



# Endowments in the arts

Commissioned by the Secretary of State  
for Culture, Olympics, Media and Sport

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## 1. Foreword by Alan Davey

The debate about how to sustain and fund the arts has gained momentum in recent months. We now know the extent of central public funding for the next spending period, and that local authority funding will be under significant pressure. Now more than ever a creative and entrepreneurial approach to funding, from both public and private sources, is required to sustain the huge success story of the arts in England and the value achieved by them, nationally and internationally.

This report starts from the firm belief that arts organisations' first and foremost priority must always be to produce great art, and that we must be careful that efforts to raise money from various private sources do not divert attention away from this aim. It is very clear that it is great art that will attract great philanthropists and great corporate support.

Our 10-year strategy, *Achieving great art for everyone*, talks about the mixed economy which is at the heart of the success of the arts in this country. We have neither the dependence on public money that is a feature of the continental system; nor do we have the dependence on philanthropic and corporate giving that is the feature of the system in the US. It is important that we see endowments and other elements of giving from the private sector in the context of this mixed economy – which should remain the main strength of the system of funding the arts in this country. We should not seek to recreate in its entirety the US system – to do so would be to ignore the culture of giving in this country and would be to throw away one of the key strengths of our system.

However, that is not to say that we cannot learn from it, and given the current financial context it is perhaps unsurprising that the arts sector has begun to consider the various private elements of the mixed economy, and how to maximise their contribution. Feedback on our recent consultation for *Achieving great art for everyone* certainly indicated a growing appetite from arts organisations for increased support in this area, and endowments are part of this broader context.

This report concludes that endowments are an underused tool in the English arts sector, but this assertion is accompanied with a health warning that they are not and can never be the whole answer. For organisations at the right stage of development, they can be used in imaginative and sometimes surprising ways that are not always recognised across the arts sector. The report therefore emphasises the potential uses of smaller scale endowments as well as the more traditional investment of larger sums to cover core costs. It also reflects on what should be the priority for the arts sector at the present time, and whether for many

organisations this may not be endowments, but instead steps to improve their fundraising or financial management capabilities. Endowments should then form part of a longer term approach, perhaps over decades.

We have tried to make this report as useful as possible to as wide a range of organisations as possible. The report suggests action that the Arts Council can take to support organisations at all levels of development, not just those for whom an endowment is an obvious and natural fit. To that end, the points made about fundraising and capital structure are pertinent at any stage in an organisation's development. We hope this report can be of some practical use for arts organisations in considering their approach to alternative sources of funds which can complement, but not replace, public sector funding sources.

Those who run the arts in this country run some tightly managed businesses. Our best arts leaders have vision, passion, and make every penny count – being as skilled in the judging of balance sheets as they are in judging complex scripts and scores. They are a good bet as far as giving is concerned. If the actions suggested in this report help these skilled leaders achieve even more than they are currently, then it will have achieved its aim.

Many of the reflections on philanthropy and fundraising in this report are well known and have been widely researched and written about in the arts and wider charitable sector, and to that extent it does not seek to re-invent any well-worn wheels.

This report has been informed by a review of the available literature, as well as a series of around 75 interviews incorporating a wide range of views from arts organisations themselves and experts on fundraising and financial management from the wider cultural and charitable sectors. We have also received valuable comments and reflections from a small external reference group of experts in the field which has informed the production of this report.

I would like to offer particular thanks to David Hall of the Foyle Foundation – his insights on the different capacities and needs of organisations were extremely persuasive. Reference texts drawn on in the course of preparing this report are listed at the end, but in particular I would also draw the reader's attention to two documents which have had a particular influence due to their incisiveness and authority – Professor Eric Thomas' 2004 report<sup>1</sup> on fundraising in the Higher Education sector, and Theresa Lloyd's 2006 book, *Cultural Giving*<sup>2</sup>.

<sup>1</sup> *Increasing voluntary giving to higher education*, Higher Education Task Force report to DfES, 2004

<sup>2</sup> *Cultural giving: successful donor development for arts and heritage organisations*, Theresa Lloyd, Directory for social change, 2006

## 2. Introduction

This report looks at the use of endowments in the arts, and the key underpinning factors necessary if arts organisations are going to use them successfully.

The report is split into a number of sections. The first looks at the funding structure in the English arts sector, which we have taken as a point of departure for this report.

The main body of the text then focuses on two key 'building blocks' that arts organisations need to have in place if they are to use an endowment successfully:

- fundraising capability; and
- an organisation's capital structure

We illustrate these both as 'pyramids' on which all organisations can be placed. Steps up the pyramid should deliver more stable arts organisations, and over time should lead to a more resilient and sustainable arts sector. Progress on either pyramid also moves organisations closer to the point at which endowments become meaningful and realistic instruments for them to use.

The approach relies on the recognition that an endowment is not itself a way to increase private funding. Rather, it is a financial tool by which large donations can yield regular income to organisations over a long period.

Gifts are given for many reasons and increasing the successful use of endowments and the benefits accruing from them rests squarely on increasing philanthropic giving to the arts, and the ability of organisations to successfully fundraise.

Successful use of endowments will also flow if arts organisations have a broader capital base and more sophisticated financial management. This is required to ensure effective management of endowments once they have been secured, which itself increases the likelihood of securing donations for an endowment in the first place.

The report touches on the broader social, cultural and economic conditions which drive the gift economy, and the potential pool from which donations to endowments will come. Current trends and the culture of giving offer challenges but also hope that we can increase levels of private giving in England.

Our report has focussed in a practical way on what conditions are necessary in arts organisations that may wish to pursue an endowment.

Reflecting on the above, we recommend the introduction of a major match-funding scheme in the arts for general fundraising purposes. This would have the dual benefit of giving arts organisations an incentive to go out and ask for funding, as well as an incentive for donors to give to the arts as a good cause. This is obviously not a new approach, but pitched at the right scale, and to the right organisations, could have significant impact.

As part of research for this report, we have looked at a number of schemes that exist in other sectors or in other countries, and we make some suggestions about how a scheme could be structured to ensure it is appropriate and relevant for all organisations, not just those that are experienced at fundraising, or those based in the metropolitan centres.

Our view is that a match-funding scheme would be a positive central plank of a strategy to raise philanthropic giving in the arts in the short to medium term, but that it will only work if other measures are taken in tandem to support capacity building in the arts, to incentivise and recognise donors more comprehensively. We argue there are actions that can be taken in two broad areas that will ensure more arts organisations can successfully engage with this agenda:

- improving fundraising capacity and the ability of arts organisations to effectively ask for private funding
- a role for Government to consider how it can create greater incentives and recognise giving in ways which would support the arts sector as it undertakes fundraising

Action in both areas will deliver the greatest impact.

## 3. The arts funding economy

### 3.1 The mixed economy

Before looking at the use, benefits and challenges that endowments bring to cultural organisations, it is necessary to look at the broader financial model that characterises the arts sector in England. We believe that any action taken to increase private funding in the arts should be taken with the aim of strengthening this model and by maximising the interrelationships that exist between these different funding sources.

The arts sector in England relies on a mixed economy model with income from three main areas: public investment, earned income and private sector funding. In some sense, this is true of every national arts sector, with organisations receiving income from each of these areas. However, the *balance* of sources in England is more equitable – across Europe the level of public subsidy is notably higher; in North America, earned income and private sector funding play a markedly greater role.

Because of the recognition of the public value the arts achieve socially, culturally and economically, the arts in England has increasingly received public sector funding. This has become established practice since the 20th century post-war years when the Arts Council was first set up<sup>3</sup>. Sustained investment – greatly helped by the National Lottery – has transformed the cultural landscape. In the last 15 years, more than £2 billion of Lottery funding has been awarded through the Arts Council, over £1.4 billion of which has been spent on buildings. Around 100 new theatres, galleries and art centres have been created, while almost 500 have been rejuvenated, bringing renewed vitality to neighbourhoods, cities and regions across England, and joy and engagement to millions of people.

The Arts Council's investment has also enabled artists and art organisations to thrive. Our total investment in regularly funded organisations has grown in cash terms by 130 per cent from £149 million in 1996/97 to £344 million in 2009/10, and last year we made 2,795 awards through our Grants for the arts programme, totalling £64.9 million. This stability has given organisations the space to plan ahead, be ambitious and experiment. It has created the conditions in which the best and most innovative art can emerge.

<sup>3</sup> For example, the grant in aid budget for Arts Council Great Britain increased from £16.6 million in 1956 to £333.3 million in 1993 (in 09/10 prices). Hansard HC, 4 June 2007, C85W.

Though it is well recognised that the last 15 years has seen unprecedented public investment in the arts, going forward there will be less public funding available. Organisations will, therefore, need to look at the balance of income sources that support their activities. This represents a substantial challenge for the arts sector in the years ahead.

The strength of the English model is a point that organisations reiterated time and again during our consultation. Whilst most recognised the need to look in greater detail at the potential of earned income and private funding (and are already doing so), they were also clear it was easier to do so because of public subsidy for the arts.

Clearly no system is perfect, but the strength of the English mixed economy is that it shelters arts organisations, at least partially, from financial crises in any one strand of funding.

### **3.2 Interrelationships between funders**

There are interrelationships between the different income sources which organisations are adept at exploiting. Organisations often attract contributions from a variety of sources, and the current fundraising economy in the arts is based on this approach. Organisations' ability to obtain funding from one income source is affected by the others, as each source values some match-funding from the others. Public funding provides a platform from which organisations lever other income. In the case of many of our organisations, potential donors and sponsors see public funding as a hallmark of quality, and public economics research supports the view that a healthy level of public funding encourages private giving<sup>4</sup>.

Donors are reluctant to replace public sector subsidy – or what they perceive is paid for through taxation – with their own private funds. But, as was expressed repeatedly in our consultation, they are content to 'top up' and add value to state support.

Different sources of income are suited to different types of activity. The relatively regular and dependable nature of grant in aid funding means it is used to meet fixed costs of basic operations. It thus provides a base on which organisations can plan and develop, and then seek further funding for particular projects or programmes. The characteristics of these

<sup>4</sup> See, for example: *The relationship among funding sources for art and history museums* P N Hughes, and W A Luksetich in *Nonprofit management and leadership*, 1999; *Public subsidies and charitable giving: crowding out, crowding in, or both?* A C Brooks in *Journal of policy analysis and management*, 2000; *Do public grants to American theatres crowd-out private donations?* F Borgonovi in *Public Choice* 126(3-4), 2006. The precise relationship between public subsidy and private giving of course depends on a range of variables, as discussed in JM Schuster in *Tax incentives in cultural policy*, D Throsby and V A Ginsburgh of *Handbook of the economics of art and culture Vol.1*, 2006



programmes make them more appealing to private funding sources than core costs – relatively few philanthropists are keen to fund boiler replacements.

A final feature of the system is that arts organisations that receive income from a number of sources are freed from the effect of undue influence that can arise from an over-reliance on one area. This is a classic concern for organisations who wish to create art free from political influence and unfettered by the whims of funders. England's mixed economy model provides a balance of sources which can lessen such potentially harmful effects. That excellent art follows should come as no surprise.

There is much positive action that can be taken to increase private sector funding for the arts, and this will include greater use of endowments. However, in our view action must be taken in a way that recognises and maintains the best attributes of the current system, for fear that the damage done will outweigh the benefits reaped.

We conclude that any action taken to increase private funding sources should build on the interrelationships between different income sources, and we begin our analysis from this starting point. Our discussion of a possible match-funding scheme later is, for instance, influenced by the collaborative funding structure which our mixed economy model encourages and the manner in which we capitalise on it.

## 4. Endowments – overview of use

### 4.1 What are endowments?

Endowments can be defined as cash or another asset which has been donated to a charity whereby the conditions of the donation require that the asset be held or invested to generate income<sup>5</sup>. This definition expands on the perception held by many we spoke to: that endowments are limited to the large investments held by, for example, American cultural organisations. The benefits of this wider definition will become clear in this report. It highlights two important aspects of endowments – they are both part of an organisation's strategy to attract philanthropic giving and part of an organisation's capital structure.

### 4.2 Endowments in the USA

The most common perception of what an endowment is and what organisations use them for is that of the colossal investments held in perpetuity by American institutions like Harvard, the Metropolitan Museum of Art or the Boston Symphony Orchestra. The income from these assets funds a substantial proportion of these organisations' annual general operating expenditure.

Such investments are an attractive proposition on the basis that they represent a stable source of income for an organisation, reducing its dependency on other funding sources. Their presence on a balance sheet conveys a sense of longevity and financial health. The performance of markets offers, in theory at least, a way of dealing with the inevitable rises in fixed costs that arts organisations face.

Basic data on US cultural endowments gives an indication of their scale. Statistics for all US cultural organisations are not systematically collated<sup>6</sup>, but museums hold around \$14 billion. Looking specifically at arts organisations, the Metropolitan Museum of Art (the Met) in New

<sup>5</sup> Adapted from the Charities Commission's Operational guidance and glossary – a copy can be found at [http://www.charity-commission.gov.uk/about\\_us/OGs/glossary.aspx](http://www.charity-commission.gov.uk/about_us/OGs/glossary.aspx)

<sup>6</sup> From *The grasshopper or the ant: A review of endowment giving policy options for the Doris Duke charitable foundation arts program*, Russell Willis Taylor in National Arts Strategies, 2006: 'We have no reliable information on how much capital is actually being held across the entire field, rather than expended for cultural provision and innovation today. A paper funded by DDCF in 2004 ...noted that there are no solid statistics on how much endowment is held in the arts... (T)here is no annual report detailing the resources held in full and quasi-endowments in the field of arts and culture. We do know that endowment levels in the arts vary widely, with larger organisations in general holding the most money, orchestras and museums being the wealthiest art forms, and small and medium sized companies finding endowment funds a challenge to acquire.'

York holds an endowment of \$2.3 billion, while the Boston Symphony Orchestra (BSO) holds investments totalling \$330 million in value. The largest endowments held by cultural institutions are as follows: <sup>7</sup>

Organisation	Market value of endowments (\$)
Boston Symphony Orchestra	330,000,000
Metropolitan Museum of Art	2,264,895,000
Chicago Symphony Orchestra	184,100,000
Cleveland Museum of Art	559,700,000
Currier Museum of Art	67,700,000
Houston Ballet	43,000,000
Indianapolis Museum of Art	293,700,000
Los Angeles County Museum of Art	99,600,000
Nashville Symphony Association	74,200,000
Orange County Performing Arts Center	41,200,000
Pacific Northwest Ballet	9,400,000
Philadelphia Museum of Art	268,500,000
San Francisco Ballet	76,300,000
San Francisco Museum of Modern Art	125,600,000
San Francisco Opera Association	118,700,000
San Francisco Symphony	205,600,000

There are other statistics and facts of relevance, however:

- despite the vast sums involved, only a proportion of operating expenditure can be funded from endowment income. On average BSO's endowment funds 25 per cent of its total expenditure<sup>8</sup> and this is by no means unrepresentative
- reliable statistics are difficult to generate since data is not systematically collected, but relatively few organisations in the higher education and arts sectors have endowments of the scale outlined here<sup>9</sup>

<sup>7</sup> Adapted from The Chronicle of Philanthropy's annual endowments survey of large American nonprofit organisations in all fields, summary of cultural institutions to be found at: [www.philanthropy.com/premium/stats/nonprofit/search.php?category=Arts+and+Cultural+Groups%2C+Public+Broadcasting](http://www.philanthropy.com/premium/stats/nonprofit/search.php?category=Arts+and+Cultural+Groups%2C+Public+Broadcasting)

<sup>8</sup> Taken from the Boston Symphony Orchestra's 2008/09 annual report – available at [www.bso.org/bso/mods/toc\\_01\\_gen\\_noSubCat.jsp?id=bcat14180019](http://www.bso.org/bso/mods/toc_01_gen_noSubCat.jsp?id=bcat14180019)

<sup>9</sup> *Endowments for a rainy day*, B Weisbrod and E Asch in Stanford social innovation review, 2010

- endowment values and income fell substantially during the recession. The Met's fell by around 22 per cent in 2009, while BSO saw a reduction of 17 per cent<sup>10</sup>. Such falls have not been uncommon over the last two years and have a direct result on such organisations' ability to programme and plan
- endowments in the US have attracted significant criticism, and there is increasing pressure on institutions to spend funds tied up in investments which can be greater than the GDP of some developing nations<sup>11</sup>

These statistics do not and should not be seen to detract from the obvious benefits that endowments bring. They only highlight that their nature is more complex than is sometimes suggested. This is further illustrated by experiences within the English arts sector.

### 4.3 Endowments in England

Endowments are not as common in the English arts sector. Using the regularly funded organisations (RFO) portfolio as a reasonable proxy and taking data from the 2009/10 annual submission, less than 5 per cent<sup>12</sup> of organisations reported holding them. The overall percentage will be slightly higher, however, as organisations outside the portfolio, such as Dulwich Picture Gallery (see example in the next section), have sizable investments; while Aldeburgh Festival and the Sage Gateshead hold endowments which do not appear in their balance sheets, and so do not appear in this analysis. They are held in a specifically created charity and by the Community Foundation in Tyne and Wear respectively.

However it is also important to note that endowments in the English arts sector are not all of the type held by BSO or the Met. Outlined below are some useful examples, both from within and outside of the regularly funded organisations portfolio. The range is much wider than is commonly understood, and the report seeks to understand why this is the case.

Endowments are built up through donations, and in this sense must be seen within the wider context of philanthropic giving in England. Research has found a general attitude amongst potential donors in England<sup>13</sup> that the state should take greater responsibility for funding the arts through taxation and related policy on spending, and indeed in post-war years public

<sup>10</sup> See 7

<sup>11</sup> *Enjoy the Reunion. Skip the Check*, Carrol Bogert in The New York Times, 2008

<sup>12</sup> 38 organisations reported holding endowments from a total sample of 841 regularly funded organisations who returned an annual submission to Arts Council (a 98 per cent return rate)

<sup>13</sup> *Charitable giving by wealthy people*, J Taylor, C Webb and D Cameron for Her Majesty's Revenue and Customs, 2007

spending on arts and culture has increased<sup>14</sup>. The lower use of endowments in England can be attributed in part to the mixed economy expectation that public subsidy will provide support for core expenses. Private funding is most often given for one-off projects or additional activity, for which endowments are not the most efficient vehicle. Public funding also plays a key role in providing a 'kite mark' for artistic quality and good management and therefore attracting funding from other sources, notably from private donors.

This public funding base leads to some creative use of endowments in England where their use has been extended to specific programme-based activity – such as in the case of Spitalfields Music's commissioning fund (see example in the next section). The endowment in this example is used to pay for a new musical commission each year for its Festival, rather than as a contribution to core running costs, as is seen in the more traditional examples outlined at US institutions above. This shows that endowments can be used in different ways.

Examination of the US institutions which hold large permanent endowments highlight a number of key characteristics which contribute to effective fundraising. These are borne out by examples in England: Dulwich Picture Gallery and The Wordsworth Trust (see examples in the next section) provide effective and contrasting examples here. Both organisations are highly successful at fundraising, but, as our case studies illustrate, one has found it more challenging than the other to fundraise for an endowment.

Some of these characteristics relate to the institutions themselves, some of them to the philanthropic culture in which they operate. It is useful to place these in the context of the *culture of asking* and the *culture of giving* in England respectively.

The culture of asking is to do with the fundraising capacity and attitude found within charitable organisations. It is generally well accepted that institutions in England have a less well developed culture of asking than is generally found to be true in the US. Yet knowing how to ask for donations, and having the capacity to do so properly and professionally, forms a key part of whether an organisation will be successful at fundraising. It is an area which, subject to some of the restrictions highlighted in Section 6, can be influenced by art organisations themselves provided they have the right support structures in place. For that reason, fundraising capability is one of the two key elements which will determine whether

<sup>14</sup> For example, the grant in aid budget for Arts Council Great Britain increased from £16.6 million in 1956 to £333.3 million in 1993 (in 09/10 prices). Hansard HC, 4 June 2007, C85W.

and how an endowment will be useful for an organisation. The other key element is an organisation's capital structure.

The culture of giving is also crucial to fundraising success, but given that action to change this is a wider societal issue, we deal with this separately in Section 7 below.

## 5. Three case studies

### 5.1 Spitalfields Music

Spitalfields Music is based just to the east of the City of London. It is home to two music festivals of international reputation – Spitalfields Summer and Winter Festivals – and a year-round Learning and Participation Programme within Tower Hamlets.

The organisation has held a New Music Commissions Fund since 2000. It provides an excellent example of an endowment which is proportionate to the organisation to which it belongs and the benefits which can ensue from careful stewardship.

It was valued at £150,000 in 2009 and has provided the Festival with between £5,000 and £15,000 income annually since 2003. This represents a modest amount for an organisation of Spitalfields Music's size (their turnover in 2009 was just over £500,000) but it is a reliable source of income, and one which enables them to lever in other donations towards commissions.

The fund was instigated by former artistic director Judith Weir, whose aim was to create a legacy that would ensure the organisation could keep commissioning regularly for the future. The first new commission from the fund was made in 2006.

Spitalfields Music continues to add money they raise to the fund, fundraising specifically for this as well as other purposes. From its inception, money for the endowment has been raised from a range of sources. Local and national businesses, charitable trusts, those in the music industry (especially publishers), audience members and general donors have all given and continue to donate.

### 5.2 Dulwich Picture Gallery

The scale of Dulwich Picture Gallery's endowment funds is almost unique in the English arts sector. In the gallery's 2009 accounts, the principal of the endowment was valued at around £11 million (a figure which has since risen to around £14 million as the effects of the recession are shaken off). These funds contributed around £500,000 income in the same year. In a normal year, around 20-25 per cent of the gallery's operating expenditure is funded from investment income, with a further 50 to 60 per cent funded from donations and sponsorship. The gallery receives no public subsidy, so the remaining income is earned from shop sales, admission charges and the like.

Funds are raised from a variety of sources, from individual donations to large amounts from charitable trusts and foundations. The gallery has successful Friends groups, both in England and North America, for this purpose and has had a great deal of success when approaching wealthy donors. The organisation has restructured over time to ensure it can attract sufficient funds. It has invested heavily in its development, expanding its capacity and skills base in line with its needs and ambition.

The endowment funds are all the more impressive as they have been built since 1995, when Alleyn's College charity was reorganised and the Picture Gallery was set up as an independent registered charity. The success the gallery has had in raising funds is not accidental, however. It has benefited from the patronage of high profile Chairs and Trustees who have led fundraising efforts with vision and energy, and were able to donate significant funds themselves. They also have the financial expertise required to effectively engage with the fund managers who look after the gallery's endowments.

This commitment is mirrored in the attitude of staff across the organisation. The Director and other senior staff spend a significant amount of their time on fundraising, and recognise the importance of doing so.

### **5.3 Wordsworth Trust<sup>15</sup>**

The Wordsworth Trust was founded in 1891 as a living memorial to William Wordsworth and his contemporaries, an aim in which it succeeds admirably. However, during the late 1990s it became clear that the annual target of £250,000 fundraising was an increasing drain on the organisation. The organisation was admitted to the Arts Council's stabilisation programme, and produced a plan that involved building an endowment alongside raising funds for ongoing activity and capital developments.

The fund stood at just under £1.7 million at the end of 2009 and it provides a stable source of income for the Trust's general activities (around £70,000 in 2009). However, while successful in fundraising, the Trust has only been able to raise around one third of its original target for the endowment, while meeting targets and (in some cases) exceeding targets for other activities. In fact, three quarters of the funds raised in the initial campaign came from the public sector.

<sup>15</sup> A similar case study can be found in *Cultural giving: successful donor development for arts and heritage organisations*, Theresa Lloyd, 2006, although additional details have been included after consultation with the Trust.



The Trust cites its location and over-optimism regarding the giving potential of its original prospect list as reasons for missing this target; being located so far away from London has proved restricting in terms of cultivating prospective donors. With a strong volunteer leadership but no high-profile and wealthy individual to spearhead the campaign, the Trust has been successful in raising gifts from individual donors below the £50,000 level, but it is not generally perceived by high net worth individuals as being the kind of institution to which they would donate the six-figure, or indeed seven-figure, sums required.

## 6. Two building blocks

### Fundraising capability

The way in which organisations approach fundraising, or how they go about ‘asking’, is key to increasing philanthropic donations to the arts, and this is an essential ingredient if endowments are to be used successfully by more organisations. However, common perceptions of fundraising in the arts are not always accurate. In addition, it is worth noting that good practice and success abounds in the arts sector, and it is more a case of dissemination rather than starting from scratch.

#### 6.1 The arts as a good cause

There is a view that the arts are not seen as a traditional ‘good cause’ by society as a whole. This perception is backed up by donors’ giving behaviour – in 2009, only 2 per cent<sup>16</sup> of philanthropically active individuals gave to the arts.

During our consultation some put this down to a characterisation of the arts as elite, while others articulated the difficulty of making the case for the arts against other charitable causes. A few interviewees spoke of fundraisers displaying shyness or embarrassment when making the case for the arts, where passion and pride were required. The ability to clearly articulate the value of the arts is a key foundation to successful fundraising.

This can be done directly, but also by identifying when a donor’s interest lies elsewhere, and adapting fundraising strategies to accommodate. Arts organisations that celebrate their community and education-focused work, and can demonstrate the wider benefits to society they bring, are often attractive because social responsibility and altruism are frequently key drivers for donors<sup>17</sup>. Arts organisations also offer entertainment value to donors. For those with a national or international reputation, the glamour of association and access to key social networks can equally be attractive to donors, particularly for high net worth individuals.

<sup>16</sup> *Private investment in culture survey 2008/09*, Tina Mermiri for Arts & Business, 2010

<sup>17</sup> *Passion investments and philanthropy*, Capgemini Worldwide, 2010

## 6.2 Characteristics of arts organisations

Though the arts can be seen as a single cause, arts organisations are numerous and come in many flavours, and the way they raise funds reflects this. Factors such as size, geographic position, and the nature of the art they produce can have an impact on the most appropriate fundraising strategy and the opportunities available. However, common themes recur when discussing the challenges and opportunities that face arts organisations when raising funds from private sources. Sometimes widely held characterisations can get in the way of diagnosing the real issues for organisations.

In preparing this report, we encountered the belief that it is particularly difficult for organisations to raise funds if:

- they are small<sup>18</sup>
- they are not based in London
- they operate in artforms other than music or the visual arts
- they are rurally based
- they do not have a national remit
- their operating model involves regularly touring away from a home base
- they do not have a tangible 'asset' to offer as part of the exchange of value with donors or sponsors<sup>19</sup>

The logic behind some of these beliefs is intuitive and persuasive. Fundraising can be modelled as an exchange of value – the donor receives something in return for their gift. This provides many organisations with an obvious fundraising hook – galleries have collections, many organisations are based in a venue and can offer access to them in different ways, and most performing arts organisations sell tickets for events they hold. For other organisations that do not obviously hold such assets, this presents a challenge.

The insubstantial and transient nature of a performance, as opposed to a painting or object held in a collection, makes it difficult to articulate to potential donors the ongoing, intrinsic value of investment. Capital development is a popular cause for philanthropists and so the

<sup>18</sup> In terms of a number of metrics such as total staff numbers, overall income, annual expenditure, accumulated reserves, etc.

<sup>19</sup> This applies both to physical asset such as venues (which offer somewhere to host events) and also objects which can be bought (such as works of art). It is regularly suggested that it is easier to raise funds in the visual arts than other artforms. In so far as this is true, we believe the presence of 'assets' accounts for it.

lack of a venue is doubly challenging. Our larger organisations also often have iconic buildings which give an advantage, (but this is accompanied by the challenge of fundraising for maintenance and ongoing costs).

Arts audiences offer a foundation on which to build fundraising efforts. It may not be as secure a base as the alumni of higher education institutions, but it still offers an advantage. The use of Friends schemes is a basic and effective way of building the foundations of good fundraising, but recent research suggests that only 32 per cent of arts organisations currently have a Friends scheme<sup>20</sup>. Here again, venues are at an advantage. Touring organisations do not necessarily have a regular audience on which to build and understandably cite the difficulty in accessing audience data from host organisations as a barrier which prevents them pursuing such schemes.

### 6.3 Trends and data

It is interesting to note that the data available from organisations receiving regular funding supports some, but not all, of the most common perceptions about income from private sources. In terms of the percentage of total income raised by smaller organisations, there is no statistically significant difference between them and larger organisations. Looking across the country, it is true that London organisations attract, on average, a greater proportion of their income from private sources (12 per cent) but other regions vary widely (between 4 per cent and 11 per cent)<sup>21</sup>.

Looking across artforms, and taking the Arts Council's own categorisation as a reasonable but not perfect approximation, the income from private sources varies significantly across artforms. Music organisations raise a significantly higher average proportion of income from private sources than organisations in the combined arts, theatre and those that work across artform boundaries. Interestingly, the visual arts does not raise a higher average proportion than other artforms. We believe this is down to the range of organisations that Arts Council's visual arts definition covers – not all of which are galleries that hold 'assets' in the form of art works that could be used as part of the value exchange. Organisations covered by this definition include those who support emerging artists or new emerging artforms, the value of which is harder to describe.

<sup>20</sup> *Arts philanthropy: the facts, trends and potential*, Tina Mermiri for Arts & Business, 2010

<sup>21</sup> from an analysis of Arts Council's regularly funded organisations data.

It is harder to generate meaningful data relating to touring away from a base, having a venue, or a rural or national remit, since many organisations have models which involve some or all of these. Overall, though, the work we have done does not persuade us that the role these factors play is simple.

Overall, we conclude that organisations across the sector are good and bad at fundraising. These characteristics may suggest which organisations will succeed at fundraising but there are too many exceptions for them to be deterministic. We have come across some small rural organisations which are extremely innovative and effective at raising funds, and some large urban ones which are spectacularly poor.

These metrics do not make it fundamentally more difficult to raise funds; they simply mean different tactics are required – and the challenges of a fundraiser will be very different based on factors such as:

- geographic location and the wealth of the region the organisation exists in
- the size of the organisation
- the brand and regional, national or international reputation of the organisation
- what type of art they produce
- whether they can demonstrate social impacts beyond the art they produce (eg, through educational work)
- the nature of the audience and how easily they can collect information about them

Though there are many factors which provide different challenges and opportunities, much also depends on the attitude of the organisation, what it is raising funds for, and the capacity it has available for fundraising activity.

#### **6.4 Attitude and fundraising expertise in organisations**

A key determinant that does appear to ring true for organisational success at fundraising is the attitude within it and the importance it attaches to this activity. This culture of asking is arguably a more critical factor for success than the culture of giving<sup>22</sup>, which we examine in detail in Section 7.

<sup>22</sup> *Increasing voluntary giving to higher education*, Higher Education task force report to DfES, 2004

Organisations that are creative and positive in their approach can raise funds, and this suggests that where organisations exhibit negativity or despondency, it is a symptom of the way that organisations approach the issue rather than anything endemic, and that the best organisations play to their strengths rather than use their weaknesses as an excuse for failure. Successful organisations exhibit a number of key attributes which we should try to replicate across the sector:

- they focus on building relationships, and do not adopt a 'carpet-bombing' approach of targeting as many potential supporters as possible
- they do not set out a begging bowl. They are convinced that funding the arts is valuable, and they focus on articulating the benefits of partnership with the organisation
- they always ask for an amount equal to or greater than the real value of the activity or goods being provided. They will accept a lower amount, but will correspondingly reduce what is provided in return. To do otherwise would devalue their organisation
- equally, they are not frustrated if there is not an instant result. Time spent with an individual is never seen as wasted, as it can pay dividends at a future date or provide unexpected opportunities
- they are skilled and clever at packaging their products up in different ways to suit different audiences, so as to be the most likely to attract attention
- they are passionate about the arts and the activity they undertake
- they display a willingness to accept in-kind support and non-financial donations because this frees up resources for other purposes
- they are willing to try new, creative approaches to raising funds, but only if there is a coherent reason for doing so, there is a fit to their artistic mission and brand, and the time is right for the organisation
- they see themselves as more than an artistic organisation. Successful organisations see themselves as part of the wider cultural sector, the voluntary or third sector, and the local ecology with all of the civic responsibilities that brings

Beyond the adoption of a positive outlook, one point that our consultees mentioned time and again, and which they said was absolutely essential, was the role and active involvement of the entire organisation in supporting fundraising efforts, from the Board to the Chief Executive to box office staff. Fundraising is particularly challenging if artistic staff see it as beneath them or demeaning to their work, although there was refreshingly little evidence of this when researching this report, many referring to it as an attitude that may have had greater resonance in the past.

It is particularly important that the senior team at an organisation recognise and are willing to involve themselves in fundraising activity, and equally so that Trustees see it as a part of their role to raise funds and donate themselves, and are sophisticated when considering the conditions which may be attached to donations. This is probably the greatest distinction between English and US arts organisations, where the 'give, get, or get off' approach taken to membership guarantees that Boards in the US are made up of those who can support fundraising campaigns. Alongside this, in recent years, through the efforts of the Cultural Leadership Programme, Arts & Business and others, the boards of arts organisations have made huge strides in attracting a wider range of expertise, and it is crucial that this is not lost in a drive to attract wealthy patrons, but who have not had the same access to high-profile Chairs or Trustees to spearhead campaigns.

However, some work in this area is critical if we are to improve the culture of asking, and particularly encourage greater giving to endowments. Here the role of Trustees is demonstrably key – both in their ability to lead an endowment campaign, and to make sizable donations themselves. Dulwich has benefitted from two such chairs, and this has been borne out in their success. Contrast this with the Wordsworth Trust, which is very successful at raising funds for purposes other than endowments.

### **6.5 Asking for what?**

It is vital that the 'ask' an organisation is making matches its mission, needs and ambition, as well as the interests of potential donors. This is especially true when fundraising for endowments, which by their nature require very large sums and are best used in particular circumstances.

A further point which came up a number of times during consultation was the longer term benefits of fundraising for core activity, not just for projects. While it is true that it is easiest to attract funds for big ideas and readily identifiable activity, organisations are effectively a combination of these, and it is possible to fundraise for core costs through the application of a more sophisticated fundraising strategy. Organisations that generally had established and long-standing funding plans were more likely to take the approach of fundraising for core as well as project activity.

At the heart of this is an ability to clearly articulate what the purpose and value of the organisation is, but flexibility about how that is achieved. Frequently, the organisations that successfully raise funds display openness to new opportunities and partnerships, not just a

willingness to seek income from private sources. As Russell Willis Taylor expressed in a recent interview for Mission Models Money (MMM), explaining to a potential donor why you are worth giving money to is an excellent way of clarifying your thinking about why what you do is worthwhile<sup>23</sup>.

This area is intrinsically linked to the point an organisation has reached in its lifecycle and its financial management and strength, and that is dealt with in more detail in the section below on capital development.

## **6.6 Capacity in arts organisations**

Whilst the attitude of an arts organisation can have a significant impact on fundraising success, a further key factor is its capacity to fundraise. The point about prioritisation of fundraising at organisations is an important one, as this can be intrinsically linked to whether an organisation has a dedicated and well resourced fundraising team or not, as well as it being critical to the amount of time given over by the senior management team to its activities. One key observation from our consultation was that training for senior management at some organisations was as important as providing training for fundraisers.

Some organisations, however, simply do not have either the capacity or specialist expertise available to mount a successful fundraising campaign. This is a particular problem for very small organisations, where staff sometimes take on more than one responsibility and are consequently peripatetic in their attentions. It is particularly difficult for organisations of this size, that lack full-time and trained fundraising staff, to develop and maintain relationships with donors at the level needed.

A final point made by the organisations that we consulted was that retention of fundraising staff in the arts was an issue given the comparatively low levels of pay on offer compared with other charitable causes.

## **6.7 Pyramid of fundraising capability**

In light of the above analysis, fundraising capability at arts organisations is dependent on the skill, capacity, and the attitude of arts organisations towards fundraising. Many factors

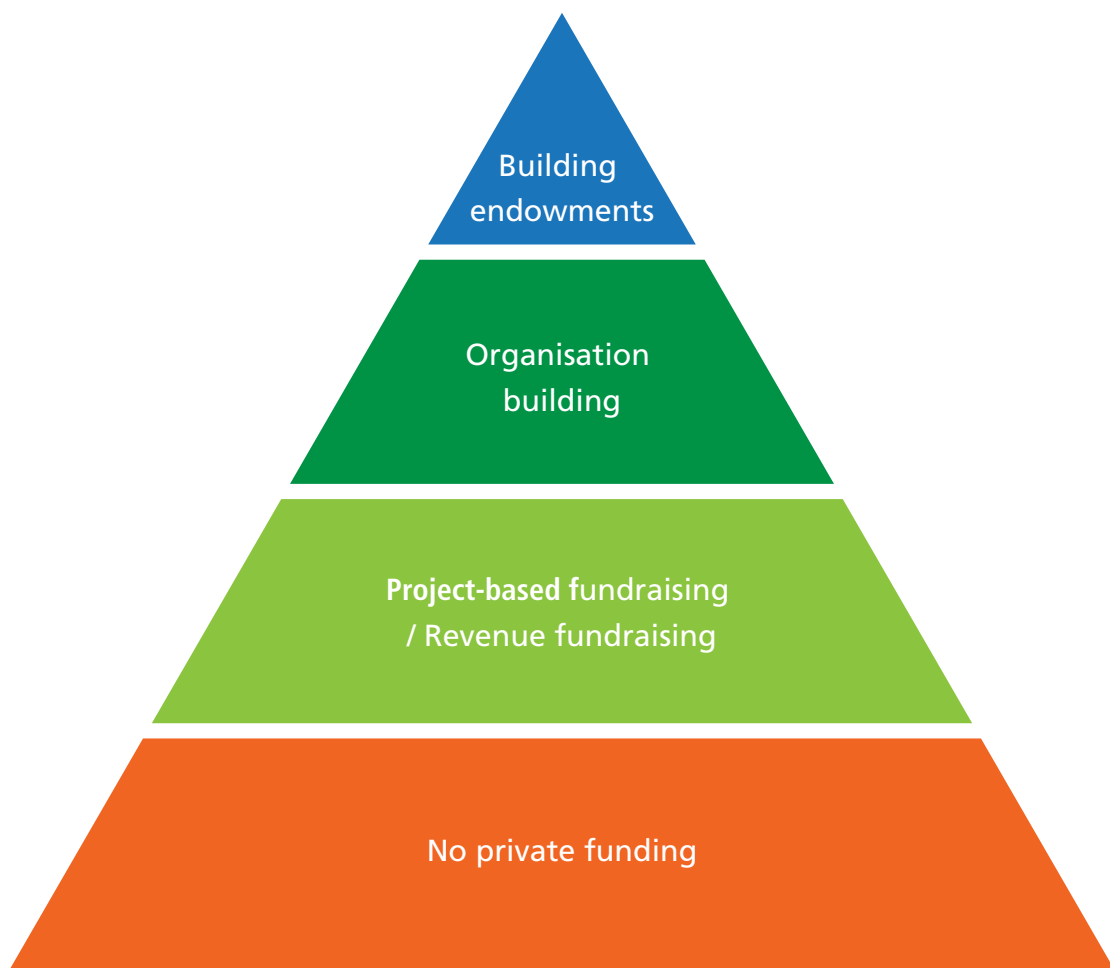
<sup>23</sup> Interview available at [www.missionmodelsmoney.org.uk/blog/mmm-tv/mmm-tv-russell-willis-taylor-of-national-arts-strategies/](http://www.missionmodelsmoney.org.uk/blog/mmm-tv/mmm-tv-russell-willis-taylor-of-national-arts-strategies/)



therefore combine towards the effective execution of a fundraising strategy, and many organisations will not easily hold all of the answers without support.

David Hall, the Chief Executive of the Foyle Foundation, has worked with many arts organisations that have sought to increase fundraising and overall financial health, and several of these have sought to do so via an endowment. He describes the needs of organisations as falling on a pyramid according to their ability to raise funds.

With some basic adaptation, it captures the sense that not many organisations reach the stage where fundraising for permanent endowments is appropriate, because they have the capacity and expertise required. Our aim should be to move more organisations up the pyramid, rather than simply trying to increase the number of endowments in the arts sector.



This argument is closely linked to the financial structure of an organisation and the point it has reached in its development. This will define what an organisation needs to fundraise

for. We explore this area in the next section, where we consider endowments as part of an organisation's capital structure.

## Capital structure

### 6.8 Spectrum of reserves

It is useful to think of endowments falling on a spectrum of the types of reserves charities hold, where left-right movement represents increasing restrictions on whether the reserve can be spent<sup>24</sup>. Left to right movement also represents an increase in the anticipated lifetime of the reserve. One begins with the Unrestricted general funds at one end and moves across to Permanent endowments at the other, taking in Designated funds, Restricted funds and Expendable endowments<sup>25</sup> along the way.



Endowments are also represented on balance sheets as fixed assets owned by the organisation<sup>26</sup>. They are most commonly held as investments, but they can be held as land, buildings or even works of art. Sometimes the asset is itself donated; more often the organisation receives cash which it is obliged or chooses to invest in an asset for income generation.

<sup>24</sup> In one sense, conditions on restricted funds can be more limiting than those on endowments, as there may be no limits on how income from an endowment is spent, but there will always be on a restricted fund.

<sup>25</sup> Endowments are described as 'permanent' where the conditions of donations require that the asset is held in perpetuity and the recipient organisation cannot spend the principal sum. This is contrasted with 'expendable' endowments, where the trustees of the organisation must use the donation to generate income, but under certain circumstances will have the legal power to convert the principal into an income fund which can be spent.

<sup>26</sup> While it is true that balance sheets also contain assets corresponding to restricted funds, and may do so for unrestricted funds, the points made are far more relevant to endowments since:

- a) endowments are always held as fixed assets (eg investments or land) rather than current assets (cash or stock) and so require significantly greater working capital, capacity and technical skill to maintain;
- b) the donation is often made in the form of an asset rather than a simple cash payment for the organisation to invest as it sees fit;
- c) the permanence of many endowments means that corresponding assets must be held and maintained in perpetuity;
- d) legal restrictions on endowments mean organisations cannot easily sell or convert the endowment into another form of asset if that better suits their purposes.

There are excellent reasons why it is institutions of the scale and also with the history of the Boston Symphony Orchestra or the Metropolitan Museum of Arts who hold large permanent endowments. Funds held at the right end of this spectrum represent an implicit choice on the part of the donor or the organisation that increasing the institution's longevity or financial security is of greater value than delivering maximum progress of the organisation's mission today. Another way of looking at this is as an opportunity cost – every pound invested in an endowment is a pound not available for today's programme.

In addition, assets need effective stewardship<sup>27</sup>. This requires staff with capacity and expertise particular to the type of asset in question, and often board experience in fields relevant to the asset. It may also require working capital of sufficient size and flexibility that the asset can be adequately maintained and managed. Such assets can generate stable income streams, but the risks that they can pose should not be underestimated. As Clara Miller writes: 'An organisation is a system. Endowment, cash, facilities, technology, human capital, capacity – all are interdependent. Changing one changes all the others'.

With a physical asset such as a building, the mission of an organisation can significantly shift or be lost completely as activity has to be changed to generate sufficient cash to service and maintain the asset itself. There is a danger of staff burnout or exhaustion where skills or expertise are lacking.

When it comes to managing an investment, the risks are different, but they remain. Few organisations have the requisite expertise or capacity in house. External fund managers can be used, and their fees will be met from the investment income itself. Someone still has to handle the relationship with the fund managers and provide oversight, and few organisations currently have such expertise, either with staff or on their board.

Even with these skills in place, investments must make a large enough return to keep up with inflation, meet fund managers' fees and pay a reasonable annual return. Cultural inflation exceeds the Retail Price Index (RPI)<sup>28</sup> as well as other measures of inflation, and income from endowments does not keep up with rising costs. As such, fundraising for endowments is an ongoing activity, and additional donations are needed each year to ensure their value keeps pace with inflation. This has led to criticism that organisations lose sight of

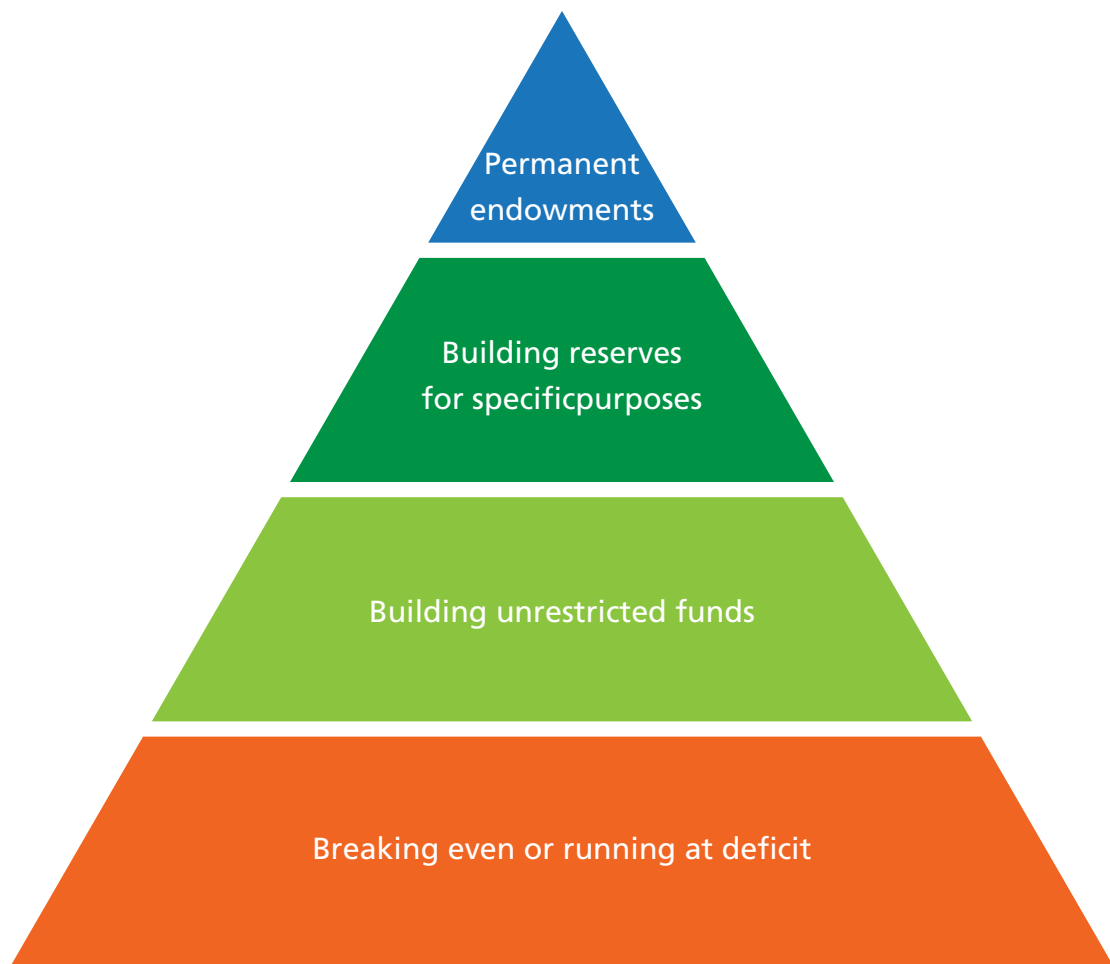
<sup>27</sup> *Literature review on capitalization*, E Curtis, S Nelson and A Engel in *Grantmakers in the arts*, 2010

<sup>28</sup> *The grasshopper or the ant: A review of endowment giving policy options for the Doris Duke charitable foundation arts programme*, Russell Willis Taylor in *National Arts Strategies*, 2006; *Literature review on capitalization*, E Curtis, S Nelson and A Engel in *Grantmakers in the arts*, 2010

their core purpose as they shift attention to maintaining the capital value of their investment, and becoming more like fund managers than arts institutions.

### 6.9 Different capitalisation needs

As with fundraising, the pyramid introduced above can be used to capture the sense that not many organisations reach the stage where permanent endowments are appropriate, and that our aim should be to improve the stability of arts organisations, rather than simply trying to increase the number of endowments.



Smaller organisations in younger and emerging art forms thrive on taking opportunities as they arise. Risk is an inherent part of the creative endeavour. They operate on tight margins, rarely generating surpluses and frequently struggling to generate cash. There is evidence that organisations at this stage in their lifespan are destabilised when they acquire significant funds and assets whose use is heavily restricted. The opportunity cost

of permanent endowments is too great. Their need is for flexible capital and liquid assets that allow them to respond to circumstances or develop work of greater quality.

However, as organisations do become more established and grow in size, they should be more able to generate unrestricted funds for longer term planning. This allows them to build general funds and operate in a more secure manner, planning more complex projects over longer time horizons. Examples would be capital replacement funds or funds for ambitious one-off artistic projects.

These purposes still require the full capital to be spent, however. This would not be possible with the implications of permanence or full legal restrictions that are attached to permanent endowments – restricted<sup>29</sup> or designated<sup>30</sup> funds offer this facility. More modest endowments can also be used in this way, as Spitalfields Music's New Commissions fund demonstrates (see example in Section 5).

### **6.10 Increased use of endowments**

The scale, mission, expertise and capacity of an organisation must be considered when looking at whether it will benefit from a permanent endowment. It is generally the larger, more established arts organisations for whom this will be the case – those who already have sufficient reserves for general purposes and who have the capacity to handle the change to their capital structure. However, the analysis of endowments in use in the English arts sector in Section 4 above suggests that they are currently underused.

For organisations not yet at this stage, a strategy to address the under-capitalisation of arts organisations is required. It is widely accepted that not enough arts organisations have reserves that they, or impartial observers, consider sufficient. Too few actively seek to build up their funds; even fewer take a sophisticated approach to calculating what level of reserves would be appropriate for their organisation. This could and should sit alongside measures to promote more targeted endowments of the kind Spitalfields Music hold (see example in Section 5). The possibility that smaller organisations could benefit from community endowments and / or pooled investments should also not be ruled out.

<sup>29</sup> A donation where the principal can be spent, but only in line with conditions imposed by a donor.

<sup>30</sup> This occurs where the trustees of the organisation choose to specify a purpose for some of their accumulated, unrestricted reserves.

## 7. External factors

### 7.1 Culture of giving

It is commonly said that the culture of giving in England is not as developed as it is in the US. This is noted in literature<sup>31</sup> on this subject and has been pointed to by many of the organisations interviewed as part of this work. These trends are linked to a number of social, cultural and economic factors:

- general levels of government spending on social welfare (the arts as a sub-set of this) which are lower in the US than is the case here
- the recognition of and social status of donors in the US compared to England, including a different social attitude in which individuals display a greater sense of social responsibility to 'give something back' and society attaches social status to giving
- different approaches to tax treatment and options available to the donor here and in the US

These factors correlate to a general attitude towards the role of the state in the US compared to England<sup>32</sup> and how this in turn relates to the role of individuals towards the wider community. The trends towards giving in England reflect this attitude.

Any change to the culture of giving in England will be a slow one, but there are two areas of practical action that are commonly identified which would send positive signals to donors, and might cumulatively help to start changing the culture over time. These would seek to change the role and status of donors in society through recognition by society of their worth and role. It would also seek to offer incentives for gift-giving through the tax system. Both of these actions could be helped through action by central Government.

### 7.2 Charitable giving trends

According to the UK Giving Survey 2009, the recession has, perhaps unsurprisingly, hit charitable giving by individuals with a decline in giving across the sector last year by 11 per cent compared to 2007/08 figures, returning levels of giving back to 2006/07 levels. This research is backed up by findings in Communities and Local Government's Annual

<sup>31</sup> *The Maecenas initiative: A review of charitable giving vehicles and their use in the US and Canada*, AEA Consulting for Arts & Business, 2004

<sup>32</sup> *Cultural giving: successful donor development for arts and heritage organisations*, Theresa Lloyd, Directory of social change, 2006; *Charitable giving by wealthy people*, J Taylor, C Webb and D Cameron for Her Majesty's Revenue and Customs, 2007

citizenship survey which also found a decline in giving in their results for 2008/09. UK Giving 2009 also suggests there has been a general decline in large scale donations, and that this accounts to some degree for the overall drop in giving. The figures also indicate that donors are giving to the same causes rather than seeking new areas to invest in, and that gift aid usage has levelled off with uptake on small donations remaining poor.

This compares to a 7 per cent<sup>33</sup> decline in charitable giving to the arts by individuals, which indicates that the arts have fared slightly better than the broader charitable sector as a whole in this area. Though the particular drop in figures this year is associated with the recession, these figures do fit into a broader trend in England which shows indications that the amount of charitable giving has not been keeping up with the growth in national wealth, falling as a percentage of domestic product over the last two decades<sup>34</sup>.

That said, the third annual survey by Coutts of £1 million donors, published this year, is optimistic showing a modest increase in the number of these gifts in 2008/09 compared to the previous year, suggesting a tentative recovery from the recession<sup>35</sup>.

There are two ways of reacting to statistics like these. The first is negative, and would conclude that attempts to increase private funding for the arts (at least for the present) are doomed by the wider culture of giving and the impact the recession has had.

The second is more positive, and reflects the innovative and remarkable fundraising efforts by some of the organisations in our portfolio. They would see only opportunity, not threat – such statistics only highlight the potential for growth in this sector. And, indeed, if one looks more closely, there are economic, demographic and philanthropic trends which suggest not only that private giving to the arts can be increased, but particularly giving to endowments.

### **7.3 Macroeconomic opportunities in individual giving**

Individual giving is the key to increasing the use of endowments in England. It promotes lifetime relationships with donors and ultimately legacies, which are the mainstay of large, permanent endowments. The situation is not dissimilar to that outlined when looking at capital structures. Individual giving is in its infancy outside of London, and this is a key area.

<sup>33</sup> *Arts philanthropy: the facts, trends and potential*, Tina Mermiri for Arts & Business, 2010

<sup>34</sup> *Private giving for the public good*, Campaign for private giving, 2007; and *A generous society*, Home Office, 2005.

<sup>35</sup> *The Coutts Million Pound Donors Report*, Beth Breeze, The centre for philanthropy, humanitarianism and social justice, University of Kent, 2010

Despite the barriers presented by the perceived culture of giving in England and the corresponding data on giving trends over the past decade, there are also a number of well documented opportunities presented by much wider demographic and economic trends. These trends point towards an increasing pool of wealth available for the fundraiser to unlock, and for which we can look at specific interventions which might help the arts sector to take advantage. These include:

- the population is ageing. The proportion of the population aged 85 or over will more than double by 2034. Almost a quarter of the population will be aged 65 and over compared to just a sixth at present<sup>36</sup>
- those over 65 account for at least 50 per cent of high net worth individuals, although there has been a substantial growth in the absolute number of wealthy individuals between 18 and 45. This grew by a third between 2000 and 2005
- the current intergenerational transfer of wealth which has been underway for the past decade and is said to be the largest in history as years of accumulated wealth in both Europe and the US changes hands with the dying off of the baby boomer generation. This relates to philanthropy in the extent to which potential donors will look to the tax system for ways to lessen the burden of this transfer and is therefore an opportunity<sup>37</sup>
- there are now more than 500,000 paper millionaires in the UK<sup>38</sup>, a figure which has grown steadily over the past two decades, although estimates fell slightly during the recession. Much of their wealth is self-generated, while in previous decades a much greater proportion came from inheritance<sup>39</sup>
- a further area of potential is highlighted in the Coutts<sup>40</sup> report, which suggests that £1 million donations are regularly being made in areas across the country, and though the concentration is bigger in London, donations are far from confined to being made there. The report points to a potential pool of regional donors and the impact they can have in a geographic region that is meaningful to them, such as where they were born, brought up, or where their working life is based. This points to action that can be taken in particular to support regional organisations to reach this potential pool

36 Adapted from [www.statistics.gov.uk/cci/nugget.asp?id=949](http://www.statistics.gov.uk/cci/nugget.asp?id=949)

37 *The Maecenas initiative: A review of charitable giving vehicles and their use in the US and Canada*, AEA Consulting, Arts & Business, 2004

38 Taken from [www.fundraising.co.uk/news/2010/01/04/uk-has-500000-millionaires-say-prospecting-gold](http://www.fundraising.co.uk/news/2010/01/04/uk-has-500000-millionaires-say-prospecting-gold)

39 Taken from [www.guardian.co.uk/business/2008/jun/24/richlists](http://www.guardian.co.uk/business/2008/jun/24/richlists)

40 *The Coutts Million Pound Donors Report*, Beth Breeze, The centre for philanthropy, humanitarianism and social justice, University of Kent, 2010



These trends show that there is potentially great benefit to be gained for the charitable sector if it were able to unlock some of this wealth, and points to a question about what action can be taken to help further incentivise giving.

A particular area that is currently undercapitalised in the arts is legacies, with only 8 per cent attracting this source of income, though they are incredibly lucrative for other charitable causes, estimated to be worth around £1.9 billion a year for the wider voluntary sector<sup>41</sup>. This funding stream is particularly appropriate for the building of endowments, because longevity is often a key motivating factor for donors and endowments can provide this. We think this is a key area for the arts and an area where it is worth thinking about what specific interventions we can make to help organisations in the arts take better advantage.

#### **7.4 Trends in philanthropic giving**

A final factor worth noting is the changing nature of philanthropy and the expectations that donors have when giving especially large gifts. These include:

- a new generation of wealthy people, some of whom are keener than the previous generation to take a 'hands-on' role at organisations they invest in, investing skills and time as well as funding. This correlates with a trend in the US, which has also reached England to a lesser degree, of 'venture philanthropy'<sup>42</sup>
- trends such as giving circles and crowdfunding<sup>43</sup>
- the increasingly interconnected and network-based nature of philanthropic giving<sup>44</sup>

#### **7.5 Tax incentives**

Tax measures in England provide more generous incentives to donors than is widely believed, and with careful planning, efficient donations can be made. However, there are some issues which we believe, if addressed, would lead to increased donations.

Gift aid regulations are seen as overly complex, notably the variable percentages involved and the split of responsibility for claiming the tax relief between donor and recipient. However, from conversations with organisations across the sector, we believe this is largely an issue

<sup>41</sup> *Arts philanthropy: the facts, trends and potential*, Tina Mermiri for Arts & Business, 2010

<sup>42</sup> See 41

<sup>43</sup> See 41

<sup>44</sup> *What's next for philanthropy?*, Monitor Institute, 2010

of education, and we would not support a change to a composite rate, since research suggests it would not benefit arts organisations<sup>45</sup>.

In preparing this report we have encountered some difference of opinion about the relative merit of the rules governing the split of benefits between the donor and recipient. There is a view in some quarters towards the approach in the US where all of the benefit is returned to the donor. This would improve incentives to donors, and thus increase levels of giving. It is likely this approach would benefit organisations at the larger end of the scale that are in the business of soliciting larger gifts from individuals, and where the extent of the tax incentive available really counts in the donor's decision making process. Others have warned against advocating this approach on the basis that smaller and medium sized organisations are influenced by the current split. They currently receive additional funds for the gifts they solicit, and this provides an incentive for them to go out and make the 'ask'. As part of our more detailed work in this area, the Arts Council intends to look urgently at the balance of benefit between these two options so that it can articulate a clear and balanced view which it can then advocate on behalf of the sector with Government.

Further aspects of the current system which are problematic and where easy reform would be welcome are relaxation of the restrictions on donor benefits, naming rights, as well as the approach currently taken to individuals who are non-domiciled. Larger organisations who court substantial donations, the kind which can make a large difference to fundraising for endowments, cite these issues as particularly problematic.

A further point is that certain tax incentives are known to encourage donors to give to permanent endowments more than others, and the current UK system does not maximise these incentives. There are different ways in which this can be achieved. In Canada, incentives are increasingly mirroring those in the US where new capital gains tax incentives have tangibly increased endowment giving. It is possible that this will be extended to donations of property in the near future. Other incentives such as 'life-time legacies' proposals or the introduction of US style 'planned giving vehicles' would provide greater incentives towards the sort of gifts traditionally given as or to endowments. These sorts of changes would provide a greater incentive to the gift of legacies in any case, whether as endowments or not. Given the opportunities in terms of legacy giving outlined above, we think these would be positive areas for action.

<sup>45</sup> *Gift aid donor research: exploring options for reforming higher-rate relief*, K Scharf and S Smith for HMRC and HMT, Her Majesty's Revenue and Customs, 2009

In France, a provision exists to encourage donations of contemporary artworks. Organisations which purchase original works by living artists can deduct an amount equal to the purchase price from their taxable earnings. This deduction occurs over a 20 year period in which the company must exhibit the acquired work in public.<sup>46</sup>

## 7.6 Honours system & recognition of donors

There is another area of reform open to government, which is the use of the honours system (or another mechanism) to recognise the philanthropic contributions of individuals. At present, there is a perception that the system only offers recognition for gifts of extraordinary generosity (£50 million +) while those who give lower but still substantial sums (£1 million +) to the arts receive no recognition beyond measures like the Arts & Business awards, which are welcome but not considered by donors to carry the same weight or status.

The options available are many. Annual receptions held by senior members of the Government, and/or members of the Royal Family would allow the majority of significant donors to be recognised and thanked. An alternative and complimentary system to run alongside existing honours would also be welcome and would have the potential to be widely used. A review of the recognition of foreign nationals would be welcome. Though the British Honours system does recognise a small number each year, it may be worth considering what might be done on a more regular basis. The French Legion d'honneur, specifically designed for this purpose, may be worth looking at, recognising that increasingly the most substantial donations made in this country are by wealthy individuals from India, Russia or other countries.

Clearly, such changes would not be simple to implement, but it is widely accepted that they would make a tangible difference. It is important to note that such mechanisms would not achieve the same impact of changed tax incentives, which would represent the Holy Grail for fundraisers in the arts, but they would represent a political commitment to improving the private giving environment.

It is also useful to note that the views of some during our consultation suggested that a change in the tax system would itself, for many donors, be seen as a form of recognition of them, as a broader reflection of the importance society attaches to philanthropy.

<sup>46</sup> Summaries of various national tax incentives can be found at: [www.culturalpolicies.net/web/index.php%20;%20](http://www.culturalpolicies.net/web/index.php%20;%20)

## 7.7 Institutional donors

While individual giving is likely to be the mainstay of fundraising for endowments, there are also issues with institutional donors who might contribute. With charitable trusts and foundations, and many private donors, such a contribution is effectively a transfer from one endowment to another, since this is how their own funds are held.

The question is reasonably asked: 'Why would I donate money for an organisation to invest, rather than simply invest it myself and donate the income?' Potential donors require a demonstration of the organisation's financial stability and ability to manage the sums involved effectively – this echoes the points made in the section on capital structure below. We believe this can be addressed by working in partnership with some large trusts and foundations or particular philanthropists, although for many trusts and foundations this is unlikely to be wholly overcome.

Organisations also report that it is challenging to convince public funders to contribute to reserves, and particularly endowments, as there has been a historic tendency to see accumulation of reserves as a sign that public subsidy is no longer required. A more sophisticated approach can be seen in examples like that of The Wordsworth Trust, but further work is needed to ensure that this attitude fully becomes a thing of the past.

## 7.8 Time frame

One final point to make is that, because of the wider culture of giving and the need to shift that culture, it is clear that any significant increase in income from endowments will not occur in the short term, and so the Secretary of State's reference to a 20-year project – or even, as suggested by him at a recent Cause4 event, potentially a 100-year project – is welcome.

Some simple numbers highlight how challenging substantial change will be and so the long term nature of the project. The Arts Council will invest approximately £350 million in its portfolio. Assuming an annual return of 4 per cent (a reasonable rate compared with actual returns, before, during and after the recession), a combined endowment of £8.75 billion would be required to generate the same level of return. At present, the entire portfolio raises around £100 million annually from private sources, meaning it would take 87.5 years to raise the capital required.

Organisations are also starting from very different places. Around 600 organisations raise less than £50,000 per annum according to data from Arts Council's 2009/10 annual survey of regularly funded organisations, with 20 organisations raising more than 50 per cent of the total. Also, note that these figures take no account of other sources of public subsidy, such as local authorities, or the funds organisations need to raise for their ongoing activity.

## 8. Conclusion and recommendations

The contents of this report have concentrated on practical areas of action at arts organisations, highlighting two key 'building blocks' that can form the basis of activity to improve fundraising capability, and/or the capital development structure at individual arts organisations.

Both of these 'building blocks' contribute towards the conditions needed at organisations to attract and manage endowments, but will also be important features of organisational development at many arts organisations in any case. The development of both can be helped through support to build capacity at organisations, and this report suggests there is a range of actions that the Arts Council can take to help and encourage organisations in this endeavour. Action in both of these areas sit squarely in Goal 3 of our recently published 10-year strategy, *Achieving great art for everyone*: 'the arts are sustainable, resilient and innovative'.

Beyond fundraising capability and financial management expertise, there will be a combination of additional external and internal conditions unique to any one organisation that will also influence what is the most appropriate fundraising and financial management mechanisms for them. These include an organisation's geographic location and the wealth of the region in which it is situated; its size – some organisations' operating success is predicated on their small and fleet-of-foot structure, which they would not wish to change; the potential for its profile to be high enough to attract the level of gifts needed; the nature of activities at the organisation and whether these lend themselves towards an easily saleable 'product' that donors can identify with and may find attractive; and the organisation's perceived longevity, which is a particular concern for donors making larger gifts such as legacies, or towards long standing financial mechanisms such as endowments.

This report concludes that the majority of arts organisations will not find themselves at the right stages of our two 'building blocks' to contemplate fundraising for an endowment at this time. The report therefore advocates a broader approach with fundraising on the one hand, and financial management of organisations on the other. Any approach which isolates endowments from this wider context would not be of the most benefit to the sector.

We argue that support for organisations should therefore be targeted so that it is relevant to a range of organisations who will be on a continuum of development and who will be facing different challenges. The aim should be centred on moving interested organisations up at least a step towards the top of the 'pyramids' we have outlined. Action to support organisations in either area will automatically have a cumulative effect in the sector, moving

some organisations a step further towards a position where they may wish to consider an endowment. For many, however, improvements in fundraising capacity or organisational development may be welcome, enabling them to enrich and diversify their funding sources, without any ambition from them to create an endowment as an end game. As set out in Section 3, it is clear that arts organisations will come under increasing pressure in coming years to find these new funding sources, and the Arts Council should be at the forefront in supporting organisations in this endeavour.

There are good but complex reasons why endowments might be attractive to certain organisations. We would not, however, argue that endowments are, alone, a solution towards creating more self-sustaining organisations. Once contextualised in the wider landscape and within a wider plan of action, we do think there are a number of actions that could be taken specifically in relation to endowments, and these are included as part of our suite of suggested actions. We have stated that we do not think that endowments should be the area of focus for arts organisations at the present time, where most will have more pressing concerns about cash flow. However, we do think endowments can and should be part of a much longer-term strategy to develop the private sector contribution to the arts over a number of decades.

Whilst there are a range of proactive actions that organisations may themselves take, and which the Arts Council can play a role in supporting, this report also acknowledges that there are a range of external social, cultural and economic factors which contribute to the level of giving in England. Many of these conditions, such as the culture of giving, are at the societal level and will no doubt take many years to change. Interviewees from our consultation were strongly of the view that there are a range of actions the Government should consider to help influence and stimulate changes in this culture – particularly in the areas of tax and recognition. This report also highlights some action that could be taken in these areas.

Whilst there are barriers, there are also opportunities, such as demographic shifts which are leading to increased opportunities around the gift of legacies. We should ensure the arts are well placed to take advantage of these shifts.

It is our conclusion that the most effective action to improve the balance of organisational reliance on private funding, and a movement towards the greater use of tools such as endowments in the English arts sector, will comprise a combination of action to change the culture in arts organisations, simultaneous with action to create incentives around

philanthropic giving to the arts. This combination of action at both ends of the scale will create the greatest level of impact.

Whilst there are clear actions that can be taken to ease conditions for the attraction of private giving to arts organisations, we feel it is important to recognise the different characteristics of private funding to that provided from public sources, and the different conditions and challenges for fundraising found at different organisations in and out of metropolitan centres, as well as across different artforms. As advocated throughout this report, action taken to increase reliance on private funding sources should be taken within the mixed economy funding model, rather than seeking to replace the public sector share.

## 8.1 Recommendations

Recommendations for action are split out into two key areas:

- action that the Arts Council will take to help support the organisational development of arts organisations towards the goal of increasing private funding sources, and as part of that, the use of endowments
- action that the Arts Council suggests could be taken elsewhere to more greatly incentivise giving in England, easing the conditions under which arts organisations undertake their fundraising activities

At the end of this section we spend a little more time exploring the introduction of a match-funding scheme that would form a central plank around which a programme of activity could be devised. In the short to medium term, this would provide a much needed boost to the sector as it begins to look at the longer term issues at stake.

The Arts Council will publish a more detailed plan of action in the Spring 2011, and will be focussing on the following areas of action in considering priorities:

- a new programme of support, building on the work we have previously funded Arts & Business to undertake in this area, to support organisations in training, mentoring, and fundraising talent development. This will be tendered to providers who are experienced in these fields. We will also be looking in collaboration with the Cultural Leadership Programme and others at what action can be done to train senior managers in the arts in the importance of fundraising. We would expect this programme to be managed by our new Organisational Development function



- the introduction of a match-funding scheme (see 7.3)
- active promotion of the arts as a good cause
- a potential new Lottery programme similar to Sustain<sup>47</sup>, which would look in detail at capacity within arts organisations and support them to achieve a step-change in fundraising
- building an expectation of our larger funded organisations to take a lead in the sector and help others to grow their capacity
- a project to articulate and prioritise the best new tax incentives that would benefit the arts sector and a role in communicating these to Government. This will include articulating a view on the best approach for gift aid donor / recipient split, as well as a strand to look at incentivising legacy giving in particular, and what action could most successfully lead to an increase in these gifts to the arts
- encourage more of our organisations to provide digital opportunities for audiences to donate, and the introduction of Friends schemes at organisations that do not currently have them as basic steps towards fundraising
- a series of pilots looking at the opportunity of creating co-owned endowments that more than one organisation could draw upon. We would like to explore the possibility of housing these at a third party experienced at financial management to remove the need for this expertise at smaller organisations
- a series of pilots looking at innovation and R&D in fundraising, in particular towards the collaboration of organisations together in fundraising activity, or ideas that intend to harness new trends in giving such as crowdfunding or giving circles, with best practice to be spread across the sector

Whilst the Arts Council can take action to help encourage a change in the culture of asking at arts organisations, there is also action that can be taken by Government to help incentivise giving:

- action to simplify gift aid, in particular:
  - ▶ the limits on donor benefits that organisations can utilise to thank donors in a way which is proportionate to the gift given
  - ▶ removing or softening restrictions on naming rights
  - ▶ reviewing the application of gift-aid to non-doms
- A review by HM Treasury of tax treatments available to potential donors. In the context of endowments, the review should look in particular at tax treatments that would be

<sup>47</sup> Sustain was a programme run by the Arts Council in 2009/10 in response to the impact of the recession on arts organisations whose sustainability is important in delivering our mission of great art for everyone.

attractive to those considering the gift of legacies. We would suggest this includes a review of tax incentives successfully used in other countries, in particular Canada, France and the US. This could include looking at 'planned giving vehicles' in the US or other proposals for 'lifetime legacies', as well as the possible introduction of a capital gains relief similar to the one introduced in Canada in 2006

- action to significantly improve the recognition of donors by society, possibly through the Honours system. Action from Government to actively thank donors through direct acknowledgement

## 8.2 A match-funding scheme to encourage private giving to the arts

A popular intervention for the purposes of increasing private giving to charitable causes is the use of a match-funding scheme. This can be hugely successful, building relationships between organisations, donors and other funders, and offering incentives that can, when well designed, improve the quality of fundraising and increase the amount donated.

Match-funding for this purpose is not new to the arts. The Arts Council has in the past had matched elements to its various schemes, and Arts & Business has also run a number of programmes over the years, including most recently the Big Arts Give with Alec Reed this autumn. We believe that the introduction of a scheme, particularly if it is of sufficient size, could provide a real focus for a campaign to increase fundraising in the arts, and by raising the arts profile as a cause to consider giving to.

In preparing this report we have looked at a number of schemes, notably the recent £200m higher education match-funding scheme introduced in 2008. We have also looked at a match-funding scheme in Canada specifically introduced to incentivise endowments as part of the Canadian Arts and Heritage Sustainability Programme, introduced there in 2001.

The evidence from the higher education match-funding scheme is beginning to show a positive impact<sup>48</sup>. However, such schemes sometimes only have superficial impact, lasting only the length of the scheme itself, unless other wrap-around action is taken which seeks to address some of the underlying issues. Other measures are essential, therefore, to tackle the underlying reasons why fundraising is difficult in the first place, be these around capacity building or simply making the case for the arts as a good cause. This was precisely

48 2009/10 Ross-Case survey of HE fundraising, <http://www.rosscasesurvey.org.uk/>; and *The Coutts Million Pound Donors Report*, Beth Breeze, The centre for philanthropy, humanitarianism and social justice, University of Kent, 2010

the view of the Department for Canadian Heritage when it introduced a match-funding scheme aimed at endowments – the intervention only made sense alongside a broader package they introduced at the same time with ‘Stabilization’ and ‘Capacity Building’ elements. The higher education report too suggested that steps should be taken to support or ‘pump prime’ fundraising departments at universities to better enable them to go out and ask for funding. It also suggested a tranche of action to increase senior management involvement in fundraising – another key area that must be working in any organisation if it hopes to boost its fundraising activities.

A further note of caution is necessary – some match-funding schemes simply attract existing fundraising rather than incentivising new money or convincing new donors to give to the arts. There are ways in which a scheme can be devised that limits this tendency via caps and monitoring. We are also very keen to ensure that any intervention is available and relevant to smaller organisations, and for use by those not based in London or the other metropolitan centres.

We would not advocate the use of a match-fund wholly intended for endowments, but rather a more holistic approach which mirrors the arguments in this report – that, at this time, a broader scale intervention would be more helpful to support organisations to increase fundraising capacity in general. The number of endowments could be impacted by the cumulative effect of a broader scheme which incentivises organisations at all stages in their development. A tiered scheme could deliver this, with the potential, if desired, for an endowment incentive at the top tier. The key advantage to this approach is the ability to target aspects of the scheme at different parts of the arts sector that have different needs. This will enable organisations with minimal previous fundraising experience to benefit; smaller organisations to benefit; as well as those who face the different challenges of fundraising outside of London or any of the other metropolitan centres. We will want to look in more detail at the pros and cons of focussing a top tier towards endowments specifically.

The rationale for the Higher Education scheme is not dissimilar to the tiered approach outlined above. Higher Education institutions had varying degrees of fundraising capacity and expertise, as was reflected in the Taskforce report to the Department for Education and Skills on fundraising in Higher Education<sup>49</sup>. It recommended tailored support aimed at organisations at different stages of development. The scheme that was later introduced

<sup>49</sup> *Increasing Voluntary Giving to Higher Education*, Higher Education Taskforce report to DfES, 2004

had three tiers, each with caps attached. The first tier offered a 1:1 public/private funds match aimed at low capacity organisations.

A relatively low cap ensured the benefit was spread and that larger experienced organisations did not crowd out smaller organisations which needed more time to build momentum. Less experienced organisations benefitted from the stronger incentive offered by a 1:1 match, but for a capped amount of fundraising. The second tier offered a 2:1 match (50p of public funds for every £1 raised) and the third offered a 3:1 match. The third tier of the scheme had larger amounts available, but the available ratio made it suitable for larger organisations which already had capacity to fundraise at this level. This scheme has offered flexibility with organisations able to choose the option that best suits them, while still stretching their capacity to raise funds whatever their starting point.

Whilst we will need to look carefully at what might be suitable in the arts sector, we think this is an interesting approach which it would be helpful to keep in mind whilst working up the detail of any scheme. The analysis we have presented of the arts sector suggests a similar tiered approach would be helpful, offering smaller amounts of funding at a 1:1 ratio for smaller and regional organisations, a mid-level offer for medium sized organisations, and the possibility of a strand for organisations who would most benefit from an endowment – either specifically targeted, or that could be used in an endowment campaign if the organisation so chose. Another option might be to target this higher tier at the attraction of legacy gifts without specifying the means by which the gift is then managed. Any scheme would have the best impact if it is introduced alongside other measures, and we have indicated above what these could look like.

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Charity registration no 1036733

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ISBN: 978-0-7287-1494-6

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