ‘good works’. Programs promoted by Americans for the Arts try to build stronger private sector support for the arts and provide businesses and arts organisations with the services and resources that develop and advance partnerships with the arts.

8. **Commercial investment.** Realising larger–scale projects can be especially challenging. Sometimes these depend on assembling co–production partnerships with a range of international investors.

**Example:** In its 10 years, Ffilm Cymru Wales has supported the production of more than 50 feature films. £6.8 million in production funding has leveraged international investment in their feature films with budgets totalling £54,444,720. 15 European co–production deals have helped to sustain this activity.\(^\text{40}\)

Investors or ‘Angels’ are a feature of commercial theatre investment. Whilst this type of investment is highly speculative, it forms the foundation of commercial producing: a show is broken down into units and sold to investors who hope for a return post–recoupment when the show has earned its costs back. Investment

\(^{38}\) [https://www.bitc.org.uk/wales](https://www.bitc.org.uk/wales)

\(^{39}\) [http://www.americansforthearts.org/](http://www.americansforthearts.org/)

documentation must follow the regulations of the Financial Services Act. This means the process can be complex and expensive.

Example: Angels are individual investors in speculative and start-up companies both for fun and for profit, and so called because they may well be in heaven before they see a return on their investment. In 2007 the Guardian reported on one of the original investor in Andrew Lloyd Webber’s “Cats” who, having invested his life savings of £10,000, has received a £20,000 per annum return ever since.⁴¹

9. **Trusts and Foundations.** These are usually non-profit organisations that either donate funds and support to other organisations, or fund their own charitable purposes. Most foundations in Europe support social, health and environmental 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. As a small country, Malta has promoted the value to its citizens of philanthropic support. Examples include Malta Arts Fund, Malta Film Fund, Extended Public Service Obligations, Francis Ebejer Prize, Investment Funds, Kreattiv, Malta Arts Scholarships, Malta Enterprise supporting arts and creative industries, and the National Book Prize).

Example: The largest single gift publicly known in Wales during 2015 was £1.5m given to Velindre Cancer Care by Henry and Diane Engelhardt through their Moondance Foundation.

10. **Arts services to business.** As the arts/business relationship has grown, businesses have become increasingly aware of the benefits to them of creative techniques and ways of working. One such example is arts–based training, with specially devised courses run by artist–trainers. Such training can help build effective teams, enhance leadership, boost confidence, improve communications, manage change and develop strategy.

Example: Sing & Inspire⁴² approached Arts & Business Cymru when the company was first set up in 2008. A partnership to deliver a pilot staff choir was developed for Admiral. Its aim was to provide an energising, motivating experience, particularly for individuals who spend most of their time on the

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⁴¹ https://www.theguardian.com/money/2007/may/08/alternativeinvestment
⁴² http://www.aandbcymru.org.uk/case-studies/sing-andamp-inspire-andamp-admiral/
phone. It was a huge success and the benefits exceeded expectations. With A&B Cymru’s help, Admiral committed to a programme of vocal health sessions for all new and existing call centre staff. Admiral is now Sing & Inspire’s biggest customer.

11. **Public–private partnerships.** 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, although opportunities do exist through the controversial Public Finance Initiative (PFI) to structure capital schemes in ways that benefit the arts.

**Example:** Salisbury and District Hospital underwent a major rebuild in 2006 with a £22m PFI extension. Around 1% of the capital money was earmarked to include art in the new build. The art collection now comprises over 1200 pieces of original artwork and a further 500 pieces of printed framed prints and posters are displayed in ward and bedside areas.43

12. **Friends schemes.** Friends schemes help arts organisations to get closer to their customers. They can be a vehicle for harnessing the support of an organisation’s most staunch supporters, building a resource of fiercely loyal advocates as well as generating a valuable revenue stream in return for benefits that the organisation offers. Where it works well, relationships can develop into a mutually beneficial long–term partnership.

**Example:** The Academy of St Martin’s–in the–Fields44 is probably one of the UK’s most commercially successful orchestras. Its Friends scheme provides an ‘entry–level’ vehicle for growing the individual giving of its supporters. Whilst many Friends schemes major on the benefits to members, the Academy scheme promotes engaging and enjoyable ways of encouraging people to invest in the company’s creative ambitions. Donor–giving opportunities sit alongside bespoke opportunities to mix and travel with the orchestra and to purchase Academy recordings and merchandise.

12. **Tax policy.** A feature of tax policy is its neutrality, as tax incentives don’t generally relate to specific artistic content. Instead, criteria tend to be linked to types of beneficiaries with individuals, corporate businesses and non–profit

foundations left 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 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 reduction was immediately reflected in lower prices and in the following year sales rose by 16%.

**Example:** The UK Core Cities group, of which Cardiff is a member, has been developing a case for the implementation and development of Tax Increment Financing (TIF). The TIF model is based on reinvesting a proportion of future business rates from an area back into infrastructure and related development. It applies where the sources of funding available for a scheme to deliver economic growth and renewal cannot cover the cost of infrastructure required by the scheme.

13. **Levies.** These are the 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).

**Example:** The Community Infrastructure Levy allows local authorities in England to raise funds towards infrastructure needed to support the development of their areas, 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.

Levies can be voluntary and mandatory. They can also be geographically specific, as with a Business Improvement District.

**Example:** A Business Improvement District is a defined area in which a levy is charged on all business rate payers in addition to the business rates bill. This levy is used to develop projects which will benefit businesses in the local area. There is no limit on what projects or services can be provided through a
14. **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 Non-profit Information and Training Centre (NIOK) Foundation conducted research studying percentage legislation in the five Eastern European countries identified above. The study concluded that, where there's no tradition of donation and no philanthropic models for the population to follow, application of percentage legislation can be an effective way to stimulate giving.

16. **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 2015/16 the UK’s Cultural Gifts Scheme and Acceptance in Lieu Scheme (managed by Arts Council England) was used in 36 cases. A wide range of works of art, worth almost £50 million, were accepted for the nation. Among the items were works by artists, including Sir Anthony van Dyck, Sir Joshua Reynolds and JMW Turner. There were also some significant works on paper by John Flaxman, William Blake, Whistler and Goya, and two very fine Italian Renaissance Old Master drawings.45

15. **Social impact bonds.** The motivations for founding arts organisations are artistic and social rather than financial. This can mean that boards are often (financially) risk averse. Recently, different models of investment have started to emerge based on financial potential and the kind social impact which resonates more closely with the arts sector.

Social impact bonds use repayable finance to achieve a social as well as financial return. The growth in the social enterprise movements has seen new banks and investment funds occupying the space between commercial and

non-commercial activity. Funds provide repayable finance to arts organisations with ambitions to grow and who also want to have a positive impact on society through the quality of their arts. This is attractive to a new type of investor who wants to combine financial, social and artistic outcomes. These investors expect to get their money back, often with interest, and they want to see positive social change take place as a result of their investment.

**Example:** Through a £7 million Arts Impact Fund, funded by Arts Council England, Bank of America Merrill Lynch, the Esmee Fairbairn and Calouste Gulbenkian Foundations, Nesta is experimenting with applying the concept of social impact investment to the arts and cultural sector in England using unsecured loans as an investment tool. So far £5.4 million of investment has been made across 16 arts organisations.

15. **Community share schemes.** Community shares are a form of withdrawable share capital that can be used to support a range of community-based activities, from financing renewable energy schemes, transforming community facilities or restoring arts buildings.

**Example:** Community Shares Wales[^46] is funded by the Big Lottery Fund and delivered by the Wales Co-operative Centre. It provides support across Wales and works closely with the Community Shares Unit. The project aims to raise awareness of community shares across Wales and support communities through the process of share issue, enabling them to develop local services and facilities at the heart of their communities.

16. **Voucher or discount schemes.** 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.

**Example:** The Young Vic’s “Two Boroughs” discount scheme[^47] is about building a local community around the theatre. The theatre has identified as a priority building relationships with neighbours and local residents. “Two Boroughs” is open to all residents of Lambeth or Southwark. Once registered, local residents have the chance to come and see a show for free at the Young Vic as well as a range of free workshops, theatre club, projects and events throughout the year.

[^46]: http://communityshares.org.uk/node/5069
[^47]: https://www.youngvic.org/taking-part/two-boroughs
17. **Timebanking.** A variation on the voucher scheme, Timebanking is a means of exchange used to organise people and organisations around a purpose, where time is the principal currency. For every hour participants ‘deposit’ in a timebank, perhaps by giving practical help and support to others, they are able to ‘withdraw’ equivalent support or benefits.

**Example:** Timebanking Wales\(^{48}\) works with a range of third sector and public organisations including development trusts, communities first partnerships, social landlords, youth groups, social care services and local authorities to maximise their potential to engage, involve and empower the people they serve.

18. **Banking schemes.** These channel 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 examples in Wales of bodies such as the Charity Bank adopting this approach.

**Example:** Towcester Museum was created as a result of a successful community asset transfer. The proposal was to convert a former Georgian coaching inn owned by the council into a museum to help further social and economic objectives in Towcester. This meant the council was able to offer us the building at less than its full market value.

Charity Bank\(^{49}\) provided a property loan that helped with the purchase of the building. The low-interest loan also worked as an endorsement of organisation’s credibility and long-term plans. This helped them to secure a £50,000 grant from the Heritage Lottery Fund alongside other smaller grants.

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\(^{48}\) [https://www.timebankingwales.org.uk/](https://www.timebankingwales.org.uk/)

\(^{49}\) [https://charitybank.org/social-impact](https://charitybank.org/social-impact)
6. Concluding observations

1. There are compelling arguments for maintaining levels of public funding and we welcome the fact that the Welsh Government has endorsed this as a point of principle. However, we acknowledge that in straitened times this shouldn’t be at the expense of exploring new ways of making public investment work harder, or helping arts organisations to explore new approaches to generating income. We are committed to achieving these goals and are actively delivering a number of development programmes.

2. Private support – such as sponsorship and funding from Trusts and Foundations – adds value but it must be recognised that such support can be time–limited and changeable. Moreover, private funds in many European countries are decreasing rapidly in the period of financial austerity.

3. Private support on its own is not a long–term substitute for the firm foundation that sustained public funding provides. Few non–public sources of funding offer a predictable, ready alternative to the ongoing support that public funding can provide. Very few private sponsors are willing to fund organisations’ core costs, seeing this as the responsibility of Government and its public funding agencies. However, some sponsors are prepared to make multi–year investments in particular projects. Currently, the Welsh Government only makes arts funding available on an annual basis. Three–year funding would make a significant difference in helping organisations to plan ahead and structure longer–term fundraising campaigns.

4. A small number of arts organisations in Wales achieve impressive results in sponsorship, fundraising and individual philanthropy. The Welsh Government could consider some way of marking and celebrating particular achievement as a way of incentivising others.

5. Major success in sponsorship and fundraising is usually limited to the larger organisations who can afford to employ their own fundraisers or Development departments. The best results are usually achieved where a fundraiser works exclusively for a single organisation and is fully immersed in the philosophy, vision and work of that organisation. Shared fundraisers (i.e. someone working with a portfolio of organisations) are sometimes advocated as a pragmatic and cost–effective alternative. However, there’s little evidence to show that they work, and the challenges of competing loyalties can be difficult to avoid.
6. Fundraising is a highly competitive business, largely reliant on the contacts and professional networks of individual fundraisers. However, when considering a fundraising strategy, one size doesn’t fit all. What’s right for a major international opera company won’t necessarily be appropriate for smaller community–based organisations, and certain types of cultural activity might not easily lend themselves to traditional sponsorship or fundraising. If the potential cost of fundraising outstrips what an organisation is likely to raise, it might be more beneficial to pursue other strategies for diversifying income. A number of these are either being pursued already by the Arts Council or are identified as potential opportunities for the future.

7. Sustainable fundraising for smaller–scale organisations is more likely to be achieved where organisations have a well–developed sense of how they engage with their customers and supporters. Where organisations are ‘owned’ by their community it’s more likely that they’ll be able to encourage their supporters to invest time, energy and/ or money in the organisation’s activities. Organisations should think imaginatively about appropriate ways of giving that are relevant to their circumstances. The astute organisation will find the best ‘fit’ for its income generating activities that is consistent with its overall mission.

8. Social impact bonds have not been widely used in the arts in Wales. These potentially offer a new source of investment for organisations whose arts mission also delivers beneficial social outcomes. Consideration should be given to identifying new pump–priming investment that could be used to replicate the Arts Impact Fund that’s available to creative businesses in England. The Arts Council of Wales’ existing relationship with Nesta (managers of the English scheme) might provide a basis for progressing a similar scheme for Wales.

9. There are many ways of generating non–public funding, with some approaches more complex and speculative than others. However, there are relatively few organisations in Wales with the skills and experience to assist with this broad portfolio of potential opportunity. Through its “Resilience” programme and other business development services, the Arts Council of Wales is committed to developing a greater pool of informed, expert technical advice on a range of creative business issues. The Arts Council will be reporting on the progress of its “Resilience” programme as well as working to develop new sources of independent business expertise. The Arts Council will also be exploring ways of realising a more campaigning approach to the promotion of corporate and individual giving in Wales.
10. The development of business expertise should fully involve the Welsh Government’s Creative Industries team (who are charged with establishing a new business advisory service – Creative Wales). The complementary roles until now of the Welsh Government’s Creative industries team and the Arts Council reflect the link between economy and culture. The establishment of Creative Wales – a body operating at arm’s length from Government – is a strategically significant development. As plans for Creative Wales advance, it will be important that there’s close and proper alignment between the respective skills and expertise of Government and the Arts Council.

11. The best fundraising campaigns will use a variety of different tools to avoid over-reliance on a single approach. For example, some of the new digital ways of working, such as Crowdfunding, are proving a popular means of providing new sources of income for specific projects. This is well worth exploiting. However, there are some possible limitations, especially if repeated appeals to the same constituency risk creating donor exhaustion.

12. Indirect public support measures through tax incentives are well developed internationally, but the take-up of these by citizens, cultural organisations and businesses varies across different countries is very mixed. Public intervention in terms of matching funds, tax-related incentives or fiscal encouragement builds trust in the importance of culture for sponsors and donors. Most tax-related incentives and/or allowances lie outside the direct control of the Welsh Government. However, consideration should be given to what scope there might be – if any – should Wales acquire tax varying powers at some point in the future.

13. Brexit has potential implications for the financial viability of artists and arts organisations. These extend beyond straightforward issues of access to European funding. We would particularly identify two key issues which should be part of UK Brexit negotiations:
- **Artist mobility** – the foundation of artistic and creative development. Whatever the future arrangements, any changes to immigration regulations must be negotiated in ways that allow reasonable and appropriate mobility of creative workers and avoid counter-productive barriers that add costs and enforce quotas
- **Protection of Intellectual Property** – the UK Government must ensure that copyright works enjoy robust and properly enforced legal protection in international markets. Strong protection for copyright should be incorporated as a key principle into any future trade negotiations.