

National Museum Directors' Conference Response to *Giving*

Introduction

The [National Museum Directors' Conference](#) (NMDC), which represents the leaders of the UK's National Collections and major regional museums, welcomes the opportunity to respond to the Government's Green Paper *Giving*. Whilst this response is primarily related to museums the views contained herein were formulated with, and represent the agreement of, a range of partners across the cultural sector. This response is also part of wider work in which the NMDC and other members of cultural bodies are involved around the philanthropy agenda - going back to 2008, when a number of these bodies produced the document [Private Giving for the Public Good](#) and further back to work around the Goodison Review.

At a time of economic recovery museums are more important than ever. They deliver world-class public services, build confidence in Britain and stimulate the creativity and innovation that will help drive economic success. Last summer saw a record number of visitors to the UK's national museums, with over 5.7 million visitors in August 2010. This represents an increase of 11% from August 2009. Our museums are committed to ensuring their extremely diverse collections can be cared for, shared and enjoyed by all and will be passed on as a legacy for future generations. The majority of their beneficiaries have yet to be born and museums hold collections in trust for future generations who are not now in a position to contribute financially to the museum sector.

National museums use public money to generate £240m of additional funding.¹ They combine public donations, corporate partnerships, trust funding and income from their enterprises with Government support to provide a responsive, relevant, world-class service – free for all. By generating their own income they make possible many outstanding museum programmes. Success in leveraging funding from such a wide range of sources relies on government funding as a base.

Although public funding for museums is absolutely essential, our museums operate in a mixed economy model, which offers enormous value for the taxpayer. Museums have reinvented themselves in recent years. Using public funding, they have generated substantial private investment to rebuild, remain relevant and become truly outstanding. They are increasingly effective at generating their own income (on average 45.6% for national museums in 07/08^[1]) and attracting philanthropic giving. Individual giving was up 24% to museums in the UK in 09/10 from the previous year, despite the difficult economic conditions. In the cultural sector, museums have led the way in gaining investment from trusts and foundations, up 22% in 09/10. They have also encouraged more corporate investment in the sector, through for understandable reasons in the current climate this was slightly lower in 2009/10 from the previous year (£22.1m for 09/10).²

The advantage of this hybrid model over the US philanthropic model is in the provision of greater public benefit, the advantage over the European state funded model is greater

¹ Calculated using annual reports of NMDC institutions.

² Arts & Business, <http://benchmarking-tool.artsandbusiness.org.uk/>, 27 January 2011

public value and the advantage over both is income diversity, giving greater financial stability and reducing income volatility. However, philanthropy is a crucial element of this mix and with cuts to museum budgets, it is very important that the Government is able to provide ways for museums to better help themselves in this area.

Our approach

In a speech on 8th December 2010, the Secretary of State for Culture launched a major new plan designed to have an impact across the whole spectrum of cultural philanthropy. In light of this, together with this Green Paper, the Government's proposed review of tax incentives for philanthropy, and the independent Philanthropy Review led by Thomas Hughes-Hallett, we wish to draw attention to a number of key issues so that further progress on the encouragement of philanthropy directed towards culture can be made.

With this in mind we have focussed on the first of your consultation questions – “We welcome ideas on how we can collectively bring about a culture change in giving... and we welcome suggestions on what the role of Government should be, and how we can facilitate, galvanise and... scale up the most effective processes.” We strongly believe that without a number of the following major areas being addressed, any other proposals will be limited in their impact. We welcome the Government's commitment, noted in your paper, to review the relationship between financial incentives and giving. We believe that this will offer a crucial opportunity to look at changes to the tax regime and other incentives to support one off and regular giving. Without changes in this area, again, other ideas will be less effective. On most of the measures we have suggested, we have given additional technical detail in appendices.

The Government's fresh approach to cultural philanthropy is welcome because it will strengthen the mixed economy in which culture in the United Kingdom has thrived. It will also strengthen society, by encouraging individual citizens and corporations to show they have a stake in the public realm. It will help to establish long-term relationships between individual and corporate donors and cultural organisations.

Private individuals and commercial organisations, as well as trusts and foundations, already show considerable generosity towards the museums and other cultural institutions, and in turn the sector is active in the pursuit of such help. Until the recent economic downturn, overall support showed a steady increase: in 2009/10 total private and corporate support for culture was £658 million. Of this, individual philanthropy contributed £359.3 million, and businesses £144.1 million. Economic conditions have been such that these two sectors show a fall on the previous year of 4% and 11% respectively for the culture sector as a whole, but in 2009/10 the contribution of trusts and foundations rose by 11% to £156.6 million. However, as noted above, museums specifically have seen a rise in all areas with the exception of corporate donations³.

The sum total of giving to culture, even in a difficult economic climate, shows the importance of philanthropy to the mixed economy of many cultural institutions. Although there are wide variations between organisations, philanthropy overall constitutes an estimated third of turnover. But in spite of the best efforts of the cultural sector to help itself – and many of these institutions have got extremely good at this – cultural philanthropy remains in need of development, and measures need to be put in place to make it easier for people to give. For example, approximately £10.6 billion of charitable donations are given annually in the United Kingdom, but, for example, only 2% of this goes to the arts⁴, and only 30% of all the FTSE 100 companies currently give to the arts⁵.

In the museums sector the transformative nature of philanthropic giving to date is evident from the past –many of our cultural institutions have their roots in generous philanthropic giving and many were founded from legacies - and in a plethora of recent examples:

³ Arts & Business, <http://benchmarking-tool.artsandbusiness.org.uk/>, 27 January 2011

⁴ Cabinet Office, *Giving Green Paper*, 2010

⁵ Arts & Business, *Private investment in culture 2009/10: What next for the arts?*, 2011

- National Maritime Museum's Sammy Ofer wing was made possible by a gift of £20m from Sammy Ofer, and £5m from HLF. The development is the largest capital project in the NMM's history and the National Maritime Museum have described the gift as "a donation that will change the way the museum operates for all time";
- The £78m Darwin Centre at the Natural History Museum was delivered by a combination of lottery, private and corporate giving, and commercial revenues from the Museum, with £10.7m of direct government funding as capital grant-in-aid from DCMS;
- The Ashmolean Museum's new building was made possible through £30m in private funding on the back of a £15m HLF grant;
- The British Museum Great Court project was funded by the Millennium Commission, the Heritage Lottery Fund and private donations;
- The British Library has received more than £1.6m in gifts from their core group of patrons since 2003; they have successfully digitised the first phase of their Greek manuscripts thanks to grants from the Niarchos Foundation; opened the Harry M Weinreb Learning Centre with gifts from the Dorset Foundation, John Lyons Charity and others; and in the past three years, has made several major heritage acquisitions, including the Macclesfield Alphabet Book, the Naval Journal of Sir John Narbrough, and the Dering Roll, the UK's oldest heraldic medieval manuscript, as a result of philanthropic support from a number of individuals and charitable trusts and foundations;
- The National Galleries of Scotland has created a portfolio of fundraising initiatives over the past decade, including £20million raised for capital projects and an annual corporate sponsorship programme which peaked at £500k a year, plus a growing Friends and Patrons programmes aimed at individual engagement;
- The National Portrait Gallery has, in addition to other great supporters, over the last 15 years, received three major gifts of over £3m each that have really made a difference to what was possible at the Gallery. The Heinz Library and Archive, Ondaatje Wing and Lerner Galleries have been named in honour of these donors;
- The *Opening up the Soane* project has thus far raised £6.5 million of the £7 million needed, with no Government money. Of this £2 million is from Monument Trust, £500,000 from the Wolfson Foundation, Fidelity Foundation and other foundations, just under £1 million from the HLF and \$1m from their American Foundation;
- Finally the Imperial War Museum received £5m donation from Lord Ashcroft for the Lord Ashcroft gallery which opened in November 2010. The Extraordinary Heroes display in the gallery is by far the largest display of Victoria Crosses in the world. It is the first time that Lord Ashcroft's entire collection of VCs has been on public display, making it widely available to new audiences and enabling visitors to discover more about the extraordinary experiences of ordinary people in wartime. The new gallery combines the Imperial War Museum's collection of VCs and George Crosses with Lord Ashcroft's collection. The donation is the largest the museum has ever received from an individual and it has made a significant difference to their visitor offer. It enabled them to create a state-of-the-art new space filled with interactive touch-screens, multimedia platforms and original interpretation. The donation funded the structural and design work, as well as the marketing campaign. The creation of the new gallery was only possible because of Lord Ashcroft's generous loan of his collection and his offer to fund the full costs of the gallery. Lord Ashcroft has been a very committed supporter and takes a keen interest in the work of the Museum.

Encouraging giving

In order to achieve its declared goal of encouraging cultural philanthropy, the Government can act in three principal ways. It can:

- Encourage individual and corporate giving as a public good, and ensure that those who give are properly acknowledged and their philanthropy celebrated;
- Use the revenue system to reward both donors and recipient organisations through tax foregone;

- Stimulate giving by fiscal incentives such as match-funding, using government and National Lottery resources.

All three means of stimulating cultural philanthropy are at least partially already in place, but there are significant ways in which improvements can be made in order to achieve the Government's objective, which is to create the conditions for improving and expanding the whole field of philanthropic giving. As the Government's Green Paper states, the aim is "a culture change".

Achieving culture change

The key to achieving such a change is a long-term policy commitment on the part of the Government to generating a "culture of giving" as part of the proposals to build "a Big Society". Some of the measures that we propose can be brought in relatively quickly, and are largely revenue neutral, others are longer term, and may require legislation and/or have fiscal implications. In either case, it is crucial that the Government is joined-up in considering measures which will stimulate giving and in solving areas which currently hinder it. If the aim is to encourage private giving by raising public approbation, it is important that the Government leads the way in this endeavour. One museum member noted that *"We have improved our mix of income streams for our fundraising department - incorporating individual giving, major donors, patrons, trusts and foundations and corporates - but we have not yet excelled with cultural philanthropy and that is because it needs to be made easier for people to give - we need the mechanisms."*

Immediate short-term measures

The following measures could be taken within the next twelve months:

- It is important that institutions benefiting from cultural philanthropy are allowed to access and manage their reserves. A long term solution to this problem needs to be found⁶ (further details are given in appendix 1). This is a pivotal issue for museums. We appreciate the Government's engagement with the issue and their work towards a solution, but whilst the problem remains it will both hinder museums from spending the donations they have received in previous years and may stop philanthropists from making future donations.
- There has been a substantial increase in private giving to cultural institutions since the Gift Aid scheme was introduced in 1990, and it essential that this relief is retained. However, it is generally acknowledged that the Gift Aid system is bureaucratic and too complicated to administer. The scheme should be simplified and the rules made clearer, easing the burden on donor, recipient and HM Revenue. Gift Aid incentives must remain linked to personal income tax rates. A composite rate would be detrimental to donors in our sector. For further detail see appendix 2.
- The current arrangements for Acceptance in Lieu (AIL) that apply to probated estates should continue and the scheme be more widely promoted: however, the scheme should be opened up to lifetime taxes (for example, Income Tax and Capital Gains Tax) and an element of philanthropy introduced to encourage the lifetime donation of art and cultural objects to the nation. In recent years the amount of tax settled by AIL has been well below previous levels of usage, which would allow the scheme to be opened up at no extra cost (appendix 3). A number of our museums have American Foundations and have seen immense public value from the ability for American Taxpayers to benefit from lifetime giving. One particular example provided by the RAF Museum demonstrates that around 6 aircraft have been donated in recent years within the lifetime of the donor, one of which was worth at least £2m. Many of these donors are not motivated by tax incentives alone – they want to see their artefacts in exhibitions in their lifetime. One donor travels over to the museum every year to see their aircraft in situ.

⁶ This issue applies only to relevant DCMS sponsored bodies.

- The £500 cap on benefits that a donor may receive from the recipient organisation should be removed, and replaced with a proportional cap of 5% of the worth of the gift. This measure would do much to promote philanthropy, would allow institutions to thank their own donors in an appropriate manner, and would cost the Government nothing (see appendix 4 for details of this proposal).

Longer-term measures

The following are proposals that call for more formal recognition of private philanthropy, or which have more significant revenue implications for the public purse, and would take longer to achieve:

- Ways should be found to celebrate and acknowledge donors of all kinds. In order to encourage individual 'high-end' donors, a specific 'cultural philanthropist' section should be established within the Honours system. A good example of how donors can be recognised by museums was in the case of the Art Fund's Staffordshire Hoard campaign, where the names of donors giving £20 or more were included in a digital display at the museums in which it was exhibited. The public contributed £1m through this route, towards the £3.3m total Match funding.
- The most effective fiscal change would be to encourage planned giving through the introduction of Charitable Remainder Trusts or 'Lifetime Legacies' (appendix 5);
- To encourage corporate giving, consideration should be given to what tax reliefs might be offered. The Government has expressed a desire to increase corporate giving by making 2011 the 'Year of Corporate Philanthropy'. A number of other countries have successfully encouraged business engagement in culture and helped forge new partnerships through fiscal incentives (appendix 6).

Match-funding

The Government has already shown its commitment to encouraging cultural philanthropy by announcing a match-funding scheme to be funded through the Department for Culture Media and Sport and an allocation from the Arts Council⁷. It is essential that match-funding be used in such a way as to open up new resources of cultural philanthropy, and bring in new money, as opposed to rewarding only those institutions that have well-established fundraising programmes. Consideration should be given to resourcing and training for smaller arts and cultural organisations that have less capacity for, and experience in, fund-raising (appendix 7). The DCMS-Wolfson fund is one such fund that has benefited museums. Other good examples include The Art Fund's current trial of matching pound for pound donations up to £10k to acquire the Frome Hoarde for Somerset Museum, which they report seems to be making a real difference as people know their donation is being doubled. It has led people to give for the first time.

Conclusion

The new drive to encourage cultural philanthropy is welcome. As the Secretary of State for Culture himself said on 8th December 2010, 'philanthropy is not about replacing state funding with private support'. Important donors are on record as saying that they see state support as the foundation and guarantor of a national cultural policy that treats culture as an essential part of the public realm. Indeed many donors expect to see an element of state investment in the projects they give so generously to. Public funding is a statement of the Government's commitment to, and belief in, the value of museums and culture. Improved cultural philanthropy offers the possibility of a strengthened partnership between private individuals, businesses, trusts and the Government. It will not only enhance and invigorate the cultural sector, but also enlarge the whole of society.

⁷ We are advised that the match-funding scheme applies to England only at present.

NMDC has already met with the Cabinet Office team responsible for *Giving*. We are very happy to meet again and offer any further thinking or answer any questions on this submission. If so, please contact:

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Appendices

Appendix 1 – Reserves

In the UK many cultural organisations (such as National Museums and Galleries and English Heritage) derive funds from commercial, charitable and state sources. They operate in all three sectors. This has many advantages. It balances public value and public benefit. It allows those functions most efficiently provided by the public sector to be provided by the public sector. It encourages those functions most efficiently provided by the commercial or charitable sectors to be provided by those sectors. And yet, essentially, by straddling all three sectors it maintains unitary authority and responsibility for the institution and its interrelated activities. Fundamentally this structure delivers maximum efficiency and public benefit.

However there are a number of disadvantages. The hybrid approach to funding helps to explain why such bodies are regulated both by the charity sector and the public sector. This is extremely complex and it can be restrictive (because both the charitable and public regulation covers all activity, not just the use of the respective funding). But in addition, the fundamental nature and aims of each sector are very different and not always in sympathy. Therefore the corporate model is not only complex and restrictive but has inherent tensions and contradictions.

This tension permeates many areas of institutional activity and is often reflected in the governance structure; in particular in the parallel and overlapping responsibilities of Trustees and the Accounting Officer (The Accounting Officer is answerable to parliament, the Trustees answerable under charity law).

This framework is the underlying cause of a number of the regulatory challenges faced by some cultural institutions, many of which have a direct bearing on philanthropy. For example:

- **Reserves**

There are Treasury restrictions on their ability to spend reserves. This means any donation which is not spent within the financial year is effectively frozen. While this is an understandable approach to public finance (where a degree of central control over unspent Grant-in-Aid is wise) it is positively damaging from a charitable perspective where reserves comprise donations and self-generated income. Prohibiting cultural bodies from spending donations as the donor wished seriously jeopardises their ability to raise future funds in good faith; it also threatens existing donations which may need to be returned if they cannot be used in accordance with the donor's wishes. Clearly endowments are unworkable while this restriction is in place (as realised income from endowed investments rarely matches expenditure). These controls force many institutions to seek support from independent Trusts, a cumbersome and awkward structure designed to accommodate heavy-handed bureaucracy rather than encourage philanthropy. Indeed, many philanthropists may not wish donate to an independent body. Consequently museums are constrained in a position of reliance on the state where private funding may well be available.

- **Investments**

There are also restrictions on investments. Again this makes good sense for most government bodies. Investment would not generally be seen as an appropriate use of public money, but charities holding endowments or restricted donations need to invest these funds to maintain their real value.

- **Pay**

Government controls over pay may be appropriate for public sector workers but do not always support market-orientated activity. Cultural organisations operate in competitive markets (as a consequence of income generation) and need the flexibility to respond to market pressures. This is not so much an issue of the overall level

of pay, more the timing and structure of pay settlements. From the perspective of income generation pay settlements need to be more finely attuned to the relevant economic cycle, and structured to reflect local pressures and performance. This will not necessarily coincide with the needs of centrally managed public expenditure or macro-economic policy.

- **Trustee appointments**

There can be tensions between the use of public appointments for wider political aims and the specific needs of a museum. Attracting major philanthropists to sit on boards should be part of strategy to encourage philanthropy in the arts and the bureaucratic process does not always facilitate this.

- **Other restrictions**

To a lesser extent the high level of overlapping and conflicting regulation is also an obstacle as the administrative burden reduces efficiency. This is a disincentive for donors keen to ensure the most effective use of their gifts.

The Spending Review 2010 made provision for National Museums and Galleries to have access to a proportion of their reserves over the period 2011/15, although the mechanism and controls underpinning this provision have not been decided and the individual allocations have not been finalised. It will clearly improve the situation but it is far from satisfactory, and these measures do not apply to the Arts Council or English Heritage. It does not address a number of critical issues which need to be resolved before philanthropy can flourish:

1. Access to those remaining reserves not provided for in the Spending Review (both within National Museums and Galleries and those in other cultural organisations).
2. The ongoing need for cultural charities to hold easily accessible reserves.
3. The use of reserves generated in future years (for example through building endowments, unsolicited donations or legacies).
4. The other inefficiencies resulting from overlapping regulation.

Appendix 2 – Simplifying Gift Aid

There are two key points we wish to make:

1. The introduction of a composite rate for Gift Aid has been mooted in recent years. Gift Aid can and does incentivize donations, particularly from higher-rate taxpayers, and HM Treasury research indicates that a composite rate would act as a deterrent, effectively severing any link the scheme has with philanthropic giving. This would be at odds with current Government policy to encourage individual giving. It is vital that Gift Aid retains its status as a tax relief, and does not become government expenditure.
2. The charitable sector has benefited enormously from the Gift Aid scheme, but it is generally acknowledged that it is cumbersome and complicated to administer. The following changes to existing legislation and/or guidance would ease some of the burden on charities at no additional cost:
 - Changing the existing cap on benefits to donors (see appendix 4)
 - Clarification of the rules to make it simpler for charities to have membership schemes that are approved for Gift Aid
 - The removal of the rules around museums Friends Schemes, to allow members of Friends schemes to bring 'guests' to events and exhibitions at the museum.
 - A clarification of the rules on ticket sales. There is some confusion as to whether all exhibition ticket sales can be gift aided, including tickets for exhibitions which include items on loan,

The cost:

These clarifications and tweaks to the existing scheme could be introduced at no additional cost, but would support charities, including many museums, arts and heritage organisations, in improving the uptake and administration of Gift Aid in the longer term

Appendix 3 – Extending Acceptance in Lieu to lifetime taxes

The Acceptance in Lieu (AIL) scheme allows individuals to transfer important art to the nation to settle or part-settle an inheritance tax bill. Over 300 works of art and cultural objects, valued at more than £235million, have been accepted through this scheme in the last 10 years. There is now potential to develop the scheme and deliver additional public benefit.

This can be done in two ways – by extending the scheme to other taxes (for example Income Tax and Capital Gains Tax), to expand the range of objects and potential donors; and by introducing an element which incentivizes philanthropic giving. This would build on the strengths of the AIL scheme and encourage individuals to donate important art and heritage objects to the nation in their lifetime, in line with the government's commitment to boosting philanthropy.

Forms of this relief are already in operation in many other countries – notably Australia, Canada, France, the USA and the Republic of Ireland – and have been very successful. The Australian Cultural Gifts Program was introduced in 1978 and has so far encouraged the donation of more than 9,000 works of art and cultural objects to museums across Australia, worth in excess of £550 million. Each year on average 400 works of art are donated through this scheme.

An example in practice:

- A potential donor approaches an approved institution; for example, the owner of a Lowry painting approaches the Lowry Centre, Salford.
- The Lowry Centre completes an application to the AIL panel (or similar), confirming its interest in the painting, and making the case for the relevance to its collection.
- The panel obtains the opinion of at least two external experts.
- The panel obtains two independent valuations, and then fixes a value for the painting.
- The panel makes a recommendation to the Secretary of State. If the outcome is favourable, the panel then issues the museum with the relevant paperwork.
- The donor submits the paperwork to HMRC, claiming the value of the painting (as set by the panel) as a deduction against pre-tax income.

The cost:

In recent years the amount of tax settled by AIL has been well below the previous levels of usage and the levels predicated a decade ago which would allow the scheme to be opened up to income tax and CGT, making the scheme cost neutral. The Government could also limit its liability by running the scheme for an initial trial period, say three years.

Appendix 4 – Donor Benefit Cap

Proposal: Remove the fixed cap (currently £500) on the benefits that a donor can receive from a charity. Rely entirely on the proportional cap (currently 5%). This allows the benefits provided by charities to be commensurate with the generosity of the gift, a much more suitable structure for eliciting high value gifts.

The benefits that a donor can receive from a charity (while remaining eligible for Gift Aid) are currently capped at £500. If a charity offers a donor a benefit valued at more than £500 the donation is no longer eligible for Gift Aid. Therefore the allowable benefits for a donation of £1m are no greater than those for a donation of £10,000. The most generous donors are not well served by this restriction. To encourage larger gifts it would help if the allowable benefits corresponded to the size of the donation. This could be achieved if the benefit cap was expressed as a percentage of the donation rather than a fixed amount. This would do much to promote philanthropy at no cost to HMRC.

The £500 cap is an aggregate cap. Benefits contributing towards this limit could include private views, dinners, presents, events, medals, bespoke bound books or flowers.

Evidence from members suggests that at present people follow the rules and, therefore, are not able to offer reasonable benefits for generous donations (e.g. access to entertaining opportunities such as hire of a room or catering) and are hindered in the opportunities available for greater creativity in delivering benefits in exchange for philanthropic donations.

Appendix 5 – A step-change in planned giving: Charitable Remainder Trusts

In order to achieve significant growth in individual giving in the UK, new mechanisms need to be introduced. Charitable Remainder Trusts (CRTs) would help achieve a step-change in planned giving, providing a welcome long-term boost to fundraising and potentially benefitting the whole charities sector.

CRTs encourage people to commit to donating cash, land, property, shares or chattels to charity on death, but provide tax advantages and an income stream to the donor during his or her lifetime. Under such a scheme, donors who pledge to transfer works of art to a museum on death could be able to benefit from enjoying the art in their home during their lifetime while receiving tax benefits.

How CRTs work

A Charitable Remainder Trust (CRT) is set up at the request of the donor, by a lawyer, and is designed to provide for and maintain two sets of beneficiaries; firstly the donor benefits, by being able to draw down an annual income from the trust, and also the charity benefits because the trust is dissolved on the death of the donor and the assets pass to the charity. The trusts are drawn up to meet the needs of the donors and the charities, so they are relatively flexible and can incorporate gifts such as houses and shares.

Advantages to the donor:

- The entire capital transferred to the charity is exempt from Capital Gains Tax and Inheritance Tax.
- The present value of the gift forms the basis of a deduction against the donor's taxable income in the year of the donation.
- During the donor's lifetime the capital is held in trust and all income is paid to the donor. The donor pays tax on this income, subject to the above deduction.

Advantages to the charity:

- During the donor's lifetime the charity can use the capital to secure loans and plan for the future.
- On the donor's death the capital assets pass to the charity outright, including all the income they generate after the date of death. The charity would not have to pay CGT or IHT.
- The charity will be able to manage and develop the relationship with the donor during the donor's lifetime.

HMRC should not lose Income Tax, IHT or CGT on gifts to charity, as in the absence of CRTs donors would make gifts to charity by:

- Outright gift – in which case there are already IHT and CGT exemptions and Income Tax reliefs for gifts of cash, quoted securities and land; or
- Legacy – in which case CGT gains are wiped out on the donor's death and the legacy would be exempt from IHT;
- The donor will continue to pay Income Tax on the income.

Appendix 6 – Encourage businesses to give through corporation tax relief

30% of FTSE 100 companies currently give support to the arts, and the Government has expressed a desire to increase corporate giving by making 2011 the 'Year of Corporate Philanthropy'. A number of other countries have successfully encouraged business engagement in culture and helped forge new partnerships through fiscal incentives.

In 2002 France made a number of changes to its tax system to enable companies to donate money or transfer works of art and significant cultural objects to the state in return for a deduction in corporation tax. Two incentives are of particular interest. Firstly, a company can deduct 60% of a cash donation from its taxes, subject to a limit of 0.5% of its turnover. Secondly, if a company helps a museum to acquire a "national treasure" (found to be of historical or artistic importance for French cultural heritage on the advice of a national committee), it can deduct 90% of the donation from its taxes, subject to a limit of 50% of the tax due. In addition, a total of 5% of the sum donated can be taken in free use of facilities at the museum.

This model has been successful in France – AXA now helps buy around €11m of art for the Louvre each year - and a large number of very significant items have passed into public ownership which otherwise might have been sold into private hands or lost to the nation. A number of UK companies have significant art collections and a corporation tax incentive could encourage the transfer of significant artworks into public ownership, rather than being regarded purely as part of the balance sheet and sold. Now might be a good time to 'nudge' big business – especially banks – into enhancing their social responsibility programmes in the UK.

Appendix 7 – Match-funding and capacity building in regional organisations

With cultural organisations in England often seen as a single cause, it is easy to lose sight of the fact that organisations in this broad category are numerous and come in many different shapes and sizes. The way they raise funds reflects this, with factors such as size, geographic position, governance structure, main funding source and the nature of the artistic or cultural output they produce having a real impact on their ability to attract private giving. So while incentives for giving are extremely important, so too is developing the capacity of organisations to go out and successfully ask for funding as part of a successful business plan. This appendix comments on the use of match-funding schemes, suggesting they are most usefully used as part of a suite of tools. It also comments on how different approaches to match-funding can ensure that funds are spread fairly to organisations of all shapes and sizes.

It's often said that larger or nationally based organisations have it easy when it comes to fundraising. They are large enough to afford dedicated fundraising teams. They also often have national or international reputations and an associated suite of attractive benefits and incentives they can offer potential donors. Of course, these organisations also face challenges in fundraising, but smaller organisations - whose focus may be more local or community based, or whose artistic or cultural output may be aimed at different audiences – may need to approach fundraising in a very different way.

We know that many smaller and non-metropolitan organisations fundraise extremely well, overcoming many of these distinct challenges. But others struggle. It's clear that any one size fits all approach to increasing private giving would be destined to fail – and that what we need is an approach that can be flexible in the face of these different challenges. Any successful match-funding scheme needs to recognise that different organisations are at very different stages of fundraising, and that they therefore need different kinds, and different levels of support.

Alongside some of the external factors that influence fundraising, there are also a number of key internal features which can influence how successfully an organisation attracts private funds. These include a commitment to, and active participation in, fundraising from staff at all levels including the senior team and board members, a high quality artistic or cultural output, a fundraising strategy that aligns with quality marketing, communications and audience engagement work, and the involvement of all staff, including artistic and curatorial, in attracting donors. In other words, a truly successful fundraising strategy will be embedded within an organisation. In many cases there may be a need to employ a dedicated fundraiser to drive a strategy forward. However, a fundraiser in an organisation which does not have a coherent strategy, or a workforce committed to implementing it, is likely to find it tough to have a significant impact.

So, if we are to have a significant impact on attracting philanthropy we need to think about incentivising giving, but we also need to ensure the conditions exist within organisations to successfully fundraise. Match-funding can help with this, but it needs to be in the context of a broader and deeper approach to help build organisational capacity.

Over the last six months, the Arts Council has been thinking about how it can best support arts organisations in their fundraising endeavours. In December Alan Davey published a report, *Endowments in the Arts*, discussing this. It stated that Arts Council will be introducing a lottery match-funding scheme to help boost fundraising in the arts. This will sit alongside a complimentary DCMS match-funding pot that will be made available across the whole cultural sector.

A match-funding scheme is an opportunity to create a focus to rally around in the cultural sector on philanthropy, and on which we can build some of the deeper capacity building work we think is necessary in order to secure a legacy. One of the key questions we are thinking about is how to ensure this funding is available to organisations of all sizes and from locations right across the country.

To deliver these objectives we would make the following recommendations for a match-funding scheme, ensuring that the benefit of any scheme is felt by organisations of all sizes, and from across the whole country.

- Tier the match funding scheme so there is an appropriate entry level for all organisations. You might do this by offering a greater incentive for smaller organisations e.g., £1 for £1, with a more challenging incentive rising to £1 for every £3 available at the top for the more experienced, larger organisations to access. Only smaller level grants would be available on a £1 for £1 basis, which would help to ensure that only the smaller organisations accessed this funding. Arts Council is looking in particular at a recent match-funding scheme for the HE sector which worked in a similar way to see if something similar might work in the arts.
- Structure the scheme to ensure that it attracts only new money. The scheme will have greatest impact if it attracts new donors to the arts field, building out our collective donor base and increasing the pool of funding available.
- That this scheme is tied to a deeper and longer term drive to increase capacity in the sector, and that proper resource is directed to this issue as well as to a match-funding scheme. Arts Council is also considering how their scheme can be used to help organisations put in place the sort of internal capacity measures needed to deliver a successful fundraising campaign. They believe this is absolutely crucial in any strategy that aims to deliver a long term step-change in private funding for the arts and cultural sector. Arts Council is talking to the Heritage Lottery Fund, which is also currently consulting on what role it can play to encourage more private giving to the heritage sector, to ensure that any offer coming from both lottery providers in this area is as coordinated as possible. This more nuanced approach tries to address the underlying problems that organisations face, and provides a sustainable legacy to build on in the future. To complement the scheme, we are also looking to introduce new measures to support fundraising that are likely to include asking successful fundraising organisations to develop the skills of others.

We hope that our collective response to this issue will be one that reflects the diverse needs of the cultural organisations we currently, and potentially, support. We want to equip organisations to be in the best possible position to target and approach potential donors so they can all benefit from the generosity of philanthropists. To do this it's important that alongside a culture of giving, we also develop a culture of asking.