To Scale:

Mapping Financial Inflows in Australian Arts, Culture and Creativity

A New Approach (ANA)

August 2023

Executive Summary

Investment in cultural and creative activity is high on international public agendas as nations seek to harness its economic, social and cultural benefits, including more connected communities and more productive economies. Industry, policymakers, and researchers are exploring effective and efficient ways to invest over different time frames; in different populations; and through both public and private channels. These include vigorous debates about governments financing culture and a recent focus on preserving finances based on UNESCO's declaration that culture is a global public good.[1]

The *non*-governmental finance market for arts, culture and creativity in Australia – and industry's knowledge of these diverse financial options – remains under-researched. The purpose of this report is to begin to address these gaps in research and awareness by painting a fuller picture of the scope and scale of financial inflows to the cultural and creative industries and by exploring how the returns on these investments are conceptualised.

Although Australia has reasonable research on incomes generated through *direct* expenditure by governments in arts, culture and creativity, it has limited research on *indirect* government expenditures, such as tax concessions, and so these inflows were specifically calculated.

ANA refers to 'income' in this research as follows:

- The revenue listed in organisations' Statement of Comprehensive Income
- The income data reported in the Australian Bureau of Statistics Australian Industry dataset
- The income data reported in the Australian Charities Reports published by the Australian Charities and Not-for-profits Commission
- Existing research on the 'creative incomes' and 'salary incomes' of individuals

ANA refers to 'financial inflows' in this research as follows:

- All references to incomes (described above)
- All sources of public finance (e.g. direct and indirect government expenditures)
- All sources of private finance (e.g. consumption, copyright payments, crowdfunding, philanthropy, self-finance, equity finance, debt finance)

ANA refers to 'arts, culture and creativity' in this research as follows:

- Activities such as attending cultural events, visiting cultural venues, creating or performing something, and engaging with cultural and creative content in your home.

ANA refers to 'cultural and creative industries' in this research as follows:

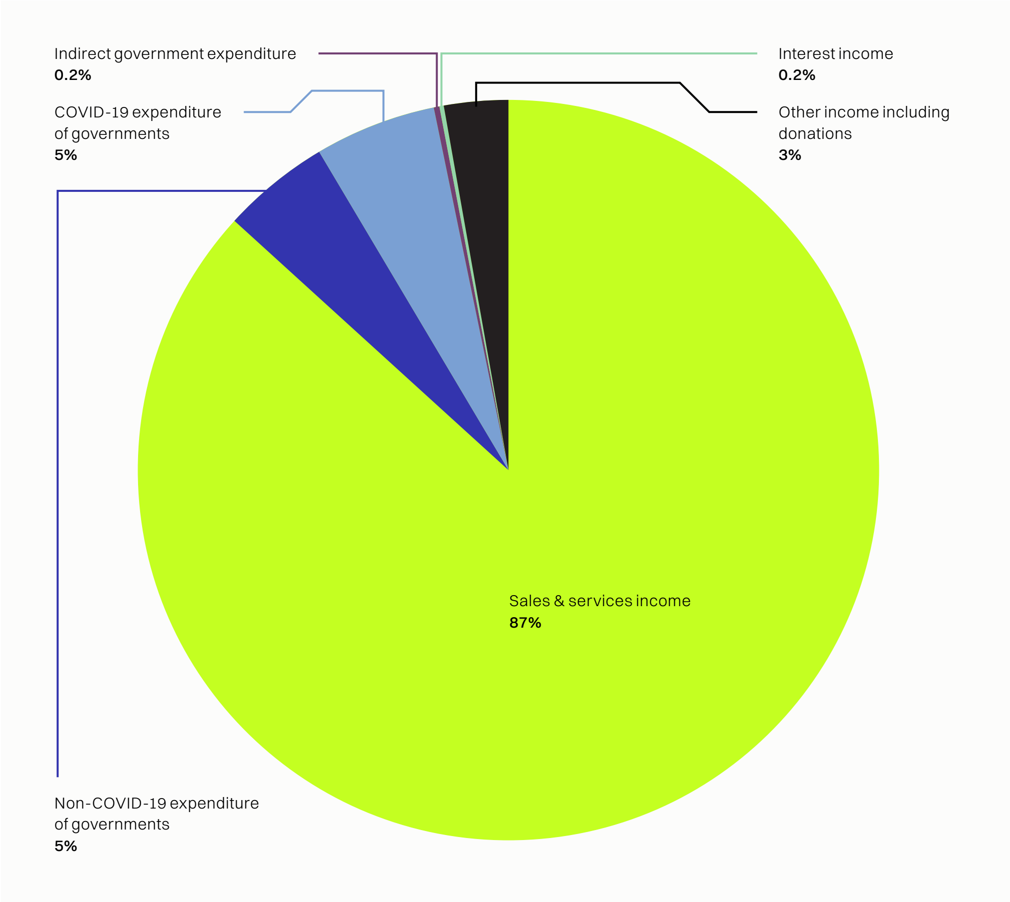
- All industries treated as 'cultural' or as 'creative' – or as both 'cultural and creative' – within the satellite accounts; based on a supply chain approach to their activities; and classified in accordance with the 2006 edition of the Australian and New Zealand Standard Industrial Classification (ANZSIC).[2]
- Example activities are found in the above definition of arts, culture and creativity, as well as activities that may be less obvious, such as advertising, computer system design, architecture, and education and training that develops performance artists.

In these areas of public interest, ANA's research dispels a view – a 'myth', even – that Australian cultural and creative industries are predominantly financed through government assistance. Instead, we found that the largest proportion of income in the overall cultural and creative industries in 2020–21 was from 'sales and services' **(Exhibit 1)** (e.g. export sales and income from goods and services provided to businesses, households, and governments). Tax concessions also represent a comparatively small share of the total income in the cultural and creative industries according to forgone revenue data.

This report emphasises that the mixture of this income – from sales and services, government expenditure or 'other' sources (e.g. philanthropy) – varies across the cultural and creative industries. For example, the sub-sector of 'computer system design and related services' earned the most sales and services income in these industries, whereas 'libraries and other services' earned the least, in 2017–18 and 2020–21. Not-for-profit organisations in these industries earned a smaller share of their incomes from sales and services in 2019–20 (27%).

These details of the research findings are crucial because they highlight areas for growth and improved financial sustainability through cross-industry collaboration such as advice, coaching and mentoring.

Exhibit 1. The largest proportion of income in the Australian cultural and creative industries in 2020–21 was from 'sales and services'.



Other unanswered public interest questions explored through this research include

1. What is the scope and scale of financial inflows in arts, culture and creativity in Australia?
2. What are the channels and instruments used?
3. How are returns on financial inflows measured and communicated?
4. What are the future challenges and opportunities for financing arts, culture and creativity (e.g. growth areas, underused vehicles, regulatory settings)?

In responding to these four key questions, this report presents a 'state-of-play' of the finances in Australian arts, culture and creativity. Cultural and creative businesses can use its insights to better understand their financial options; policymakers and investors can use them as evidence to inform their strategic decision-making; and investment specialists and brokers can use them as information and context to assist businesses to connect with investors.[3] The baseline estimates, descriptions and findings of the research include the following:

- Total reported income in the cultural and creative industries
- A description of the key 'clusters' of investors in these industries
- Comparison of the types of finance for two reference years – prior to and during the COVID-19 pandemic (2017–18 and 2020–21)
- An overview of methods for measuring and communicating returns on investment (ROI) across these industries

Our approach is ambitious, pragmatic and exploratory. We provide a data-led view that is indicative rather than exhaustive and granular. We collate publicly available data and highlight the limits in its granularity about the private sources of finance. ANA has applied a typology, developed by the European Union and the Organisation for Economic Co-operation and Development (OECD), to distil models of investment and income generation into their key differences and to identify the main investors and income sources – from consumers, to governments, to banks, to business angels and other businesses.

The report recommends a measured approach to assessing these various financial options – a mixture of realism and optimism. For instance, the report encourages optimism in an evolving financial market while providing the reality check that no *single* financial instrument can reliably underpin these industries' steady growth and sustainability. Indeed, several examples of financial inflows explored in the report have fluctuated in response to economic and social forces, including the effects of COVID-19. Debt and equity markets are volatile, and changes in technology and regulation, consumer behaviour, and employment trends reduce any certainty of growth we aspire to.

Accordingly, to diversify and assess emerging and effective models of investment in arts, culture and creativity, the report recommends a clearer line of sight on the dynamics within this environment and continuing evaluation of the ROI. Given the global context of artificial intelligence[4] and changing export and foreign investment markets, the report recommends preparing Australia's regulatory settings to preserve and balance these financial inflows, including through policies related to copyright and foreign direct investment, trade and local content.

Similarly, the research offers a conceptual ROI framework based on our best understanding of the 'ROI needs' of different types of public and private investors **(Exhibit 2)**. Using the concepts and measurement 'sites' of short-, medium- and long-term returns, we highlight that ROI methodologies could be finessed, but they remain valid and necessary.

In summary, this research offers an important update and knowledge base for people with a stake in Australia's arts, culture and creativity. We hope the research can also be used as a resource in future decisions and ongoing reform.

Exhibit 2. We recommend trialling our conceptual framework to assess and communicate the individual and cumulative effects of new investment models and partnerships.

MECHANISMS THAT SUPPORT CHANGE

- Multidecadal plan
- Partnership frameworks
- Cross portfolio approach
- Environmental scanning
- Cross-industry learning and collaboration
- International benchmarking
- Awareness of financial options

SHORT-TERM OUTPUT INVESTING: Operational activities and effects

Output examples
- Imprints of an experience
- Infrastructure;
- Non-traditional research outputs

Emerging models & partnerships
- Crisis support measures
- Individual income programs
- Demand-based crowdfunding
- Consumer rebate and voucher programs

Measurements of change
- Timely data on consumer behaviour
- Independent reviews of operational needs

MEDIUM-TERM OUTCOME INVESTING: Cumulative change resulting from outputs

Outcome examples
- Economic contributions
- Social benefits
- Increased productivity
- An enterprise or sector's growth
- Multi-jurisdictional policy drivers

Emerging models & partnerships
- Venture capital and private equity
- Tax incentives
- Employee share scheme

Measurements of change
- ROI and SROI calculations
- Satellite accounts estimates
- Business entries and exits

LONG-TERM IMPACT INVESTING: Cumulative outcomes achieved over time

Impact examples
- Sustainable development
- Locally-loved, nationally valued and globally influential creativity
- Inter-generational and lifelong participation

Emerging models & partnerships
- The investment of superannuation assets
- Community investment trusts
- Reinvestment of profits

Measurements of change
- Cultural participation and attendance surveys
- Three yearly state of culture reports
- Wellbeing frameworks

PAST INVESTMENTS & CULTURAL INHERITANCE ⟷ **FUTURE INVESTMENTS**

OPPORTUNITIES AND CHALLENGES

- Global competition
- Changing consumer behaviors
- Global fluctuations and volatility in financial and economic markets
- Unknown regulatory settings
- Structural changes within industries
- New and emerging technology
- Impacts of COVID-19 on employment

Summary of Findings*

Finding 1

Australian cultural and creative industries attracted $160 billion in 2020–21. In the comparison year, 2017–18, these industries attracted an estimated $141 billion, indicating 13% growth.

For context, not-for-profit organisations in these industries attracted $1.2 billion in 2019–20.

Finding 2

The vast majority of income in the cultural and creative industries is from sales and services. In 2020–21, these industries earned 87% of income from sales and services, and in 2017–18, they earned 92%. 'Computer system design and related services' earned the most sales and services income in these industries, whereas 'libraries and other services' earned the least.

For context, not-for-profit organisations in these industries earned 27% of their incomes from sales and services in 2019–20.

Finding 3

Australian consumers are significant contributors to financial inflows to arts, culture and creativity, with more than $45.6 billion in annual household expenditure being spent within the entertainment and recreation industry.

Non-residents – for example foreign markets and international travellers to Australia – are also contributors, with total exports at $1.7 billion in the 2021 calendar year for all creative goods.

Finding 4

Distinct from most other investing entities, governments typically invest in Australian arts, culture and creativity *without* the need for financial reimbursement.

In 2020–21, governments distributed an estimated $16.4 billion to the cultural and creative industries (including targeted and wider-economy COVID-19 expenditure). A total of $393 million of this was indirect, including a range of tax concessions (revenue forgone) and exemptions accessed by the film industry, not-for-profit organisations 'advancing culture' and individuals.

For 2017–18, governments invested $7.9 billion in these industries, including $362 million of indirect expenditure.

Finding 5

Other financial inflows include licence fees collected by copyright collecting societies ($849 million, 2021–22/$732 million, 2017–18) and philanthropic income ($282 million, 2021–22/$150 million, 2017–18). These estimates showed growth of 16% in copyright revenue and 88% in philanthropic support from 2017–18 to 2021–22.

Finding 6

Examples of financial inflows through other models include successful crowdfunding campaigns in Australian arts, culture and creativity; venture capital investment into Australian start-ups; and foreign media groups and financial groups in Australian media companies holding company interests.

Finding 7

Despite global interest, no single framework or methodology for returns on investments in the cultural and creative industries currently allows for consistent or systematic comparison, over time and across countries.

Finding 8

Investors aim to achieve returns over a range of different time frames. The language used to consider and describe these returns varies across the investment environment, from consideration of risks, costs and benefits; to business growth; to language grounded in social impacts, values and economic spillovers.

* All estimates in this section are adjusted for inflation up to the 2021–22 financial year. Percentages are presented as whole numbers for ease of reading, with rounding performed at the last stage of calculation for maximum accuracy.

Summary of Opportunities

Opportunity 1

To leverage new and existing finance opportunities for arts, culture and creativity, governments and industry stakeholders should

- Establish a clearer line of sight on the interdependencies and risks of the investment environment, for example, through environmental scanning
- Facilitate cross-industry learning and collaboration, such as through increased information, advice, coaching and mentoring schemes
- Draw on information about underused and emerging sources of finance held by financial brokers and investment specialists

Opportunity 2

In implementing the current National Cultural Policy, the federal government should assess the impacts and ongoing policy implications of artificial intelligence including those relating to

- Rights management through copyright collecting societies
- Overseas approaches to artificial intelligence's inputs (data and text)
- The role of 'human creativity as a major input' in definitions and measurements of cultural and creative activity

Opportunity 3

Governments and industries can use this research's estimates and descriptions of financial inflows to work through the practical implications of 'preserving' and 'strengthening' the financing of culture, which UNESCO and its membership have declared a global 'public good'.

Opportunity 4

At the next regulatory opportunity, or in developing the next National Cultural Policy, the federal government should weigh the evidence of the benefits of local content rules (e.g. economic spillovers) with the evidence of the benefits of foreign stakeholders' investment in Australia's arts, culture and creativity.

Regulators, businesses, and policymakers should together assess the impacts of these rules alongside the intersecting issues of:

- Global trade barriers
- International competition in sector-specific tax incentives
- Australia's requirements from foreign investors

Opportunity 5

To improve the measurement of returns on investment over time and across countries, researchers and policymakers should address known weaknesses in ROI methodologies and data sources, including in valuations of intellectual property and artistic merit and of '*non-use value*' in economic modelling.

Opportunity 6

To form new partnerships and to communicate individual and cumulative effects of investments, investors, industries and policymakers should trial the ROI conceptual framework outlined in this research. This includes using the framework's language of short-term outputs, medium-term outcomes and long-term impacts.

A New Approach (ANA)