A Report for the Secretary of State for Culture, Olympics, Media and Sport on the role endowments could play in DCMS funded museums and galleries.

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Executive Summary

This paper looks at the characteristics of the UK's National Museums and Galleries and the features of endowments. It considers the advantages, disadvantages and challenges of endowment funding for the sector.

Endowment funding is an intelligent way to enhance many museums and galleries over the long-term. It is, however, unlikely to flourish unless museums can assure donors that their gifts will be safe and their wishes fulfilled. The rhetoric of government encouraging philanthropy is currently matched with bureaucracy that inhibits it. Coherent and consistent support from all arms of government is fundamental for endowment fundraising.

Context

- Large US museums which are private charitable foundations often have endowments worth many hundreds of millions if not billions of dollars. They provide annual income typically covering between a fifth and half their running costs. State or federal institutions, in receipt of substantial public funding, more closely resemble the UK model. These institutions do have endowments but their returns cover a much lower proportion of the running costs.

- Large continental European collections generally do not have significant endowments.

- In the UK some national collections have modest endowments but these cover only a fraction of their running costs.

The causes underlying the difference in the level of endowments between the US and the UK are complex and include social, cultural, economic and fiscal factors. However three features are of particular interest:

- In the US social prestige is intimately bound up with public philanthropy. This has rarely been the case in the UK since the late nineteenth century.

- In the UK museums and libraries are in the public realm and they have been since the establishment of the British Museum in the 1750's when parliament committed itself to the free public provision of museums and libraries. The commitment exists at a national and municipal level. Private funding for capital activity is often the counterpart to government support for running costs. In contrast US museums are perceived to be private charities. Many would regard the British tradition as one of our greatest cultural achievements: our museums and galleries are like public parks not private botanical gardens.

- The US has a long tradition of fiscal benefits available during life which build commitment to collections and close relations between museums and donors during the lifetime of potential endowers.

In the longer-term, if the U.K. cannot better accommodate the fiscal and other needs of donors, private foundations exemplified by Leopold, Saatchi, Ludwig, and Pinault will proliferate and collections such as the Gulbenkian collection or that of the Aga Khan will continue to be lost to the UK. If more donors can be encouraged to support national collections the public benefit will be enormous. However the giving of money confers power. When the public own and fund museums Trustees embody the public; but as the funding balance changes so does control; great care must be taken with this delicate ecology.

Advantages

An examination of the specific nature of National Museums and that of endowments clearly demonstrates that endowment funding is an intelligent, far-sighted and potentially realistic way to enhance many museums and galleries.

The potential exists because:

- The enormous range and reach of museum activity appeals to a wide variety of donors; people want to support museums.
- Pre-eminent international collections are a significant advantage in the competitive market for global philanthropy.
- The longevity of museums ensures gifts will remain relevant for generations.
- And, for larger museums, our existing track record in fundraising means the infrastructure is already in place.

The attractions of endowment funding for the institutions are significant:

- A primary function of museums is to protect valuable and fragile objects for the benefit of future generations. Consequently we have high fixed costs and great vulnerability to fluctuations in core income. Endowment funding increases the diversity of income, reducing volatility.
- It allows the long-term financial planning so essential for our objectives.
- Endowments use private funding for a public service, offering even greater value to the taxpayer.

Obstacles

The most significant drawback is that building endowments is an inherently slow process (measured in decades, not years). This is because the effects of the gift are spread in perpetuity rather than condensed into a few short years, thus reducing the immediate impact. From the museum's perspective this means endowments need to be substantial to have a material effect on running costs. From the donor's perspective the gifts are significant, the return lower than a more aggressive investment strategy would achieve, the benefits hard to envisage and mainly realised after death, and the donation perhaps less exciting than for a named space or a particular activity. Consequently endowments usually result from a prolonged relationship with a charity and are often deferred until death. An endowment campaign could take decades to come to fruition.

This is of course no reason not to begin, indeed quite the opposite. The very great success of the sector in recent years provides the ideal base to build the foundations of secure funding for future generations. The key to endowment fundraising is a deep lifelong engagement with a museum and there can be no better time to begin that process than now.

The potential for DCMS Museums to raise endowment funds does, however, vary significantly and for some smaller, regional museums they are not a viable option. In part this is simply a consequence of economies of scale in terms of fundraising capacity, investment management and professional support. There are, however, other factors such as access to wealth and institutional prestige which can combine to make endowment fundraising very difficult.

There are a number of significant challenges facing DCMS Museums:

- Museums in the UK have been funded by parliament for centuries. The need for donations is not always apparent and philanthropists will not be prepared to provide surrogate Grant-in-Aid.
- Government restrictions do not allow endowments to be spent as the donor intended and, in a number of areas, make museums needlessly inefficient. Neither will appeal to donors.
- In contrast to the US, a relatively large proportion of wealth in the UK is controlled by those with an international background. We therefore face international competition for the wealthiest donors so that national policy in many unrelated areas and government rhetoric about non-UK based funders have a direct bearing on our ability to raise funds.
- The level of giving in the UK is generally lower than the US; and it is unlikely that the culture can easily be transferred.
- In parallel, fundraising does not always have the priority accorded in US museums.

Recommendations

Section 6 outlines a number of areas where DCMS Museums and the government could help encourage endowments and broader philanthropic activity. The focus is on providing incentives, building long-term relationships and recognising the extraordinary generosity of our donors. Museums could articulate the need for endowments better, ensure fundraising is given adequate priority and expand and improve donor relationships. For the government's part, a number of the most important are essentially administrative in nature and could be implemented immediately:

1. **Ease the central government controls (outlined in section 2.5) to take account of National Museums' special nature. This will increase operational efficiency and guarantee museums the freedom to retain and expend gifts according to donor wishes.**

2. **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. (See section 6.3).**

3. **Change the administration of the Honours system to make it easier for Government to reward generous benefactors, and thank them on behalf of the country at large. Publicise, through speeches and statements, the government's gratitude to benefactors not resident or not domiciled in the U.K. Recognise exceptional fund-raisers.**

Other financial or fiscal incentives (especially in respect of capital taxes) would help encourage gifts and long-term relationships between donors and museums. Four examples are recommended but many options exist:

4. **Offer matching funding**

5. **Introduce tax relief for Charitable Remainder Trusts**

6. **Introduce tax relief for gifts of objects**

7. **Explore the possibility of additional relief from Inheritance Tax: An endowment "douceur".**

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1 Introduction

1.1 Approach

This paper considers the role endowments could play in DCMS funded museums and galleries.

Firstly National Museums are examined - their collections, the nature of their activities, their governance, and the economic, regulatory and financial framework in which they operate. This explains a number of the obstacles to building endowments which are specific to UK national museums; the benefits of the current funding structure and the risks of change; and the advantages of endowment funding which result from economic and operational aspects of the sector.

The characteristics of endowments are then outlined in order to provide a basis to assess their suitability as a source of funds for museums and galleries.

The concluding comments include immediate recommendations which are pragmatic, inexpensive and could be implemented soon; and more complex, longer term aspirations which, if funding were available, would help support the growth of endowments in the future.

Both endowments and the museum sector are heterogeneous and this paper therefore includes a number of generalisations and simplifications. In addition, the assessment of endowments is based on historic data which is no guarantee of future performance.

1.2 Context

- Large US museums such as the Getty, the Metropolitan Museum of Art, the Cleveland Museum of Art, MoMA, the Museum of Fine Arts, Boston, and the Art Institute of Chicago often have endowments worth many hundreds of millions if not billions of dollars. They provide annual income typically covering between a fifth and half their running costs, much more for the Getty.

- The Smithsonian and National Gallery of Art, Washington receive substantial federal funding and as such most closely resemble the UK model of financing national collections. Both institutions have endowments but their returns cover a lower proportion of the running costs. In 2009, despite the financial climate, their accounts show that the National Gallery of Art had an endowment just under $400m covering about 10% of its expenditure (focussed on acquisitions), and the Smithsonian had an endowment of $900m covering about 5% of its expenditure.

- The large European collections do not have significant endowments, although the Prado received a donation which it uses to support acquisitions and the Louvre has recently ring-fenced the proceeds of their Abu Dhabi contract for Saadiyat Island in order to provide a long-term income stream.

- In the UK some of the large national collections have modest endowments for running costs, measured in millions of pounds rather than tens of millions, but these cover only a fraction of their costs. Private funding tends to focus on capital activity (buildings and acquisitions) and it is notable that the most significant endowment in recent memory (the donation from Sir John Paul Getty of £50m in the late 1980's to the National Gallery) was given, above all, to fund acquisitions. A number of smaller museums and galleries (with lower running costs) have been endowed historically, for example the Bowes museum and the Lady Lever Art Gallery; but such endowments rarely provide a sustainable funding model.

The attached tables provide an indication of the scale and impact of endowments on major museums in the US and the UK. The data is extracted from Financial Statements and does not include off-balance sheet foundations or trusts; the categorisation is not always consistent; the financial climate in 2009 was poor; the ratios are crude; and there is no assessment of specific circumstances. But the differences between these three types of museum are clear.

Large US Museums (2009)

	Endowment income $'m	**Total income $'m**	**Total expenditure $'m**	**Endowment assets $'m**	**Endowment income as % of total expenditure**
	A	B	C	D	A/C
The J. Paul Getty Trust	250[i]	278[ii]	301[iii]	4,454[iv]	83%
The Metropolitan Museum of Art	90[v]	291[vi]	310[vii]	1,864[viii]	29%
The Art Institute of Chicago	36[ix]	235[x]	196[xi]	618[xii]	18%
MoMA	34[xiii]	158[xiv]	184[xv]	569[xvi]	18%
Museum of Fine Arts, Boston	31[xvii]	132[xviii]	107[xix]	562[xx]	29%
The Cleveland Museum of Art	23[xxi]	48[xxii]	40[xxiii]	560[xxiv]	57%

US Museums with significant federal funding (2009)

	Endowment income $'m	State funding $'m	Total income $'m	Total expenditure $'m	Endowment assets $'m	Endowment income as % of total expenditure
	A	B	C	D	E	A/D
Smithsonian Institution	49[xxv]	855[xxvi]	1,241[xxvii]	1,105[xxviii]	883[xxix]	4%
National Gallery of Art, Washington	17[xxx]	104[xxxi]	140[xxxii]	151[xxxiii]	365[xxxiv]	11%

UK National Museums (2009)

	Total resources expended[xxxv] £'m	Endowment assets[xxxvi] £'m
V&A	67	12
The British Museum	78	10
The National Gallery	31	4
Tate	110	4
The Natural History Museum	73	0.5
NMSI	70	0.1

1.3 Terminology

Throughout this paper the term “museum” is synonymous with “museum and gallery”. DCMS funded museums (“DCMS Museums”) encompass both the “National” and “Non-National” museums directly funded by DCMS. These are outlined below; a detailed list is available at http://www.culture.gov.uk/what_we_do/museums_and_galleries/3383.aspx. The National Museums and Galleries (“National Museums” or “NMGs”) are:

- British Museum
- Imperial War Museum
- National Gallery
- National Maritime Museum
- National Museums Liverpool
- National Museum of Science & Industry
- National Portrait Gallery
- Natural History Museum
- Royal Armouries
- Sir John Soane's Museum
- Tate
- Victoria and Albert Museum
- Wallace Collection

The Non-National Museums and Galleries (“Non-National Museums”) are:

- Design Museum
- Geffrye Museum
- Horniman Museum and Gardens
- Museum of Science and Industry in Manchester
- National Coal Mining Museum for England
- National Football Museum
- People's History Museum
- Tyne & Wear Museums

2 National Museums

2.1 Collections

National Museums exist to make their collections intellectually and physically accessible to current and future generations through research and display. The objects are unique, irreplaceable, valuable and internationally pre-eminent; they have come from across the globe and many are iconic. In some cases they constitute the principal surviving record of peoples and cultures. This results in significant international interest in their display and preservation. The collections belong to the world; they are the possession of everyone, everywhere. They constitute an inalienable reference collection, a resource for all. They are fragile and vulnerable and demand continual care. Their consequential scarcity usually ensures long-term appreciation in value so that any attempt to create a comparable collection would be quite beyond the means of a modern government. Nevertheless, if maintained carefully, they have the capacity to benefit generations for centuries to come.

2.2 Activities

Trustees safeguard the collection with state-of-the-art security, environmental conditioning, scientific research and conservation expertise. Access is provided to the physical objects and the curatorial knowledge through display, educational programmes, outreach work, community activities, training, advice and websites which make images, records and research universally available.

The reach of museums is immense, from schools to scholars, the young to the old, new audiences to seasoned visitors, individuals to nations, and the myriad communities of diverse, cosmopolitan cities. Over 40 million people visited National Museums in the UK last year, not to mention those using the web, visiting touring exhibitions, listening to broadcasts or learning at school.

Museums allow us to understand our present better through our past, to discover our common humanity, to illuminate our patchwork heritage, to agree and disagree, debate and discuss, contemplate and deliberate, and thereby develop mutual understanding and mutual respect. Our collections entertain, inform and inspire; they are free to all and are used, studied and enjoyed throughout the world.

2.3 Governance

The British Museum was the first parliamentary trust. It provided the blueprint for subsequent national collections and a structure that was replicated throughout the world. In the eighteenth century the trustee model allowed the whole nation to be symbolically represented on the board; the number and variety of the Trustees from that earliest group in the 1750's have always ensured that National Museums have been governed by a plurality of opinions and ideas, creating genuinely public collections. It also did something even more remarkable. The trustees could not sell the collection, and because they are charitably bound to hold for the beneficiaries, they were not susceptible to instruction by Parliament. So Parliament created a system where National Museums are funded by government, but not controlled by it. This protects museums from short-term political interference thereby ensuring the long-term survival of the collection. The resulting autonomy allowed museums to attract the highest quality Trustees to ensure appropriate stewardship, robust financial management, and the most productive and creative use of the museums' special assets. The freedom to continue enhancing the collections has ensured they remain dynamic and relevant, increasing in value and importance year after year.

So the Enlightenment laid the conceptual foundations of the modern museum but also provided an ingenious and enduring solution to the fundamental structural challenge of ensuring the objects stayed together, in good condition, for all time.

Thus museums and libraries were firmly established in the public realm; and since the 1750's parliament has committed itself to the free public provision of museums and libraries. The commitment exists at a national and municipal level. Many would regard this tradition as one of our greatest cultural achievements, our museums and libraries are like public parks not private botanical gardens.

2.4 The economics of National Museums

In his paper for the Getty Leadership Institute, *Planning in a cold climate*, Adrian Ellis referred to museums as "red-ink businesses", i.e. we are not sustainable as commercial entities. This is in part due to the nature of our supplies (our outputs) and in part due to the nature of our demand.

In terms of supplies:

- Some of our outputs have the characteristics of merit goods (i.e. services which society should have on the basis of need, rather than willingness or ability to pay. In the wider economy, schools or libraries are merit goods. Within the museum sector examples would include the educational aspects of our activity);

- Some of our outputs have the characteristics of public or common goods in that they are non-excludable (i.e. no one can be effectively excluded from their benefits. This makes these services difficult to sell to those who can get them for free. Defence is a public good and examples within the museum sector would include caring for the collection or attracting tourists to the UK); and

- Many of our outputs are joint outputs i.e. there is more than one product from a process so that individual costs cannot be directly allocated to specific outputs (for example the costs of preserving a painting support both the aesthetic and educational benefits of displaying the painting); and many of our benefits are not separable (for example it is not possible to charge for the entertainment provided by an exhibition without charging for the educational benefits). When combined these characteristics make it very difficult to disaggregate individual outputs for commercial exploitation.

In terms of demand:

- The majority of our beneficiaries have yet to be born. We hold collections in trust for future generations who are not in a position to contribute financially to the museum sector (an issue where there are strong parallels with the challenges faced by the environmental lobby).

Therefore in economic terms the market does not generate enough demand at a sufficiently high price to stimulate supply. There is a market failure so that without intervention there would be under provision and under consumption of the outputs provided by museums.

From a financial perspective this means we cannot generate enough commercial income to cover our costs.

This difference between income and expenditure tends to be made up through support from the state or donors. The exact balance varies, the US model favours philanthropic funding, European museums rely more heavily on the state. In the UK National Museums and Galleries usually fall in the middle of the spectrum with funding derived from commercial, charitable and state sources.

We operate in all three sectors, a hybrid approach. This helps to explain the regulatory environment and a number of the perceptions and restrictions which impede endowment fundraising.

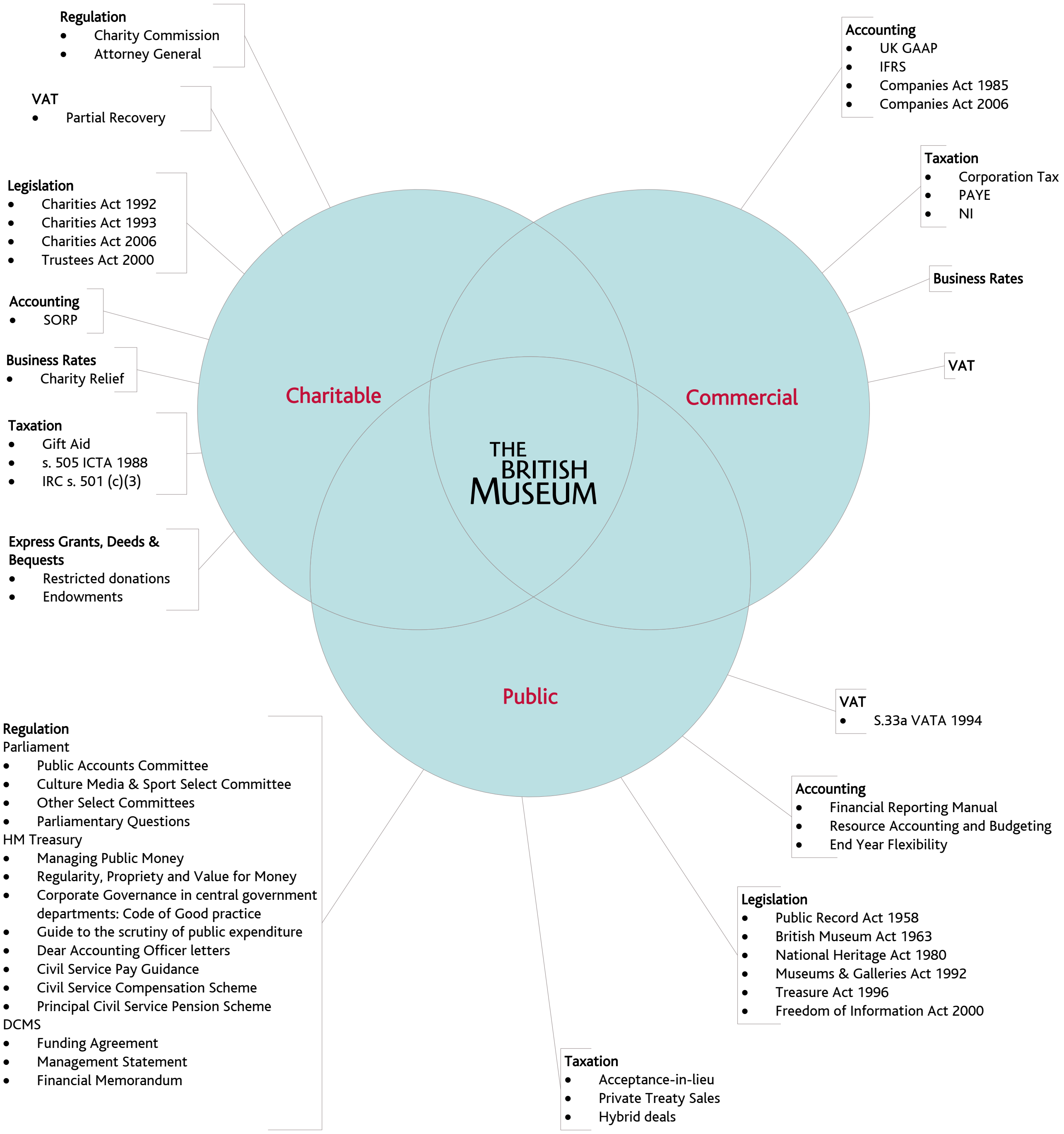
2.5 The Regulatory Framework

The schematic overleaf (Fig 1.) shows the regulatory framework for the British Museum, the annotation represents some of the financial and legal regulation created by each sector. Many National Museums have a similar set-up. It is a simplistic but informative illustration.

There are a number of disadvantages to this model. It is extremely complex and it can be restrictive (because both the charitable and public regulation covers all our activity, not just our 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 museum activity and is 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).

The Regulatory Environment
(Figure 1.)



This framework is the underlying cause of a number of the regulatory challenges that we face, many of which have a direct bearing on the viability of endowments. For example:

- **Reserves**
  There are Treasury restrictions on National Museums' ability to spend reserves. 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. Prohibiting museums from spending donations as the donor wished seriously jeopardises our ability to raise future funds in good faith. It forces many institutions to establish independent Trusts, a cumbersome and awkward structure designed to accommodate heavy-handed bureaucracy rather than encourage philanthropy.

- **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. National Museums 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. Moreover a bureaucratic process does not always allow National Museums to react in the prompt and diplomatic way appropriate for a charity responding to the generous offer of voluntary service.

Nevertheless the benefits of this model outweigh the drawbacks, even though it could be significantly improved by rationalising the regulatory restrictions. It offers greater public benefit than a more donor dependent model and greater public value than a more state dependent model. Critically, independent Trustees reassure donors that endowments will not be skewed to future political purposes. In addition it provides greater income diversity giving museums more financial stability. I will consider these in turn.

To examine public benefit first, DCMS Museums operate in many different arenas:

- On the international stage museums are active in almost every part of the world. To take the World Collections programme as an example, six national partners (The

V&A, Tate, Kew, British Library, the British Museum and the Natural History Museum) collaborate to share their collections and expertise across Asia and Africa. Last year we worked in fourteen countries ranging from China, India and South Africa to Ethiopia, Afghanistan and Iran. These programmes, based on long-term curatorial relationships, make a major contribution to understanding and mutual respect between nations. This mutual respect and understanding reduces mistrust and risk of conflict, and enhances influence – this is sometimes referred to as 'soft power'. Indeed cultural relations and channels of communication often remain open even when political links fail. There is also a benefit in the way museums affect the global perception of the UK. Many visitors to the UK will have spent time in museums. The image these visitors take home of Britain, and of Britain's history and place in the world, will be heavily influenced by the quality of our museums.

- Free admission allowed us to entertain, educate and inform almost 40 million visitors last year (including 9 million children, 3 million of whom participated in education sessions). As well as benefiting society museums contribute to the economy. It is estimated that culture adds £7.7bn gross value to the UK each year so that for every pound invested a further £3.50 is generated (for example through tourism, urban regeneration and the creative industries). In addition museums also play a key role on environmental issues. The convening power of DCMS Museums allows us to influence public views and behaviour in response to the impact of climate change. How we operate as institutions can influence how our visitors behave in respect of energy consumption, water conservation or waste management. The way in which we co-operate internationally, through for example the Bizot group, of international museum directors, can influence our own consumption. And the work we do in specific areas from health (the Natural History Museum is a WHO reference centre for Bilharzia, a disease affecting 200m people worldwide) to biodiversity (the Marmont centre for UK biodiversity is based in the new Darwin building) underpins many areas of research.

- At a local level National Museums and Galleries work with colleagues across the country sharing expertise, training, research and collections through partnerships, touring exhibitions, loans, satellite sites and an array of collaborative ventures. The recent BBC/BM partnership on *A History of the World in 100 objects* involved more than 500 local museums.

This gives some sense of the benefits DCMS museums can provide as a result of public funding. The diverse range of expertise reflected by our Trustees is a testament to a sector whose reach and ambition far exceeds the narrow focus on fundraising forced upon some institutions overseas.

A hybrid model based on multiple funding sources also has advantages over a more state dependent approach, because it offers better value for money for the taxpayer. One example from continental Europe:

The Neues Museum which opened in October cost the German government over €200m. It is part of a larger redevelopment in Berlin of the Museum Island complex. The total cost to the German taxpayer is €1.3bn. The aggregated visitor numbers for all museums on the Museum Island complex is about 2m per annum, and to put this into a UK context that is roughly equivalent to the numbers visiting the National Portrait Gallery last year. This therefore represents an enormous per capita investment in museum visitors by the German government.

The advantage of a hybrid model is that the UK can also point to world class redevelopments all across the country but at a much lower cost to tax payers because of significant private funding. Recent examples include Tate Modern; the Imperial War Museum North; the British Museum's Great Court; the redevelopment of the Great North Museum – Hancock; and the Darwin centre. In the UK such developments leverage significant private funding which represents real value for the public so that, for example, DCMS only needed to contribute £11m to the £78m cost of the Darwin centre.

From an economic perspective the hybrid model straddles the public, private and charitable sectors. It allows those functions of a museum most efficiently provided by the public sector to be provided by the public sector. It encourages those functions of a museum most efficiently provided by the commercial or charitable sectors to be provided in those sectors. And yet, essentially, it maintains unitary authority and responsibility for the institution and its interrelated activities. Therefore, while the overlapping regulation should urgently be reviewed and improved, the fundamental structure delivers maximum efficiency and public benefit.

So the hybrid model allows both public value and public benefit, but there is a further advantage because diverse income sources reduce income volatility and to understand the importance of financial stability to museums (and the consequential value of endowments) we need to examine the operating model.

2.6 Financial model

2.6.1 Expenditure

In terms of costs there are two specific issues which are worth exploring.

- Museums have high fixed costs. Because of the nature of our beneficiaries the absolute priority of Trustees will always be to safeguard the collection for future generations. There is therefore a significant, unavoidable cost to secure and care for the collection. In addition there are a number of other areas of expenditure where it would make little sense to reduce our investment, including profit making activity and legally restricted expenditure. Furthermore in areas such as academic activity reducing costs to cover an impermanent shortfall makes little sense as rebuilding the existing expertise in the collection could take decades.

  Therefore because of the high fixed cost base any cuts in income flow straight through to reduce our variable costs. And our variable costs are mainly public programmes. Therefore fluctuations in income have a disproportionate impact on front-line public services. There is a structural gearing effect within the business model. For example, if one assumes 75% of our costs are fixed then a reduction in income of 10% requires a reduction of 40% in variable expenditure. Conversely a 10% increase in income would produce a 40% increase in variable expenditure.

- The profile of capital expenditure tends to be very lumpy. This is a result of periodic substantial investment in building projects and acquisitions.

2.6.2 Income

In terms of income we have already touched on the range of income sources but it would be helpful to examine our donor profile in slightly more detail.

Museum donations tend to be high value and low volume which is distinct from other large charities like the National Trust, RSPCA, Oxfam or the NSPCC which receive millions of low value donations. This has four consequences:

- It is extremely hard to forecast the timing and scale of donated income accurately because the decisions of an individual donor will have a material impact on the overall position.

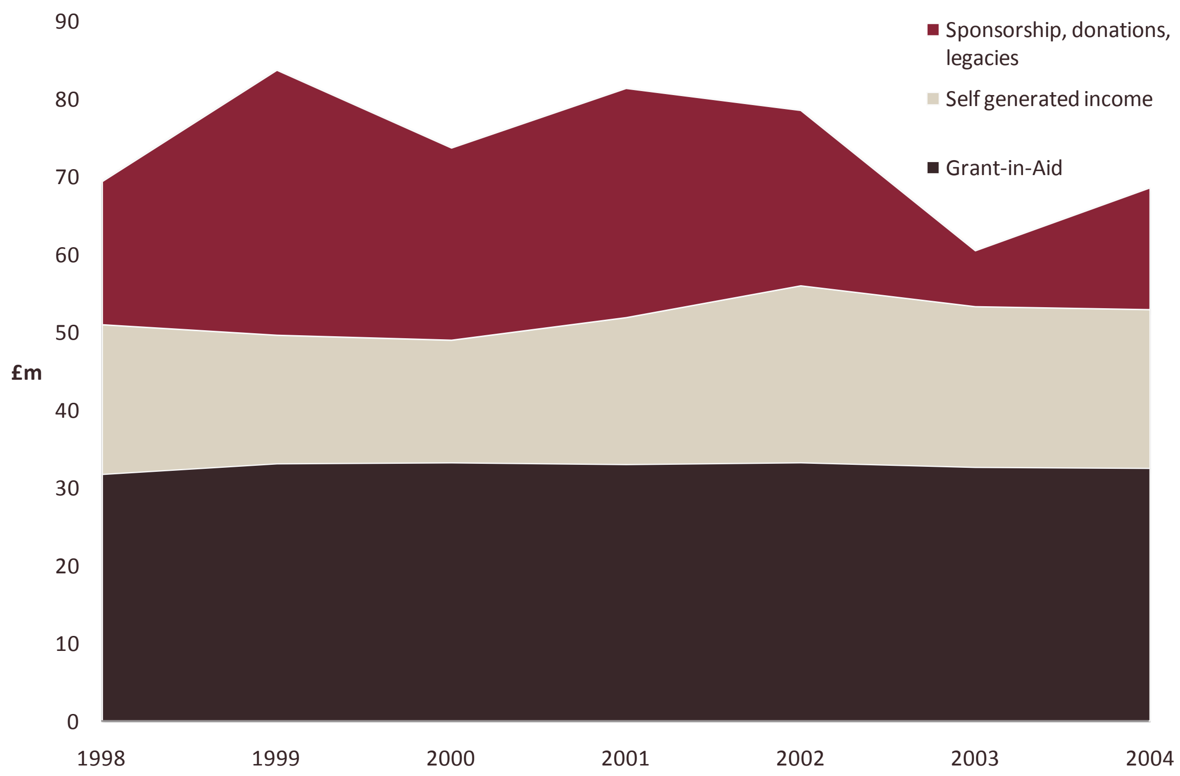
- Donations tend to follow high profile capital campaigns because permanent high profile projects have an appeal to this donor group which operating activity lacks. Therefore donations tend to mirror the lumpy profile of capital expenditure.

- It is often difficult to cover the full costs of any project from donated income because in Europe (where a state contribution is assumed) the philanthropic culture differs from the US. This is much less of an issue for charities reliant upon mass low value donations, where exclusivity is not expected and volume rather than value drives income levels.

- National Museums face international competition for donations. In a global economy many high net worth individuals have interests in many countries. UK museums are therefore in direct competition with other world collections for funding.

The attached graph shows the actual levels of income from each sector at the British Museum between 1998 and 2004 when we last did a major capital project.

British Museum Income
(re-based at 1997/8 prices)
(Figure 2.)



You can see clearly the enormous volatility in charitable income which combines with a high fixed cost base to make consistent, stable, government funding the key foundation for the success of this operating model.

In fact it is structurally unworkable without it. Partly because of the need for pump-priming; partly as a demonstration of government support; partly to cover the full cost of activities; and partly to smooth cash-flow.

Endowments would materially improve this unpredictable situation.

3 Endowments

3.1 Definition

In the pure and most limited sense investment permanent endowments (as distinct from functional permanent endowments such as land or buildings) are technically defined by the charity commission as “capital which is to be used to provide an income for the charity and which cannot itself be spent as income”. However for the purposes of this paper it would be more appropriate to adopt a broader definition to include other endowment-like funds. We will therefore consider both expendable endowments where Trustees have the power to convert endowment funds into expendable income and funds which Trustees have designated for quasi-endowment purposes.

- *Expendable endowments* are distinguishable from “income” in that there is no actual requirement to spend the capital unless, or until, the charity trustees decide to. The fund must be invested to produce income which should be spent for the purposes of the charity within a reasonable time of receipt.

- *Designated funds* are expendable at the discretion of the trustees in furtherance of the charity’s objects. They are, however, earmarked for a particular project and therefore identified as a separate fund. This designation has an administrative purpose only, and (unlike investment permanent endowments and expendable endowments) does not legally restrict the trustees’ discretion to apply the fund.

3.2 Restrictions

Within these three broad definitions there are many sub-divisions, some more common than others and almost any restriction can be applied by the donor to the use of capital, income or the investment of the funds. Examples include:

- Restrictions over the use of capital commonly prohibit expenditure, but sometimes they allow Trustees to:
  - expend capital *in extremis*; or
  - use the capital to maintain a program or activity (for example if the income generated by the fund is insufficient); or
  - expend capital after a set period of time; or
  - use capital on a graduated basis (a capital depletion endowment).

- Restrictions on the expenditure of income can be very wide ranging. In some cases donors provide a general institutional endowment which can be used freely by Trustees. Other examples include endowments for specific programmes; for specific staff posts; to maintain facilities, buildings or grounds; or to support the upgrade of technology.

- Restrictions over the investment of funds tend to focus on controlling the level of risk but can also cover areas such as ethical investment.

In special circumstances it is possible to apply to the charity commission to vary the terms of an endowment, but for obvious reasons the wishes of the donor are paramount so variations are relatively rare.

Highly restrictive endowments can be a much less effective source of funding for organisations for two reasons:

- Firstly managing multiple endowments, with differing restrictions over investment and expenditure is a complex, specialised activity with high administrative costs and lower returns. The ability of museums to “pool” endowments with other funds for the purposes of investment or expenditure ensures much greater efficiency. The resulting economies of scale are one reason why endowments can be more suitable for large institutions with large donations.

- Secondly because endowments are designed to exist in perpetuity the restrictions need to remain relevant for decades if not centuries. It can be hard to predict both the nature of investments and the nature of museum activity accurately that far into the future. No doubt everyone working in long-established charitable institutions will have had to deal with restrictions which would have seemed eminently sensible at inception but over time have become anachronistic.

3.3 Investment

The purpose of investing endowments is to generate a sufficiently high return both to maintain the real value of the original donation (the “capital” or “principal”) and to generate income to be spent by the charity.

3.3.1 Managing risk

It is impossible to achieve this objective without risk because risk and return are correlated. However Trustees can, and indeed have a duty, to minimise risk in a number of ways:

- Trustees must consider the suitability of investments and the diversification of their investments. The statutory duty to consider "suitability" exists separately at the level of asset allocation and at the level of stock selection. The duty will, therefore, include:

    - consideration of the proportions of the fund which should be allocated to different classes of investment (asset allocation), and of the overall level of risk;

  - consideration of the merits of individual investments within each asset class (stock selection), in terms not only of their economic prospects, but also in terms of their individual contribution to the overall management of risk; and

  - recognising the implications of the duty to be even-handed between the interests of present and future beneficiaries of the charity.

- Trustees should obtain proper advice from an expert about investments. The adviser may be another trustee.

- Trustees must review the investments periodically and consider whether those investments should be retained or varied. Changes in the mix could be triggered by:

  - Market movement
  - Expenditure drawn down from the fund
  - New money added to the fund
  - New risk / return / correlation estimates
  - Changing institutional needs and preferences
  - New asset classes

  When a significant deviation from the target allocation occurs the portfolio should be re-balanced.

An active endowment with a broad range of investments (to ensure diversification across individual stocks, asset classes, currencies and economies) requires oversight and administration. Transaction, management and monitoring costs result in economies of scale. This combines with the need for high quality, wide-ranging advice to favour larger institutions and larger endowments.

3.3.2 Maximising return

In the absence of specific restrictions, the level of distributable income generated by an endowment is a product of the return achieved by the Trustees and the amount they feel needs to be retained to maintain the real value of the capital in perpetuity.

- **Return**
  The balance of risk and return should be commensurable with donor wishes. Given the nature of endowments, (which need to be available for the long-term) Trustees will normally avoid a highly speculative investment strategy which offers high returns but high risk.

  Passive management should allow returns to track the relevant index. Active management offers the potential for better performance, but also the risk of under performance. Marginal annual out-performance over the long-term can accumulate significant gains for the fund. However the selection of good managers needs skill, experience and market knowledge; and there are barriers to entry for certain funds which require a minimum investment and sometimes a personal introduction. Consequently larger institutions with influential trustees and substantial endowments have an advantage.

- **Retention**
  The deterioration of the capital value of many long-term endowments indicates that Trustees can underestimate the corrosive effects of inflation. Equally where capital has appreciated it is likely Trustees have been unnecessarily conservative in their income retention.

The UK's top five hundred charities distribute between 5.5% and 1% from their endowments annually (figures suggest that distributions in the US are typically higher than the UK, no doubt affected by the IRS requirements). It is likely that the ideal level of distribution is within this range. This means that the ratio of income to endowment is between about 20 and 100, i.e. to generate £100k of income annually an institution will need an endowment somewhere between £2m and £10m.

Therefore in order to make a material impact on running costs endowments need to be substantial.

This ratio of donation to annual distribution is significant for two reasons. Firstly endowment fundraising targets need to be very large. Secondly the donors and donations are unusual. Endowments are of profound value to the recipients, but because the annual return is low they have little immediate visible impact relative to the generosity of the gift, a significant disincentive for many donors. This helps to explain the specific nature of endowment fundraising, why it takes time, and why endowments are more suited to large charities with an established, wealthy donor base.

3.4 Fundraising

3.4.1 Fundraising sources

It may be useful to characterise endowments as arising from four broad sources:

1. Establishment gifts. These are endowments made to establish charities (for example the Getty Museum) or to provide for the running costs of capital gifts (for example endowments to support properties donated to the National Trust).

2. The State (for example NESTA).

3. Broad-based campaigns. These are endowments built up through mass campaigns they are most suitable for charities with alumni (for example universities) or very significant Membership schemes.

4. Major donors.

3.4.2 Campaign strategies

1. *Establishment gifts.*
   Establishment endowments are more commonly given when museums are founded, or in support of a capital gift. As such they offer little scope to fund existing collections.

2. *The State.*
   The state is an obvious source for the long-term funding of National Museums and Galleries. However it falls outside the remit of this paper unless, as suggested in Section 6, it is used to leverage philanthropy in the form of matching funding.

3. *Broad-based campaigns.*
   Many museums have Friends or Membership schemes. Such schemes allow easy access to potential supporters. Actively engaging Members in museum life helps to encourage a long-term relationship with the museum and an understanding of the financial needs of the institution. This is a good basis for endowment fundraising (although opinions differ on whether it is the most effective approach). However, with a few notable exceptions, most DCMS Museums do not have a sufficient number of Members to underpin a large scale endowment campaign and it can take years to build Membership levels. Consequently the most likely existing philanthropic source for endowments will be major donors.

4. *Major donors.*
   Strategies for building endowments from major donors vary. For museums and galleries a "capital-style" campaign is unlikely to succeed. Such a campaign focuses on current, outright gifts and is conducted in the same way as a campaign for capital needs (such as an extension or an acquisition). The effectiveness of this approach is limited partly because the need for immediate participation is neither clear nor urgent; and partly because the low ratio of donation to annual distribution makes the benefits hard to envisage and the donation less exciting.

   Therefore a "planned giving" campaign is more likely to succeed. There are a number of characteristics to this type of approach:

   - It takes longer and requires more personal contact than any other kind of fundraising.

   - Donors are likely to have a demonstrable commitment to and understanding of the organisation.

   - The ongoing relationship between donor and museum will be critical.

   - The bulk of the funds will come from major donations from high net worth individuals. In the modern global economy many are likely to have wide ranging international interests.

- The donors are likely to be highly sophisticated philanthropists, knowledgeable about ways of giving.

- Donors will need comfort over the long-term security of their gift. This will include assurance over:
    - Financial management and control;
    - Investment management;
    - The quality of Trustees, their oversight of funds, and the governance arrangements;
    - The longevity of the institution and;
    - The continuing impact of the gift (both that it will be used as intended and that it won't have a detrimental effect on other income thereby negating its value).

- Contributions are likely to be weighted towards deferred gifts rather than current gifts. This is in part a reflection of the low annual impact of the gift; in part because financially sophisticated donors (with a greater risk appetite than Trustees managing funds in perpetuity) eschew lifetime endowments because they feel confident of generating higher returns themselves; and in part because of concerns over personal financial security, whether real or perceived, can discourage large lifetime gifts. In the UK where there is a less developed philanthropic culture donations are often simple bequests. In the US more use is made of complex gifting mechanisms such as insurance beneficiary designations, retirement plan beneficiary designations, insurance policies, charitable remainder trusts and charitable gift annuities.

Consequently this type of campaign takes time and relies on a large pool of established donors; an experienced professional fundraising team; capable accountants, lawyers and investment managers; high profile, well connected Trustees; and an ability to compete against top international museums. Major London National Museums are therefore most likely to be successful.

4 The benefits

There are clearly a number of challenges that will need to be addressed before endowments can flourish in DCMS Museums. These are discussed in the next section. Nevertheless this examination of the specific nature of museums and endowments demonstrates that endowment funding offers an intelligent and potentially realistic way to enhance many National Museums and Galleries.

Endowments represent a very suitable funding stream for museums for several reasons:

- A primary function of a museum is to protect valuable and vulnerable objects for future generations. Securing and preserving collections confers an expensive and unavoidable obligation on the trustees. Consequently there are high fixed costs which require stable funding. As demonstrated recently in the US, endowments do not guarantee financial stability in themselves, see below. Indeed it is worth noting that the fall in the capital value of endowment assets shown here is likely to be compounded by a reduction in income so that the total return on the endowment could be even more volatile.

Analysis of movements in the endowments of major US museums

	Endowment assets 2009 $'m	**Endowment assets 2008 $'m**
The J. Paul Getty Trust[xxxvii]	4,454	5,946
The Metropolitan Museum of Art[xxxviii]	1,864	2,510
Smithsonian Institution[xxxix]	883	906
The Art Institute of Chicago[xl]	618	842

However, as part of an operating model based on multiple income streams, endowments increase diversity and thereby reduce volatility. This is particularly true if they are invested across a range of asset classes, industries, economies and currencies subject to economic cycles which differ from those dominating the existing museum funding sources. This hedging effect can be enhanced by strategies designed to smooth the levels of distributable income (for example by averaging returns over a number of years).

- Endowments offer even greater public value for the taxpayer from a sector that already leads the world in terms of public value. They provide supplementary private funding for public services ensuring additional utility at no additional cost.

- Endowments offer long-term funding which is ideally suited to a sector with such long-term planning horizons.

The potential to build endowments exists because:

- People want to support museums. As we have seen earlier in the paper the enormous range and reach of our activity appeals to a wide variety of major donors for example those with interests in international activity, academic research, education, design or aesthetics.

- Museums' obvious longevity ensures that endowment gifts will remain relevant and necessary for generations. There is ample historical evidence of the continuing benefit of early museum philanthropy (examples include Sir Henry Tate, Sir Hans Sloane, Sir Richard Wallace, John Julius Angerstein and Sir John Soane).

- Many of the UK's National Museums have genuinely pre-eminent international collections. This represents a significant advantage when competing for funds from global philanthropists.

- The larger museums already have a successful track record in fundraising and therefore an established donor base, professional development teams, high quality trustees and the supporting infrastructure (accountants, lawyers, investment managers etc.) to build endowments.

5 The challenges

Given the obvious advantages outlined above, the lack of endowment funds in UK museums needs explanation. The barriers to endowment fundraising can be split between those common to most DCMS Museums and those facing specific segments of this sector.

General barriers facing DCMS Museums

- Most National and Non-National Museums are subject to a number of central government controls. The most significant in this context is the restriction over the expenditure of reserves. Museums' freedom to expend reserves is extremely limited. This means any donation which is not spent within the financial year is effectively frozen. Clearly endowments are unworkable while this restriction is in place. Consequently so that museums are forced into a position of reliance on the state where private funding may well be available. To a lesser extent the high level of overlapping and conflicting regulation is also an obstacle as it reduces efficiency. This is a disincentive for donors keen to ensure the most effective use of their gifts.

- The UK ranks highly against European counterparts in the generosity of its donors. However the philanthropic culture in the UK is far more challenging than the US (the obvious example of a country that has successfully endowed museums). Studies vary but Americans are estimated to give, proportionately, almost twice as much as donors in the UK. The effect is amplified by the scale of the US economy. It would not be unreasonable to assume the US has more than ten times the level of charitable donations seen in the UK. There is no simple explanation for the difference in proportionate giving between the US and UK. It is possible to overestimate the correlation between taxation and levels of giving, both in terms of the general effect overall rates of taxation have on philanthropy and the specific impact of charitable tax relief. Clearly there is some relationship but in reality American generosity is more likely to be the product of a range of interrelated cultural, social, religious, economic and fiscal factors. Indeed the twentieth century philanthropic culture in the US had a number of the characteristics underpinning altruism in industrial Britain when many great museums were established: civic and national pride, recent social mobility, locally generated prosperity, wealth disparity, limited state welfare, strong religious values, international pre-eminence and insularity. It is therefore unlikely that the US philanthropic culture can be transferred to 21st century Britain, so the challenge of building endowments on a US scale will be significant.

- Endowments are particularly sensitive to the philanthropic culture because they are uniquely testing for fundraisers. The need is rarely urgent; the immediate visible return on the gift is low; and the benefits less exciting than other donations.

- To compound the cultural differences, historically, DCMS Museums have not always given philanthropy the priority needed, and certainly not the focus of US museums. We have made significant improvements in recent decades but it would still be fair to say we could do more to articulate the need for funding, to build an active donor base, to provide bespoke opportunities for supporters, to recognise philanthropic generosity, and encourage fundraising throughout all levels of the organisation.

- Many DCMS Museums have been funded by parliament for centuries. The perception that donated endowments will simply replace or reduce government Grant-in-Aid, doing nothing additional for the museum, is a real impediment. As with any voluntary gift the donor has to feel it will have a direct impact in an area of need. A campaign to slow the contraction of museum activity has nothing like the appeal of a campaign to enable expansion.

- The wealthiest donors in the UK have links and interests with many countries, in contrast to the US where much of the wealth is generated and controlled locally; fundraising at this level takes place in an international arena with the competing needs of other governments and other great world collections. National policy, such as the treatment of non-domiciled residents, can have a profound effect on donations.

- The use of endowment income is often restricted. It is not always available for essential running costs. Traditionally this is the activity least appealing to donors and increasingly unappealing to a public sector driven by the continual need to announce new initiatives and flagship projects. To some extent this can be managed, but it is a drawback.

- More generally there are factors which limit fundraising capacity. Some, such as the resources available to the Development department, are relatively easy to address. Others, such as the size of the donor base; the scale of the programme; exclusivity; and access to key people (for example the Director), are not infinitely expandable. Thus there is a need for prioritisation and individual institutions will have to consider whether other types of fundraising offer greater value.

Specific barriers

Most DCMS Museums are affected by the issues listed above. However, some have additional hurdles as a consequence of scale and geographical location.

- Smaller institutions lack the economies of scale available to larger organisations this includes:
    - Large established Development teams capable of long range fundraising.
    - Finance departments capable of handling an investment portfolio with multi-layered reporting.
    - Advice from lawyers and investment managers.
    - Adequate levels of working capital to support the investment strategy.
    - A sufficiently large endowment to sustain a diversified portfolio with access to high performance funds.
    - A sufficiently large endowment to absorb the fixed elements of transaction, management and monitoring costs associated with a balanced investment portfolio.

- The nature of a collection can affect fundraising and the ability to attract experienced and well-connected Trustees.

- Museums outside London can have significantly less access to wealthy donors. Unlike the US, there are few individuals or organisations of great wealth with strong local roots outside London.

It is therefore harder to see a focus on endowment funding as a viable option for these types of institutions.

6 Conclusions and recommendations

People give for a range of complex reasons including a sense of duty or responsibility; the belief in a cause; religious values; a desire for change; personal relationships; self-fulfilment; and other social, cultural, economic and fiscal factors. Fundamentally giving is a voluntary, emotional act of individual generosity. It can be encouraged but it cannot be mandated.

Building endowments is unquestionably a long-term process and one which will not suit all DCMS Museums. Nevertheless, for large metropolitan collections in particular, there is real potential to significantly enhance the sector.

There are a number of initiatives which would help increase philanthropy, particularly in relation to endowments. They focus on creating an incentive to give; building relationships with donors; and recognising the generosity of benefactors. Museums can achieve some of them alone; some are necessarily long-term aspirations given the fiscal climate, but a number of the most important are essentially administrative in nature and could be implemented immediately by government.

6.1 Incentives and impact

Donors need an incentive to give; their gift must make a difference and the greater the difference the better. It would be impossible to raise donations that have no net benefit to the recipient. Two factors nullify the impact of endowments at DCMS Museums: Treasury rules which effectively prohibit their use and the threat that donations will reduce or replace Grant-in-Aid. Once addressed, more could be done to expound and expand the benefits of endowment funding.

- **Ease central government controls to take account of National Museums' special nature. This will increase operational efficiency and guarantee museums the freedom to retain and expend gifts according to donor wishes.** A number of the existing controls around the use of reserves (including endowments), pay, investments and expenditure create a huge bureaucratic burden for very little gain. Simplifying and streamlining the regulation would not require legislation, it would reduce unnecessary bureaucracy for both museums and the government and it would support enterprising and efficient organisations. For donors it would ensure donations could be used in the most effective manner, but most importantly it would guarantee they could be used at all. Without this change endowment fundraising is, in practice, impossible.

  National Museums are exempt charities under schedule 2 Charities Act 1993 which are regulated under charity law in ways which replicate many important public interest restrictions imposed on arms length bodies by central government. They are responsible for internationally pre-eminent reference collections and operate in a market orientated environment. As such they are unique in their need for more appropriate regulation.

- **Maintain core Grant-in-Aid** – A time of fiscal stringency requires careful choices. Overall public expenditure has expanded unsustainably in recent years and the Museum sector will need to take its share of the corrective action necessary. Indeed donors will understand the need to scale back recent real terms increases. However, if cuts reduce funding below that level it will be very difficult to detach the rhetoric of increased philanthropy from a long-term decrease in government support. Inevitably endowments will become perceived as surrogate state funding.

- **Articulate more clearly the importance and need for endowments.** It can be difficult when entering some of the country's greatest museums to appreciate the financial pressure they are under. There is a common misconception that the sector is entirely government funded and a view that donations are unnecessary. DCMS Museums could do much more to explain the financial reality: the fact that in many cases much, if not most, of our funding is self-generated; the limitations of current funding levels; the impact donations have made; and the latent potential of the collections.

- **Offer matching funding.** Given the low annual impact of an endowment some mechanism to provide matching funding would create a great incentive for donors and an incentive for institutions to focus limited fundraising resources on endowments (not always an obvious choice because delayed gratification deters benefactor and beneficiary alike). The £200m HEFCE matched funding scheme which runs from 2008-2011 will provide useful data on the administration and impact of such an approach in the UK.

6.2 Relationships and engagement

Endowments are usually the product of a long-term relationship between a donor and a charity. Engaging and involving potential donors in museum life is an essential pre-requisite for an endowment campaign. It ensures a full understanding of the need for funding and the potential benefits of funding; it engenders a sense of responsibility for the institution; it encourages personal relationships with committed, professional and enthusiastic staff; and it demonstrates the quality of governance and management, providing comfort over the long-term security of any future gift. Repeat donors see the effect of their generosity first-hand; philanthropy is addictive.

Museums help nurture social cohesion, common understanding, shared responsibility and a civic society in the most profound and sustainable way. The impact is not always immediately obvious but it is hard to be involved with the sector for any length of time without becoming passionate. It is an ideal introduction to philanthropy and the social benefits it provides communities across the UK.

A number of actions could help increase engagement with the sector. Obviously museums themselves are pivotal but government could provide useful support, especially through tax relief. It is not so much the value of the tax relief that is important, rather the mechanics which encourage a long-term relationship with the charity. Two practical examples are recommended where proposals have already been developed. However, many other options exist both for income and, in particular, capital taxes and it may be worth exploring the possibility of an endowment “douceur” to encourage gifts to national museums through additional Inheritance Tax relief.

- **Introduce tax relief for Charitable Remainder Trusts.** It is estimated that 40% of the value of the endowments of academic, medical and cultural institutions in the US are made by Lifetime Legacies. They form an essential plank of American planned-giving endowment campaigns. The attraction from an endowment perspective is that the gift is irrevocable and yet donors can benefit from the income or asset for the rest of their lives; this addresses concerns over personal financial security. It also allows donors to be thanked and recognised during their life. As with tax relief for gifts of objects this mechanism encourages donors to engage with the museum over the long-term, helping to build a philanthropic culture.

- **Introduce tax relief for gifts of objects.** Tax relief (from income tax and capital gains tax) now covers gifts of land, cash, stocks and shares. It does not extend to objects that would be valuable additions to museums and galleries. These gifts can be tax-efficient if the donor is dead, through the Acceptance-in-lieu (AIL) scheme, but have no advantage to the living. Comparable benefits should be available to the living who wish to donate significant cultural objects for public benefit. Such gifts would help cement longer-term relationships with interested donors who may ultimately endow the institution.

- **Explore the possibility of additional relief from Inheritance Tax: An endowment “douceur”.** Simplistically, Inheritance Tax relief on donations allows the donor to offset the value of the bequest against the value of their estate. It might be possible to allow additional relief for particular types of gift so that a proportion of the gift could reduce the tax bill still further. The benefit of this additional tax relief could be split between the donor’s estate and recipient, thereby creating an incentive for both funder and fundraiser to focus on endowments. Examples of splitting the benefit of tax relief include private treaty sales where the tax benefits are in essence shared between the vendor and the museum in order to create a mutual incentive to transfer pre-eminent works of art from private to public ownership; and the structure of gift aid for higher rate taxpayers. An extension of this approach specifically to encourage endowments could be very effective.

- **Increase membership schemes and patrons groups**. Museum Friends and patrons groups provide an existing pool of sympathetic donors, who might help endow the institution as part of a fundraising or legacy campaign. Some museums have the potential to expand the numbers of members or patrons. This could be a useful step to converting an occasional visitor into a committed supporter.

- **Build relationships.** DCMS Museums have undoubtedly become much better at fundraising in the last decades but improvements could still be made. Throughout the museum the importance of donors must be recognised, so that fundraising becomes an intrinsic part of everyday activity and is supported with adequate resources.

6.3 Recognition and appreciation

The recognition of generous donors has the benefit of encouraging others to make donations and it can reinforce a cultural shift which places greater value on those who contribute to society. I have never met a donor who gave for public approbation, but many do feel the UK does not appreciate their generosity in the way other countries do. In a global market this is an uncomfortable and probably unwise position to occupy. Furthermore, those working tirelessly to encourage donations are often overlooked. Museums can and should, of course, do more, but to change the culture and social mores government needs to help.

- **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.

- **Change the administration of the Honours system to make it easier for Government to reward generous benefactors, and thank them on behalf of the country at large. Publicise, through speeches and statements, the government's gratitude to benefactors not resident or not domiciled in the U.K. Recognise exceptional fund-raisers.** In the UK arts benefactors are included within the cap applied to the overall number of honours available for the arts. Thus donors compete with artists and administrators for recognition. One alternative could be a separate category dedicated to philanthropy. This would acknowledge its particular and invaluable role within the UK.

- **Generous appreciation.** As with other areas of fundraising the museum sector has improved considerably over the last twenty years, but we could still do more to convey our gratitude for the enormous personal generosity of so many of our donors without whom cultural life in the UK would wither.

[i] "Appropriation of endowment assets for expenditure" from note 11 to the Financial Statements for year ending 30 June 2009
[ii] Calculated by adding appropriation of endowment assets for expenditure (note 11) to "Sales and other income" and "Contributions" (Statements of Activities) from the Financial Statements for year ending 30 June 2009
[iii] "Total expenses" from the Statements of Activities for year ending 30 June 2009
[iv] Total endowment net assets from note 11 to the Financial Statements for year ending 30 June 2009
[v] "Endowment support for current activities" from Statement of Activities for year ending 30 June 2009
[vi] "Total revenue and support" from Statement of Activities for year ending 30 June 2009
[vii] "Total expenses" from Statement of Activities for year ending 30 June 2009
[viii] Total endowment net assets from note P to the Financial Statements for year ending 30 June 2009
[ix] "Investment return designated for current use" from Consolidated Statement of Activities for year ending 30 June 2009
[x] "Total operating revenue, gains and other support" from Consolidated Statement of Activities for year ending 30 June 2009
[xi] "Total expenses and losses" from Consolidated Statement of Activities for year ending 30 June 2009
[xii] Total endowment funds from note 3 to the Financial Statements for year ending 30 June 2009
[xiii] "Investment income - spending policy" plus "Board-designated increase in spending policy" from Consolidated Statements of Unrestricted Revenues, Expenses, and Changes in Unrestricted Net Assets for the year ending 30 June 2009. Please note that this is wider than simply endowment income in this instance.
[xiv] "Total operating revenues and other support and reclassifications" from Consolidated Statements of Unrestricted Revenues, Expenses, and Changes in Unrestricted Net Assets for the year ending 30 June 2009
[xv] "Total operating expenses" from Consolidated Statements of Unrestricted Revenues, Expenses, and Changes in Unrestricted Net Assets for the year ending 30 June 2009
[xvi] "Total investments" from note 4 to the Financial Statements for the year ending 30 June 2009. This is larger than the amount of £249,389,000 shown as pure endowment funds in note 10.
[xvii] This is not purely endowment income, but reflects "Beneficial interest in perpetual trust income", "short term investment income", and "investment return designated for current operations" from the consolidated statement of activities for the year ending 30 June 2009.
[xviii] "Total operating support" from the consolidated statement of activities for the year ending 30 June 2009
[xix] "Total expenses" from the consolidated statement of activities for the year ending 30 June 2009
[xx] This figure does not purely represent endowment funds, but the sum of "Short-term investments", "investments, at market or fair value", "beneficial interest in perpetual trusts" from Consolidated Statement of Financial Position for year ending 30 June 2009
[xxi] "Endowment and trust income" from the Statement of Activities for the year ending 30 June 2009
[xxii] "Total revenues and support" from the Statement of Activities for the year ending 30 June 2009
[xxiii] "Total expenses" from the Statement of Activities for the year ending 30 June 2009
[xxiv] Total endowments from note 9 to the Financial Statements for the year ending 30 June 2009
[xxv] "Endowment payout" from Statement of Financial Activity for year ending 30 September 2009
[xxvi] "Total Government revenue" from Statement of Financial Activity for year ending 30 September 2009
[xxvii] "Total operating revenues and other additions" from Statement of Financial Activity for year ending 30 September 2009
[xxviii] "Total expenses" from Statement of Financial Activity for year ending 30 September 2009
[xxix]"Total endowment net assets" from note 8 to the Financial Statements for year ending 30 September 2009
[xxx] "Investment return designated for operations" from Statements of Activities for year ending 30 September 2009
[xxxi] "U.S. Government appropriation" from Statements of Activities for year ending 30 September 2009
[xxxii] "Total support and revenue" from Statements of Activities for year ending 30 September 2009
[xxxiii] "Total expenses" from Statements of Activities for year ending 30 September 2009
[xxxiv] "Endowment net assets" from note 17 to the Financial Statements for year ending 30 September 2009
[xxxv] Total resources expended before notional costs in the financial statements ending 31 March 2010 and 2009
[xxxvi] Funds identified as endowment funds or permanent endowment funds in the financial statements ending 31 March 2010 and 2009. Excludes any non-consolidated funds.

[xxxvii] Total endowment net assets from note 11 to the Financial Statements for year ending 30 June 2009
[xxxviii] Total endowment net assets from note P to the Financial Statements for year ending 30 June 2009
[xxxix] "Total endowment net assets" from note 8 to the Financial Statements for year ending 30 September 2009
[xl] Total endowment funds from note 3 to the Financial Statements for year ending 30 June 2009