The impact of the Cultural Recovery Fund on the Arts and Culture sector

A Cebr report for Arts Council England

October 2020

Disclaimer

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them.

The report does not necessarily reflect the views of Arts Council England.

London, October 2020

Contents

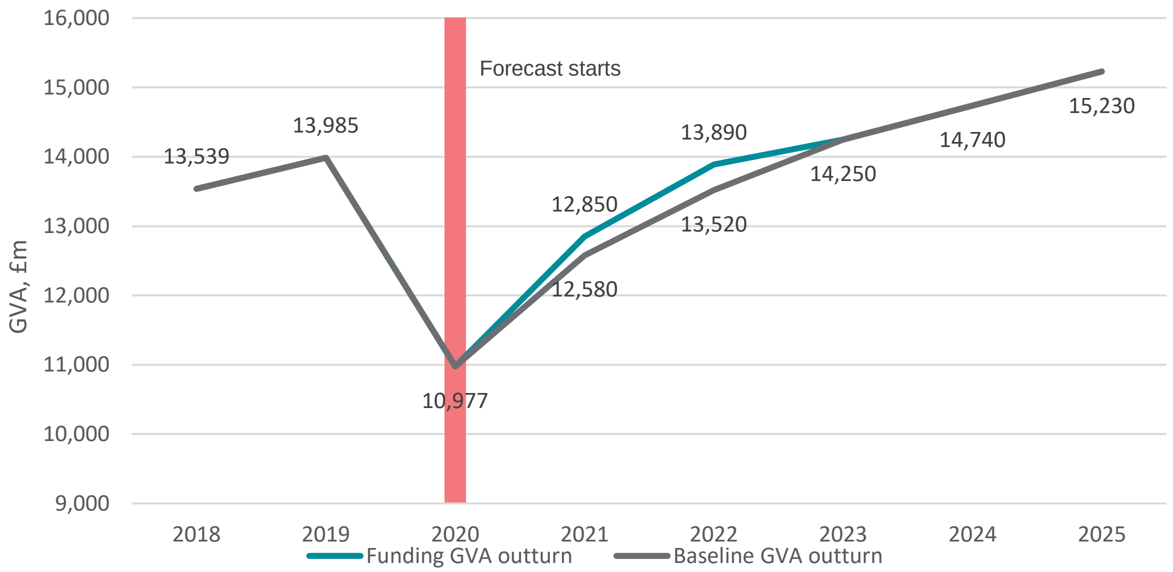
Executive Summary

- The Arts and Culture sector has faced a significant loss of Gross Value Added (GVA) since the outset of lockdown as a result of an overall decline of economic activity and a shortage of footfall into organisations.
- The arts, entertainment and recreation sector, as indicated by the Office for National Statistics (ONS) data releases, has been one of the hardest hit in the economy.
- The Department for Digital, Culture, Media and Sport has unveiled a £1.57 billion Culture Recovery Fund (CRF) intended for viable organisations to aid their sustainability during this economic crisis.
- Arts and Culture England (ACE) controls £825 million of this fund and is delivering the aid through three channels:
    - Recovery grants;
    - Repayable finance; and
    - A Cultural Kickstarter fund.
- **The analysis in this report focuses on the £825m overseen by Arts Council England** and its impact on the Arts and Culture sector, not the entire Culture Recovery Fund.
- The modelling undertaken is based on ONS data releases from earlier in 2020, together with results from an Arts Council England survey which were also collected earlier this year. Estimations are predominantly based on the latter and therefore assume a particular interpretation of anticipated sectoral recovery.
- Under the funding scenario, **GVA output in 2021 will reach £12,850m, recovering to pre-COVID-19 levels in 2022 with GVA of £13,890m[1].**
- By 2023 the two scenarios converge to a steady-state level whereby the sector is anticipated to return to its long-run steady-state growth of approximately 3.4% per annum, **achieving a GVA output of £15,230m in 2025**.
- As part of this report, Cebr has computed the 2020 impact on GVA in line with new ONS data releases and revised expectations surrounding the years' recovery. This is particularly important following the announcement of tightening of restrictions.
- **Under the revised 2020 estimates, the Arts and Culture sector is anticipated to see its GVA 23% lower than the counterfactual 2020** (a scenario of the sector where it follows linear growth since 2018 and no crisis occurs).
- The hardest hit subsector is music, performing and visual arts with an estimated GVA loss of £2,280m, equivalent to a fall of 26% relative to the counterfactual.

1 All GVA figures presented in this report are in nominal terms.

- This CRF will reduce the number of effective firms lost, such that when the crisis begins to wane, the sector is in a position to recover at a faster pace than a baseline scenario with no funding.
- The key assumption in this analysis is that the fund effectively supports approximately 30% of firms in the sector that would otherwise be at risk.
- It is possible to illustrate the scale of the cumulative net GVA impact by considering the total footprint that it supports in the wider economy. By applying the Arts and Culture sector multiplier of 2.17 – that is the total GVA supported for every £1 of GVA directly generated by the investment – it can be said that **the CRF ends up supporting an aggregate cumulative GVA impact of approximately £1,400m, when considering direct GVA impacts alongside indirect and induced layers over the course of 2021 and 2022.**

Figure A: Arts and Culture sector GVA forecast, 2018-2025 (nominal prices)



Source: ONS, Arts Council England Coronavirus Survey, Cebr's Macro-Model and Cebr analysis

1. Introduction

The Centre for Economics and Business Research (Cebr) is pleased to present this report to Arts Council England estimating the impact of the Cultural Relief Fund on the Arts and Culture sector. Notwithstanding the recent reimposition of some restrictions[2], the economy is still significantly more open than it was in March and April 2020. The re-opening of the economy has been accompanied by an increase in the footfall across businesses. All of this has meant that there has been a significant uptick in economic activity across the country over recent months. However, the Arts and Culture sector is still well below its pre-COVID-19 levels. Moreover, the recent recovery is also likely to slow down in light of the new restrictions brought into place on the 22nd September.

This report aims to estimate the positive impact the DCMS Cultural Recovery Fund will have on the Arts and Culture sector with respect to Gross Value Added (GVA). GVA is a measure of the value from production used in the national accounts and can be thought of as the value of output less the value of inputs used to produce that output.

For the purpose of this report, we employ Cebr's definition of the Arts and Culture sector, which is as follows below. For a detailed description, please see Cebr's report "Contribution of the arts and culture industry to the UK economy".

Table 1: Cebr definition of the Arts and Culture sector

DCMS Industry	DCMS Subindustry	SIC Code	Description
Creative Sector	Music, performing and visual arts	59.2	Sound recording and music publishing activities
		85.52	Cultural education
		90.01	Performing arts
		90.02	Support activities to performing arts
		90.03	Artistic creation
		90.04	Operation of arts facilities
	Museums, galleries and libraries	91.01	Library and archive activities
		91.02	Museum activities
Cultural Sector	Crafts	32.12	Manufacture of jewellery and related articles
	Photography	74.2	Photographic activities
N/A	Other	58.11	Book publishing

Source: Arts Council England, DCMS and Cebr analysis

An additional mapping stage was needed within the "COVID-19 impact on the Arts and Culture sector" report as it relied on a survey produced by Arts Council England. This survey did not cover the entire sector's SICs as detailed above and so survey averages were used in the cases where an appropriate match was not available. This survey was used as the base to estimate the impact of the lockdown on the sector. The mapping was done as follows:

2 BBC. (2020). 'Coronavirus: New Covid restrictions could last six months, says Boris Johnson',

Table 2: Mapping from ACE COVID-19 survey to SIC codes

ACE SIC codes	ACE survey categories
Manufacture of jewellery and related articles	Average of survey
Book publishing	Literature
Sound recording and music publishing activities	Music
Photographic activities	Average of survey
Cultural education	Average of survey
Performing arts	Theatre
Support activities to performing arts	Combined Arts
Artistic creation	Combined Arts
Operation of arts facilities	Average of survey
Library and archive activities	Library
Museum activities	Museum

Source: Arts Council England and Cebr analysis

1.1 The Culture Recovery Fund

In early July, the Department for Digital, Culture, Media and Sport (DCMS) announced the Culture Recovery Fund (CRF) - the Government's largest single investment into the cultural and heritage sector.[3] This is a £1.57 billion rescue package with the aim of safeguarding nationally significant cultural and heritage organisations that are at risk of closing by the end of the year or contribute to the recently announced levelling-up agenda. Organisations across the Arts and Culture sector are able to apply for bespoke funding to support the industry's recovery from the adverse economic impacts of the COVID-19 pandemic.

Arts Council England (ACE) is responsible for delivering the funding allocated to the cultural sector in England. In total, ACE controls £825m of the £1.57 billion, which is split into three separate vehicles: recovery grants, repayable finance, and the cultural capital kickstart fund. The budget and role of each fund is described below:

- Recovery Grants[4] – **£500m**.
    - Grants awarded to organisations that require funding in the range £50,000 to £3m that were profitable before the COVID-19 pandemic but are now at severe risk of failure.
- Repayable Finance[5] – **£270m**.
    - Loans for organisations that require funding over £3m.The terms of repayment include an initial repayment holiday of up to 4 years and a repayment term of up to 20 years at an interest rate of 2 percent per annum.
- Cultural Kickstart Fund[6] – **£55m**.

3 Arts Council England. (2020). 'Delivering the Government's Culture Recovery Fund.'

4 Arts Council England. (2020). 'Culture Recovery Fund: Grants.'

5 Arts Council England. (2020). 'Culture Recovery Fund: Repayable Finance.'

6 Arts Council England. (2020). 'Cultural Capital Kickstart Fund.'

- Supplementary capital for existing ACE grant holders who can demonstrate that a funding shortfall – due to COVID-19 related factors – will have a negative impact on the delivery of the originally intended benefits.

2. Background

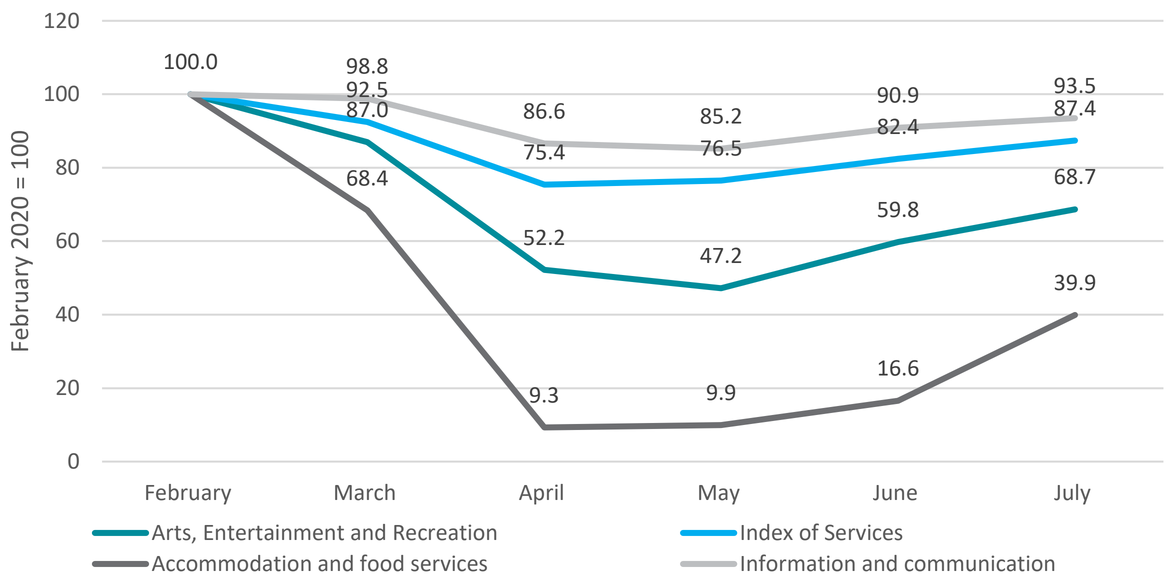
The aim of this section is to provide some background and context into the Arts and Culture sector, prior to and during lockdown. The Arts and Culture sector is of significant importance to the UK economy. In the "Contribution of the arts and culture industry to the UK economy" report, our analysis found that in 2018, the Arts and Culture sector directly generated £28,350m in turnover, £13,540m in GVA, 190,000 FTE jobs and £7,340m in employee compensation.

Further, the wider economic footprint of the Arts and Culture sector, incorporating supply-chain purchases and wider spending by employees, sees the aggregate impact of the arts and culture sector support £64,200m of turnover, £29,360m of GVA, 461,000 FTE jobs and £16,440m of employee compensation in the economy.

From governments, to businesses and households, the squeeze, as a result of the COVID-19 induced national lockdown procedure beginning 23rd March, has had a significant negative effect across the UK economy. The Arts and Culture sector is no exception. This industry has been severely affected by lockdown restrictions, with widescale cancellation of events, and temporary closure of venues.

Footfall is a key determinant of economic health in the Arts and Culture sector. Theatres, museums, production spaces and art galleries all require a steady stream of attendees to maintain adequate turnover and employment in the industry. Prior to the national lockdown, substantial government subsidies propped up the sector. Hence, the restricted movement of individuals places further pressure on state-backed initiatives to ensure the long-term viability and sustainability of the Arts and Culture sector in the UK.

Figure 1: Monthly output (GDP) index, February 2020 = 100



Source: Office for National Statistics and Cebr analysis

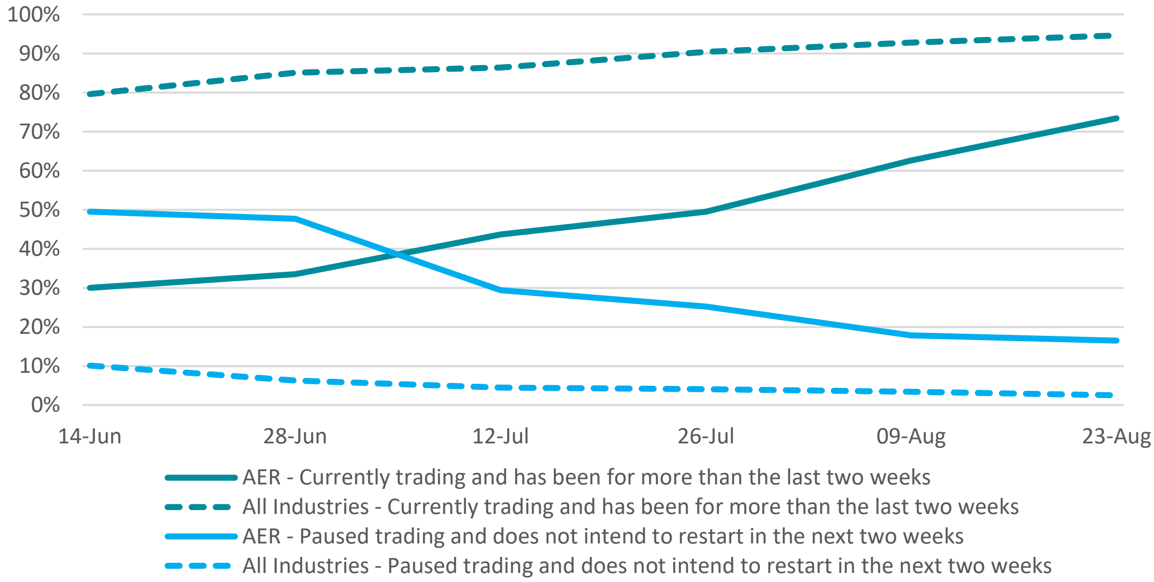
Figure 1 shows March through July output as an index, with February as the base. The hardest hit sector is accommodation and food services. April and May saw the sector outputting less than ten percent of pre-lockdown levels, with some degree of recovery up to nearly forty percent of February output by July as lockdown restrictions eased.

From the 3rd to 31st August, the Government rolled out the accommodation and food services sector-specific 'Eat Out to Help Out' scheme as part of the measures aimed to enhance economic recovery after the lockdown period. Other measures included the VAT cut, stamp duty holiday, and furlough scheme.

Arts, entertainment and recreation sits in the bottom four hardest hit sectors by GDP across the observation period.[7] The nature of the industry makes it more susceptible to lockdown than others partly due to a lack of ability to transform physical spaces, landmarks, and attractions into commodities that can enter the online marketplace. Analysis of the ONS Business Impact of COVID-19 Survey (BICS) compliments the output evidence that the arts, entertainment and recreation (AER) sector has been impacted relatively more severely than other sectors of the economy as a result of the nationwide lockdown. BICS is a voluntary fortnightly survey of businesses and aims to capture how a range of indicators such as turnover, international trade and resilience have been affected in the previous two weeks.

Figure 2 highlights the impact of COVID-19 on trading status. AER is significantly below the all industry average for "currently trading for more than the last two weeks", albeit closing the gap into the middle of August from fifty percentage points in June to twenty percentage points. This is mirrored by the percentage of businesses in AER that have "paused trading with no intention of restarting" far outstripping the UK average. However, as lockdown restrictions were eased through July and August the gap narrows. The largest drop in this category occurred June 28 (47.7%) to July 12 (29.4%) as a result of museums, libraries, cinemas, pubs and restaurants beginning to re-open on July 4.

Figure 2: Which of the following statements best describes your business's trading status?



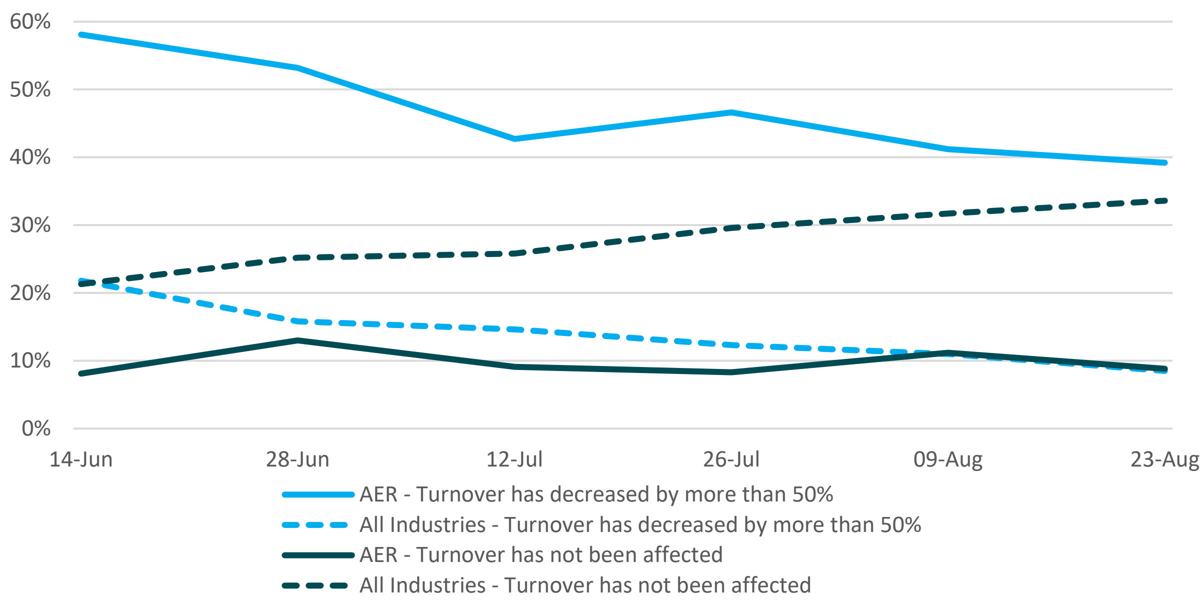
Source: Office for National Statistics and Cebr analysis

Figure 3 shows the impact of the COVID-19 lockdown on turnover relative to the same two-week period in 2019. The proportion of businesses that report a fifty percent decrease in

7 ONS. (2020). 'GDP monthly estimate, UK: July 2020.'

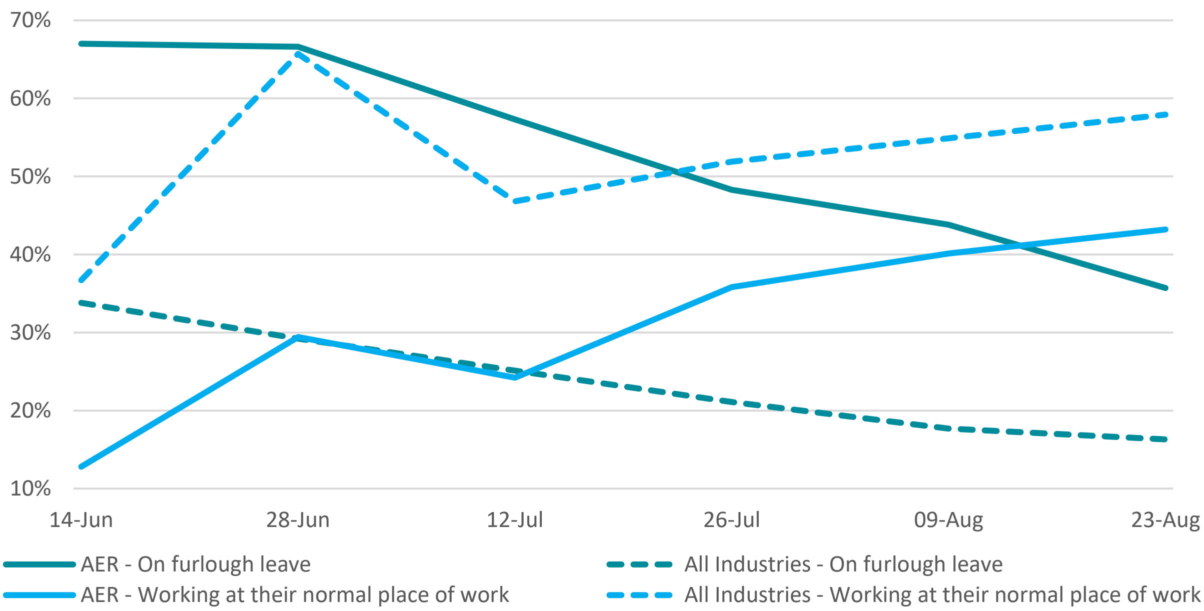
turnover in the AER sector is roughly thirty percentage points higher than the UK average across the period. Furthermore, while the UK average firms that report unaffected turnover improves to over thirty percent in mid-August from twenty percent in June, the proportion in the AER sector fluctuates around ten percent over the observation period. This suggests a weaker recovery for arts, entertainment and recreation relative to other sectors.

Figure 3: In the last two weeks, how has the COVID-19 pandemic affected your business's turnover, compared to what is normally expected for this time of year?



Source: Office for National Statistics and Cebr analysis

Figure 4: In the last two weeks, roughly what proportion of your enterprise's workforce was furloughed, off sick due to coronavirus or made redundant?



Source: Office for National Statistics and Cebr analysis

Figure 4 shows the impact on the workforce for surveyed businesses that have not permanently stopped trading. For the AER sector relative to the UK average, more workers are on furlough and less are working at their normal place of work across the observation period. However, both of these gaps are narrowing. For the two-week period ending June 14 compared to the period ending August 23, the difference between the percentage of workers “on furlough leave” and “working at their normal place of work” in the AER sector versus the UK average has shrunk by 41.6% and 38.5% respectively. This further supports the evidence suggesting that the AER sector is particularly susceptible to the adverse impacts of the national lockdown as the workforce positively responded to easing of lockdown conditions implemented at the beginning of July.

In summary, evaluating data from the ONS concerning sector output as well as BICS results, there is overwhelming evidence to suggest that arts, entertainment and recreation has been one of the most severely affected sectors due to the COVID-19 induced national lockdown.

3. Overview of methodology

This report draws significantly from ongoing Cebr work for ACE. The primary way in which the baseline has been constructed and updated is through Office for National Statistics (ONS) monthly GDP data releases.[8] Utilising this, impacts have been augmented with the ONS' indexed GDP growth of the Arts, Entertainment and Recreation sector, the Education sector, the Information and Communication sector and the Other Manufacturing sector.[9] As such, the estimation now uses both the survey results from an Art Council England's survey and data releases from the ONS.

Importantly, we have included assumptions and expectations surrounding the sector's recovery following the Government's announcement on the 22nd of September. This announcement stated that the UK would be tightening restrictions across the country for a period of up to six-months.[10]

One of our initial expectations in prior work was of 5% growth in quarter four of 2020. Given the uncertainty surrounding this lockdown and tightening, we do not think this is a reasonable assumption anymore and are effectively flatlining the baseline recovery within 2020 i.e. October, November and December's GVA is the same as September's. To model the impact on GVA as a result of the Cultural Relief Fund, we have taken an assumption driven approach given data limitations in combination with data received from Arts Council England.

The fund itself is not expected to have a material impact on GVA in 2020. The simple act of receiving funding does not create value or produce value added activities. Many firms will utilise this fund to outlast the worst of the crisis, with the intention of eventually reopening their doors to begin creating value once more. Hence, the fund will not lead to any material increase in direct GVA in the months it is issued, but rather in the subsequent years once they reopen and value added services are able to resume.

The fund's main impact comes in the form of the sector's recovery. This uplift in rate of recovery utilises internal data pertaining to the shares of grant and loan applications by subsectors and the total values applied for.

From the "Contribution of the arts and culture industry to the UK economy" report, the number of firms and the GVA per firm can be determined. Using the GVA per firm, we can estimate the number of firms in both 2019 and the 2020 outturn scenario, creating an estimate of effective equivalent lost firms due to the crisis.

This difference in the number of firms is what will drive the difference in recovery rates. Under the funding scenario, the number of lost firms is reduced, meaning in 2021 when the economy begins to recover and reopen following COVID-19, there will be a greater number of organisations (and active capital) to produce GVA than in the baseline with no funding, creating an uplift in recovery. It is important to note that, within a dynamic economy, resources will eventually get redeployed, so (within the modelled scenario) the GVA losses that occur in the no-funding scenario are not expected to be permanent as resources eventually get

[8] ONS. (2020). 'GDP monthly estimate, UK Statistical bulletins'.

[9] These are the closest aligned broad sectors released by the ONS to the SIC codes utilised in the Arts and Culture sector.

[10] BBC. (2020). 'Coronavirus: New Covid restrictions could last six months, says Boris Johnson',

redeployed after the firms are lost. This is however contingent on redeployment occurring within the sector itself.

Importantly, this work is intimately linked to a number of assumptions. In the first instance we assume that 50% of firms at risk of going out of business throughout the course of 2020 have actually gone out business will not be supported by this fund due to its timing; seven months will have passed since March. Likewise, of the remaining 50% of firms that may be supported by the fund, we assume that 20% would be able to weather the crisis without aid. This leaves approximately 30% of firms which would require support from the fund.

As a check of the above assumption, an alternative approach is to consider the rate at which firms may have gone out of business during the COVID-19 period. If firms went out of business at an average rate throughout the 2020 COVID-19 period (in the 10-months between March and December 2020), 30% of firms would be left in business by the time the fund is issued in October 2020.

On this basis, we are assuming that approximately 30% of firms - which would have otherwise been lost - will be aided and supported by the fund.[11] This assumption is complicated by the fact that existing support schemes would have increased the survivability of firms throughout most of 2020. So, the actual number of firms lost or at risk may be significantly lower than our approach suggests. This is however partially offset by the fact that the end of the furlough scheme may result in some firms disappearing suddenly in the final quarter of 2020 without further support, so the ability of the CFR to attenuate these impacts may be very significant. We expect these factors to partially offset each other, but obviously the limitations of our assumption based approach are apparent and need to be borne in mind.

A second augmentation is performed, weighting the sectors by the total funds they receive. This ensures that sectors which receive more grants are upweighted and have a greater share of firms supported.

11 The assumption of 30% has been estimated using Cebr analysis. Data from the CRF was not used in the estimation, however once data from the CRF becomes available, there may be an opportunity to update this analysis.

4. Impact on GVA

For the purpose of this analysis, we are focusing on the £825m portion of the CRF overseen by Arts Council England and its subsequent impact on the Arts and Culture sector. Thus, this analysis does not cover the full impact of the Culture Recovery Fund.

4.1 Impact in 2020

Table 3, below, compares the outturn 2020 under COVID-19 and its subsequent economic crisis against a projected 2020 Arts and Culture sector. This projection follows linear growth since 2018 and is a scenario where this growth continued uninterrupted by economic turmoil. Given this, these declines are not realised losses, rather they help to illustrate the severity of the crisis in 2020.

GVA for the sector under COVID-19 is estimated to experience a decline of 23% relative to the hypothetical projected 2020 scenario, equivalent to a fall of £3,304m.

Table 3: Baseline COVID-19 impact on GVA in the Arts and Culture sector

	Projected 2020 GVA under no COVID-19, £m	Actual GVA in 2020, £m	Decline under COVID-19, £m	Decline under COVID-19, %
Music, performing and visual arts	8,835	6,555	2,280	-25.8%
Museums, galleries and libraries	1,473	1,086	387	-26.3%
Crafts	313	287	26	-8.4%
Photography	885	697	188	-21.2%
Other	2,774	2,351	423	-15.2%
Arts and Culture Sector	14,281	10,977	3,304	-23.1%

Source: ONS, Arts Council England Coronavirus Survey and Cebr analysis

The loss in GVA is not evenly distributed throughout the sector. The music, performing and visual arts subsector faces the greatest absolute loss of £2,280m (69% of the total sector).

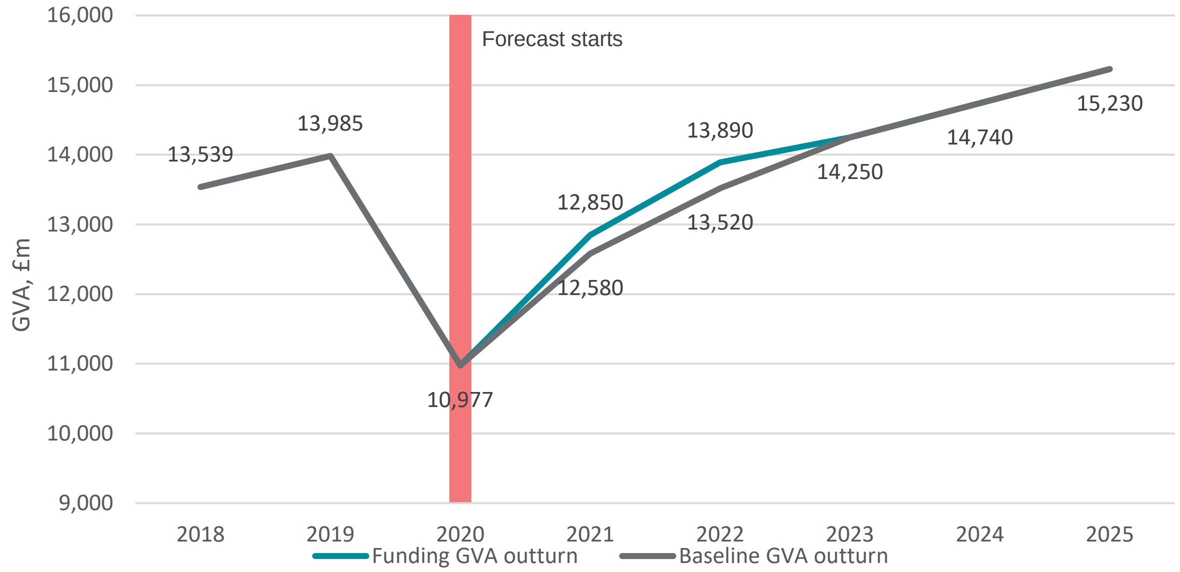
As a point of comparison, the sector's GVA in 2018 was £13.5 billion; £2.6 billion greater than the estimated 2020 outturn. Thus, despite a linear growth forecast for 2019, 2020 outturn falls to below 2015 levels, highlighting the severity of the economic crisis.

4.2 Longer term recovery

The Culture Recovery Fund is anticipated to have a more significant impact over the following years, rather than in 2020 itself. As detailed in the methodology, the primary aim of the fund is to sustain the viability of businesses that were not in financial difficulty prior to the pandemic, and to provide an opportunity for those firms to resume business in 2021 onwards.

The funds received therefore translate into a proportion of firms supported in 2020 that can begin value added activities in 2021, as that capital is available to produce economic value-added activities. In light of the crisis and the fact these firms needed support, it is reasonable to assume that their output in 2021 would not immediately bounce back to 100% of that prior to the crisis. Given this, we have assumed an adjustment window, allowing for output to gradually recover to pre-COVID levels over a two-year period. Among other things, this is also allowing for the implementation of restrictions such as social distancing which are likely to remain in place for some time and will thus prevent the immediate realisation of pre-COVID levels of output.[12] One should however also be mindful that the non-intervention scenario itself will also see the lost firms effectively replaced by 2023, assuming long term redeployment in the economy. This two-year re-deployment process is another important assumption made within the research.

Figure 5: Arts and Culture sector GVA forecast, 2018-2025 (nominal prices)



Source: ONS, Arts Council England Coronavirus Survey, Cebr's Macro-Model and Cebr analysis

The results of this are graphically presented in Figure 5 above. The gap between the two curves is the cumulative net GVA gain caused by the faster growth in the funding scenario.

Although in terms of direct GVA there is an estimated cumulative net gain of £640m by the end of 2022, this figure does not capture all of the benefits that the fund may generate. By applying the Arts and Culture sector multiplier of 2.17 – that is the total GVA supported for every £1 of GVA directly generated by the investment – it can be said that the CRF ends up supporting an aggregate cumulative GVA impact of approximately £1,400m, when considering direct GVA impacts alongside indirect and induced layers over the course of 2021 and 2022.

Furthermore, one may also consider other transmission channels, such as the skills inventory and productivity saved by not having firm employees out of the labour market for significantly longer periods of time, which would otherwise dent their ability to produce value when they are eventually re-employed.

By 2021, as a result of the funding, total sectoral GVA amounts to £12,850m – £270m greater than the baseline of £12,570m (in nominal terms). By 2022, under the funding scenario, the sector grows significantly to £13,890m - £370m greater than the baseline scenario of £13,520, in which there is no funding.

[12] Given the fluidity of the current situation and the fact that a second national lockdown has not been ruled out, the assumption surrounding firm capability to restart in 2021 may change. Should this occur, we would expect the impact of the funding relative to the baseline scenario to be delayed.

Given the funding effectively accelerates the recovery, the rate of growth from 2022 onwards in the funding scenario slows such that the baseline and funding scenarios converge to the sector's steady-state level. From here, the sector is anticipated to follow its long-run growth rate of approximately 3.4% per annum.[13] Under this growth, the sector is forecast to reach a GVA output of £14,740m in 2024 and £15,230m by 2025.

[13] This is a nominal rate of long-run growth.

Cebr