

Economic impact study of West Midlands theatre

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April 2005

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Acknowledgements

I would like to thank the following people for their help and support in the undertaking of this study.

Derrick Elliss FCA: the project accountant, and my collaborator

The University of Sheffield

Julie Eaglen, Arts Council England West Midlands

Dominic Shellard

Introduction

Theatre in the United Kingdom is admired throughout the world for its quality and creativity. The excellence of its plays, actors and performances are unrivalled.

This study of West Midlands theatre builds on the work of the *Economic Impact Study of UK Theatre* (Arts Council, 2004), which was the first national study of the contribution that theatre makes to the local and national economy. It established that the economic impact of UK theatre was £2.6bn: £1.5bn coming from London theatre and £1.1bn from regional theatre.

The impact of regional theatre had previously been undervalued and this new study – of the economic impact of West Midlands theatre – further highlights the fact that regional theatre is economically as well as artistically vibrant.

It also represents extremely good value for money. The total revenue investment from public sources to produce the figures shown on the following pages amounted to a little over £25 million: £18.9 million from Arts Council England, and some £6.1 million from the local authorities of the West Midlands.

Executive summary

Overall economic impact

Theatre in the West Midlands has a significant economic impact – it is worth at least £148 million annually. This is a conservative figure. It does not include, for instance, the impact of individual touring theatre companies or non building-based theatre activity.

Data for this study were collected from 22 venues. These include commercially-run theatres, venues run by local authorities and subsidised theatres.

Key components of this economic impact figure are:

- 1 spending by theatre audiences: in particular food bought outside the theatre, transport costs to get there and back, and necessary childcare costs

The study also takes into account spending by theatres, notably:

- 2 expenditure on staff (including actors, directors and other creative team members) and goods and services
- 3 subsistence allowances to freelance staff to enable them to stay in the area while a project is under way. This generates important income for local landlords and hoteliers

A more comprehensive formula also includes:

- 4 income generated by theatres: including ticket sales, sponsorship, grants, donations, programme and refreshment sales, merchandise and catering sales
- 5 income generated by working overseas: the fees received by sending productions abroad or any sponsorship or grants relevant to that work

In which case the figure rises from £145m to £264m.

Economic impact of West Midlands theatre

As part of this study, six theatres underwent an exercise looking at their local economic impacts. Their individual impact – excluding turnover – is as follows:

The Courtyard, Hereford	£4,172,851
Ludlow Assembly Rooms	£2,905,798
The Drum, Aston	£2,619,627
Old Rep Theatre, Birmingham	£903,444
Arena Theatre, Wolverhampton	£724,136
Arts Alive	£103,586

Each theatre makes both direct and indirect contributions to the local economy. The direct impact is local spending on purchasing supplies; and wages paid to staff who live locally. The indirect impact is the 'knock-on' effect generated by the direct impact, where spending money leads to more money being spent. When theatres purchase supplies from a local company, that income helps the company pay wages to its staff who then use it to buy other goods. All that expenditure is constantly circulating around the local economy, helping to preserve jobs, and boost economic growth.

The additional visitor spend (AVS) also demonstrates how audience spending can make a significant difference to the local economy. By attracting people into an area – where they might eat out, spend money on transport or buy local produce – theatres help sustain jobs, generate additional economic activity and act as forces for economic and social regeneration.

Report findings

West Midlands theatre has a significant economic impact: at least £148m annually. This is a conservative figure. It does not include, for instance, the impact of touring theatre companies or non building-based theatre activity. This huge impact is generated by a minimal amount of public subsidy: for example, £18.9m from Arts Council West Midlands and £6.1m from the various local authorities of the West Midlands.

The Royal Shakespeare Company (RSC) accounts for 43% of this impact.

West Midlands theatre has considerable impact on local economies, both in terms of direct spending on goods and services and in terms of visitor spending. Taking additional factors into account, the full economic value of West Midlands theatres is £264m annually.

West Midlands theatre is a popular area for volunteering. There are about 1700 volunteers working in West Midlands theatre.

Recommendations

- 1 encourage individual venues to include economic impact studies in their annual reports on a three-yearly basis
- 2 devise an impact formula for touring theatre

Key conclusions

- 1 the theatre sector has not yet developed a framework for establishing its impact
- 2 both the national *Economic Impact Study of UK Theatre* (Arts Council, 2004) and this study have encouraged individual theatres to carry out their own studies
- 3 the study has commanded significant sector support

Key findings

1 Research for the study

1.1 Previous economic impact studies of theatre

In May 2004 the *Economic Impact Study of UK Theatre* (Arts Council England, 2004) was published. This was the first economic impact study of national theatrical activity and was undertaken with the full support of SOLT, TMA, ITC and Arts Council England, Arts Council Wales and the Scottish Arts Council. It calculated that theatre contributed £2.6bn to the UK economy and provided a formula for the calculation of impact which has been subsequently taken up by a large number of theatre organisations.

Previous impact studies of arts activity had been characterised by a large variation in impact formulas and one aim of the 2004 study was to produce a formula which the theatre sector could use on a consistent basis.

This report is one of a series which have been produced since the publication of the 2004 study (e.g. Hull Truck Theatre, Palace Theatre, Mansfield, Corn Exchange, Newbury). It is clear that the theatre sector welcomes the ability to compare impact study findings on a like-for-like basis.

1.2 Definition of economic impact

As with the national study, this report uses two main ways of defining economic impact. The first formula defines economic impact as being purely what a theatre contributes to the local and national economy and ignores turnover and overseas earnings.

Formula 1: Calculating the economic impact of theatre venues excluding turnover

(Additional visitor spend + salaries + subsistence allowances + goods and services expenditure) x a multiplier of 1.5

(The multiplier takes into account the knock-on effect in the local economy.)

Formula 2 can be used to define economic impact as the total economic

activity generated by a theatre (in other words, what economic activity an area would lose in total if the theatre was not there). This second, more comprehensive formula, also includes turnover (income).

Formula 2: Calculating the economic impact of theatre venues including turnover

(Turnover + overseas earnings + additional visitor spend + salaries + subsistence allowances + goods and services expenditure) x a multiplier of 1.5

(The multiplier takes into account the knock-on effect in the local economy.)

Including turnover in this formula establishes the scale of the economic activity related to the theatre, and economic impact is viewed as inputs and outputs, rather than profit and loss. So, for example, turnover is made up of money from customers, funders and businesses, and produces a specific economic effect, while a theatre's expenditure on wages and supplies produces a completely separate economic effect. It is not a strictly linear model.

This defines economic impact as what a theatre contributes to the local and national economy.

This study would ideally like to employ this wider formula, which includes turnover. However, because it was not possible to collect sufficient data from SOLT organisations for the national study – through no fault of their own – it has been decided to employ formula 1 to calculate the headline figure for economic impact. However, it should be noted that if the national survey is repeated in 2007 and if sufficient data from SOLT were to be obtained in the future, a recalculation could be made, which would produce a larger figure for the overall economic impact of both UK theatre and West Midlands theatre.

To give an indication of the difference that the two formulas make, both formulas have been employed in the calculation of the individual impact of the five West Midlands venues not previously included in the national study. These calculations can be found in Appendix B.

Both formulas employ multipliers. Multipliers are used in impact studies to

take into account the knock-on effect of spending by the theatre throughout the local economy. To ensure that this study produces a viable but cautious result, a multiplier of 1.5 has been used, the smallest that is realistically possible.

2 Methodology

Questionnaires were devised to collect the following information from individual venue-based organisations for the 2002/03 financial year:

- 1 turnover
- 2 overseas earnings
- 3 additional visitor spend (an estimate of what an audience member spends on food, transport and childcare)
- 4 salaries
- 5 subsistence allowances paid
- 6 goods and services bought

A list of venue-based organisations was compiled from information held by Arts Council England West Midlands to define the parameters of the region.

The questionnaires were distributed from August 2003 to 492 UK venue-based organisations (excluding SOLT members) and were returned between August and December, 2003. Relevant data for the West Midlands theatres were then extracted. A number of new venues were also approached between January 2005 and March 2005 to produce additional data, which were not available to the national study. The total list of respondents appears in Appendix A.

In addition to the research for the national study, several activities were undertaken to create a good awareness of the West Midlands study and to generate the highest possible response rate. These included:

- 1 the distribution of questionnaires via hard copy and email (where appropriate) (January-March 2005)
- 2 the publicising of the study through Arts Council England West Midlands (January 2005)
- 3 the sending of email reminders (February/March 2005)
- 4 telephone reminders (February/March 2005)

3 Results of the study

3.1 West Midlands Theatres

Economic data were collected from 22 venue-based organisations out of a total sample of 26. This represents an 85% response rate.

The following results from the venue-based organisations were used to calculate impact.

Table 1: The data returned by the 22 responding venue-based organisations

Venues supplying data (22)	£
Additional visitor spend	28,148,470
Salaries	32,327,193
Subsistence allowances	874,450
Goods and services	33,941,706
Total (for 22 venues)	95,291,819

Additional visitor spend is expenditure on transport, food and drink, and childcare, incurred by audience members as a result of a visit to the theatre.

The total AVS per venue was calculated by taking the mean (average) AVS per head as stated by the venue, i.e. £10–15 produces a mean of £12.50, then multiplying this by the number of tickets sold in the year.

The results on additional visitor spend demonstrate how audience attendance can be significant for the local community. By attracting people into an area – where they might dine out, spend money on transport or buy local produce – theatres help sustain jobs, generate additional economic activity and act as forces for economic and social regeneration.

Four venues did not respond to the questionnaires, but will still have an economic impact that needs to be factored in. Because all the major venues took part in the study, however, it is **not** appropriate to scale up the figures pro rata.

Therefore, the following cautious method of calculation was adopted for non-responding venues.

Table 3: The calculation of the ‘return’ of the four non-responding venues

Average return for non-responding venues in 2004 national study	£885,953
Plus inflation based on RPI for March 2003 and March 2004 (2.5%) x 4 venues	£3,632,407

4 Calculation of economic impact

The economic impact of West Midlands theatre can be calculated as follows:

Using Formula 1: The calculation of the economic impact of West Midlands theatre

(AVS, Salaries, Subsistence Allowances, Goods and Services + Non-Responding Venues' Impact) x 1.5 (£95,291,819 + £3,632,407) x 1.5	£148m
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The RSC represents 43% of this figure.

Theatre in the West Midlands generates a significant economic impact. This reflects the vibrancy of theatre throughout the whole of the UK and is a very healthy balance. It also counters the perception of a sector dominated by theatrical activity in London.

The economic impact of West Midlands theatre is therefore £148m.

However, it should be noted that if we employ a formula that includes turnover (see Formula 2, page 8), the total for West Midlands theatre rises to £264m.

This is calculated in the following way:

Table 5: The data returned by the 22 responding venue-based organisations, *including* turnover

Venues supplying data (22)	£
Turnover	74,376,259
Overseas earnings	589,000
Additional visitor spend	28,148,470
Salaries	32,327,193
Subsistence allowances	874,450
Goods and services	33,941,706
Total (for 22 venues)	170,257,078

To take into account the non-responding venues, the following calculation was made:

Table 6: The calculation of the ‘return’ of the four non-responding venues, for the calculation of impact *including* turnover

Average return for non-responding venues in 2004 study	£1,452,968
Plus inflation (2.5%) x 4 venues	£5,957,169

The economic impact of venue-based organisations including turnover was therefore calculated as follows:

Using Formula 2: The calculation of the economic impact of West Midlands theatre: venue-based, *including* turnover

West Midlands venue-based (170,257,078 + £5,957,169) x 1.5	£264m
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The RSC represents 44% of total

5 The number of volunteers in the West Midlands sector

Organisations were asked to report on the number of volunteers who worked at their venues.

The responses showed that there are circa 1700 volunteers working in the West Midlands theatre sector.

This was calculated in the following way. 22 responding venues reported 1435 volunteers, an average of 65 per venue. This would give the four non-responding venues approximately 260 volunteers, producing a total of circa 1700 volunteers.

The number of volunteers in the West Midlands theatre sector represents a significant 'invisible' contribution by theatres to their local economies.

6 Recommendations for future work

There has been widespread sector support for this study.

To capitalise on this enthusiasm for relevant economic impact studies – and to address the concern that up until now, economic impact studies have not adopted a consistent methodology for calculating impact – the following recommendations are made for future work:

- 1 individual organisations in the West Midlands should be encouraged to undertake economic impact studies using a consistent formula for inclusion in their annual reports on a three-yearly basis
- 2 touring theatre and outdoor theatre make a contribution to economic impact but were outside the remit of this study. An impact formula needs to be devised to assess their contribution, while ensuring that the danger of double-counting is avoided

Appendix A

Economic impact study responses

There were 22 responding venue-based organisations in the West Midlands (sorted by turnover, in descending order):

Royal Shakespeare Company
Birmingham Hippodrome Theatre Trust
Birmingham Repertory Theatre
Grand Theatre, Wolverhampton
Belgrade Theatre
Warwick Arts Centre
Midlands Arts Centre
Malvern Theatres
New Vic Theatre, Newcastle-Under-Lyme
The Drum, Aston
The Courtyard Theatre, Hereford
Birmingham Alexandra
The Music Hall, Shrewsbury
Ludlow Assembly Rooms
Arena Theatre, Wolverhampton
Library Theatre, Solihull
Oakengates Theatre, Telford
Live and Local
Black Country Touring
Worcester Arts Workshop
Arts Alive
Old Rep Theatre, Birmingham

Appendix B

Calculation of the economic impact of the West Midlands venues not originally included in the *Economic Impact of UK Theatre*:

	Formula 1 (excluding turnover)	Formula 2 (including turnover)
The Courtyard, Hereford	£4,172,851	£6,521,004
Ludlow Assembly Rooms	£2,905,798	£3,627,026
The Drum, Aston	£2,619,627	£5,891,997
Old Rep Theatre, Birmingham	£903,444	£972,056
Arena Theatre, Wolverhampton	£724,136	£1,371,741
Arts Alive	£103,856	£255,232