



department for
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Non-technical summary: A framework for evaluating cultural policy investment

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NON-TECHNICAL SUMMARY

Public investment plays a substantial role in the cultural economy. Cultural programmes represent 40% of DCMS' total expenditure and accounted for approximately £1.4 million in 2005-06. Against this background, it is vital to have a clear understanding of the reasons for public intervention and the benefits that are associated with that intervention.

Frontier was asked to consider these issues explicitly. The core part of Frontier's work, therefore, has been to develop an evidence based framework that allows one to understand:

- The different types of public intervention;
- The rationale for those different types of intervention; and
- The potential benefits that can arise from intervention.

This paper sits alongside the technical report produced for DCMS, and is intended to provide a brief non-technical overview of the findings of the work.

WHAT IS CULTURAL INVESTMENT?

Cultural investment covers a large number of DCMS policies supporting culture in the UK. These range from direct financial assistance (supporting regularly funded organisations via the Arts Council) to providing specialist advice and support (via CAFE or Culture Online) to developing regulatory frameworks (requirements for listing buildings).

It is important to understand the different types of cultural investments that exist. This is because the reasons for different types of public investment can be very different, as can the benefits that arise from such investments.

Our analysis identified seven distinct types of investment. These are summarised below.

- **Education:** Investment in cultural education covers a variety of activities. It can mean teaching history or art in a classroom environment; an introduction to new creative activities such as acting or sculpture; or visits to museums or stately homes. Cultural education programmes also include all members of society, not just schoolchildren.
- **Consumption:** Consumption is a core element of DCMS activity and encompasses a significant proportion of spending. For example, much Arts Council funding goes to providing the public with subsidised performances while DCMS also funds free admission for the general public to a range of museums and galleries.
- **Research:** Research covers investment in deepening our understanding of existing cultural forms and encouraging the development of new ones. The

former includes investigations into the history of English Heritage sites, specialist examinations of objects in museum collections, or researchers making use of archives. The latter includes activities like commissioning new music, commissioning new plays and encouraging innovative architectural design.

- **Architecture and renovation:** DCMS funds a range of capital projects every year. Often, the projects involve constructing new facilities or renovating existing buildings. Recent projects include the redevelopment of the South Bank Centre and the Space for Sport and Arts programme.
- **Regeneration and strengthening communities:** Many regeneration projects include important cultural elements. In Birmingham (Symphony Hall) and Gateshead (the BALTIC Centre), the cultural input was in the form of a flagship building. In other cases, the cultural input has been more diffuse, for instance harnessing traditional crafts and skills to attract employment and tourism to rural areas which have lost previously established industries. There are other cultural projects that promote closer community links and development even where large scale regeneration is not required. For instance, Renaissance in the Regions, the Government's main strategy for museums in the UK, aims to promote access and contribute to economic regeneration in the regions.
- **Building networks:** Many cultural organisations are relatively small. Of the 2,500 museums in the UK for example, two-thirds attract fewer than 20,000 visitors. It can therefore be difficult to develop links between cultural organisations, or links between cultural organisations and wider society, even where they would be mutually beneficial. DCMS policies aim to facilitate links either by providing a central point of contact or by providing information to organisations. For instance, the Cultural Connections website aims to help share best practice between local government bodies and to provide useful case studies, legislation and policy documents.
- **Clusters:** Agglomeration effects are factors that encourage similar organisations to locate near each other. Creative industries often form clusters, such as the Jewellery Quarter in Birmingham or the theatres in the West End. Agglomeration effects are good for growing regions as the presence of creative firms can start a "virtuous circle" attracting more firms, skilled labour and investment. However, to generate substantial agglomeration effects may require a "critical mass" of firms. There are a range of government policies that attempt to encourage positive agglomeration effects or clusters. Tax relief for film making or BBC regional spend, for example, may spur the growth of national or regional clusters.

WHY IS PUBLIC INTERVENTION NEEDED?

The next question to ask is why is public investment required? From an economic perspective, the rationale put forward is that the government intervenes to correct a market failure. That means that, if left to its own devices, the market would produce too little (or too much) of a good or service.

When that happens, it may be possible for the government to intervene to correct the market failure – for example, by spending money, by coordinating activities or by regulating what people or businesses are allowed to do.

There can be different ways in which a market may fail to deliver the right level of production or consumption. From the perspective of public intervention in culture, therefore, we need to ask for each of the different types of investment whether there is a market failure that might require intervention to correct.

The Table below identifies the potential market failures that we have identified with respect to each of the different types of investment. It is important to note that this classification is based on economic theory, and further work will need to be undertaken to develop evidence to substantiate whether such failures exist in reality. The rationales set out in red are those for which there is a relatively strong theoretical and empirical rationale. Those set out in blue are ones for which the economic case is less strong, and would need more work to develop.

	Education	Consumption	Research	Architecture and renovation	Regeneration	Network building	Clusters
Externalities	●	●					●
Lack of information	●	●		●		●	
Quality of choice	●	●	●				
Coordination failure		●			●		●
Public good			●		●		
Transaction costs						●	

Table 1: Market failure rationales associated with each type of investment

A generic summary of the different types of market failure is provided below. The technical report describes in detail the way each of the market failures may arise in relation to the relevant investment type.

- **Externalities:** in general, when somebody decides to make or buy something the only people affected are the buyer and the seller. In some cases, however, other people are affected. For example, a festival may attract visitors who then spend money in local hotels and shops. If festival organisers do not own the hotels and shops, they may not take the extra profits relating to the festival into account when considering whether or not to organise the festival. Some festivals that would benefit the whole community may therefore not take place.
- **Public goods:** some goods, like parks or monuments, can be enjoyed by one person without affecting the amount available for others. It is also difficult to prevent people visiting parks and monuments. This means it would be hard for private operators to charge users and cover their costs – and so private operators will be unlikely to provide such goods or they provide them at a level which is below what is desired.
- **Lack of information:** without full information, it is hard to make good decisions. For example, people may not know which theatre production they would enjoy most and subsequently banks may not know how likely producers of theatre productions are to be successful. In that case, people may not visit the theatre even though it is worth the ticket price and banks may not lend money even to good credit risks.
- **Network transaction costs:** small organisations, like museums and schools, or actors and theatres, may benefit from closer links. These links take time and effort to develop and are therefore costly. Individual organisations may not know where best to target their resources. There may then be a role for private or public institutions, like actor's agents or the Creative Partnerships programme who know all the parties well and can help choose appropriate partners.
- **Coordination failures:** some situations require many people to act together for anyone to benefit. For instance, many organisations opening together may regenerate an area but each one acting alone would fail. In that case, each business or group considering moving to an area may wait for others to take the risk of moving first. If all do so, regeneration will never occur.
- **Quality of choice:** A key theme in the literature is that many individuals do not appreciate the true value of culture, or are unable to identify the quality of some cultural objects or activities. Instead, professional judgement is required. This would not necessarily be recognised as a market failure by most economists. Most economic theory is based on the idea of consumer sovereignty which assumes individuals are the best judge of their own interests and normally takes individuals' tastes and preferences as given.

WHAT ARE THE KEY BENEFITS ASSOCIATED WITH INVESTMENT?

The last question the framework needs to address is what are the benefits associated with each type of market failure. When measuring benefits, it is vital to:

- Link the benefits of the intervention to the market failure the intervention is trying to correct. For example, if the benefits relate to a regeneration project, the first step in identifying benefits is to show how the policy helped to overcome the coordination failures that prevented the market from regenerating the area on its own;
- Take account of what would have happened in the absence of the intervention – to be credible, the evaluation needs to count only benefits that have arisen because of the intervention. For example, if an area was already improving prior to a regeneration investment, one could not count all the improvements as being down to the public investment.

The Table below shows that the different types of investment are associated with a wide range of anticipated benefits. While some of these are classical economic benefits (for example, new businesses) many are benefits that have not traditionally been considered to be economic in the literature – for example, benefits around education and skills development or developing new products. The accompanying technical report sets out a detailed description of each type of benefit.

Type of investment	Type of benefit
Education	Improved exam results Improved soft skills Larger supply of creative skills
Consumption	Higher take up of culture activities Increased number of repeat users
Research	Enhanced knowledge base New products Input into education
Architecture and renovation	Key input into other activities Projects not undertaken otherwise
Regeneration	New businesses Employment Higher skilled workers Graduate retention Tourism
Network building	Key input into other activities Reduced costs Better information flows
Clusters	New businesses Skills training Graduate retention Employment

Table 2: Market failure rationales associated with each type of investment

Our review of the literature suggests that the current evidence base is not cohesive. A large amount of work has been undertaken, but it has been done by different organisations and researchers. The lack of a unifying framework, and a common language and approach to measurement therefore means that there is no coherent narrative on the value of public investment.

A FRAMEWORK FOR EVALUATION

The previous sections have outlined the key elements of the framework we have developed to evaluate the economic impact of public investment in culture. Drawing these elements together (see Figure 1 below) can provide a practical

framework that will allow DCMS to make better decisions about resource allocation between policy interventions, and understand more about what is important and what is less important.

However, the framework is not a mechanistic or quantitative tool that simply churns out a set of numbers so that a policymaker can objectively assess each policy intervention and rank them in order of importance. Cultural investment, like other areas of policy (e.g. health and education), cannot be treated in that way and it would not be appropriate to do so.

An appreciation of how best to use the framework requires an understanding that incommensurables and uncertainties are pervasive in cultural investment. The framework will help policymakers to think more clearly and logically about the choices they face and will provide them with more relevant and improved information on which to base decisions.

Policy	Name of Policy						
Step 1: PSA/strategic objectives	Strategic objectives						
Step 2: Economic Characteristic	Education	Consumption	Research	Architecture & Renovation	Regeneration	Network Building	Clusters
Step 3: Rationale for intervention	Externalities Lack of information Quality of choice	Lack of information Externalities Coordination failure Quality of choice	Public good Quality of choice	Lack of information	Coordination failure Public good	Transaction costs Lack of information	Externalities Coordination failure
Step 4: Potential benefits from intervention	Improved exam results Improved 'soft skills' Larger supply of creative skill	Higher take up of cultural activities Increased number of repeat users	Enhanced knowledge base New products Input into education	Key input for other activities Projects not otherwise undertaken	New businesses Employment Higher skilled workers Graduate retention Tourism	Key input into other activities Reduced costs Better information flows	New businesses Skills training Graduate retention Employment

Figure 1: Framework for evaluating the impact of culture policies

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