

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

Written Submission to the Standing Committee on Finance in advance of Budget 2020

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

**COO** CANADIAN  
OPERA  
COMPANY

**OSM** ORCHESTRE SYMPHONIQUE  
DE MONTRÉAL

LES  
**GRANDS BALLETS**  
CANADIENS DE MONTRÉAL

Calgary  
Philharmonic  
*Orchestra*

**CENTRE  
SEGAL**  
PERFORMING ARTS  
ARTS DE LA SCÈNE

**The Royal  
Conservatory**  
The finest instrument is the mind.



## **Recommendation**

**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.

## **Executive Summary**

This submission, made by eleven of Canada's largest arts and culture organizations in aim of supporting the overall pool of recipients, **recommends that Budget 2020 include a \$6.5 million increase to the Endowment Incentive's component of Canadian Heritage's Canada Cultural Investment Fund (CCIF).**

This program has contributed to the development of arts endowments for **233 organizations**, small and large. It contributes to 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.

Last year's submission included a secondary recommendation to "raise or eliminate the \$15 million per organization lifetime cap on support." This was aligned with Recommendation 81 of FINA's Pre-budget 2018 report. We were pleased to see this recommendation followed though by Government in October 2018, when the government announced that the lifetime cap would be eliminated. This ensures that arts endowments can continue to grow.

We continue to meet 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 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.<sup>1</sup>

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.<sup>2</sup>

## **Impact 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.**

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

<sup>2</sup> Ibid.

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.

Many arts 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.”<sup>3</sup>

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.

## **Toward strong management of arts endowments in Canada**

Recipients to the Endowment Incentives component has more than doubled since 2010. This shows increased interest in financial and philanthropic diversification. There are many considerations in starting, growing and managing an endowment including the ability to cultivate and maintain donors, operate or collaborate with a charitable foundation, and manage the books of annual disbursements and capital.

The idea of providing mentorship opportunities to small and mid-sized organizations grew from discussions held initially at the 2017 Canadian Arts Summit in PEI. This idea was promoted with Canadian Heritage officials who noted that many new program recipients had requested guidance on running an endowment fund. Department officials indicated that they did not have

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<sup>3</sup> 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.

the expertise to provide this advice. We are responding by developing a sector-based learning exchange on arts endowments. This may take the form of mentorship, toolkits and/or online training tools. We have begun outreach with several Endowment Incentives recipients, small, medium and large. Many are excited about the prospect of learning among peers.

## **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 us 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 in other ways. Matching funds are now regarded as an innovative solution for Canadian culture's fundraising endeavours.

The unique culture of philanthropic giving that the Endowment Incentives program has fostered will be significantly diminished, should the annual matching percentage continue to decrease. This issue 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 in ways that would be impossible without the Endowment Incentives component.

## **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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