

Enhancing economic growth and donor engagement in Canadian arts & culture through *Canadian Heritage's Canada Cultural Investment Fund – Endowment Incentives Component*

Written Submission to the Standing Committee on Finance in advance of Budget 2019

A joint submission:

THE
NATIONAL
Ballet
OF CANADA

L'ÉCOLE
NATIONALE DE
BAJLET
DU CANADA

CANADA'S
NATIONAL
BAJLET
SCHOOL

Stratford
FESTIVAL

VSO VANCOUVER
SYMPHONY
ORCHESTRA

BANFF
CENTRE FOR ARTS AND CREATIVITY

COC CANADIAN
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COMPANY

OSM ORCHESTRE
SYMPHONIQUE
DE MONTRÉAL

LES
GRANDS BALLETS
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Recommendation 1

Increase Canadian Heritage's Endowment Incentives component of the Canada Cultural Investment Fund (CCIF) by \$6.5 million to bring it up from its current state of \$19 million to \$25.5 million.

This increase would bring the total for the entire Canada Cultural Investment Fund to \$28.5 million.

Recommendation 2

Raise or eliminate the \$15 million per organization lifetime cap on support from the Endowment Incentives component of the CCIF

Executive Summary

This submission, made by eleven of Canada's largest arts and culture organizations with the aim of supporting the overall pool of recipients, **recommends that Budget 2019 include a \$6.5 million increase to the Endowment Incentive's component of Canadian Heritage's Canada Cultural Investment Fund (CCIF), and to raise or eliminate the current \$15 million lifetime cap.**

This program has contributed to the development of arts endowments for **233 organizations**, small and large. The act of creating an endowment often signifies a level of organizational maturity, financial diversification and stability. The component, where the government matches up to one dollar for each dollar in private donations, has incentivized a culture of philanthropic giving and increased donor literacy in Canada's arts sector. The Endowment Incentives component continues to be an attractive option for Canadian donors and has demonstrated **the complementary relationship between private and public funding** of culture in Canada.

We want to thank FINA for Recommendation 81 in their report, *Driving Inclusive Growth: Spurring Productivity and Competitiveness in Canada* from the pre-budget 2018 process, which stated:

"Increase the competitiveness of Canadian arts organizations and encourage new revenue streams for them by raising the annual cap on the Canada Cultural Investment Fund – Endowment Incentives to \$3 million, raise or eliminate the \$15 million limit on support for each arts organization..."

Since the report was released in December 2017, we have met with Canadian Heritage to explore the data, impact and administration of the Endowment Incentives component. We understand that the component administers funds in such a way that most, if not all, applicants receive funding, and we are supportive of this approach. With our recommended \$6.5 million increase, current beneficiaries of the Endowment Incentives will be able to continue to access the program as they experience growth in their organizations, and newer applicants and organizations of all sizes will be able to enter without negatively effecting the annual matching percentage.

This joint submission takes us into the next phase of what is an iterative process to strengthen competitiveness through financial diversification in the Canadian arts sector.

The State of the Endowment Incentives Component

The Endowment Incentives component continues to help expand existing endowments and aid in the establishment of new ones. Since 2001, the accumulative federal investment of \$250 million has leveraged \$327 million in donations from the private sector for a total of \$577 million secured in endowment funds of arts organizations. The Endowment Incentives component **has seen substantial growth, with 52 applicants since the last budgetary increase in 2010, to 123 applicants who raised \$28.6 million in 2017** in private sector donations.¹

The true value of this component, both in monetary terms and in arts organizations' relationship with donors, is realized in the matching percentage granted to recipients. This, to our understanding, is based on the number of applicants, budget available, and the amount requested by each applicant. The matching percentage is operating most favourably when an 100% match can be granted to each recipient, which has occurred roughly 6 out of the 16 years that the component has existed. **A healthy matching percentage has often followed a Federal Budget increase.**

In 2017, **the matching percentage declined significantly to 66%**. Many donors are noticing the decline and asking about it, which risks their contribution due to the perceived return on investment. **Donor comfort and confidence is vital for organizations of all sizes to attract funds** and, without this comfort provided by the matching funds, it becomes **more difficult to raise funds**, justify the fundraising effort, and continue fundraising for endowments over the long-term.

The recommendation for a \$6.5 million increase considers the historical trends of federal budget increases to this program, along with factors that would stabilize the matching percentage from its current state of 66%, hopefully to 80 - 100% annually.²

Creating a Stable Financial Future

A term and condition of the Endowment Incentives component, as it currently stands, is that applicants can only receive a maximum lifetime limit of \$15 million. **In 2013, the lifetime limit was raised to \$15 million from its original limit of \$10 million to keep successful organizations in the program.** The risk of our organizations reaching the lifetime cap, and thus graduating out of the program, looms once again. For six of us, we will be reaching this cap in the next two years, which will render us ineligible to participate in the program in 2018-2020. The remainder will reach the cap within the next three to five years.

To continue with endowment success, the risk of reaching the \$15 million cap is of immediate concern to our organizations. This risks negatively affecting our relations with donors, donor retention, and our ability to cultivate new donors to meet fundraising goals.

¹ Department of Canadian Heritage. "Endowment Incentives Component: Canada Cultural Investment Fund (CCIF). March 2018.

² Ibid.

“Between 2003 and 2009, when the **Stratford Festival** was eligible for matching funds up to \$2M per year from CCIF, the market value of the CCIF funds plus donor match grew by over \$15.4M in that six year period; conversely between 2010 and 2014, when the Festival had reached the original CCIF maximum cap of \$10M (and therefore ineligible for the matching funds) the growth was only \$3.8M over that 4 year period. Once the current CCIF maximum cap was increased to \$15M, the Festival again saw accelerated growth, with the market value of the CCIF funds plus donor match growing by an additional \$14.4M over the period of 2014-present.”

Impacts of the Endowment Incentives Component

Revenue diversification

Endowment revenues can be counted on. They are used by small and large cultural organizations to bring Canadian culture to Canada and the world, and to help these endeavours operate effectively. Where an annual operating budget for arts organizations in Canada is usually comprised of a mix of public funding, earned revenue, private donations and sponsorships, the **Endowment Incentives component contributes three-fold – it encourages private donations, matches donations through public funds, and all funds contributed to the endowment continue to grow in interest.** Even as other funding opportunities and economic environments change, endowments provide a functional mechanism to continue to invest in production and presentation, innovation and employment.

Most organizations set a goal for their endowment fund to be three times larger than their annual operating budget. For ten of the organizations listed on this submission, the program has provided them with a combined total of \$119.5 million. With the support from this incentive program, plus donors and interest, the total value of all these endowment funds combined is approximately \$493 million. This allows each organization, on average, to disperse anywhere from \$1 million to \$4 million back into the organization annually. **For some organizations, these annual disbursements represent more than they receive from public funding sources combined and/or help cover costs that may not be adequately supported by other funding sources.** These endowment funds support a wide range of activities - operating costs and critical infrastructure, training the next generation of artists, bringing Canadian culture to the world stage, and much more. In addition to these disbursements, the amount retained in the endowment **continues to be capitalized for the future.**

In Canadian Heritage’s most recent evaluation of the Canada Cultural Investment Fund, 85% of the surveyed recipients

“indicated that participating in **the component had increased their organization’s self-sufficiency and stability.** About two-thirds noted that the federal Endowment Incentives increased the value contributed by individual Canadians and the business sector. A few organizations noted that the endowment fund has become a significant revenue source

for their organization over time and that government incentives are a valuable tool when seeking to raise money from other donors.”³

The Endowment Incentives takes care of many things at once. It enables reliable revenue streams and savings for the future, it strengthens annual cashflow through regular disbursements, and encourages competition by providing a suite of fundraising options for donors.

A competitive advantage for philanthropic giving in Canada

In addition to the financial and economic benefits of this program, the creation of the federal Endowment Incentives component has created a **culture of endowment giving that has spanned a generation**. The diversification of revenue through endowments leads to **more options for donors**, and the continued participation in the Endowment Incentives component has **improved philanthropic development and retention**.

Private donors have become increasingly sophisticated in their philanthropic giving and many donors ask how much they can give to best leverage this program. They are equally interested in following up on an organization’s application and contact organizations in the Spring to find out what the matching percentage was. Some donors are finding new and innovative ways to use matching, asking organizations how they can match funds through other ways, whether it be in tandem with or outside of a government program. Matching funds are now regarded as an innovative solution for Canadian culture’s fundraising endeavours.

Those listed on this submission have experienced how the strength of our philanthropic community, government leadership, and fundraising efforts combine for overall sector success. To create a fair playing field among Endowment Incentives recipients, we want to help **increase skills competencies in the ability to create, grow and manage endowments**. Many organizations listed on this submission are using their experience to create peer-to-peer mentorship for other CCIF recipients who express a need for guidance. We have been discussing with Canadian Heritage how these larger organizations can share lessons learned and best practices with organizations of different sizes. This, combined with increased donor development and retention, **helps lead to positive competitive environment for arts endowment giving in Canada**.

The unique culture of philanthropic giving that the Endowment Incentives program has fostered will be significantly diminished, should the lifetime cap not be raised or eliminated, and should the annual matching percentage continue at record lows. Both issues can be solved through a modest increase to the CCIF. The generosity of donors, matched by the generosity and leadership from government, allows arts organizations across Canada to raise funds, and for donors to support organizations in ways that would be impossible without the Endowment Incentives component.

³ Canadian Heritage. Chief Audit and Evaluation Executive, Evaluation Services Directorate. “Grouped Arts Evaluation: Canada Arts Presentation Fund (CAPF), Canada Cultural Spaces Fund (CCSF), Canada Cultural Investment Fund (CCIF).” August 2014.

Conclusion

The Endowment Incentives component of the program attracts community members and philanthropists to donate to an arts organization of their choice, knowing that the government will match the funds. This ends up benefitting cultural production and the people who work in and interact with Canadian culture. The applicant growth of the Endowment Incentives component alone shows the increasing potential for arts organizations, at any size, to participate in endowment-building. This is promising for our sector – meaning new and diverse sources of revenue, a mindset toward financial stability, and strength of the philanthropic environment.

The Endowment Incentives component of CCIF is valued by us and our donors for its demonstrated impact, its legacy, and for its simplicity. Thank you for your consideration for strengthening this important program.

Contact

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