

# Recovering the arts economy by incentivizing 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 2022

A joint submission:

THE  
NATIONAL  
**Ballet**  
OF CANADA

L'ÉCOLE  
NATIONALE DE  
**BAJET**  
DU CANADA  
*Danson's  
Ensemble*

CANADA'S  
NATIONAL  
**BAJET**  
SCHOOL  
*Sharing  
Dance*

**COCC** CANADIAN  
OPERA  
COMPANY

**VSO** VANCOUVER  
SYMPHONY  
ORCHESTRA

**BANFF**  
CENTRE FOR ARTS AND CREATIVITY

*Stratford*  
FESTIVAL

ROYAL  
**MTC**  
MANITOBA THEATRE CENTRE

**OSM** ORCHESTRE  
SYMPHONIQUE  
DE MONTRÉAL

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

**6**  
vancouveropera

**OPERA** PACIFIC  
OPERA  
VICTORIA

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

**TSO** | Toronto  
Symphony  
Orchestra

**WINSPEAR**

**EDMONTON  
SYMPHONY  
ORCHESTRA**

**SHAW 20  
FESTIVAL**

**LES  
GRANDS BALLETS**  
CANADIENS DE MONTRÉAL

Calgary  
Philharmonic  
*Orchestra*

**ARTSCLUB**  
ALIVE ON THREE STAGES

**The Dance Centre**

## **Recommendation**

**Increase Canadian Heritage's Endowment Incentives component of the Canada Cultural Investment Fund (CCIF) by \$6.5 million annually, starting in 2022, for existing performing arts recipients. This would bring the program's current annual budget of \$19 million to \$25.5 million.**

The performing arts recipients listed on this submission also support the budgetary request coming from the art museums sector, to allow them to be eligible for Endowment Incentives. To bring museums and galleries into the program at a comparable level, and not to adversely affect access for current recipients, the budgetary allocation to the component will have to be doubled, bringing the total annual budget of the CCIF to \$54 million. Please see the Canadian Art Museum Directors Organization's (CAMDO's) pre-budget submission for context regarding their sector and request.

In addition, our group also supports the pre-budget submissions of our peers, including that of the Canadian Arts Coalition, to support pandemic economic recovery for Canada's arts and culture sector.

## **Executive Summary**

The Endowment Incentive's component of Canadian Heritage's Canada Cultural Investment Fund (CCIF) has contributed to the development of arts endowments for 233 organizations, small and large. **This government program matches up to one dollar for every eligible private donation raised for all eligible applicants.** This incentivizes arts organizations to develop and maintain good relationships with private donors, and manage financial plans for organizational maturity, financial diversification and stability.

Since COVID-19 hit, endowments, which are often held in restricted funds, have been maintained as an asset for arts organizations across the country. **Public and private dollars, working in tandem, will help rebuild the Canadian arts economy and resiliency through financial diversification over the long-term.**

We continue to meet with Canadian Heritage to explore the data, impact and administration of the Endowment Incentives component, particularly related COVID-19 impacts. In December 2019, the Department of Canadian Heritage completed their regular 5-year review of the CCIF. They found that the program continues to be relevant, efficient, and effective in delivering its objective, which is “to help arts and heritage organizations build and diversify their revenue streams, encourage private sector investment, partnership, improve their business practices, and assist them in being better rooted and recognized in their communities.” **CCIF is one of three programs at Canadian Heritage that has not yet been subsequently supported by a budgetary increase from the Government after its recent, and favourable, departmental evaluation.**

With public health restrictions improving, the arts are diligently planning to rebuild and re-open their doors. Each arts organization has carefully considered how to maintain relationships with their many stakeholders, including audiences and donors, while upholding strong business continuity throughout COVID-19. The arts sector is grateful for the COVID-19 economic relief and recovery measures that the federal government has provided to-date, including CEWS, CERS, and sector-specific supports through Canadian Heritage and the Canada Council for the Arts.

While there is still an immediate need for short term COVID-19 recovery supports to get the sector through the rebuilding and planning stages, an annual top-up to the Endowment Incentives program will provide a mid-term complement to incentivize philanthropy and rebuild the resiliency of our 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.

The true value of this component is realized in the matching percentage granted to recipients. It aids in the diversification of private and public dollars and is an appealing option to donors. The matching percentage, to our understanding, is calculated by Canadian Heritage using a formula which includes: the number of applicants, budget available, and the amount requested by each applicant. In Canadian Heritage's 2019 evaluation of the program, they acknowledged that

“The success of the CCIF Endowment Incentives component meant an increase in requests for funding in 2017-2018, that translated into a lower match ratio for each recipient. The unknown matching ratio made it difficult for some recipients to attract additional donors and grow endowments to a self-sustaining level.”

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%. Before the pandemic hit, donors were 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 is based on historical federal budget increases to this program, along with other formulaic factors to stabilize the matching percentage from its current state of 66%, hopefully to 80 - 100% annually

During the re-opening from COVID-19, we cannot afford a low matching percentage. Otherwise, we further risk alienating our donor base and the financial foundation upon which to rebuild. The market for private philanthropy must be strongly incentivized through public programs like the CCIF.

Arts organizations, associations and Coalitions have been advocating for an increase to the Endowment Incentives component for a few years now, and the budgetary increase has not yet been provided. With the pandemic, it is now imperative that this program be included in Budget 2022 to incentivize re-building, recovery, and sustainability for the arts sector throughout COVID-19 and beyond.

## **Impact of the Endowment Incentives Component**

### **Revenue diversification**

Endowment revenues can be counted on. Annual disbursements contribute a strong foundation for key operations and programming activities for arts organizations and, allows arts organizations to hold significant assets to keep organizations afloat throughout times of crisis, such as the COVID-19 pandemic. **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.**

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.

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.”

Endowments provide a functional mechanism to continue to invest in production and presentation, innovation and employment. The disbursements that arts organizations receive from their endowment can be leveraged as arts organizations adapt their programming, keep workers employed, and reach Canadian communities during and post-pandemic.

While the endowment-to-operating budget ratio, the interest and annual disbursements, and stability have been shaken due to COVID-19, arts organizations are confident that endowment funds can continue to be a source of revenue and leverage toward a strong economic recovery.

## Toward strong management of arts endowments in Canada

Recipients to the Endowment Incentives component has more than doubled since 2010.

Canadian Heritage officials have noted that many new program recipients request guidance on how to start, grow and manage an endowment fund. Department officials indicated that they did not have the expertise to provide this advice.

In response to this need, the arts sector has started to develop a sector-led Endowment Mentorship and Learning Exchange. This project began in Spring 2021 and will launch in Fall 2022. The content of the program will now also include the recovery from COVID-19 dynamics and track how arts organizations are approaching endowment giving campaigns, managing their funds internally throughout the crisis and its recovery stages, and how they are maintaining relationships with contributing donors.

We have begun outreach with several Endowment Incentives recipients, small, medium and large and tracked what they wanted to learn. Many are excited about the prospect of learning among peers, especially when skills development must be acquired efficiently and effectively to rebuild financially from the pandemic.

## 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, which becomes even more important to maintain throughout recovery stages.**

Some donors are finding new and innovative ways to use matching, asking organizations how they can match funds in other ways. Matching funds are regarded as an innovative solution for Canadian culture's fundraising endeavours.

The generosity of donors, matched by the generosity and leadership from government, allows arts organizations across Canada to raise funds and recovery economically in ways that would be impossible without the Endowment Incentives component.

## **Conclusion**

The Endowment Incentives component is one particularly important way to help Canada's arts and culture sector to recover economically from COVID-19. Arts organizations will want to instill donor confidence throughout the recovery period, and there is even more incentive to donate when they know that government will match their contribution, and that the donation will go a long way.

This ends up benefitting cultural production and the people who work in and interact with Canadian culture, keeping cultural workers employed and citizens engaged.

The Endowment Incentives component of CCIF is valued by us and our donors for its demonstrated impact, its legacy, and for its simplicity. It will continue to be an important program for the arts sector's re-opening recovery from COVID-19. Thank you for your consideration in strengthening this important program.

## **Contact**

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