The Interdependence of Public and Private Finance in British Theatre

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Cover image
Harold Oakley’s drawing of the Theatre Royal Drury Lane, published in the Illustrated London News, December 31st 1910. Its caption begins:

Few of those who visit Drury Lane Theatre, whether it be for drama or, as at the present season, for pantomime, realise what a hive of industry and ingenuity such a place is, the enormous number of details that have to be considered, the great organising powers that are called into play. Few imagine, further, that behind the curtain there is at least as much space as there is before it, and that though that space is obviously large, every corner of it is a scene of much work ...

The image is part of the George Hoare Theatre Collection at Theatre Royal Drury Lane, and was kindly made available by The Really Useful Theatres group.
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Introduction

THE RESEARCH QUESTION

Theatre in Britain operates in a market economy with finance from both private and public sectors. Since 1945, and the founding of the Arts Council of Great Britain, increasing amounts of state support have been provided for activities judged to provide universal public benefits. Yet these were, for many centuries, considered beyond the remit and purpose of government, and thus reliant almost entirely on private finance. As Britain's economic foundations remain firmly liberal, that public finance has been integrated into long-standing market mechanisms such that public and private finance have become symbiotically interconnected across the activities that define the industry. This research examines these interconnections while defining the passage of finance between the sectors and noting some of the intentions, motivations and implicit values that lie behind the decisions of those operating in each. This is not a question of comparative artistic value or any judgement of quality, although many will be tempted to read both into the research outcomes; rather it is a description of how public and private finance are now employed in the creation and presentation of theatre in Britain.

Five primary questions are addressed:

1. In what ways, for what reasons, and in what circumstances are private and public finance jointly employed in the creation, production and presentation of the theatre in Britain?

2. What are the comparative proportions of public and private finance employed?

3. Have the rationales for public and private finance become interdependent, with each reliant on the other for achieving their separate aims?

4. In what ways are decisions in the creation-to-presentation-to-distribution chain of theatre productions affected by sources of finance?

5. How might the advantages of different funding sources be more widely exploited while attenuating any disadvantages?

It is important to be aware of what the research seeks to address and, thereby, what aspects of the theatre world are not of principle concern. In the briefest of summaries, it would be fair to say that the main objectives are to describe the flow of money, its sources, and the rationales of decisions taken for its use. Given the limitless variation of individual intentions, the research focuses on principles and aggregated data rather than the details of specific transactions or fine variations of standard operational models.
The approach throughout this research has been to observe and listen; to see how things are, how the theatre world actually operates. Unavoidably, the report will contain occasional bias; the interview process itself as well as the selection of arguments for inclusion makes this inevitable, but it is hoped they are only in favour of past research omissions and a desire not to dwell on well-argued positions. The subject matter is far greater than can be covered in one report and it makes no claim to be exhaustive or definitive.

Thanks is given to all the interviewees and the many companies, public bodies and individuals who have contributed generously to this report with information, opinion, and explanation.

THE LAYOUT OF THE REPORT

The report has five chapters. This introduction, section 1, explains the research questions and the methods used to find answers. It then addresses aspects of the relevant literature, and concludes with definitions of some of the key terms used in the report. Rather more space is taken with these terms than may be typical in reports of this kind, but a good deal of current theatre terminology has embedded meanings that carry their own assumptions. The lexicon of the theatre industry borrows substantially from the fields of economics and business as much as from the arts, using words inventively but often inconsistently. Drawn as much by expressive intentions as by the perceived needs of political argument, the meanings of some words have inevitably shifted from their origins.

The central sections of the report, sections 2, 3 and 4, contain the research findings. Section 2 sets out the historical context in which the findings should be read. The report’s intention is not to write a manual of modern theatre operations nor their history but to explain arguments that concern the public/private divide, some of which, despite their importance, are too infrequently heard. Section 3 addresses the difficult issue of quantitative data, or rather the lack of it. Defining the comparative financial contributions of the public and private sectors to the theatre industry was originally an aim of the research. In the event, the absence of data has compromised that ambition. Estimations have, though, been produced by extrapolation from what is known or can be reasonably assessed. The largest part of the research, if expressed in time, has been taken up with interviews with people prominent in the production or presentation of theatrical works. The results of these interviews can be found in section 4. The report’s conclusions and a discussion of the research findings are then argued in section 5.
LITERATURE

There is no literature that directly addresses the subject of this research, although aspects of it can be found within a wide range of reports, books, journal articles and government statements. Works on the history of theatre itself could fill many libraries, but most are largely concerned with texts, performance or architecture; very few provide analysis of theatre as a business. But there are notable exceptions. Melissa Aaron's study of the late Elizabethan period to the Restoration under Charles II is formed around the changing fortunes of Shakespeare's theatre companies - “The Chamberlain's Men”, later renamed “The King's Men” under James I. An insightful account of theatre business in provincial England in the period following Aaron's study is provided by Sybil Rosenfeld. Her account of “Strolling Players” under the Restoration and 1775 provides sufficient financial and contractual detail to be able to follow the threads of change and development that are still recognisable in modern theatre practices. Jane Moody's richly researched monograph of Illegitimate Theatre in London 1770 - 1840 then carries this progression well into Victorian England and the growing arguments for selective state assistance, while more detailed economic and business analysis is contained in Tracy Davis's Economics of the British Stage 1800 - 1914. Janet Minihan's monograph The nationalization of culture provides a rare account of growing public sector interest in art and entertainment through the Victorian era. The progression of these events can also be seen clearly in John Earl's short history of British Theatres and Music Halls. In relating the development of performance spaces and their architects up to the present day, Earl also shows the history and dominance of private finance right across theatre business. His introduction makes the point succinctly: “Theatres in Britain have ... never enjoyed royal, noble, or even municipal patronage. Until relatively recent times, all of our theatres have been built as unsubsidised commercial ventures.” In one form or another, this is a substantial theme throughout this report.

All these books are well referenced, giving the extensive sources on which their accounts are founded. In that vein, Mander and Mitchenson's Lost Theatres of London, is invaluable for making sense of the shifting locales of theatres, their architecture, capacities, management, and performance histories. Two of John Pick's titles, The Theatre Industry and The West End, give statistical material in support of his strongly-expressed views. These are clearly intended to counter what he argues to be self-supporting myths that have grown up around the application of subsidy in theatre. On the operating models of theatre production and management, Julius Green and James Seabright have both written informative introductions, while Robert

1 Melissa D Aaron, Global Economics: A History of the Theater Business, the Chamberlain's/King's Men, and Their Plays, 1599-1642 (Newark, USA: University of Delaware Press, 2005).
2 Sybil Rosenfeld, Strolling Players & Drama in the Provinces 1660-1765 (Cambridge: Cambridge University Press, 1939).
6 John Earl, British Theatres and Music Halls (Princes Risborough: Shire Publications, 2005), p4
9 ———, The West End: Management and Snobbery (Eastbourne: John Offord, 1983).
10 Julius Green, How to Produce a West End Show (London: Oberon Books, 2012).
Cogo-Fawcett’s short work on the *Relationships between Subsidised and Commercial Theatre* is directed towards some of the issues addressed in this report. In addition to these sources (and the valuable links given to their primary sources), government debates and reports have been sourced through Hansard (while always conscious of its own methodological development over the period), Parliamentary Papers, Select Committee reports, and the annual Appropriation Accounts published between 1861 and 2002.

While the exact subject of this research appears not to have been previously addressed, there are a few reports that have been useful. Some, like the 2014 Arts Council England (ACE) Evidence Review *The Value of Arts* serves also to confirm the omissions, but others do contain directly relevant data. Of these, the CEBR 2013 report on *The Contribution of Arts and Culture to the National Economy* provides an important set of arguments drawn from the available data. It uses the government’s Standard Industry Classifications ("SIC") to estimate the financial size of arts activities. But the CEBR also acknowledge that the SICs are an inadequate source of data - something discussed in more detail in Section 3. By its title, the series of Arts & Business reports on *Private Investment in Culture Survey* should offer useful information, but their sources are not cited, and the lack of any differentiation between public and private finances, along with undefined terms (most importantly “investment”, “giving”, “sponsorship” and “culture”) greatly limit their usefulness.

There are several reports on the finances of West End theatre. Alistair Smith’s *London Theatre Report* is the most recent but both the Theatre Managers Association (TMA) and Society Of London Theatres (SOLT) issue reports regularly, some of which are public and others confidential to members. By making these available, UK Theatre have been of considerable help to this research. Researchers and others at Arts Council England, Arts Council of Wales/Cyngor Celfddydau Cymru, Creative Scotland, and the Arts Council of Northern Ireland have been similarly helpful in providing their data in particularly useful forms.

Finally, a number of those interviewed kindly supplied financial data on their own work. Most is not in the public domain so has been aggregated or anonymised in this report.

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RESEARCH METHODS

The “theatre industry”, a phrase now widely used, is not the singular entity the term suggests. There is no single operating paradigm, just as there is no single system within which manifold paradigms are constructed, but an undefinable range of operating constitutions, from individuals to large international companies, each of which encompasses a wide range of individual skills. Furthermore, the spectrum of productions types that appear regularly in British theatres would challenge even the most assiduous taxonomist, stretching as it does from the crudest entertainments to the most sophisticated stage works. And all takes place in a vast array of spaces—from great opera houses to old public toilets (just compare, for example, The Royal Opera House with Malvern’s Theatre of Small Convenience), and from parks and streets to otherwise unused buildings. The problem this presents to the researcher is not surprising; theatre is an “industry” formed from the work of autonomous artists, where imagination, resistance to norms, innovation and invention are prerequisites. To do as others have done before is anathema. The challenge for the researcher is to construct a research plan that draws insights from commonalities, avoiding what might otherwise be a long explanation of operational variations. A corollary of this approach is the impossibility of including all but a few of these within the research. Instead, comparing any characteristics associated with sources of finance requires focus on those practices that are most prevalent and that have most structural and economic significance.

The underlying research method involves process-tracing; viz. following finance and the decisions that relate to its application though the life cycle of theatre productions. This is described below diagrammatically. The processes are grouped into three categories: (i) those concerned with creation and production, (ii) those with presentation and (iii) the distribution of financial outcomes, whether profit (financial surplus) or loss. Sources of finance are shown as being either public or private. Notably, either private or public finance can be brought into play at any point as that is, indeed, what happens in practice. Similarly, finance can be distributed to either or both the private or public sectors then re-applied to production or presentation, or distributed out of the cycle altogether.

The Flow of Finance in the Creation-to-Distribution Chain

To add a little detail to this model, it may help to say a few words about each phase. The
starting point, Creation and Production, were found in the research to be operationally and financially so closely linked that they were often inseparable in practice even while capable of analytical differentiation. As separation would have made no significance difference to the research conclusions they have been treated as a single process.

While the creation/production phase is distinctive for its dependence on personal choice and individual aesthetic judgement, the subsequent presentation phase is more managerially and operationally rationalised. In most cases, the financial value of theatre works can only be realised at the point of performance (an exception being when rights are sold prior to performance but, even then, value is predicated on an eventual performance). The performance phase is also the interface of the two processes, and thus brings together, sometimes in conflict, two quite different decision-making paradigms. Post-performance, value in the form of cash or copyright, is then distributed according to contracts between producers, rights-holders and venues. Each may then further distribute funds according to their choice or the contractual arrangements in force.

Research into the processes encapsulated within each of these phases was undertaken using three different methods:

1. **History and context**

Research here has been largely dependent on existing literature. It describes the historical context from which modern theatre practices have developed. Even after half a millennium, it is striking how recognisable and consistent they remain. It is hoped that understanding traditions and their theoretical underpinnings will bring greater clarity to explanations of current practices.

2. **Quantitative data**

In part, the relations between public and private finance are bound to be considered by comparative financial quanta. Unfortunately there are few data sources to help in this task. Public sector sources can be summarised as Central Government (DCMS and Treasury), the government-funded arts councils of England, Scotland, Wales and Northern Ireland, and local governments. Data from all these sources are publically available but there are inconsistencies in the way they are recorded, and rarely are theatre data recorded as a distinct category.

While any calculation of public finance in the theatre industry results in approximations, finding data on the private sector is all but impossible. The DTI categorises industry data in Standard Industry Classifications (SICs). Some of these do apply to theatre but they contain both inclusions and exclusions that together make their figures all but unusable. To attenuate this difficulty, the SIC data have been complemented and compared with computations of ticket sales based on known theatre capacities, ticket yields, average attendances and numbers of performances, to which estimations on the scale of production finance have then been added.
Data on performances are kept by the TMA and, for the major theatres within London, by SOLT. Both these bodies have recently come together under the umbrella title of UK Theatre. However, not all theatres are members of the TMA or SOLT, making further adjustments necessary using directories of performance venues. There are no published data at all on private theatre production finance.

3. Interviews

A total of 35 semi-structured interviews were undertaken with producers, artistic directors and senior managers with experience of a range of operational scales and models. The list is given in Appendix 2 although, in several cases, separate interviews were undertaken with different people within the same organisation (hence there are 35 recorded interviews while 31 are listed). Few individuals are identified. In part, this is because the individuals interviewed represented their company or organisation as well as speaking for themselves, and in part to meet the terms of the interview agreements signed by each interviewee. To encourage open discussion, these agreements ensure confidentiality unless permission is granted for specific uses.

There has been no attempt to represent all the different theatre genres in the interviews; the focus has been on the range of financial arrangements currently operating across the theatre industry.

Each interview lasted on average approximately 90 minutes (the shortest being 63 minutes and the longest 146 minutes), and all were recorded for later analysis. Additionally, numerous unstructured and often casual conversations with people across the theatre industry took place over the whole period of the research (16 months), and are complemented by the author’s existing knowledge. Those conversations were not recorded.

As said, the interviews were semi-structured, meaning they were guided by an interview plan formed around specific areas for exploration. The wide range of theatre genres, differing individual experiences, varieties of funding sources, and differences in how motivations were expressed may have tempted the interviews more towards exploration were it not for pre-determined structural plan. That ensured each interview remained focused on the same subjects and questions, even while responding to the particular ideas, experiences and interests of the interviewee. Formed around the 3-phase structure (illustrated above), the areas for exploration are listed in the interview plan included as Appendix 1.
KEY WORDS (discussion and definitions)

It was noticeable during the interviews that some important words were used connotatively according to context or with an implied meaning indicative of a particular viewpoint. In most cases meanings were clarified during the conversations but that still leaves the possibility, if not the likelihood, that their use in this report might be misinterpreted unless defined. Several are qualified in the course of the text but the meaning of a few that are central to the report’s purposes are discussed and defined in this section. In alphabetical order, the following terms are explored and their use defined:

Commercial  
Investment  
Patronage  
Public/Private  
Sponsorship  
Subsidy  
Theatre Industry

“COMMERCIAL”

In its meaning of “engagement in commerce” (OED), that is to say, an engagement with trade, “commercial” expresses an aspect of the work of every theatre company that sells tickets to its performances. But the OED also gives it another meaning: “making or intending to make a profit”, which is certainly not what every theatre company achieves or intends to achieve. This ambiguity is further complicated by the extent to which forms of subsidy pervade the whole theatre industry, affecting both those trading for profit as well as those seeking to maximise their income to support their artistic or social purposes.

Organisations that receive money, whether from public or private sources, may distribute or return any profits to shareholders and investors, or, if non profit-distributing organisations (generally charitable trusts), re-use those funds to further their objects. Both, though, are legally private bodies acting within the private realm. There is an additional, though theoretical possibility that profits generated from public funds could be returned to the public sector rather than retained or distributed, but there are currently no mechanisms for doing this.

These terms, though, carry deeper implications. In some respects, most trusts, whether or not with charitable status, operate as if they were commercial organisations. The reasons for this are two-fold: firstly, they have an interest to maximise their self-earned income and, secondly, they have to operate within an established marketplace. The Birmingham Hippodrome Theatre Trust, a sponsor of this research, is a useful example. The Trust company operates the theatre and benefits from income earned from catering and other commercial activities run through a wholly-owned subsidiary. All profits are covenanted to the Trust to be used in support of non-
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profitable or loss-making work in the arts and for the Birmingham community. In effect, the Birmingham Hippodrome subsidises itself by operating as would a commercial entity, using all those techniques to maximise its net income. Similarly, HQ Theatres, a privately owned theatre chain, operates youth theatres in its venues as part of its broader services to local communities, all of which are financially underwritten by its sister company, HQ Theatres Trust. In another example, the Theatre Royal Bath recently launched a “Creative Fund” using funds “established with money from the venue’s production company” to support “the enrichment of local culture”\(^1\). The principles of these arrangements are neither new (Hugh “Binkie” Beaumont may been the first to form a charitable company in the mid-20th century to run alongside H.M. Tennent’s West End theatre business) nor unique to theatre (The Guardian, part of the Guardian Media Group, is owned and financed by the Scott Trust to which profits from its subsidiaries are covenanted).

\[\text{Photo: Paul Machacek}\]

“Marking the opening of London 2012 Festival in June 2012, an enormous ship sailed into Victoria Square, Birmingham. Attracting an audience of around 15,000 people, The Voyage was an outdoor spectacle on an unprecedented scale, produced by Birmingham Hippodrome and created by Motionhouse and Legs On The Wall. The show, which took place outside the Town Hall, included a vast community cast of over 200 dancers, musicians, and a gospel choir; they went on an epic journey together and created a performance that will be remembered in Birmingham for a very long time.”


\(1\) Leonard Pearcey, the fund's chairman, quoted in The Stage, July 13th 2015.
There is, of course, a large sector of the theatre industry that intends to be “commercial” in its meaning of profit-distributing. However, many if not most theatre productions are loss-making in the sense they never completely recover their initial investment, even while their managing producers may make profits from fees or royalties. “Commercial”, in these circumstances requires precise qualification.

The difficulty with using the term “commercial” is, then, that it refers to business practices as much as to their intention. Given this polysemy, the term is problematic for this report and largely avoided. Where it is used, it refers to private sector business practices rather than to profitable activities.

Southend’s Palace Theatre and Cliff’s Pavilion are operated by HQ Theatres1 - a private company that also operates venues in High Wycombe, Guilford, Watford, Swindon, Hayes, Crewe, Dartford, Hastings and (from April 2016) Bromley. As with most regional theatres, they receive some level of financial support from their local authorities, just as their mixed programmes include many artists and companies in receipt of direct subsidies. HQ Theatres’ operates and financially supports Youth Productions in all its venues, continuing a company tradition dating from its roots in the 1980s as Hetherington Seelig Theatres.

Photo: Tim Browne

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1 The author is also Chairman of HQ Theatres Trust.
"INVESTMENT"

The common meaning is the purchase of an asset in the expectation that its use will generate profit or that it will appreciate in value. But, since the 1980s and the development of arguments for the economic importance of the arts, it has also become a rhetorical metaphor used by government to describe its contributions to the arts. In part, the term has been promoted proleptically, to head-off perceived objections to subsidy. That is to say, by calling subsidies “investments” the suggestion is that, even when measured in financial outcomes, they will produce more for the state than they cost. Whether that use is justified is the subject of continuing debate. Within the arts, though, gains from subsidies can also be justified by the value of the public goods they generate - as that, indeed, is their primary function. The problem here is not the principle but the language. “Investment” is an economic term, but public benefits and public goods are difficult to measure economically, even if the exercise could be justified. Where the term is used in this report, it will be used in its economic sense.

"PATRONAGE"

This word appear consistently throughout the history of theatre. Often it has the implied meaning of a private transaction that supports the creation of public goods. To this meaning must be added a second; one that UNESCO defines as “moral endorsement of an exceptional activity”¹. Both, though, imply private acts, whereas state patronage, unless in the form of Royal Warrants, is in effect subsidy.

There is a useful example of this difference argued in Melissa Aaron’s study of The Chamberlain’s Men (later to become The King’s Men), as their fortunes waxed and waned through Elizabethan, Jacobean and Caroline England. In its initial form, support from the monarch was simply the purchase of private performances at court for a fee. Aaron calculates the sum of these fees to equate to no more than 7% of the income of the company; an insignificant amount when compared with their earnings from public performances. To be a purchaser of goods for private consumption in this way is patronage only in a social sense - just as we may be patrons of our local pub; financially speaking, we are just customers. Only later, as The King’s Men under Charles I, was more general financial support granted in order to carry the company through periods of theatre closure resulting from the plague. This latter example bears some comparison with modern governmental support, but that then raises the question of whether it is patronage or subsidy. As concerns this report, only financial transactions are of interest so any references are to either public subsidy or private finance, according to circumstance.

Defining the concepts of public and private realms is foundational to this research but is a theoretically complex subject. In differing forms, political and social contexts, and conceptual variations, seminal ideas go back as far as Ancient Greek politeia and Roman res publica, before flowering firstly in the development of individualism under the influence of Christian canon law and then Enlightenment notions of a social contract. In this way, it is integral to the origins of merchant classes in mediaeval Europe and the concurrent principles of free markets that now dominate world trade. Its place in this research is to provide a reference point for separating matters that are, normatively, responsibilities of the state from those that remain entirely the concerns of individual citizens. It is that individualism that marks the separation of the private sphere from public responsibilities. Only recently has finance provided from the public purse selectively supported theatre works for the public benefits they are thought to provide, but the creation and “consumption” (to borrow a term from the lexicon of classical economics) of theatre remain, still, essentially private matters.

Applying these ideas to this report, what constitutes public or private finance is not defined by the uses of funds but the nature and intentions of those that make them available. Public funds then emanate from government (even when further distributed by an intermediate body, such as an arts council), awarded to support work that is judged to have a benefit to the British public in general. Those judgments reflect the attitudes of the public at the time; the preservation of the national artistic heritage, for example, is a contemporary public demand not an absolute moral responsibility. Private funds, on the other hand, are those derived from individuals or private companies entirely for their own reasons (noting that, in legal terms, companies and charitable trusts are private bodies). By this definition, income from trading in the marketplace, business investments, gifts, donations, and sponsorship are all private funding, as is most patronage.

The OED provides a typically pithy definition of a sponsor as:

a person or organization that pays for or contributes to the costs involved in staging a sporting or artistic event in return for advertising.

“In return for advertising” is really too limiting but, if extended to include brand or product promotion, it suggests that sponsorship is the purchase of goods, services or benefits by private bodies for private purposes. What would then be excluded is any notion of sponsorship as a term applicable to the award of public funds for the provision of public good.

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“SUBSIDY”

In the context of arts funding, references to “subsidy” connote meanings beyond its simple, and rather prosaic meaning of, as the OED defines it:

A sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.

An essential point missing in this definition is why the state should want to intervene in the first place. In the context of theatre, subsidy is predicated on there being public benefits; that is, to say, benefits for those who do not attend as well as those who do. With respect to the arts, classical economists have theorised this idea along these lines:

Markets ... will fail to provide the ‘correct’ amount of artistic activity because such activity provides benefits to people other than those who patronise the arts (‘external benefits’). Because charges cannot be made for such benefits, suppliers will ‘under-provide’.

Any definition of subsidy as it relates to theatre production and presentation has, then, to satisfy two ideas: firstly, that certain theatre works carry an indefinable quality and perceived value that are deemed to have public benefits yet, whether through lack of interest or because their cost is too high, market demand is insufficient to ensure their supply. And secondly, that subsidy represents a contribution by the state for all those who benefit from theatre yet do not buy tickets to attend. Together, this constitutes the so-called “market failure” argument.

Sir Alan Peacock wrote a lucid analysis of the “market failure” proposition questioning whether “instances of market failure can be identified that provide a rationale for the amount and form of public authorities’ expenditure”2. He went on to note that:

The logic of subsidisation would suggest that the percentage of revenue provided in grant form should reflect the degree of market failure, but, apart from the formidable problems of calculation, neither the DCMS nor the funded bodies seem prepared to think in these terms. So far as the former is concerned, this can be explained by the emphasis in policy upon the expressed desire for ‘the promotion of access for the many not just the few’ ... which adds an additional term to the ‘social welfare function’ alongside efficient allocation based on existing tastes and preferences.

That “social welfare function” is not something easily added to classical economical models. Its proponents continue to try to measure and quantify artistic activity as they would the products of businesses operating under utilitarian principles, taking little or no account of normative values, well-being, educational benefits, innovation, and the place of experience and judgement in constructing aesthetic value3. Economists have, instead, largely dodged any questions of artistic

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3 For alternatives to classical economics, see the extensive literature of social economics and endogenous growth theory.
value that may lie behind public-benefit justifications, preferring to stick with references to “the market”. In Ruth Towse’s words: “... one of the strongest criticisms of economics is that it does not and cannot succeed in wiping out all value judgements”1. Given the aesthetic foundations of the arts and the subjective complexity of social relations, this is a devastating criticism of the market-failure argument. Nevertheless, subsidy continues to be categorised as “a consequential act, undertaken for extrinsic or intrinsic reasons”2 but always based on the limited arguments of “market failure” or “market inefficiency”.

Controversies over subsidy then range around the idea that there are indeed universal public benefits and a public ready to consume them. The idea has led to a shift in public understanding of both subsidy and the things to which it is applied. John Pick, for example, has argued that the arts have come to mean “... those things which are in need of subsidy”, thus redefining subsidy as an imprimatur of artistic worth. By extension, this argues that the presentation of arts funding by the media has now come to mean the availability and uses of subsidy, with rarely a reference to private finance. The fictional Sir Humphrey Appleby accurately nailed the resulting dilemma:

Subsidy is for art, for culture. It is not to be given to what the people want. It is for what the people don’t want but ought to have. If they want something, they’ll pay for it themselves.3

That thought is not new, nor is it confined to incisive comedy. In debating a proposal for a British National Theatre in 1913, Ellis Ellis-Griffith MP (sic) mused: “As I understand it, the national theatre is to produce plays to which, if they were produced by private enterprise, no one would go”. The implication is, of course, that if people did wish to see its work, no subsidy would be necessary – an argument founded on the incorrect presumption that full houses can always pay the full cost of what is socially valued without ticket prices becoming a bar to access. As Peacock noted, the critical rational is “access”, but that then brings us full circle, as it lies beyond the algorithms of classical economics.

The whole issue defines a cultural mulch in which the questions of financial needs or interdependence have developed. It is further addressed in the conclusions to this report as there are reasons to question some of the logic on which the various arguments are constructed. But, until then, a definition is required that, as far as possible, avoids those challenges. It has to acknowledge that subsidies are provided to compensate for perceived shortcomings in the provisions achievable through free-market transactions, and that it should be the minimum required to achieve that aim; in other words, that subsidised transactions are not separate from the market but integral to it. The word “subsidy”, in the context of the theatre industry, might then be better defined as:

Financial support granted by the state or a public body that represents the minimum cost of selectively providing certain public goods through transactions in the free market.

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1 Ruth Towse, A Textbook of Cultural Economics (Cambridge: Cambridge University Press, 2010), p8
3 Anthony Jay and Jonathan Lynn, Yes, Minister (BBC, 1983).
"THEATRE INDUSTRY"

"Theatre" in this report refers to every and any type of performance that takes place in a designated theatre space (usually a building) and for which tickets are sold to the public. Thus, concert halls are excluded, even if they occasionally, but not regularly, present theatrical productions. The South Bank Concert Halls are an example of this exclusion, as are small occasional community theatres. This approach will inevitably omit some theatrical venues and performances of an unusual character (street events, for example). In effect, these are treated as if they were statistical outliers; although they may make an important artistic and social contribution their inclusion would have only a small effect on the numerical and financial conclusions of this research while adding disproportionately to research time and cost. "Theatre" also refers to the buildings in which performances take place. To avoid ambiguity, the word “venue” is also used synonymously.

This definition is notable for the breadth of what is included as a theatrical production. It is quite common to treat “theatre” as being only performances of written and spoken dramatic works (the OED definition carries that assumption, just as John Pick’s Theatre Industry report exemplifies the point in practice). It is obvious that opera and dance should be included, but the meaning here goes much further so as to include the full range of events that have traditionally taken place in British theatres. Just a glance at the breadth of productions that characterise most British “receiving” theatres would demonstrate the point clearly. This has the further benefit that annual theatre accounts can be used in data calculations without the need to include or omit productions individually. There are, though, some complications where a production company operates from its own home theatre (Birmingham Rep for example). In these cases it would be advantageous to be able to separate their producing and presenting accounts. In practice this can be difficult, if not impossible, depending on the way the organisation’s accounts are structured. Nevertheless, operational differences between the two distinct activities can be noted if not always demonstrated financially.

Adding the word “Industry” is more contentious given its use to describe the processes of industrial manufacturing. There is a need, though, for a word that can encompass all of the work involved in creating, staging and presenting theatre to the public; technical, financial, and construction tasks, as well as those that are creative and artistic. In this regard, “industry” is legitimated by its Latin root; meaning any works or tasks and the diligence with which they are carried out. What is rejected here is any association with the “creative industries” - a term that lacks any but superficial cogency.2

1 John Pick, The Theatre Industry (Stroud: Comedia, 1985).
Section 2

HISTORICAL CONTEXT:

Theatre and the British Government

British theatre, as it is now, is an outcome of past events: where and how it was produced; the ways in which it has been presented; the architectural styles of the buildings in which it has been performed; and the richly varied character of the theatrical works on which the national reputation is founded. This is a truism, of course, but one worth repeating as it was into that long developmental path that state subsidy was introduced as a policy of government in the middle of the last century. That is to say, subsidy does not define the nature of British theatre but, like a tributary into a great river, it follows and enlarges a route long since established. Subsidy, then, acts within pre-existing social and economic structures; it has not canalised British theatre.

The economic origins of British theatre become recognisable to us now from around the time of James Burbage’s speculative construction of the Theatre in Shoreditch in 1576. It became the venue for Shakespeare’s early plays and home for several performing groups, most famously among them Lord Leicester’s Men and The Lord Chamberlain’s Men. “Guided ... by simple commercial considerations,” Burbage had matched the increasing professionalisation of performers with the shift from private performances for royal or wealthy patrons to public performances for which entry charges could be levied. Although Burbage’s prosaically named venue may have been pipped by the Newington Butts as the first permanent playhouse in London, it does seem to have been the first that was purpose built. Even so, the Theatre, and the many venues that came afterwards (including the Globe), owed its architectural character to the inn-yards and public spaces that were then performance areas for popular entertainments. Both were in London’s liberties, outside the immediate jurisdiction of regalian rights and in areas characterised by poverty, prostitution and gambling. Critically, they were also free from the control of guilds, opening up business opportunities to all-comers.

2 Leased by the actor Jerome Savage in 1576
This, then, marks the start of a developmental path, traces of which, despite its snaking course around legal, social and financial obstacles, can be followed to the present day in the public attitudes to theatre, its performers, and many of its business practices. Three aspects define its directional influences: (i) the tension between artistic legitimacy and popular entertainment that can still be found in arguments around public subsidy; (ii) the entrepreneurship, invention and iconoclasm intrinsic to the theatre industry, and (iii) a dependence of private finance. Right at the start of this narrative, Shakespeare’s companies demonstrated all three. It was mentioned earlier (in Key Words) that the value of royal patronage to the Chamberlain’s Men was more in its power-potential than hard cash. In a detailed study of their costs and income, Melissa Aaron calculated an annual gross ticket sales at the Globe to be £1,200, of which two thirds went to the company “sharers”. Set against this is estimated to have been some £440 of expenditure. Compared to the six or so plays The King’s Men performed at Court for a £10 fee, they clearly relied almost entirely on popular public support. Royal patronage, if it can be called that, made an important contribution but for many years is was hardly vital to their survival¹. The power balance of this relationship was also reflected in their choice of plays, with none written specifically for the Court and many running blatantly across the censor’s line of the acceptable.

¹ Melissa D Aaron, Global Economics: A History of the Theater Business, the Chamberlain’s/King’s Men, and Their Plays, 1599-1642 (Newark, USA: University of Delaware Press, 2005), pp 48-55
This was not, though, a description valid during the years of decline and eventual demise of the company. Paradoxically, their change in fortunes serves to reinforce the strength of the earlier commercial and private nature of the company. Aaron points out in a chapter she entitled “Golden Handcuffs”\(^1\) that the King’s Men’s increasing reliance on the Caroline Court blunted their creative edge such that their popular audience, and with it their financial independence, gradually deserted them. This marks a point of considerable significance; that the quality and originality at the core of British theatre has been built on popular support and private initiative operating within a market economy. In its boundless variety, it has been a voice for everyman even while entertaining those who might wish to control or guide its messages through finance or the law.

The advent of Patent Theatres after the Restoration further reinforced the awkward disjunction between these two worlds. By 1766 only three London theatres (along with several other Theatres Royal around the country) had been awarded the King’s letters patent, permitting them to perform “spoken drama”, while all others were notionally limited to comedy, pantomime, melodrama and variety acts. It resulted in an uncomfortable relationship and sometimes fierce competition between the so-called legitimate and illegitimate theatres, even while sharing or stealing each other’s star performers, ideas, and even whole productions. Many commentators at the time (Hazlitt notably among them) bemoaned how legitimate drama tended to the predictable while the illegitimate “minors” stretched the boundaries of the permissible sometimes to the point of illegality. Jane Moody’s research shows just how much the illegitimate venues innovated and, despite bankruptcies and sometimes questionable financial dealings, generally prospered while the audiences and financial fortunes for the sanctioned and protected conservatism of the patent theatres withered over time:

[In the realm of the Minor theatres] no Theatre-Royal oppresses the imagination, and entombs it in a mausoleum of massy pride; no manager’s pompous pretentions choke up the lively current of our blood: no long-announced performance, big with expectation, comes to nothing, and yet compels us gravely to record its failure, and compose its epitaph.\(^2\)

It is tempting to draw strong conclusions from the comparable fortunes of these two worlds but the possible causes of their achievements, failures and character are many. While both depended on private finance and market appeal, differences in their business outcomes and in the quality and originality of their productions must also have resulted from the writers, performers, and theatre operators of the time. Most of all, just the responsibilities placed upon the patent theatres for the care and presentation of great playwrights (that is to say, a purpose additional to the primary task of producing and presenting theatrical works), resulted in a character that was discernibly political. In a letter to the Constitutional Review of 1809, “A.F.”, an anonymous correspondent, noted of the patented theatres that:

... in a country under a monarchical form of government [the patented theatres] can never be considered as private property, but as a great national concern; as a powerful political engine, as a wheel without which the remainder of the state machinery would be incomplete: in fact, they form an absolutely constituent part of our political system\(^3\).

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1 Ibid.pp 159-203
Tracy Davis sharpened the point: “This view of theatre as a category exempt from the usual rules governing private property because it extends the work of the state, while being wholly funded by individuals, may be an antecedent of the next two centuries’ debate over subsidization of the arts”.

There is a telling exemplar of the legitimate/illegitimate divide in the work of one of the 19th century’s great performers, Joseph Grimaldi, particularly when associated with the producer and impresario, Charles Dibden. Variously called an actor, comedian, pantomimist, dancer, and entertainer, Grimaldi worked predominately in the minor theatres (mostly at Sadlers Wells) but appeared frequently in the patented theatres on Drury Lane and Covent Garden. Through extraordinary physical subtly, Grimaldi could, it was said, evoke ideas and emotions without words. For the illegitimate theatre this was the most effective route around the Lord Chamberlain’s censoring pen as, at the time, “any plausible account of how theatre represented the hopes, desires, and fears of a modern urban city ... must be based on an interpretation of the period’s illegitimate drama”. Outside the traditions loosely upheld in patented theatres, Grimaldi’s clown gave a “voice” to contemporary London through the satire embedded in the innovations of burlesque and pantomime.

The character of theatre performances depends also on the architecture, seating capacity and location of venues. Their construction, ownership and operation was initially intertwined with the interests of resident performing groups, especially in London, but gradually venue management became specialised. All, though, remained in private hands funded by private capital until well into the 20th century. From the middle of the 18th Century, new playhouses replaced the earlier inn-yards and town halls, a few of which then also acquired Royal patents. Many of the performances were plays previously performed in London, but “strolling players” worked the country circuits along with an extraordinary variety of specialist acts. Practices established at the time are still recognisable in Britain’s regional theatres today, among them the establishment of touring circuits, weekly playbills, the unrestrained mix of productions types, ticket marketing methods, and in the deals that share revenue between venues and producers.

By the early 19th century, purpose-built theatres could be found across Britain as entrepreneurial business ventures but, by the end of the century, what had been small syndicates and eponymous theatre enterprises (Wilton’s Music Hall in London and Thornton’s in Leeds are examples) had developed into substantial theatre chains (that of Messrs Stoll and Moss, most famously). Specialist theatre architects also then appeared in this, the most prolific period of theatre construction in Britain’s history. Frank Matcham is probably the best known, many of whose theatres are still in regular use. In nearly every case, and unlike a number of concert halls, theatres large and small were financed privately for profit. Much of this growth was boosted by catering, especially in music hall. Financing theatre performances with food and drink sales was then already a tradition centuries old. The subsequent decline of music hall variety was arguably due in large part to temperance legislation rather than a decline of market demand.

The irrepressible business confidence of Britain's theatre impresarios is now built into Central London's urban character as “Theatreland”. Of the forty-six listed by the London Theatre Guide, only two entirely new publicly-financed theatres have been built in London since the mid-20th Century: the Barbican and the National Theatre. While the Guide is not a comprehensive list of London theatres, it is indicative of just how much British theatre depends upon its history. Most of London's new venues, like the Park, the Print Room and St James's Theatre have been developed with private funds while several more, the New London Theatre and the Dominion being examples, have been updated or even rebuilt with private finance on existing theatre sites. Outside London a number of theatres and arts centres have been built with public funds since the 1950s, but Victorian theatres still stand proudly in Britain's towns and cities as evidence of what was once a largely profitable enterprise. It is an historic lineage that would be recognisable to James Burbage and the impresarios of Elizabethan England. Financially, what has changed are not the business models but the proportions of costs and income on which financial outcomes depend and a public desire to preserve selectively theatre's heritage. Unfortunately, what is publicly valued is not always the same as what is most popular or affordable.
Shaftesbury Avenue and the quintessential urban character of “Theatreland.” In the foreground are The Lyric and Apollo Theatres, both owned by Nimax Theatres, first opened in 1888 and 1901 respectively. Behind them are the Guilgud and the Queens Theatres, opened in 1906 and 1907 and now owned by Delfont Mackintosh Theatres.
“Interdependence” presupposes strengths on both sides of the public/private divide, each providing something that is more than just beneficial but actually necessary if the ambitions of each are to be achieved. Consideration of that proposition would be much weakened without knowing the relative proportions of public and private sources of finance with which the British theatre industry operates. While comparisons of scale do not necessarily relate to the importance of their contribution, without that knowledge the various operating models and their significance within the structure of the theatre industry are more difficult to understand. It is unfortunate, then, that a good deal of the necessary quantitative information is not readily available, and most of what can be discovered or deduced can only be approximated. This section of the report discusses both the lack of data and the methods that have been used to try to assess the scale of the UK sources of private and public funding.

The sources of income into the UK theatre industry that constitute the bulk of its financial turnover can be simply listed:

<table>
<thead>
<tr>
<th>Sources of Public Finance</th>
<th>Sources of Private Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Arts Councils of England, Wales, Scotland, and Northern Ireland</strong></td>
<td><strong>Ticket Sales</strong> Divided between the theatre and producer</td>
</tr>
<tr>
<td>Grants-in-aid</td>
<td></td>
</tr>
<tr>
<td><strong>Local Authorities</strong></td>
<td><strong>Catering Sales</strong> If subject to a concession licence, only the licence fee or percentage of turnover may be recorded</td>
</tr>
<tr>
<td>Commonly cash subsidies, rent free leases and business rate payments or relief</td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal Concessions</strong></td>
<td><strong>Merchandising Sales</strong> This expression covers a large array of production or venue related produce. As with catering, these are sometimes accounted only as a net margin</td>
</tr>
<tr>
<td>Principally tax relief, charity gift aid, corporation tax concessions, and the “cultural exemption” on VAT</td>
<td></td>
</tr>
<tr>
<td><strong>Production Capital</strong></td>
<td></td>
</tr>
<tr>
<td>Constituting the capital employed in production development as well as the subsequent cost of the production</td>
<td></td>
</tr>
<tr>
<td>Production Rights</td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td>Successful productions may be reproduced by third parties over the life of the copyright. Revenue results from the sales of rights, co-productions and their subsequent performances.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Broadcasting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of fees and copyright licences to venues, producers, artists and technicians.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cinema Relays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venues and producers receive a net share on income but, given the production costs involved (filming, editing, rights, fees and transmission costs may be among them), their effect is usually more on audience access to theatre productions than financial gains to producers and performers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sponsorship and patronage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note that these are classified as private sources of income.</td>
</tr>
</tbody>
</table>

The contents of this table say nothing about the subsequent flow of funds through the industry; for example, the division of income between producers and presenters, the payment of fees to artists, general production expenditure, or royalties to copyright holders, do not affect calculations of industry turnover. Neither is there any indication of profit/loss or the need for any subvention. This list of sources may not be exhaustive, but most of the industry’s income can be allocated to one or other of the categories shown.

**DATA SOURCES**

As explained below, most of the data on theatre finances do not exist separately from other arts and entertainment activities, but the task of isolating the figures that relate solely to theatre is well beyond the remit and resources of this report. Nevertheless, some useful indications of the comparative size of public and private finance can be calculated. That said, information of net income from cinema relays is generally not available (except as may be provided by a few individual companies). What has been sourced suggests it currently contributes very little to theatre industry finance so can be omitted without changing the conclusions by any significant degree.

Except for the fiscal concessions made available by the Treasury, sources of public finance can be approximated. All grants-in-aid made by one or more of the four national arts councils and by local authorities are published, although the grants from the different arts councils made to performing companies or, less frequently, to the presenting venues, are also made
under different awards schemes, making them difficult to reconcile. Some also include within “theatre” categories grants that are not strictly and directly applicable solely to theatre activities; grants aimed at supporting particular social group activities, education programmes, and skills-development projects may fall into this category. They may also include capital sums accounted in the year the grant is awarded, even when a project may run over several years.

However, more substantial problems arise when assessing local authority support. There are two difficulties: where local authorities operate a performance venue (an increasingly rare arrangement), CIPFA accounting practices make it difficult to isolate both the true operating costs and the types and level of financial support that may be provided. A typical example of this problem can be found in the allocation of “central charges” to cover the costs of certain services provided by the authority but where the charge allocated in the accounts bears little relationship to actual cost. Shifting costs and income between departments is a standard technique for managing local authority budgets and, where there are no external invoices directly attributable to the theatre operation, apportionments may not accurately reflect true cost even if they can be identified at all. The second difficulty arises from different categorisations of subsidy used by local authorities; even knowing which awards are specific to theatre can involve a large element of judgement if not guesswork. There is a CIPFA dataset on Cultural Statistics in Scotland, but this does not separate theatre from concerts, and there are no similar datasets for Wales and Northern Ireland - these each have different methods of data collection. In England, the Department for Communities and Local Government publish expenditure data on “Theatres and Public Entertainment” from which theatre alone cannot be separated.

Problems assessing the sources of finance from the private sector are equally, if differently, difficult. The largest single private income source for all theatre activities is ticket sales. Unfortunately while several organisations collect some of the market data, each is partial to a greater or lesser degree. In fact the omissions are considerable even when all published sources are combined. This question was confronted in a 2001 report by Kate Manton: “Profile of the Performing Arts”\(^1\). She began with the statement: “statistics on the performing arts as a whole are partial, sometimes out-of-date and quite often appear self-contradictory”. Although Manton claims that data for “the field of theatre” is actually better served than music, noting that the Society of London Theatre and the Theatre Managers Association both collect data on their members’ activities. Unfortunately, there are many theatre organisations that are not members of either society. Some, like The Lowry in Salford, are large-scale venues that make substantial contributions to turnover in the national theatre marketplace.

A recent report by the Centre for Economics and Business Research (CEBR)\(^2\) attempted to calculate arts turnover and subsidy when seeking to define the “economic activities” of “six arts forms”, one of which was theatre. They used the Standard Industry Classifications (SIC) of data produced by the Office of National Statistics (ONS). These breakdown information by stages into finer categories and increasing detail. With respect to theatre, the base category is “Arts, Entertainment and Recreation”, then “Creative, arts and entertainment activities”. Problems then become apparent when that is further categorised into four data classes: “Performing Arts”,

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“Support Activities to Performing Arts”, “Artistic creation”, and the “Operation of Arts Facilities”. The details of each is the limit of the data available but, unfortunately, they appear to have a number of category overlaps as well as inappropriate omissions and inclusions that the lack of detail prevents from resolving. Without working through these extensively, a few examples can make the point. “Arts Facilities Operations” may include both concert halls and theatres (Warwick Arts Centre, for example, has both), “Music Halls” lack any definition yet are more likely to be a performance form than a physical space, and “Theatre Halls Operation” is an odd description difficult to identify in practice. Theatre directors are included in “Support Activities”, yet the costs of theatre, dance, ballet, and repertory companies, may already include the costs of their production directors separately in the “Performing Arts” category. Data on producing companies that also operate their venues (the Royal National Theatre, Royal Opera House, Birmingham Repertory Theatre, are all examples) might fall under “Arts Facilities” or “Company Operations” (or, indeed, both). Local authority “Concert Halls and Theatres” are lumped together (only the latter being relevant to this research) but in practice most venues are now operated by private trusts or companies and not by the local authorities which subsidise them; hence there is a distinct possibility that operator organisations may have reported data to the ONS which, in part at least, may be duplicated by local authorities. A more fundamental problem is the absence of catering from any of these arts and entertainment categories. As the calculations that follow demonstrate, catering is a substantial income source for most theatre organisations yet appears to be completely absent from the SIC’s Arts and Entertainment category. And all this presumes that the data provided is complete and consistent - an extremely unlikely proposition given the range of its sources; from individuals, like script writers, composers and scenic artists, etc., to the accounts departments of our major national companies.

The 2015 Creative Industries Economic Estimates, published by the DCMS, might have been a useful source of some financial data but it makes only one mention of theatre, saying: “Even at the highest resolution of detail available in the ONS data we use, live music is counted alongside theatre in a single ‘Performing Arts’ category”. This reinforces rather than resolves many of the issues raised here and arises, perhaps, from the treatment of “Arts and Entertainment” as if it is identifiable by common financial and operational models. This is very far from reality.

DATA CALCULATIONS

Section 4, which follows, includes a discussion on the operational models used in theatre production and presentation, and the strategies of concern to those involved. This section is solely concerned with calculating a quantitative approximation of the four largest sources of theatre income: ticket sales, production finance, catering and public subsidy.
TICKET SALES

The total value of ticket sales made by British theatres can be calculated with a simple formula:

\[ A \times B \times C \times D \]

where

- \( A \): the maximum number of seats available for sale
- \( B \): average ticket yield in £s
- \( C \): the average number of performances per annum
- \( D \): % average attendance (actual sale of \( A \))

None of these variables are known with complete certainty, but approximations are possible.

The number of theatre seats for sale across Britain can be calculated by using reference directories that give the seating capacity of each venue. There are inconsistencies between them though, and none appear to be entirely complete. But, by combining lists from the British Performing Arts Yearbook, the Theatres Trust Theatre Guide and the 2014 British Theatre Directory (the 2015 version remains unpublished as this is written) and cross-referencing with information published by the venues themselves, a composite list has been created. Venues that primarily present music are excluded, as are theatres that do not regularly charge for entry (school theatres, for example). Only seating capacities are used as standing capacities are mostly associated with music events.

As described below, theatres were divided into three lists, one of venues with more than 300 seats and another for those below that threshold. This results in 409 theatres (an average of 740 seats per venue and a total of 302,971) and 622 (an average of 150 seats per venue and a total of 93,722) respectively. The third list contains only SOLT member theatres as both the number and value of tickets sold are already published annually by SOLT. It contains 39 theatres with an average seating capacity of 1,058 and a total of tickets sold in the year (not seats available) of 14,744,887.

Average ticket yields are calculated net of VAT. This is not always entirely justified, given that a number benefit from the VAT cultural exemption and a few small venues may not be registered for VAT. Fortunately, UK Theatre has already calculated an average ticket yield of £24 from data supplied by its members (up from £22.60 in 2013 and £23.91 in 2014). Although not all its venues return data to UK Theatre, a sample check using theatre websites suggests this is a reasonably accurate figure for British theatres with more than 300 seats. That said, it excludes the London theatres, and is not representative of the smaller venues which are less likely to be UK Theatre members. To compensate, a £12 yield has been applied to all venues below 300 seats. As mentioned above, London theatres which are also SOLT members have been calculated separately from the published sales figures; their average ticket yield being of £35.24 in 2014.
A similar approach has been taken with average attendances. UK Theatre have calculated figures which have ranged around 60% for the last three years. The same figure has also been used for the theatres below 300 seats.

Calculating the number of performances per annum in theatres outside of SOLT membership is more difficult. UK Theatre report an average of 6.1 performances per week in 2014 but, again, smaller venues are likely to have fewer as their low or negative gross margins can increase the need for subsidy as more performances are presented. The actual range has considerable variation across different types of venues, such that an accurate calculation would require an analysis of every venue. After a review of theatre programmes and some discussions with theatre managers, a figure of 4 performances each week has been used in this report.

Christmas pantomimes are a financial mainstay of the theatre year; with story lines constantly updated, their exotic mix of traditional characters, slapstick, double-entendres, and happy endings attract audiences of every age. This picture is of Gary Wilmott (as Dame Trot) in the Qdos production of Jack and the Beanstalk.

Qdos Entertainment is the largest pantomime producer in the world, employing 700 actors, dancers musicians and stage staff and playing to over 1.5 million people each season. Most of its productions appear in subsidised theatres, supporting their finances while adding millions of pounds to the turnover of the theatre industry.
PRODUCTION CAPITAL

Production costs in subsidised companies are commonly met within company budgets or by specific grants-in-aid. As such they will be included within the figures for public finance when added to private income (as listed above). The same is not true of private sector production capital as all will be new money not included in any other income category. Unfortunately there is no data collected for either the amounts of production capital raised each year nor the number of productions in which it is invested. In the opinions of interviewees and other producers consulted, the range of production investment, omitting the very large and the very small (both of which are infrequent), would likely be in the range of £200,000 to £2 million per production. Guesses at the number of productions each year ranged from 50 to 1,000! These figures are so different they make any average difficult to defend, but some allowance has to be made for what is a very substantial financial investment. The figures finally used in the data calculations are 200 productions per annum at an average of £350,000, which calculates to a private sector production investment total of £70 million. Despite the large sum, it represents less than 3% of private sector finance.

CATERING SALES

There are also no published data at all on catering sales in theatres, but most catering operators do keep accurate calculations of spend per head across their counters. Combining the figures from 20 venues of mixed scale and facilities produces an average spend per head of £4.34 net of VAT. This figure has then been multiplied by the number of seats sold per annum to produce a total gross income from catering sales. It includes some but not all merchandising sales, but the missing elements will be comparatively small.

For private finance, the results of these calculations are summarised in the following table:

<table>
<thead>
<tr>
<th>Private Finance from Theatre Production and Presentation x 1,000</th>
<th>£....</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td></td>
</tr>
<tr>
<td>Ticket sales: theatres over 300 seats</td>
<td>1,383,874</td>
</tr>
<tr>
<td>Ticket sales: theatres under 300 seats</td>
<td>163,751</td>
</tr>
<tr>
<td>SOLT ticket sales</td>
<td>519,681</td>
</tr>
<tr>
<td>Production finance</td>
<td>70,000</td>
</tr>
<tr>
<td>Catering income</td>
<td>139,491</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,276,797</td>
</tr>
</tbody>
</table>
The interdependence of public and private finance in British theatre

SUBSIDY

The assessment of grants-in-aid paid to theatre companies and venues are complicated by the different methods and categorisation used by the four arts councils across the United Kingdom and the lack of detail given by local authorities. What is known is discussed below.

(i) Arts Council England.

Grants to National Portfolio Organisations for theatre are assessed as £158,300,379. This may be slightly overstated as it includes grants for arts centres and festivals that present a much wider range of work than just theatre. In addition, Lottery funds awarded under the Grants for the Arts scheme to the value of £58,776,816 have been added. The relevance of the GfA grants to theatre is much more difficult to assess as they include capital programmes that may run over several years, as well as initiatives that only incidentally benefit theatre. Judgements have been made on the bases of the narratives associated with each category of award.

(ii) Arts Council Wales.

The Council’s 2013/14 financial statements include a breakdown of the recipients and purposes of their “revenue” grants (p85). Using this information, a total of £20,825,523 has been calculated from “Theatres and arts centres”, “Theatre productions and presentation”, “Opera” and “Dance”. In addition, Lottery funding has been calculated using the categories of dance, drama, music/opera, and theatre entertainment, totalling £4,463,220.

(iii) Creative Scotland.

The 2014/15 budgets have been used to calculate a figure for theatre funding by Creative Scotland awarded through the Open Fund (new from in October 2014), and the three main funds available for theatre organisations: Quality Production and Touring, Festivals and Arts Programming, and grants to Regularly Funded Organisations. “Theatre”, as a category, has been separated from other grants, although some overlap with other categories is unavoidable. Respectively, the total of these awards were £239,810, £1,224,223, £775,000, and £16,146,865; totalling £18,385,898.

(iv) Arts Council of Northern Ireland

Awards to theatre activities by the ACNI, viz. the categories of dance, drama and opera, fall under either “Exchequer” or “Lottery” designations. For 2013/14, the these were £2,173,521 and £1,389,795 respectively, making a total of £3,563,316.
(v) Local Authorities

Expenditure by local authorities in England is published by the Department of Communities and Local Government. That shows total net expenditure on “Theatre and public entertainment” in 2013/14 to have been £145,392,000. No further breakdown of that category is available, making it impossible to know what proportion relates solely to theatre. As concert halls or music generally are not separately categorised, it is assumed that they are also included.

In Wales, data on local authority expenditure on the arts have been produced by Arts Council of Wales and Arts Development UK from their 10th annual survey of local authorities in England and Wales. The response rate from local authorities is given as 35.3% and shows a figure for Wales of £16,652,335 for “Spend on directly managed venues (e.g. theatres, arts centres and galleries)” and £642,314 for “grants to regularly funded organisations”. Unfortunately, there is no information that would allow solely theatre-related expenditure to be extracted from these numbers.

Arts Council of Northern Ireland has published data on local authority expenditure, showing a gross figure for “Theatre and public entertainment” of £14,540,388 in 2013/14. As with the figures for other authorities, there is no detail on what the “public entertainment” includes but, judging from references in the dataset, it also includes music and non-theatre entertainment.

Data on spending in Scotland published by CIPFA\(^1\) totals £21,686,000, but this specifically includes concert halls. CIPFA also give a figure for “Arts Centres and Visual Arts Facilities”. This may include some theatre but, even if that’s the case, the reference to the visual arts implies it will be only a small proportion.

The inclusion of music and concert halls within all the local authority figures creates a considerable distortion of unknown proportions for which some adjustment has, nevertheless, to be made. In the calculations that follow, and in the absence of any indicative data, their figures have simply been halved.

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\(^1\) CIPFA have not published reports on the other countries of the UK.
### Public Finance from Arts Council and Local Authorities

<table>
<thead>
<tr>
<th>Source</th>
<th>Year</th>
<th>Sub Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>2013/14</td>
<td></td>
</tr>
<tr>
<td>Arts Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPO funding</td>
<td></td>
<td>158,300,379</td>
</tr>
<tr>
<td>GforA funding</td>
<td></td>
<td>58,776,816</td>
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<tr>
<td>Local Authorities</td>
<td></td>
<td>72,696,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>289,773,195</td>
</tr>
<tr>
<td>Wales</td>
<td>2013/14</td>
<td></td>
</tr>
<tr>
<td>Arts Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Funding</td>
<td></td>
<td>20,825,523</td>
</tr>
<tr>
<td>Lottery Grants</td>
<td></td>
<td>4,463,220</td>
</tr>
<tr>
<td>Local Authorities</td>
<td></td>
<td>8,647,325</td>
</tr>
<tr>
<td></td>
<td></td>
<td>33,936,068</td>
</tr>
<tr>
<td>Scotland</td>
<td>2014/15</td>
<td></td>
</tr>
<tr>
<td>Creative Scotland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open Fund</td>
<td></td>
<td>239,810</td>
</tr>
<tr>
<td>Quality Production</td>
<td></td>
<td>1,224,223</td>
</tr>
<tr>
<td>TFAP</td>
<td></td>
<td>775,000</td>
</tr>
<tr>
<td>RFO funding</td>
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<td>16,146,865</td>
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<tr>
<td>Local Authorities</td>
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<td>10,843,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29,228,898</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>2013/14</td>
<td></td>
</tr>
<tr>
<td>Arts Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchequer</td>
<td></td>
<td>2,173,521</td>
</tr>
<tr>
<td>Lottery Grants</td>
<td></td>
<td>1,389,795</td>
</tr>
<tr>
<td>Local Authorities</td>
<td></td>
<td>7,270,194</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,833,510</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>363,771,671</strong></td>
</tr>
</tbody>
</table>

No assessment has been made for the financial benefits resulting from the Treasury’s fiscal concessions. On the other side of the calculation, private-sector funding totals omit overseas sales as well as film and broadcasting rights. From even the small amount of information given in the interviews, these are likely to be very substantial numbers, but there are no data published to offer any guide or any basis for their calculation.
Using the calculations described, these are the resulting totals of finance from each of the sectors:

<table>
<thead>
<tr>
<th></th>
<th>£ x 1,000</th>
<th>% Proportions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector Finance</td>
<td>2,276,797</td>
<td>86</td>
</tr>
<tr>
<td>Public Sector Finance</td>
<td>363,772</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,640,569</td>
<td>100</td>
</tr>
</tbody>
</table>

While these numbers are approximate, even large additions or subtractions will not alter the conclusion that the large majority of finance at work in the theatre industry continues to come from the private sector. For example, reducing the local authority spend by 1/3 rather than by 1/2 only increases the proportion of public funding by 4%.

The point is made elsewhere in this report that the viability assumed to lie behind the large amounts of private finance may be dependent on the smaller proportion provided by the public sector. That said, the extraordinary growth in public sector contributions since the £350,000 first distributed by the Arts Council of Great Britain in 1947 suggest that changes far deeper than market viability are involved; changes in public expectations, in affordability, and in concepts of public value must also be involved.

**Proportions of subsidy and earned income**

The data collected during the research shows some further factors affecting the proportions of public and private funding within different types of theatre companies. As might be expected, those companies that produce work more easily exploited or particularly attractive to sponsors and donors, show a much higher proportion of income from private sources. Hence companies producing drama and musicals as well as the prestigious London-based national companies earn a greater proportion of their income than regionally based opera and ballet companies. These characteristics are demonstrated by the table below, although there are caveats to any indicative conclusions as it is not known how the figures are affected by capital development programmes and whether capital amounts have been accounted differently by the companies.
The interdependence of public and private finance in British theatre

Proportions of public funds
x £1,000

<table>
<thead>
<tr>
<th>VENUE / COMPANY</th>
<th>Public</th>
<th>Total</th>
<th>% public</th>
<th>Public</th>
<th>Total</th>
<th>% public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Shakespeare Company</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
</tr>
<tr>
<td>Royal National Theatre</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
<td>dna</td>
</tr>
<tr>
<td>Birmingham Royal Ballet</td>
<td>7,195</td>
<td>10,037</td>
<td>71.68%</td>
<td>7,641</td>
<td>11,276</td>
<td>67.77%</td>
</tr>
<tr>
<td>Royal Opera House²</td>
<td>20,500</td>
<td>59,200</td>
<td>34.63%</td>
<td>21,700</td>
<td>67,200</td>
<td>32.29%</td>
</tr>
<tr>
<td>Birmingham Rep</td>
<td>2,027</td>
<td>3,989</td>
<td>50.82%</td>
<td>3,785</td>
<td>6,675</td>
<td>56.70%</td>
</tr>
<tr>
<td>Opera North</td>
<td>7,947</td>
<td>11,502</td>
<td>69.10%</td>
<td>8,909</td>
<td>12,563</td>
<td>70.91%</td>
</tr>
<tr>
<td>Sheffield Theatres²</td>
<td>2,337</td>
<td>5,895</td>
<td>39.64%</td>
<td>2,766</td>
<td>8,245</td>
<td>33.55%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td></td>
<td>53.17%</td>
<td></td>
<td></td>
<td>52.24%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VENUE / COMPANY</th>
<th>Public</th>
<th>Total</th>
<th>% public</th>
<th>Public</th>
<th>Total</th>
<th>% public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Shakespeare Company</td>
<td>20,100</td>
<td>50,100</td>
<td>40.12%</td>
<td>15,700</td>
<td>61,300</td>
<td>25.61%</td>
</tr>
<tr>
<td>Royal National Theatre</td>
<td>18,300</td>
<td>80,500</td>
<td>22.73%</td>
<td>17,500</td>
<td>87,100</td>
<td>20.09%</td>
</tr>
<tr>
<td>Birmingham Royal Ballet</td>
<td>8,576</td>
<td>9,314</td>
<td>92.08%</td>
<td>8,890</td>
<td>10,477</td>
<td>84.85%</td>
</tr>
<tr>
<td>Royal Opera House¹</td>
<td>27,400</td>
<td>112,000</td>
<td>25.89%</td>
<td>29,000</td>
<td>124,000</td>
<td>23.39%</td>
</tr>
<tr>
<td>Birmingham Rep</td>
<td>2,872</td>
<td>5,548</td>
<td>51.77%</td>
<td>3,021</td>
<td>7,012</td>
<td>43.08%</td>
</tr>
<tr>
<td>Opera North</td>
<td>11,024</td>
<td>16,608</td>
<td>66.38%</td>
<td>10,338</td>
<td>14,836</td>
<td>69.68%</td>
</tr>
<tr>
<td>Sheffield Theatres²</td>
<td>1,771</td>
<td>10,863</td>
<td>16.30%</td>
<td>2,178</td>
<td>11,688</td>
<td>18.63%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td></td>
<td>45.04%</td>
<td></td>
<td></td>
<td>40.76%</td>
</tr>
</tbody>
</table>

dna = data not available
¹ ROH figures are for 2001/2
² Sheffield Theatre figures are for 2001/2 while 2003/4 is a 16 month period
NB. Capital costs for redevelopments may distort these figures

Data provided by the companies.
Section 4
THE INTERVIEWS:

The financial context of theatre, characterised and estimated in the previous two chapters, leads now to a description of the practices and experiences of those producing and presenting theatre in Britain. Drawing on the interviews, the industry’s business models are described along with their underlying rationales as they relate to operating finance.

An outline of the subjects covered in these interviews is given in Appendix 1. On review, they are perhaps better described as conversations guided by a list of questions; replies rarely progressed in neat sequences but ranged according to interviewees’ experiences and the points they particularly wished to make. The three-part grouping of “Creation/production”, “Presentation” and “Distribution” was an effective and resilient analytical interview structure but, in writing-up the findings, further and more detailed categorisation proved not to be helpful. Instead, a more discursive and inter-relational format of sub-categories has been adopted.

The discussion begins with a brief summary of the financial and operational models employed in the creation and presentation of theatre productions. This is then expanded where necessary to enable readers not familiar with these models to follow the discussions and arguments.

1. CREATION-PRODUCTION

Financial Models

The costs of creating a theatre production start with either the acquisition of rights to produce an existing work (unless it is already in the public domain), or a commission for something entirely new. Either way, this initial phase can be complex, lengthy and expensive. Costs can run into six figures incurred over several years. Whether an independent producer or a subsidised company, these are usually borne by the producer.

With the rights in place, a creative team engaged and, perhaps, key cast members agreed, the production process can begin. Publicly-funded companies of whatever kind usually fund this work, as with the initial stages, from company budgets. A projection of the net income that may eventual result from ticket sales also forms part of those budget calculations. Private and independent producers tend to invest their own money in the initial stages but raise investment capital from external sources for the production itself. There are many exceptions, but full production budgets for even a mid-scale work may run from a few hundred thousand pounds for a small play to several millions for a major musical. For opera and ballet, the true costs are more difficult to assess as some elements are accounted within a company’s annual operating budgets, but it would not be unusual for several hundred-thousand pounds to be expended on the hard costs of the production (mainly the creative team, sets, and costumes).
Taking the private sector first, once the production is on stage and open to the public, the producer’s concern is to ensure weekly running costs are less than the net income from their share of ticket sales. Those costs will typically include a weekly fee to the producer for managing the performances as well as royalty payments, initially at reduced rates, to the copyright holders and possibly also the creative team and producer. Any excess of income after deducting these costs is then applied to recouping the capital cost of the production. Over time, the production costs may be fully repaid to the investors, at which point it is usual for the producer to retain 40% of any further profits while the remaining 60% is divided among the investors in proportion to their investment. There are variations to this model. One occasionally employed is “pooling” income, a practice more common in the USA but, whatever the formula, the principal of dividing profits between investors and producers once investment capital has been recouped, remains standard. Note that because producers charge management fees as part of the running costs, they can operate profitably even if a production never recoups the capital invested.

Companies dependent on subsidy operate the same market model but retain all the income due from their share of ticket sales. That is to say, there are no investors with whom that income must be shared. Once subsidy has been awarded, in the form of non-repayable grants-in-aid, the company in effect becomes both investor (with public funds) and producer. This remains true regardless of the profits or losses that may accrue over time. Subsidising bodies take no financial or legal interest in the works created with their funds.
Motivations

All the interviews began with a discussion about motivations; that is to say, the reasons for decisions and actions intended to result in theatre productions being created and eventually performed on stage. The aim was to understand respondents’ endogenous rationales for action rather than those resulting from any external influence, such as contractual obligations. The inherent conditionality of inducements, inspiration, skills, aesthetic preferences, opportunities, and similarly situated influences, make this proposition impossibly complex - such that the extent to which it was achieved will always be disputable. The answers were nevertheless informative and revealing even when taken at face value.

First answers did tend to relate to the interviewee’s position; referring to responsibilities rather than personal ambitions or any emotional, financial and intellectual rewards they might seek. However, as conversations continued and questions attempted to circumnavigate this professionalism, the answers from all the respondents became increasingly similar, inclining towards a common desire simply to exercise and fulfil personal judgement. It seemed that the ability to express an idea or a desire, manifested in the production, lay at the centre of the producers’ motivations. In all but one case, money was said not to be the primary factor. As one independent producer put it:

The motivation that is always conspicuously absent is - how much money can we make out of this. Rather it's what is the project, what is the work? First comes the project, then the sums.

From the most determinedly independent to those reliant upon state subsidy, all claimed to be motivated by their work and not primarily by any financial rewards. Neither did this vary among the wide variety in approaches to theatre, some intensely political and others concerned only with entertainment, nor the types of work produced - opera, drama, ballet, pantomime, or whatever. Noting this in the conversations, it was suggested by some that this is a characteristic of the arts. Others, though, did not see themselves as a part of an “arts community” and were reluctant to give their work that label (or indeed, any label).

But there was one interviewee who initially claimed to be motivated primarily by money; an independent producer with interests across the entertainment industry. Even this claim, though, moderated with further questioning. When asked if he thought there might be easier and more profitable ways to make a living, the answer was “yes, probably, but I just love theatre”.

Emphasising the point, all the producers, regardless of how they financed their work, claimed to be continuously motivated by the quality of a production (a definitively subjective matter, of course) that could, through their endeavours, eventually reach the stage. The nature of those productions varied considerably, covering the full range of genres (if that range has limits) even while all claimed to appreciate and recognise qualities in genres outside their own interests.

That said, when speaking of other producers rather than themselves, criticisms were aimed in all directions: from those who viewed themselves as privately financed and those in receipt of subsidy, each inclined to a general line of accusation about the other. Several within the subsidised
sector suggested that “commercial” producers lived off the back of the subsidised companies and, to paraphrase, produced endless pap, while some of independent producers claimed that it is they who set the standards for highest quality productions, are the most innovative, and who provide the mechanisms and the risk capital that can exploit the few hits that the subsidised sector generates. These kinds of claims tended to be formed around convenient stereotypes, ignoring many exceptions across the industry. But, when further explored, views moderated considerably; the more that was said, the more the work of others across the industry, regardless of financial sources, appeared to be appreciated and, often, admired.

Among producers accustomed to co-production between sectors, motivational differences were assumed to exist but, at the same time, there was clearly a considerable degree of trust between the producing parties. That trust ensured that those motivational differences were no barrier to cooperation; each seemed to understand the rationales of the other, and be prepared to give and take to ensure both sides share risks and rewards fairly.

Of course, it is not enough simply to think of motivations as personal desires without some reference to the nature of those desires. There were no clear explanations to this inquiry; most had neither considered the question or could not find a satisfactory way to frame their thoughts. But while producers from both sectors had much in common, those from the subsidised sector, whether independent or company-based, small or large scale, tended to express their aims as artistic and curatorial. Values were claimed for their work that transcend entertainment, even while acknowledging the necessity or desirability for attracting audiences. It could be said that they gave greater importance to artists’ ideas than to audiences’ receptiveness; in Isaiah Berlin’s expression, quoted by a senior manager, they argued art to be “… a voice speaking, an effort to embody a vision in a concrete material form”\(^1\). The privately financed producers (but not necessarily the independent producers as a group) tended to avoid these kinds of explanations but still referred to “the power of theatre”, “emotional involvement”, saying that “great theatre just connects with people”, that it “explains people to themselves” and, “draws you into another world”. Is it only the language that differs? Beneath these expressions, it is tempting to suggest they were all speaking of the same thing.

More partisan views were expressed over the commercialisation of productions that originated in the subsidised sector; a process that appears to broaden the motivations driving the subsidised sector. In the interviews, it was not just the co-production of these works that was of interest, but also the practices of the subsidised sector that employ private sector business models. At the time of the interviews (Autumn 2014), the Royal National Theatre’s production of *War Horse* was the most frequently cited example. In this instance, the RNT has developed over several years a production based on Michael Morpurgo’s book of the same name. When it became clear that the stage work was going to be a hit, the RNT rejected invitations from private sector investors and producers to transfer it, initially, to a West End theatre, choosing instead to use their own funds to the same effect. The result is that the RNT now retains both a producer’s and the investor’s share of profits from worldwide exploitation of the work. There have been many other examples where subsidised companies have exploited successful productions (at the time of writing, the RSC’s production of Roald Dahl’s *Matilda* is back in London after several years of

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commercial success in the USA, Australia and elsewhere) but the practice is far from new. From the RNT’s point of view, they can claim to have used their resources wisely, producing large profits to support their work generally. This strategy gained praise from some in the subsidised sector, but also some criticism for, on the one hand, risking public funds (on the basis that the venture could have been a failure) and on the other that the RNT already enjoys far greater state support than is available to other companies. Several interviewees made the point that the senior executives at the RNT had the knowledge and experience to exploit the production - resources sometimes lacking within the subsidised sector.

Criticisms based on the risks of commercialising subsidised productions were also made by some unsubsidised independent producers as part of a broader range of challenges to the justification of, as one producer put it, the RNT becoming “an impresario with public funds”. If the notion is correct that subsidy is a response to market failure, this complaint appears to have merit; it can hardly be argued that subsidy made possible what the market could not provide if the principal justification for the RNT’s initiative followed from strong market demand. That argument ignores, though, the costs and risks of production development and the high cost of constructing an organisation of sufficient artistic strength and executive experience to be capable of undertaking that work. Nevertheless, there was clear irritation as comparisons were made with the risks, and the severe consequences of failure, commonly born by unsubsidised independents.

Whatever the origins of a production, the comments provoked by War Horse have implications for the inherent motivations presumed to be concomitant with subsidy and private finance. The subject was raised several times during the Show Business Symposium last year1 when the long and uncertain processes involved in making grant applications were contrasted with the speed and opportunities that private finance offered; a contrast notable for the very few sources of public finance compared with the multiple sources of private finance. Reflecting on this during the interviews led to a further observation that each of these sources were controlled by different decision processes. As public funds have few sources they also have few decision-makers, whereas the private sector is an almost boundless field of individual decisions. Speaking of raising private finance, one producer put it that “If you don’t get it in one place you go to another, and another, and so on until you run out of energy or get your money”. It was not discussed in the interviews but, with respect to grant applications, this observation is redolent of the broader criticisms of monopolies; that they run counter to the principles of competition in free-market economies. It raises a pertinent question: do the disadvantages of monopoly, in this case for the provision of state subsidies for theatre, apply equally to the public and private sectors?

1 Show Business Symposium, organised by Farnham Maltings at the Royal National Theatre, June 19th 2014
Restraints

At the root of producers’ motivations appears to a desire to exercise personal judgements freely. Those judgements, though, are conditional; constrained and directed by many factors. This section is concerned with the restraints arising from the different sources of finance and the conditions imposed by funding agreements.
Most independent producers using private finance do not generally invest capital in their own productions but they do often bear the costs of early development; acquiring rights, commissioning scripts and music, and undertaking all the work necessary before a prospectus can be placed before potential investors. Development costs of between £50,000 to £200,000 were mentioned in the interviews, with a high rate of failure and often after many years of work. Just to test the viability of a project is considerably less expensive, perhaps just a few thousand pounds, but the capital required to develop a production to the point where it can be externally financed is high; thus raising a high entry barrier into the business. Quite obviously, producers are generally free to make decisions according to their own judgements throughout this stage although the process often uncovers considerable constraints imposed by rights-holders, incomplete material or the need to revise a work for the stage.

When private external production finance is finally acquired, the contractual constraints are relatively few. The object for producers and investors alike is to recoup the capital as soon as possible from performance-generated profits, then continue its exploitation for as long as possible and as widely as possible. For the producer, there is the additional prospect of management fees payable weekly throughout the life of the production. Once again, trust was reported to be a fundamental requirement in this model; trust in the producer’s judgement, trust that he or she will do their professional and honest best to ensure the production is a financial success, and, if it isn’t, trust that the investors will take it on the chin.

When asked if the state would be an acceptable investor most of the unsubsidised independents surmised that the application process would be too lengthy and uncertain and, even if successful, conditions would be imposed that might compromise the producer’s decision-making authority, forcing them towards actions that may run contrary to their best judgements. Trust, in this scenario, was assumed to be all but absent; not because of any fear of dishonesty but fear that those representing state funds would not understand the underlying production rationales, the intricacies of this operational model, and the personal risks involved. Even if they did, respondents believed the rules set and imposed by a state funding bureaucracy would always take precedence over pragmatism and the interests of the production.

Posing similar questions to producers dependent on public funds, all spoke of the restraints on personal choice (often referred to as “artistic judgement”) arising from their responsibilities to provide public benefit. Restraints appeared to be most severe among the directors of large theatre companies (opera, dance, and drama) as they arise not just from the demands of funders but from the needs of their own organisations. Most commonly mentioned were: budgetary limitations; the tastes of audiences in regions and venues they would not, left to themselves, choose to visit (a subject felt acutely in negotiations on repertoire with tour venues); the technical characteristics of tour venues; the need to meet projected sales targets formed long before decisions on repertoire; the likelihood of attracting sponsors; the need to train, develop and reward company members; and curatorial obligations to certain repertoire (classic works). It should be noted, though, that nearly all the interviewees thought that funders’ requirements did not run contrary to the purposes of their companies nor their own artistic ambitions. In that regard, none of those interviewed, whatever their sources of funds, found educational activities or the need to extend access to the performances, as unreasonably restricting.
From each side of the funding divide there appeared to be a marked difference between how restraints were perceived and experienced on the other side. On one afternoon of interviews, a leading commercial producer rejected any thought of subsidy because of the compromises he believed would be required. Then, a few hours later, a small-scale subsidised producer rejected private finance for exactly the same reason. This brief anecdote may simply indicate a preference for established practices or, perhaps, the influence of personal political ideals. But just as likely is a profound misunderstanding of the other’s operating paradigm and techniques. There are differences, of course, but they appear to result from operating models as much as sources of finance; the constraints experienced by the management of the Royal Opera, for example, will differ from those of an independent producer, regardless of funding sources.

Less obvious are the differences that finance makes on production budgeting. Without a realistic prospect of sponsorship, producers reliant on subsidy construct their production programmes within budgets largely defined by that subsidy and an uncertain projection of their share of box office income. In the private sector, several producers claimed they could, within limits, alter budgets by increasing or decreasing the capital investment required. That would become more difficult once production capital was raised but, during the period of production development, changes could be made to take advantage of, for example, casting opportunities or theatre availability. As one producer put it “If I really want to do it, and, say, a star cast costs much more than I anticipated, I raise more money and extend the recoupment period to keep running costs down”. There will always be limits defined by potential profitability but, to the extent that this is true, it does mean that within the private sector the number and scale of productions are not limited by preset budgets but rather by how the package of script/music/cast/the producer’s record, and other factors, appeal to investors. These descriptions were from producers working on a large-scale; three were reliant on subsidy and four independents using only private finance.

Several small-scale independent producers reported different experiences with fund-raising practices and opportunities. For example, it was mentioned that producing with commissions from festivals offered much greater flexibility than either regular subsidy or private finance could offer. What these experiences do not address is how the availability of different forms of finance relate to production types. Many of the works produced, particularly in opera and ballet, have little or no prospect of recovering their costs, making some level of subsidy or sponsorship essential.

Co-production

A wider range of funding models come together in co-production. They occur most frequently between drama and musical producing organisations where the different interests of producers and their sources of finance can be effectively interlaced. There are occasional examples of co-production in opera and ballet with the private sector; Raymond Gubbay, for example, has done so with both, and some of Matthew Bourne’s productions (the New Adventures company) have been financed with both private and public funds using an innovative production model, but, compared to co-production of drama and music theatre, they are uncommon. A glance at the programmes of regional producing companies, such as the Birmingham Repertory Theatre, Sheffield Theatres and Chichester Festival Theatre, show just how common co-production
arrangements have become. While independent producers have always formed and reformed
alliances over individual productions, it has now become increasingly common between
subsidised producing organisations as well as privately financed independent producers and
subsidised companies. Opera and ballet companies do also co-produce between themselves,
often in collaborations with companies overseas, but these arrangements tend to be limited to
the physical production and embedded copyrights. Rarely, it was said, do they involve in any
further exploitation.

This production of *The King’s Speech* is a current co-production between two producing/presenting theatres
in receipt of subsidy, the Birmingham Repertory Theatre and Chichester Festival Theatre, and a number of
independent producers: Mark Goucher, Tom O’Connell, Anne Pinnington, Lee Menzies, Laurence Myers
and QNQ (all as listed on the production website). There is nothing about the production that, in itself, would
mark how the production was funded.

For some 40 years, Chichester Festival Theatre received no public support (until 1995). Even now, although
supported by Arts Council England and its county and district local authorities, the operation of its smaller
auditorium, the Minerva, is largely supported through the main auditorium and the commercial exploitation
of many of its productions.

Credits: Raymond Coulthard as King George VI and Jason Donavan as Lionel Logue. Photo: Hugo Glendinning
In practice, co-productions can arise in many different ways but those mostly referred to in the interviews can be categorised into three models:

1. A subsidised producing company creates a stage work that is later perceived by an independent producer, often during its early performances, to have a financially valuable life beyond its home-base performances. Assuming the producing company has copyright agreements in place for further performances, the independent producer will usually take on all or part of the costs in reproducing the work for touring or transfer to London. This arrangement can reduce net costs for the co-production and may produce income in the future, but it does nothing to improve the quality or reduce the cost of the original production while the independent producer may still have to meet the substantial costs of recasting, rehearsing, and any alterations to sets and costumes on top of other transfer costs. Financial benefits to the original producer are usually limited to a fee for the rights and a small royalty, typically between 1% and 3%. The independent producer is spared the development work, some of the production costs, and uncertainty over the quality of the work.

2. A producer from either sector, public or private, acquires performing rights to a work then collaborates with another producer for its development and production. In these cases, each party will hold rights relevant to their own interests. For subsidised companies, this usually means retaining all rights and income to performances in their own venue, while the independent producer will take all other rights (within territorial limits defined within a copyright licence) and pay a small royalty to the subsidised co-producer. In many cases, the inclusion of a London run is a pre-requisite in the arrangements.

This production model has the advantage of ensuring the cast is contracted to cover both interests, and that the sets and costumes are designed for both purposes. For the subsidised producer, the introduction of new capital may also have the added benefit of raising the original production quality, thus further increasing the chances of financial success. Some subsidised companies may also have the right to introduce additional capital to the independent production, entitling them to an investor’s share. As this share has no value until production costs have been fully recouped, in practice it may be worth less than the standard royalty. However, where a production has long-lasting financial success (a comparatively infrequent occurrence), the additional investor’s share can be valuable.

3. A less common model of co-production involves a consortium of producers and theatre managers from both sectors. The inclusion of theatre managers is crucial to their viability, guaranteeing a minimum future income and thereby defining a maximum production budget. The two most significant differences between this model and those mentioned above are (i) the dependence on presenting theatres within the consortium to guarantee performance fees from which a fixed production budget can be calculated, and (ii) compromises necessary to satisfy the differing interests and views of the consortia members. The counterpart is a significant reduction in the producer’s risk, which is then reflected in lower production fees. Consortia productions are discussed further in the next section.
The Sheffield Theatres Trust is both a producing and presenting organisation skilfully combining public and private sector finance to achieve its objective to provide a wide range of theatre to both to the local community and nationally. Earning over 80% of its income, it demonstrates well how subsidy supports and enhances traditional business models.

Above: Sheffield Theatres two venues, the Crucible and the Lyceum.

Below: The Sheffield Theatres production of Cole Porter’s *Anything Goes* in collaboration with Stage Entertainment. This kind of cooperation is commonplace, integrating public and private funding to the benefit of both parties.

Photograph by Johan Persson
In discussions with the interviewees it was universally acknowledged that in all co-productions trust between the parties is essential. Each side has to agree on budgets, the creative team, cast, and all matters that will affect both the performance and production quality. As interviewees explained, financial viability as much as artistic value are at stake and may at times be in conflict. Some of the co-production relationships, where trust has built up over time, are now long-lasting. In practice, private and publicly-funded producers not only work well together consistently, but many thought they can produce better work and at lower cost that might otherwise be possible.

Co-productions are particularly valued for reducing risks and increasing total audience numbers, while offering the prospect of a stream of unbudgeted income for the public sector partner.

**Risk**

The unpredictability of artistic success and financial earnings constitute the greatest risks in theatre production. The interviews revealed some differences in how these risks are calculated, managed and attenuated within the public and private sectors.

Several interviewees noted the common misconception that producing new work is inherently more risky than reviving old established hits. While there are indeed low-risk production titles (big musicals, some classical ballet, popular opera and, with the right casting, a number of plays can fit this description) it is also quite common for well-established titles to fail and new works to succeed. Discussing this in the interviews, the point was made that the established and successful titles have been filtered over many years from a much larger number of productions. In other words, few will succeed within any year but those few become a significant many over time.

Producers in both sectors claimed that most new work is not actually commissioned merely for financial success but in the belief that quality, however perceived, leads naturally to that outcome; in other words, that quality also reduces financial risk. This was another area where, so it was claimed, each sector misrepresents the other; some publicly-funded companies and producers claiming that “artistic quality” was not the first concern of the private sector and that subsidy enables artistic risk-taking and higher production standards. It was a claim vehemently denied by private sector producers, who claimed again that it is they that set the highest standards and that subsidy enables creative indulgence which, in turn, can result in works of no public interest. Many exceptions to these generalisations were noted (on both sides) but were treated as just that; special circumstances or work from creative teams of exceptional talent.

Following these thoughts were observations of how the most unlikely subjects can become established hits; “Cats” being the example most cited. It was argued that the imagination and skill from which these productions arise gives the lie to accusations that only the subsidised sector produces innovative work. It is a point made with considerable historical resonance. As it was described in the interviews, the process of creating these works is one of individual vision;

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1 To quote one interviewee: “Brits were not known for dance, the director was untested with musicals, the New London Theatre was on the West End fringes and had a poor record for hits, the lyricist was a dead poet, and the producer was said to be short of money at the time.”
post hoc, the most successful creations can look so obvious. Many of the producers’ decisions lie behind this unpredictability. Without public funds, the frequency and scale of risk-taking has to be contained; the costs of intermittent failures could be carried but regular failure is unsustainable both financially and reputationally. Indeed, as it was pointed out, it is highly unlikely that investment finance could be raised by private sector producers without a strong record of recoupment, if not outright profit. This greatly restrains unsubsidised independent producers’ ability to act freely, although a number claimed they would prefer not to produce at all than take on a project they did not really “believe in”, whatever its financial potential.

As mentioned earlier, co-productions can share costs, increase potential for future income and improve production quality, but they do not always reduce overall risk. But this can be achieved through consortia-financed co-productions. The principle here is that a number of venues agree to present a work even before it is produced, guaranteeing fees sufficient to support both the production and its subsequent performances in their venue. The arithmetic is crucial, both in assessing production costs and the minimum sums required for the performance guarantees. All parties to the consortium have a say in the production detail and hope that they can further agree which venue has which performance dates post-production. A great deal of trust is required to make this work and, in practice, considerable give and take is needed. Where these tours are successful the risks for the producer are much reduced - along with the production fees. The Music & Lyrics consortium is a current example of this production model:

Music & Lyrics Ltd is a nationwide consortium comprised of the UK’s major independent touring theatres. Each member of the consortium shares equal responsibility for the decision making that leads to the selection of tours. We aim to create successful and engaging productions by allowing each venue to take control of their programming agenda giving them a real and direct stake in the success of each production. We share best practice in terms of marketing, of production and of education and audience development and this fosters the real and genuine involvement and sense of ownership by consortium members’ staff teams. A great idea in one theatre can be shared widely and the benefits felt by all. By pooling expertise you have a real sense of everyone pulling together for the common good.

This production model requires no direct subsidy (although the venues themselves will almost certainly be in receipt of subsidy in some form) so it is interesting to note its cooperative structure, shared risks, the low levels of any profit distribution, as well as the reference to “the common good”. This is a private sector model designed for public benefit, making it, along with co-production more generally, a strong example of public/private financial interdependence.

Nevertheless, while capable of achieving high quality productions, one criticism was made several times: that those same collaborative characteristics lead naturally to a preference for safe and unadventurous production titles. The innovation often associated with artistic direction and private production would, interviewees thought, be difficult to achieve while satisfying the interests of all consortium members. It seems that the cooperative nature of consortia can be both their strength and their weakness.

\(^1\) http://www.musicandlyricslimited.com/about-us/
Organisationally, most of the independent producers reported intentionally maintaining a small staff and low administrative overheads to reduce the financial consequences of reduced or unprofitable trading. Additional staff and associated costs are then funded separately within each production budget as needed. A small number of the large-scale producers did report the need “to feed the machine”, as one put it, sometimes producing work just to cover overheads rather than from any aesthetic or purely theatrical judgement. The large-scale subsidised companies had less flexibility, being largely unable to re-scale their operations to meet changes in projected income - changes that may be unpredictable and beyond their control, perhaps following policy shifts by funding bodies or an unexpected shortfall in ticket sales.

Before proceeding to discuss the presentation phase, it may be helpful to review the principal sources of finance for each of the production models discussed:

<table>
<thead>
<tr>
<th>Producer</th>
<th>Financial Element</th>
<th>Typical Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent privately funded</td>
<td>Cost of development</td>
<td>Own resources</td>
</tr>
<tr>
<td></td>
<td>Capital finance</td>
<td>External investors</td>
</tr>
<tr>
<td></td>
<td>Producers’ income</td>
<td>Fees for management, royalties and share of profits</td>
</tr>
<tr>
<td>Independent subsidised</td>
<td>Cost of development</td>
<td>Subsidy, retained profit, projected income</td>
</tr>
<tr>
<td></td>
<td>Capital finance</td>
<td>Grants, advance fees from co-producers, and commissions</td>
</tr>
<tr>
<td></td>
<td>Producers’ income</td>
<td>Box office share, royalties from co-productions</td>
</tr>
<tr>
<td>Subsidised company</td>
<td>Cost of development</td>
<td>Company budget</td>
</tr>
<tr>
<td></td>
<td>Capital finance</td>
<td>Subsidy, possible sponsorship</td>
</tr>
<tr>
<td></td>
<td>Producing company income</td>
<td>Box office share, royalties from co-productions</td>
</tr>
<tr>
<td></td>
<td>Executive producers’ income</td>
<td>None - company salary</td>
</tr>
<tr>
<td>Consortia</td>
<td>Cost of development</td>
<td>Consortium</td>
</tr>
<tr>
<td></td>
<td>Capital finance</td>
<td>Advance fees from consortia members</td>
</tr>
<tr>
<td></td>
<td>Producers’ income</td>
<td>Percentage of sales or fee. Lower producers’ share</td>
</tr>
<tr>
<td></td>
<td>Consortia income</td>
<td>Venues, as investors, receive a higher share of ticket sales than under standard agreements</td>
</tr>
</tbody>
</table>
2. PRESENTATION

Financial Models

With the production process complete, arrangements have to be made with theatres for performances. The place of performance is also the point at which public and private finance interact within two different business operations: creation and presentation. Performances are then at the financial nexus of the theatre industry.

Some of the subsidised producing companies operate their own venues and treat the costs and all the performance income as a part of their trading profit/loss accounts. This obfuscates or even ignores the workings of the financial model. But in the majority of cases venues are independently managed, requiring contractual arrangements, “deals”, to be agreed between producer and venue management that unavoidably expose the intricacies of the model, aiding analysis and strategic decision-making.

Outside London, the formats and conditions of the deals are long established. While always open to small differences, they tend to be similar across the country. In all cases though, income from ticket sales has to be divided between the producer and the venue operator (after the deduction of VAT) through a formula based around variations of one or other of these arrangements:

<table>
<thead>
<tr>
<th>The Deal</th>
<th>The Producer</th>
<th>Risk</th>
<th>The Theatre Operator</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>A rent is paid by the producer, who then retains all ticket sales less any contra charges</td>
<td>High</td>
<td>Receives the agreed rent and charges for any additional services and supplies</td>
<td>Low</td>
</tr>
<tr>
<td>Split</td>
<td>Usually something between 70% to 80% of ticket sales</td>
<td>Moderate</td>
<td>The balance of 20% to 30% of ticket sales</td>
<td>Moderate</td>
</tr>
<tr>
<td>Guarantee</td>
<td>A fee is paid by the theatre for the production</td>
<td>Low</td>
<td>Pays the fee regardless of ticket sales</td>
<td>High</td>
</tr>
<tr>
<td>1st Call</td>
<td>Takes the first £x of ticket sales</td>
<td>Moderately low</td>
<td>Retains all ticket sales after paying the 1st call to the producer</td>
<td>Moderately high</td>
</tr>
<tr>
<td>Layers</td>
<td>Combined deals. For example, the producer may take a 1st call, then the venue a 2nd call, then split any further income.</td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
</tr>
</tbody>
</table>
There are, though, some adjustments to make before the financial shares can be calculated. The most common are these:

**Royalties:**

Payable as a percentage of ticket sales for copyright licences and possibly to certain members of the creative team. The cost of the royalty package is taken “off the top” before any splits or calls are calculated. Guarantees and rents are not affected by these deductions.

**Contra charges:**

These are costs charged to the producer by the venue for services and goods that are not supplied by the venue under their standard contract. Technical and catering requirements are the most common. Most charges also carry a mark-up from actual costs.

**Transaction charges:**

Usually deducted from ticket sales, these cover agency commissions, banking charges, and credit/charge card commissions borne by the venue.

**PP seats:**

“Private Property” seats are treated as though owned by the venue or a 3rd party. Even though they may be sold to the public, the revenue is then treated as being outside the deal with the producer and thus excluded from sales calculations.

**Restoration levies:**

Sometimes charged by the venues for the maintenance of the buildings, particularly where they are historic or carry obligations as listed buildings.

As the interviewees confirmed, all these charges can give rise to tensions, if not outright disagreements, between venues and producers - issues addressed in more detail below.

Performance is the only point in the life cycle of productions where financial value is realised. Up to that point it has been estimated and budgeted but never known. Even then, as both producers and venue managers emphasised, the financial outcome of the next performance will always be unpredictable.

Excepting cases where subsidised producers also operate their venues (the Royal National Theatre and Birmingham Repertory Theatre being two examples) all presenting venues work with business models that follow similar traditional practices.
Most, if not all theatres, whether producing or presenting, receive subsidy in some form; some indirect, such as rent-free property, and some directly in cash from a local authority or arts council. How much subsidy a theatre requires is a function of its size, technical facilities, audience demographics, and management skill. As the interests and the intentions of both producer and venue are to sell the maximum number of tickets, there is a common aim in achieving market efficiency. The interviews threw a strong light on this model, exposing its merits, its problems, and the complex integration of public and private finance.

The Gross Margin

Theatres are expensive to run. Outside London’s West End, even mid-scale operations (typically venues of between 600 and 1,000 seats) can cost more than £1 million per annum to operate even before adding in the costs of the productions. To analyse this model, it helps to separate net income from ticket sales (“the gross margin”) from the costs of the general operation. The gross margin (GM) is calculated from the residual income from performances after deducting the costs of productions:

Calculating the Gross Margin:

<table>
<thead>
<tr>
<th>Income from Ticket Sales</th>
<th>Less</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The production deal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transaction charges</td>
</tr>
</tbody>
</table>

= The Gross Margin

Financial data has been assessed above in the section 3, but the sensitivities and risks inherent in the standard models, extensively discussed in the interviews, deserve further explanation. They profoundly affect managerial decisions and can be strongly influenced by subsidy. At the base of all theatre economics are four factors: seating capacity, ticket yield, programme, and programme density. Taking capacity first, the balance between cost and income becomes theoretically more favourable as seating capacity increases. The relationship between costs and income are not directly proportional; overheads do increase as capacities increase, but not as quickly as the potential gross margin income. The following diagram describes the relationship:
The actual number of performances per annum in receiving theatres varies considerably. The interviews revealed a span of 210 to 520, while the average given by UK Theatre using their own survey data is 312. The venue managers interviewed thought the differences in programme density could be explained by individual circumstances as much as by operational policies. Programme quality and density are fundamentally responsive to three factors: (i) the availability of appropriate productions, (ii) the risk profiles of the deals that can be negotiated, and (iii) the physical characteristics of their venues (especially the number of saleable seats).

Ticket yields are less than average ticket prices given the range of discounts and sales incentives applied. But quite obviously the higher the yield value the larger the potential gross margin gains. How programming affects gross margins is more complex, but two factors are dominant: (i) productions vary to the extent they can support high ticket prices, and, (ii) conditionally, higher programme density results in greater financial efficiency. These factors also result in an interesting paradox; that performances by large subsidised companies, especially opera and ballet, can produce larger gross margins for the venue because of their high ticket prices and, generally, high levels of attendance. The result is higher net income for the comparatively unsubsidised venues. However, that would not be the case were those companies to charge the full cost of their productions. In effect, both the companies and the venues depend on subsidy to reduce their weekly performance costs to a level that fits with the traditional theatre deals. As some of the interviewees noted, this creates an interesting contrast with some European theatres that receive subsidy sufficient to pay the full cost of productions. The choice of where to apply subsidy results from tradition and political choice.
For all theatres operating below the break-even point, losses have to be subsidised if the
venue is not to become insolvent. In the case of regional venues, cash subsidies are usually
provided by local government or, in a few instances, by arts councils (and sometimes both).
Subsidies also come in less obvious forms. Very few theatres pay any rent to their local authority
freeholders, and many benefit from further support with building maintenance. Additionally,
theatres operated by charities enjoy central government subsidies in the forms of business rate
relief, tax benefits (Gift Aid and Corporation Tax exemptions) and, conditionally, the VAT
Cultural Exemption. The graph above takes these benefits into account as many, if not all, are
presumed within the standard business models. Very few regional venues could justify a claim
to be profitable were all these subsidies removed.

Operating Models

Three types of organisation can be found operating regional venues and were represented in the
interviews:

i. Subsidised production companies. These tend not to treat their venue operations
separately, viz. as discreet businesses in their own right, making it difficult to calculate
their trading profit or loss. In these cases, the costs of venue operation are usually
subsumed into the overall costs of the producing company, thereby forming an
unspecified part of its applications for subsidy.

ii. “Receiving theatres” operated by independent trusts, usually with charitable status.
These theatres do not generally produce the work they present on their stages; hence
the rubric “receiving” (sometimes referred to as “presenting”). They range from small
theatres and arts centres with a turnover just a few thousand pounds (Cumbria’s Rosehill
Theatre, for example) to large scale “No 1 Houses” like the Birmingham Hippodrome
(with a turnover more than £30 million and employing some 200 people). Even though
they may be charitable trusts, their operating models are usually similar to those used
by private profit-distributing companies.

iii. Private profit-distributing limited companies. There are a number across the UK but
two dominate through their operation of theatre chains: ATG and HQ Theatres, the
former being the larger. There are variations in the business models of private operators
but, as regards the interplay of public and private finance, the principles are much the
same. Most are consistently, if weakly, profitable yet, excepting any West End theatres,
most of their venues receive subsidies in some form.

Although, for the most part, theatre freeholds are still held by local governments or trusts,
their operational re-acquisition by the private sector follows the privatisation process begun in
the mid-1970s, driven either by increasing losses under public management or under the force
of political policy. Theatres are still being tendered across the UK as loss-making operations.
Generally (but not always) they do become more successful under private management. As a
result, as interviewees attested, total cash subsidies to receiving theatres have been in steady
decline for some years without any associated decline in the quality or quantity of their work.
The explanation for these improvements is not difficult to identify and emphasises just how
interdependent the public and private sectors have become. Two primary factors are in play: firstly, that in almost every case private operators of receiving theatres appear to be substantially more efficient when measured by the number of productions presented, the financial deals negotiated, and the consequential levels of public attendance, all of which result in improved profit/loss outcomes. Secondly, the comparative size and financial strength of the leading operators, and their independence from local authority budgetary constraints and political decisions, can lead to greater investment in the buildings and operations.

A typical privately-operated mid-scale venue might turnover around £5 million per annum yet depend upon subsidies amounting to perhaps less than 5% of that figure. Profits can be distributed partly in the form of fees to a holding company. As these fees are included in a theatre's expenditure accounts, they are also part of any subsidy calculation. As subsidies have reduced, the theatre operators have effectively financed their own fees through operational efficiencies.

For local authorities, the prospect of reducing or eliminating a cash subsidy without any loss of service provision is understandably a strong incentive to contract-out or contract-away the management of a venue. These contracts are commonly structured as subleases on the theatre buildings accompanied by some form of management service agreement. Note though, that even where no cash subsidy is paid, the buildings are usually rent-free, although profit-share arrangements are often built into the contracts. One interviewee made the point that these payments could be interpreted as rental payments calculated by affordability.

All interviewees with experience of receiving house operations reported very tight trading margins that, without subsidies in cash or other forms, would make their operations either loss-making or involve unjustifiable risks. In business terms, those subsidies have very high leverage. For proportionately small amounts, substantial public services can be maintained. They are an effective mechanism for the support of complex businesses that also provide important public goods.

A closer look into the differences between the three operating models reveals another geared relationship; one that operates in different ways between producing and receiving theatres. In the case (i) operating model above, a company’s financial deficit will generally grow larger as more work is produced and presented. As the cost of each production is often greater than can be recovered at the producing theatre's box office, the number of productions that can be staged is limited by the producing company's cash resources - whether or not a subsidy is included. This factor becomes most apparent in opera and ballet companies, where production costs are comparatively high. In cases (ii) and (iii), the more performances presented the greater the total gross margin profit (or the smaller the loss) as the proportionate increase in the costs of the operation are smaller than the gross margin gains (subject, of course, to there being a minimum number of tickets sold as an average). This principle was described in the diagram above.

Producing theatres have two responses to these correlations: firstly, to seek co-productions with other producers in order to reduce their own production costs and extend potential income beyond the limits of the home theatre, and, secondly, to use their venues as receiving theatres for part of the year. This second element has the disadvantage of reducing the number of home productions, even while making more money available for those remaining. Both are market responses to the limits of subsidy.
The subject of catering, mentioned briefly earlier, deserves separate attention. Unlike the theatrical side of venue operations, catering is unequivocally a commercial business from which a substantial financial contribution to theatre accounts can be generated. Public expectations have changed over the years, such that cafés and restaurants are now common in all cultural buildings, but in British theatres they have history going back to the birth of theatrical entertainment. They are not always profitable though; design, style, menus, pricing and the quality of service are only the visible end of a business fraught with uncertainties, complications and, depending on scale and management skill, often narrow trading margins. Several interviewees reported frustrations with managing the high turnover of kitchen staff and sometimes a lack of sympathy with the needs of theatre and its characteristic bursts of intense activity (predominately pre-show and at intervals) amid long quiet periods.

Yet catering also appears to be an area where the larger private commercial companies have an advantage. The higher turnover of larger operations, often trading in multiple venues, makes
the employment of a skilled management team more viable, while increased buying power greatly improves potential profit margins by unlocking suppliers’ discounts. Judging from the interviews, the least profitable operations were in smaller theatres or run in-house by their theatre managements. Larger and more consistent income was reported to result from concession licence agreements with external catering operations. Most of the latter were paid turnover rents, typically between 12.5% and 15%. Several operators reported contracting out their operations to their own catering subsidiaries, thereby holding both the concession licence fee and the trading profits, but these arrangements appeared to work best at a larger scale.

The restricted front-of-house space in Victorian theatres, many still in operation in the London’s West End and throughout the country, pose particular difficulties for the development of a catering business. But those built since the mid-20th Century have generally designed-in catering functions (with varying degrees of success), adding the potential for considerable sums to the theatre accounts and thereby reducing dependence on subsidies.

The following table summarises the income sources for theatre (venue) operations:

<table>
<thead>
<tr>
<th>Theatre Operations: Sources of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forms of public funding</strong></td>
</tr>
<tr>
<td>Direct grants from arts councils (includes Lottery distributions)</td>
</tr>
<tr>
<td>Direct grants for local authorities</td>
</tr>
<tr>
<td>Theatre Tax relief on the qualifying core expenditure on theatrical production</td>
</tr>
<tr>
<td>The Cultural Exemption from VAT</td>
</tr>
<tr>
<td>Charitable rate relief</td>
</tr>
<tr>
<td>Charitable exemption from corporation tax</td>
</tr>
<tr>
<td>Charitable Gift Aid</td>
</tr>
<tr>
<td>Capital Gain tax relief available to specified and qualifying investment schemes (Enterprise Investment Scheme, Venture Capital trust, Share Incentive Plans)</td>
</tr>
<tr>
<td><strong>Forms of private finance</strong></td>
</tr>
<tr>
<td>Private capital</td>
</tr>
<tr>
<td>Ticket sales</td>
</tr>
<tr>
<td>Catering sales</td>
</tr>
<tr>
<td>Merchandise sales</td>
</tr>
<tr>
<td>Concession licensing</td>
</tr>
<tr>
<td>Royalty and IPR licence payments</td>
</tr>
<tr>
<td>The sale of rights and options</td>
</tr>
<tr>
<td>Volunteers</td>
</tr>
</tbody>
</table>
3. DISTRIBUTION

Discussions on the distribution of funds fell into five categories: general expenditure, fees, presentation income, profits, and royalties. These do not follow any accountancy logic, but are how interviewees grouped their thoughts when questioned on the distribution of funds.

**General Expenditure**

This simply means the payment for all the goods, services and employment costs arising from both the production and presentation phases of theatre operations. These costs are reduced by the indirect subsidies of rent concessions and tax reliefs (including VAT) as discussed earlier. General expenditure transfers most income into the private sector, regardless of its source, but the subsidies and concessions are awarded at the cost of the public sector.

**Fees**

This refers to the fees paid to a production's creative team and performers, and for production copyright licences. These also transfer income to private individuals or companies.

**Presentation Income**

The distribution of gross profits from ticket sales, catering and merchandising was discussed earlier in this section. Most is paid to the private sector in the form of goods purchased, fees and other operating costs but, in the normal way, publicly-funded performing and producing companies will receive portions through the deal with the presenting theatre or producer. The majority of those funds will then be further distributed to the private sector as the trading costs of those organisations. There are no mechanisms for returning funds to the original grant-giving bodies.

**Profits**

“Profit” is an essential element in private sector financing, but a misnomer for both publicly-funded companies and private charitable trusts. For those organisations, financial surpluses, should they be achieved, cannot be distributed to shareholders but must be retained or expended in their objects. This requirement works efficiently with respect to charitable objectives, encouraging companies to maximise their earnings. Current practices for calculating and awarding subsidies, on the other hand, may work against this principle as financial gains can result in subsidy being reduced by funders. Several interviewees noted this conundrum; it may be to the benefit of the public purse but is a disadvantage to the companies concerned, penalising their financial successes and reducing their ability to further their objectives. This characteristic of subsidy was referred to earlier, when defining “subsidy” as the minimal cost of supporting the funded activities within traditional market operating models.

While those issues arise from the calculation of annual profit or loss calculations, there are still managerial advantages in analysing the financial performance of individual productions and performances, regardless of how they are funded. Private sector producing and operating companies calculate these in detail but, judging from the interviews, this is not always the case.
within subsidised organisations. Some only viewed performance sales income, from whatever sources, as being part of their overall budgeted income without isolating it to a cost centre or specific set of transactions. On questioning, this appeared to result from the annual basis on which subsidies are calculated.

Royalties

Discussions here focussed on “Grand Rights”, PRS licences being treated as general expenditure. There are royalties payable on ticket sales, to copyright owners and, selectively, to some members of the creative team. These payments are deducted from gross sales prior to any division between the producer and the theatre, and they are payable regardless of the profit or loss of any performance. If a guaranteed minimum fee is paid by the venue for the performances, the whole royalty package is, in effect, paid by that venue. The great majority of royalty payments are made to private individuals or commercial organisations (publishers, for example). No matter that productions may be created by subsidised companies or performed in subsidised theatres, the vast bulk of royalty payments go to the private sector. Where the copyright of works are not in the public domain, the total sum of royalties may well total 17% or more for a musical, although plays, choreography, music rights for ballet and opera, and small-scale works are usually much less. The important point to emphasise is that royalties are deducted from ticket sales income before any split of income is calculated between the producer and the theatre.

Interviewees spoke of royalties in two categories: those due to copyright holders under a licence agreement, whether they be for a script, music, book, or any other intellectual property, and those arising from commissions made by the producer in the process of creating a production; typically direction, choreography, and set design. Although royalties paid to any of the creative team are often bought-out with a fixed fee, in the UK the leading creators generally receive a small percentage of ticket sales in addition. Whether royalties are paid as flat fees or percentages of sales, the arrangements are a combination of tradition, legal requirements, and strategic judgement.

Legally, all original work belongs to the creator (or their assignee - usually a publisher) who then licences a copyright “restricted act”, one of which is public performance. Strategically things are more complex. Copyright owners will assess whether they will be better off relying on uncertain future royalties or a larger fee at the outset. The producer has to consider its corollary; paying flat fees reduces the eventual royalty package and thereby a production’s running costs, but increases the capital cost. Several producers described the effect of paying fees as extending the period of capital recoupment, but that ignores the increased production income from reduced royalties, even when this benefit is unavoidably divided with the theatre under the deals explained above.

The question of flat fees or royalties is one case where the use of subsidy can lead to different considerations. Naturally, all parties will be concerned to form agreements that are most

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1 The laws applying to copyright and subsequent practices of royalty payments differ according to the country where a performance takes place, its national laws, traditions, and the international copyright conventions to which they are a signatory. This report assumes only those applicable to the UK.

2 Currently, copyright endures for the life of the author plus 70 years.
financially advantageous, and, *ceteris paribus*, in this regard there is no difference between organisations working with public funds and those with private funds. However, subsidies are not repayable to their donors, removing the priority for capital recoupment.

When compared with private sector productions, this factor is further emphasised by the comparatively small and fixed number of performances likely to be given by subsidised companies, reducing prospects for royalty payments for creators. This promotes fees rather than royalties (raising initial production costs) although creators and rights holders may also bear in mind the possibility that a production might have a long and successful future life as a co-production, thereby producing long-term royalty income. The question is often resolved by requiring new agreements in the event of, say, commercial transfers, filming, or overseas touring but this has the effect of raising costs or reducing income for that prospective production.

It was said that royalties distribute money into the private sector, but there are two exceptions. The first is in the exploitation of co-productions, where a production originates from a subsidised company which then charges a small royalty to the independent co-producer. Typically, this may be in the region of 1% to 3%, with 1.5% being common. That income is then retained by the subsidised company. The second exception is quite rare. It occurs when a subsidised company makes an additional investment in the co-production with a private-sector producer; that is to say, it takes a royalty as a co-producer, as usual, but additionally provides finance for the co-production, taking an investor's share that could earn profits after capital recoupment. It may even take on the role of a commercial investor entirely, raising all the production finance itself, as in the case of the RNT’s *War Horse*.

The sums involved in royalty payments are considerable. To demonstrate this, a crude estimate can be calculated from known West End theatre data. Taking figures from Alistair Smith's 2014 report on London Theatre¹, the total ticket sales in 2012/13 amounted to £619 million. Royalty packages will vary for each show, of course, but if averaged at 12%, they will have amounted to more than £74 million. The same calculation for theatres outside London is highly speculative, but using the figures calculated in section 3, and applying a lower average of 6% (both to allow for productions that do not pay royalties and those that pay much less than the commercial averages) computes to £93 million.

There are some differences in how royalties are treated between drama, and opera and ballet companies. The total of royalties paid are often similar, typically ranging from 8% to 12%, but can, of course, be considerably less where the works performed are no longer in copyright. In both ballet and opera productions, the payment of royalties appears to owe more to tradition than logic. The lion’s share of royalties are paid to music publishers who can demand 8% or more of ticket sales for a two or three act work. For ballet and dance, choreographic royalties are generally much lower than are paid to publishers but, when added to the package², they may raise the full cost to levels similar to those of privately financed productions. These arrangements

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² Choreographic copyrights are complex and recent. Not being in “material form” until notated or otherwise recorded they were late in being added to the list of copyrightable material within the various conventions. Jan 1st 1978 is the usual date given after which choreographic works became copyrightable under US Federal Copyright Law.
The interdependence of public and private finance in British theatre

originated at a time where the costs of copying, publishing, and distributing orchestral parts represented a substantial financial investment and risk. Today publishers and composers still receive the same level of royalties without having to bear the same costs. Judging from the interviews, the question of whether the publisher’s costs still justify the royalties charged, has not been seriously challenged.

The justification for raising this question is made clear, indeed stark, when comparing music and choreographic royalties. The issue was exemplified by an example given in the interviews, in which a ballet company commissioned a new work from a choreographer who, in turn, commissioned a new music score from a young and almost unknown composer. The choreographer was offered a flat fee for the commission and £250 royalty per performances for the copyright licence. The composer, though, who had no publisher, was to receive 8% of the ticket sales. That resulted in a payment some 30 times greater than that paid to the choreographer, the principal creator and producer of the work, while the only publishing cost was copying the score and one set of orchestral parts.

Royalties for plays produced by publicly-funded companies do not generally, if ever, include payments to any of the creative team except where they are external to the company or if the performances take place away from their home theatre. An artistic director, for example, would not normally receive a royalty for directing a production in the home venue but, should the production tour or perhaps be transferred to the West End, royalties may then become payable. Two rationales for this practice were given in the interviews: firstly, that the task of directing (in the example given) may be a duty of the Artistic Director and remunerated by their salaries; and, secondly, (as mused by two interviewees) any royalty payments to staff might be viewed as detrimental to the company - in effect, reducing the company’s income. By that logic, though, royalties would never be paid to artistic staff regardless of where the performances took place, so the argument is not entirely coherent. Ballet and dance companies may also pay royalties for choreography by company members. The key distinction concerns a point made at the beginning of this section; noting the difference between the rights in an original work and any new copyrights arising in the production process. Choreography and the creation of new works may not be included within a director’s or performer’s contracted responsibilities.

It appears that how a royalty package is actually made-up for any particular production tends to be a well-guarded secret, known to very few people in the producing organisation. Indeed, the presenting venues, who have to pay the royalties to the producer, rarely have knowledge of its constituent beneficiaries. The royalty package then becomes part of the contract negotiations for performances. There is constant skirmishing for a few percentage points around these deals. On the producer’s side, royalties are the weapon of choice; what a producer has actually to pay in royalties and what is demanded in the deal with the venue are not always the same. In the interviews, a number of the independent producers admitted they have, at times, loaded the royalties package but only, they said, in response to perceived overcharging by the venues (although just as many denied doing any such thing). Those claimed overcharges by venues might be on contras, box office commissions, transactions charges, and, the more recently introduced “Private Property Seats” and “Theatre Restoration levy”. Some charges, such as credit card commissions, may be the actual charges born by the venue but may also be marked-up with a profit element. Others, such the PP seats and the levy, are said to be no more than devices
to grab back a few percentage points from ticket sales revenue. Without exception, all those interviewed treated some charges, from whichever side, as attempts to counter the charges made by the other. But then several from both sides of the argument suggested it would be better to clear out all these complications - reduce the royalties and remove the venue charges.

In addition to these royalties, theatres also bear the cost of a licence from the Performing Rights Society for the use of music not covered by grand rights. A PRS music licence permits use of music in public areas but, more importantly, PRS also collects royalties for music used in performances where there are no grand rights agreements. An example of the latter can be found in variety shows, where a range of copyright music may be used, adapted, or arranged to suit the various acts. Whereas the PRS licence is a blanket charge, the fees collected on performances are calculated from lists produced by the venue. It is the venue and not the performer or producer that pays the charge. The PRS then distribute the income to copyright holders either directly for specific compositions or, in the case of the licence fees, across its membership on the basis of sampled and proportionate uses. With very few exceptions, this is money that returns to the private sector, regardless of its origins. Across all its work, the PRS collects around £170 million per annum, of which only £50,000 may arise from general licensing in theatres. The income resulting from music used in performances produces a further £1 million. Compared with income from grand rights, these are all small sums.
Section 5
SUMMARY AND DISCUSSION

The research started with five primary questions, each of which provides a viewpoint on the overall task of investigating and describing the extent to which the rationales that lie behind public and private finance in British theatre are now interdependent. Set in the context of Britain's theatre history, and with comparative data and the information gleaned from interviews now in hand, each of those questions are now discussed.

1. In what ways, for what reasons, and in what circumstances are private and public finance jointly employed in the creation, production and presentation of the theatre in Britain?

The search for answers to this question formed the basis of the research. It has drawn on the motivations and ambitions of producers and presenters as much as their utilisation of the available funding opportunities. What results is a picture that is partly conflicted yet generally harmonious, one marked by misunderstandings yet many trustful relationships, and where different sources of finance are often jointly employed to the same ends.

Among the most notable characteristics of the British theatre industry is the underlying vocational impulse among those who work in it. Although expressed in different ways, this appears to be the case regardless of their sources of finance. But when it comes to the political economy within which this finance operates, opinions vary sharply between those who believe public subsidy provides the freedom essential for artistic creativity and those who see public-sector interventions as stifling both to free expression and free trade. Given that each side of the argument claims similar virtues and accuses the other of similar faults, these perceived differences defy simple rationalisation.

Nevertheless, both operate within the private marketplace and the flow of finance defines how its sources, and the intentions behind its use, have become interdependent. Since the mid-20th century, governments have responded to arguments that theatre provides public and social benefits which might not be sustainable solely under market logic. As a consequence, they have selectively provided financial support sufficient to counter what have been termed as market failures or deficiencies (although this concept is questioned below). Inevitably this process has been schismatic, seeming to divide those whose work requires state support from those who can operate without it. Yet, while this neat explanation may have been true when subsidy was first introduced, it does not fully describe how the industry now operates. What is missing is an explanation of how subsidy actually provides support for an infrastructure that benefits the whole theatre industry.
As publicly-funded activity relies largely on the pre-existing marketplace this question is fundamental. In practice, the effects of public and private finance cannot be isolated: creators, performers, venues, production facilities, employment opportunities - the whole gamut of the industry, cannot be separated simply by their sources of finance. And as the amount of public finance granted to theatre has grown over 80 years from a few thousand to over a third of a billion pounds annually, the industry as a whole appears to have progressively adjusted to its existence. It would not be correct to say the industry depends upon subsidy, but the continuation of its present size, variety, character, and overall financial strength, most certainly does. Noting the variety of ways public support is provided, and the mutual trust and cooperation practiced across sectors, confirms an interdependence and increasing integration of all the constituent elements of British theatre.

The cast of *My Way*, produced by The Pleasance Theatre with funds from Pleasance Futures, the development arm of its charity. The Pleasance organisation, operating in venues in London and Edinburgh (where it began) has constructed an unusual operating model, integrating earned and grant income with external producers and companies of all kinds. It classifies itself as part of the fringe but the exceptional range of its partnerships, the scale of work and the high profile of many of its collaborators, make it as an inventive, individual and vital part of British Theatre.

Photo: Jassy Earl
2. What are the comparative proportions of public and private finance employed by the two sectors?

It is one of the clearest conclusions of this research that much the larger proportion of theatre finance continues to be provided through private transactions. That said, the financial assessments discussed in Section 3 have shown just how little detail is actually known about the financial size of the theatre industry. Even public sector data, although comparatively well reported, is distorted by inclusions and exclusions to an unknown extent, while data on the private sector market can only be approximated. Nevertheless, allowing for wide margins of accuracy, there is no doubt that the public sector contributes a much smaller part: just 14% by the calculations in Section 3. The actual sums involved are considerable: private sector income into the theatre industry is more than £2.2 billion per annum while public sector support is estimated at £364 million.

These proportions do not, though, indicate their comparative importance. Undoubtedly, subsidy makes possible the creation and presentation of some theatre productions that would otherwise be financially impossible, but it also favourably adjusts risks that apply at various points across the financial life-cycle of all theatre works. In many cases, that reduced risk can then attract private finance under marketplace logic, something clearly discernible in the presentation phase of theatre works where operational margins would otherwise be unfeasibly thin or negative. In these cases it is common to find public subsidy in receiving theatres amounting to as little as 3% to 5% of turnover, but these small contributions make possible multi-million pound operations. Similarly, productions whose real costs can vastly exceed potential ticket sales (many opera and ballet productions fit this description) can nevertheless be presented when subsidy removes the necessity for full commercial deals with presenting theatres. Indeed, the major companies generally agree to a split of ticket sales knowing their share will equate to far less than actual cost. These productions not only strengthen the programmes of theatres but, due to their comparatively high ticket prices, are an important income source for venue operations. This kind of leverage is less obvious in the production phase until it is seen in a wider context in which the availability of skills, resources and a complex supporting infrastructure are concomitant outcomes of the quality, depth and scale of the whole British theatre economy.

What cannot be deduced from this data is how financial interdependence affects individual producers and presenters. Interviewees were divided when asked what effects removing all subsidy might have; some independents and privately-funded organisations believed their work would continue and perhaps even prosper if public funding were removed, whereas all those in receipt of subsidy believed it to be essential. Asking the same question on the removal of private finance all agreed the industry would collapse unless subsidies were correspondingly increased. These answers were, though, more surmise than assessment; no one has done the maths and no one can predict how the industry would change to accommodate any new funding regimes.

3. Have the rationales for public and private finance become interdependent, with each reliant on the other for achieving their separate aims?

For there to be financial interdependence, the work, the ambitions, and purposes for which funds are made available must in various ways also be mutually inter-reliant. As has been described, very
few British theatres operate without some form of subsidy. Although often small in relation to turnover, this support is assumed to be essential if they are to continue to provide the same range, quantity and quality of work. Whether operated by private, profit-distributing companies or by charitable trusts, it is only in theatres (however defined) that productions become available to the public, whether grand opera or small fringe events, or from the most financially profitable to those that depend entirely on public funding. Private sector operators, who constitute the large majority, depend upon producers just as producers depend upon venues, yet in their day-to-day transactions differing funding sources are hardly noticed. This is not really surprising; the point has been made several times through this report that subsidy is applied to long-existing operating models.

Interdependence or inter-reliance are not immediately obvious in the production phase, even when subsidised and unsubsidised producers are viewed separately. But their interdependence can be described in three respects. Firstly, all producers, subsidised or otherwise, operate in a market economy, drawing on its resources (people, knowledge, hardware, and facilities) and ultimately selling their tickets to the public in that marketplace. Secondly, the finances of each are frequently bolstered through co-productions, coalescing the ambitions and objectives of both sectors while jointly enriching the industry’s resources. And, thirdly, in a point made above, interdependence is made structural through producers’ symbiotic relationship with venues. Each needs the other just as the state, with its rationales of public benefit, needs both, regardless of their financial sources.

That synergy is more than just collaboration; it defines approaches to, and aspects of, the same marketplace; not just alliances and coincident common interests but the nature of the market itself. This leads to questions about the way subsidy is now described and in particular the concept of “market failure” (briefly discussed in the Introduction as a Keyword). Just as this axiom assumes market forces are unsuccessful in achieving what is required, it also sets public and private interests in conflict, implying that the former makes good the failures of the latter. Yet, the evidence of this research shows deeply rooted financial interdependence and cooperation between public and private sectors, both of which succeed or fail under the same forces.

A full discussion of the assumptions and economic theory behind claims of market failure is well beyond the scope of this report, but it is at least worth raising some questions. What is deemed to have failed in the market are, firstly, that desired goods are underprovided because of their high cost and insufficient demand (both as separate and interrelated postulates), and, secondly, that the whole population benefits from theatre works while few directly pay for them. These come together in the argument that insufficiently few people actually pay in the form of tickets priced at their real market cost. If those few had to bear the whole cost, the argument goes, the price of tickets would be prohibitively high. The state then makes a contribution from tax receipts that represents the missing contributions of non-attenders, thereby improving margins, increasing supply and reducing costs.

The argument that this amounts to market failure can be questioned on empirical grounds; that is to say, it appears to misdescribe the circumstances in which theatre is actually produced and presented. The political and economic logic depends on their being a definable difference between public goods and any other sort, the former carrying qualities lacking in the latter. The state intervenes only to provide universal public goods. How public goods are defined changes
over time normatively, but the principles remains fairly constant: reasons such as national heritage, educational benefits, national prestige, economic effects, and the quality of life are commonly cited. Judgements are made by funding bodies so that works deemed undeserving by their nature or quality, or that do not need financial support, are all excluded. Yet most theatres now supported with subsidies once produced and presented privately within a free market. This is true not just in theatre (as described in Section 1); for example, the oldest music festival in England, the Birmingham Triennial, was founded in 1768 to raise money for the new General Hospital from its profits, and continued to do so successfully for many years, commissioning works from Sullivan, Bruch, Gounod, Dvorak, Mendelssohn, Elgar, and others, in the process.

The point here is that the same market place once provided theatre and music works that are now, for various reasons, unaffordable. But the basic structure of the market hasn’t changed or failed, even while the transactional elements of demand, price and cost have altered unfavourably for certain kinds of productions. So it is with every product and every business, from the once mighty coal industry to yesterday’s mobile phone; changes are said to show the market working. The desire to continue to produce and experience certain theatre works might then be better described as super-requirements of the market, desired for national benefit and accordingly purchased with public funds, and not examples of its failure. It is what is now asked of the market that has changed, rather than the market itself.

4. In what ways are decisions in the creation-to-presentation-to-distribution chain of theatre productions affected by sources of finance?

Drawing on the interviews and data obtained from this research, there appear to be three distinct categories into which influences on the decisions of theatre producers and presenters fall:

1. Sources and Purposes of Finance

Differentiating choices and decisions according to sources of finance is not straightforward. Although producers tend to be sector orientated, performers, venues operators and technicians are quite mobile. But as with any social group, those who choose to restrict themselves to one or other sector appear to self-define, reinforcing their allegiances through language, presumptions and operational practices. Despite this observation, there were indications that these tendencies may not be deep-seated but perhaps easily discarded for much broader notions of theatre (and the arts generally). In fact, most decisions were thought to be more affected by function than finance; for example, the tasks inherent in running a large performing company are quite different from those of a single producer or the operation of a theatrical venue.

Caught up in this question are notions of artistic choice and financial ambitions, but the research shows that private and public finance itself does not actually divide them, even while the language in which they are expressed, and the operational models employed, may differ.

2. The Need for Earned Income

At the start of this report, a definition for “subsidy” was offered that tried to relate subsidy to the marketplace in which it operates:

*Subsidy: financial support granted by the state or a public body that represents the minimum cost of selectively providing certain public goods through transactions in the free market.*

A consequence of this definition (and the reasonable desire of governments to pay no more than the minimum required), is a constant pressure on subsidised companies to improve their levels of earned income. The table in Section 3 shows just how much the proportions of subsidy to earned income (viz. proportions of public to private income) vary according to characteristics of the organisation and the work undertaken. Companies perceived to be most prestigious and those able to exploit their productions extensively over time and distance are clearly able to earn higher levels of income, sponsorship and donations. Among productions, plays and musicals generally have the highest potential for exploitation within the market, yet high ticket prices and large audiences are still found for particular operas, ballets and, with star casting, some plays. Company directors will inevitably make decisions in the light of these factors as they try to balance budgets while still producing and presenting the works they believe to be most important to their remit and their ambitions.

3. Managing Risk

Earned income from market trading is highly unpredictable. Financial risk assessments then become an important part of budgeting as managers calculate the lowest reasonable levels of net income that might result from their decisions. As subsidy offsets trading risks, in effect permitting higher levels of planned uncertainty, experimentation and artistic risk become more sustainable. Nevertheless, as the bulk of theatre income is derived from audience numbers (materialising as ticket, catering and merchandising sales) production and programme decisions are necessarily always market-orientated to some degree. Privately funded producers may have similar motivations to those who are publicly funded but may be less able to endure losses or financial outcomes below budgets. Some differences in production choices then result, but there is nevertheless a consistent line of argument among all producers and theatre operators that quality is an essential ingredient in financial success.

In a purely business sense, organisational strength often favours larger scale operations that are better able to amortise the costs of specialist skills and achieve lower expenditure through purchasing volumes, but this is not the always the case in the performing arts. To reduce trading risks, many, but not all, independent producers said they keep employees to the minimum and ring-fence productions within separate companies. The large subsidised companies were unable or unwilling to employ this model, arguing the need to maintain the quality of their companies as a cohesive and practised group of artists, technicians and managers; viz, to preserve and enhance collected knowledge, skills and experience. This does, though, result in high overheads, a larger number of employees and more costly productions than can ever be financed from performance income. The productions of these institutions might be classified as examples of market “super-requirements” for which subsidy is essential. Trading risks may
then have less impact on operational decisions than their public remit or the perceived public value of their work.

As a general point, if the current declining trajectory of subsidy to earned income continues, all producers and theatre operators may still receive sufficient subsidy to remain active and solvent but be increasingly restricted in their ability to take risks. To some degree this would inevitably change the character of the work produced and presented by theatre companies currently reliant on subsidy.

5. How might the advantages of different funding sources be more widely exploited while attenuating any disadvantages?

Subsidy does appear to be highly effective at facilitating a wide range of theatre by enabling risk, providing support for the maintenance of the industry's infrastructure, and leveraging large amounts of private sector finance. At the same time, the examples given earlier show how the private sector can also enlarge and extend public benefits (the work of the Birmingham Hippodrome, Bath Theatre Royal's Creative Fund, and HQ Theatres' Youth Theatre programmes were cited) by drawing on subsidies and working in collaboration with the subsidised sector. It was not specially admitted in the interviews, but it may also be the case that the private sector has been ideologically influenced by the subsidised sector. Given these observations, questions then arise concerning the rationales by which subsidies are allocated. Could subsidy be applied in ways that lever more private sector finance and activity? As noted, the mechanisms for distributing public funds are few (principally arts councils and local authorities), embedding one of the primary disadvantages of monopolies: limited choice. This contrasts with the almost (theoretically) limitless sources of private sector finance. That is not to say private finance is easy to obtain. Market economics can be severe and uncompromising, but there is no practical limit to the amount of finance available nor the rationales under which it is acquired and applied. This point has long been considered by government and arts councils, resulting in several tentative attempts to bring private and public finance closer together. That these initiatives have not succeeded is likely to be due to three factors: the preconditions of one or other party, the levels of skills and knowledge of theatre operation among those involved, and changes to established practices that may be required of the applicants. The latter point arises as a particular problem where the implementation of any scheme depends upon new techniques or adjustments to operational models.

The disadvantages of public funding, as noted in the interviews, are its availability, limited supply, restricted purposes and managerial distance from market realities. Its strengths lie in the provision of comparative operational security, the breadth of work it enables (including experimentation and “super-requirements”), and how it supports the market infrastructure. The strengths and weaknesses of the unfettered market make a neat fit with these points; it operates on a vast scale with theoretically unlimited resources, generates vitality and individualism, and demands high-level skills. At its worst, though, its capacity and invention can be suppressed by the industry's high risk levels, resulting at times in productions that are, as one producer politely put it, “open to criticism”. But those comments, taken from the interviews, cannot be restricted to the private sector but are a natural and inevitable part of the whole theatre market. The overall strength of British theatre on the world stage is, though, undeniable.
This Royal National Theatre production of *My Fair Lady* was produced in association with Cameron Mackintosh. The prestige that comes with these great names along with the skills and resources that can be applied to the exploitation of their productions have an obvious and considerable affect on risk assessments and fund-raising from both public and private sources.


Any funding schemes hoping to draw on the strengths of the private sector without losing the character and advantages of public funding must serve traditional production and presentation models and would inevitably employ market mechanisms. They are achievable, but to generate specific proposals would require a separate study.

Although it was never a research objective to propose changes to the way British theatre is financed, nor to question the rationales for providing subsidies from the public purse, these question inevitably arise. In this regard, it is an obvious point that the distribution of public finance relies on only two types of institution: local authorities and arts councils. It is an open question as to whether this is a good thing or restrictive and disadvantageous to the state’s purposes. Questions on any consequences from increasing the availability of finance are not considered; whether, for example, quality may be inversely related to quantity and who then might judge quality by what criteria. Would an increased supply of theatre works be in the public interest regardless of quality and, if quality is an essential precondition to public finance, could it be assured without reference to public demand (viz. market responses)? That question then closes the loop, for if the market were the ultimate arbiter, what would be the *a priori* justification for increasing supply? These, and many other questions around the rationales of public funding are not addressed in this report, although it is hoped that it does provide something of value to any empirical and theoretical considerations that may follow.
TWO CENTRAL CONCLUSIONS

Running through most of the comments and discoveries arising from this research are two substantive conclusions.

Firstly, subsidy largely supports the various free market operating models with which theatre has traditionally been produced and presented. Any notion of there being simply a “commercial” and a “subsidised” theatre is misleading. There are undoubtedly instances where stylistic differences may be thought attributable to sources of finance but, as ever, correlation is not causation; attitudes, ambitions, skills, experience, responsibilities, and other human factors also play a very large part.

Secondly, while direct subsidies make up much the smaller portion of financial turnover, indirectly they support nearly every part of British theatre. What results is a complex structure of interdependent parts in which each, whether small or large, is active and essential to its whole function. This is an outcome formed over centuries, not by managerial or political intent, but by the force of inspired individuals, often in collaboration, sometimes in isolation, but always driven by their own particular abilities and interests. As they have been applied in Britain, subsidies have largely facilitated the continual development of the theatre arts without dampening their inherent individuality. The balance of forces that lie behind the interrelationship of public and private finance may never produce the ideal result (if that could ever be known) just as there can be no right amount of available finance. What does exist, though, appears to work best when there are multiple sources of finance available, each with its own purposes and conditions and responsive to the individuality of its applicants.
APPENDIX 1

Interviews: Structure and Questions

1. Introductory questions on the interviewees’ organisations, their governance or ownership, and their sources of funding.

2. Creation/Production
   i. Motivations to produce
   ii. Motivations and rationales in selecting productions
   iii. Financing initial work - e.g. the acquisition of rights and costs of early development
   iv. The criteria by which co-productions are selected
   v. Factors around the exploitation of co-productions
   vi. Funding sources – the rationales of choice
   vii. The role of subsidy, if any
   viii. Problems and advantages of subsidy
   ix. Risks and their mitigation
   x. Business and operational production models (including financial arrangements)

3. Performance/Presentation
   i. Theatre (as venue) operating models
   ii. Contractual characteristics for presentations:
      a) London – West End theatre
      b) London - Transfer and co-productions
      c) Regions (receiving/presenting houses)
      d) Regions (producing houses)
   iii. Types, nature and uses of subsidy
   iv. Problems and advantages of subsidy
   v. Receiving venue deals
   vi. Producer/presenter conflicts
   vii. Venue operating techniques: productions/programme, marketing, box office, catering, merchandising and secondary income
   viii. Film, relays and broadcasts

4. Distribution
   i. Investors and producer profit shares
   ii. Co-production profit shares
   iii. Royalties and Grand Rights
   iv. PRS licences and payments
   v. Sector comparative financial returns
APPENDIX 2

Interviewees

1927
André Ptaszynski
Bill Kenwright Ltd
Birmingham Royal Ballet
Birmingham Hippodrome
Birmingham Rep
Cameron Mackintosh Ltd
Centre for Economic and Business research
Chichester Festival theatre
Derek Nicholls
Fiery Angel
Independent Theatre Council
John Stalker
Julius Green
Mayflower Theatre Southampton
Michael Harrison Productions
Music & Lyrics
Nimax Theatre
Old Vic Productions
Performing Rights Society
Pleasance Theatre Trust
Qdos Entertainment
Royal National Theatre
Royal Shakespeare Company
Stage One
Sheffield Theatres
Theatre Royal Norwich
Topher Campbell
UK Theatre
Vikki Heywood
Welsh National Opera
QUOTED REFERENCES


