

# Multi-year subsidy titles in culture

Dagmar Škodová Parmová<sup>1</sup>, Michaela Růžicková<sup>2</sup>, Sophie Wiesinger<sup>3</sup>

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**Abstract:** The aim of the paper is to analyze and evaluate the variability of multi-year subsidy titles in the culture sector in a temporal and cross-sectional comparison, to determine the factors influencing the size and dynamics of subsidies, and then to compare the defined problematic areas with selected cities of the Central Bohemian Region. The analytical part shows the development of subsidies in the context of total income. Furthermore, the share of subsidy providers in the subsidy income of municipalities is examined. Subsequently, a comparison is made of the dynamics of non-investment subsidies, investment subsidies and total expenditures of municipalities. This part also includes the recalculation of subsidies per inhabitant and its evaluation over time. The key part of the paper is to find the factors that affect municipalities' spending on culture. The influence of these factors is investigated through established hypotheses. This paper also focuses on the financing of cultural policy and the formation of the concept of cultural development and gives recommendations that the district cities should adopt in the field of cultural policy.

**Keywords:** financing of culture, subsidies, comparison of spending on culture, cultural policy

**JEL Classification:** G32, G33, C35

## 1 Introduction

The prerequisite of every human activity is the allocation of monetary and other resources needed to meet the specified goals. In this case, it is about preserving and developing the multicultural environment of our entire society. Culture has its own specific criteria, when it is possible in a suitable form, with a purposeful programmatic and especially coordinated focus, to have a retroactive effect on the activation of the economic potential of society. The efficiency of the spent funds, depending on the allocation function of public finances, is usually associated with efficiency, namely societal efficiency, which includes not only general economic attributes, but also, for example, historical, political, social and other attributes. The allocation of program resources intended to support culture has a significant historical undertone, especially in the Czech lands. An integral and important part is, of course, a significant influence on the relevant territory, which specifically includes the cultural environment. The influence of tourism and the local business environment can significantly return the financial costs incurred.

To best illustrate how culture is financed, the study interprets the data within a broad framework of cultural policy, including an analysis of policy priorities, decision-making patterns and administrative organization. The design, focus and implementation of cultural policies manifests itself differently in individual regions. This requires continuous research into cultural policies as well as continuous collection of related data. The study focuses on three main sources of funding for culture: the government, the market and the third sphere (non-profit sector). Each of them has its own justification supported by the given legal competences. The study tries to maintain the distinction between these three main sources of funding by breaking down the data positionally, but at the same time integrating them in a summary way. The diploma thesis deals with the analysis of public direct budgetary financial support (especially subsidies and grants provided by central and lower levels of state administration). The data is very important for the analysis of cultural policy, as it illustrates the differences in the financial demands in individual regions. The adjustments of funds dedicated to the sector, their sources (public or private), their distribution between different levels of government and different artistic sectors - all this is useful to reveal the way in which cultural policies are actually implemented.

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<sup>1</sup>University of South Bohemia in České Budějovice, Faculty of Economics, Department of Applied Economics and Economy, Studentská 13, 370 05 Ceske Budejovice, Czech Republic, [parmova@ef.jcu.cz](mailto:parmova@ef.jcu.cz).

<sup>2</sup>University of South Bohemia in České Budějovice, Faculty of Economics, Department of Applied Economics and Economy, Studentská 13, 370 05 Ceske Budejovice, Czech Republic, [ruzim00@ef.jcu.cz](mailto:ruzim00@ef.jcu.cz)

<sup>3</sup>University of South Bohemia i České Budějovice, Faculty of Economics, Department of Applied Economics and Economy, Studentská 13, 370 05 Ceske Budejovice, Czech Republic, [sophie.wiesinger@fh-steyr.at](mailto:sophie.wiesinger@fh-steyr.at)

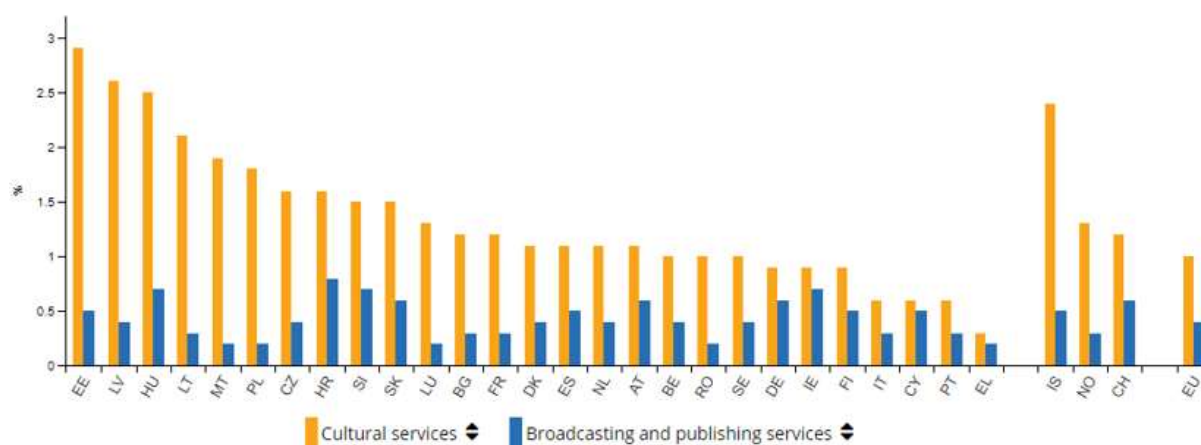
According to common parameters, culture cannot be quantified by a simple economic analysis. It has its own rules and laws. The economic character of public services of local and regional culture is existentially dependent on funds from public budgets. The importance of the national economic point of view cannot be overlooked either, primarily from the point of view of the employment of the population, their income side from which levies are made, from the point of view of the symbiosis of culture and tourism, which brings other important resources to the budgets, and the economic effect of the expenditure of contribution organization of culture necessary for its own activity.

The aim of the work is to analyze and evaluate the variability of multi-year subsidy titles in the culture sector in a temporal and cross-sectional comparison, to determine the factors influencing the size and dynamics of subsidies, and then to compare the defined problem areas with selected cities of the Central Bohemian Region.

The cultural and creative sectors are increasingly seen as drivers of economic growth, especially as a source of job creation. Funding of cultural institutions and events in the Czech Republic and throughout Europe has long been linked primarily to support from public sources. State institutions, as well as self-governing units, have stably introduced items for culture in their budgets and finance the necessary (according to their choice) cultural events and institutions in various ways. (Ledvinová, 2013)

The following graph shows the funding of cultural services, broadcasting and publishing services from public sources (including central and local sources) of European countries in 2019. The share of EU public expenditure on cultural services was on average 1.0%, with the lowest share recorded in Greece (0.3%) and the highest in Estonia (2.9%).

**Chart 1:** Share of EU countries' government spending on cultural services, broadcasting and publishing services in 2019



Source: Eurostat, 2022

The cultural and creative sector is very susceptible to various fluctuations, be it social, political, cultural-historical and especially economic changes. The economic crisis required and requires more and more interventions from state resources to maintain a functional market. Increasing demands on other parts of the state budget (especially in the social and health areas) caused a certain deviation from culture as a priority of the programs of the ruling parties and resulted in a reduction of the budgets for this chapter.

## 2 Methods

The work focuses primarily on the analysis of the financing of entities operating at the municipal level, and on the actions implemented or potentially implemented there. The territories of three district towns, Beroun, Příbrami and Rakovník, were deliberately chosen for analysis. These district towns were chosen for the comparison of culture funding because they come from the same region, are neighboring districts and are close to the capital city of Prague. Selected cities are presented in the work and the basic characteristics of the cultural organizations operating in them are given, which are mostly grant-in-aid organizations. The subject of the analysis was the examination and comparison of structured financial costs, in particular the analysis of their budgets and the method of management over a several-year development period. This means comparing the costs of the same organization over a period of several consecutive years, and also in comparison with a similar entity operating in another investigated city.

Every municipality tries its best to develop the cultural subconscious and support the development of culture, when it is possible to do this in different ways, for example by providing financial resources to both individuals and organizations or by founding their own associations. Other options are also used, such as free rental of spaces, equipment, and technologies used to carry out cultural activities. Various forms of cultural support are also shown on the examples of selected municipalities.

In order for the impairment of the above characteristics to be reliable, the following prerequisites must be met:

- clear definition of cultural activities and their bearers
- precise definition of individual factors (dimensions) of the movement of financial flows
- compilation of standard tables enabling the classification of financial flows in the form of expenses and income according to various factors

The economic dimension of culture is much easier to quantify than its social dimension. The first step was a pilot survey, the aim of which was to assess the availability of data in the district towns and the Central Bohemian Region. These data can be used to analyze patterns of public spending, particularly trends in spending on specific functions over time, and to compare across regions.

The sources of information needed to compare culture funding at the district level are diverse, including administrative data as well as data from statistical surveys. The first group primarily includes data on the use of public budgets at various levels of management, as well as information from departments of culture, or city cultural centers. Regular annual reports are also relevant sources of data. Statistical data for individual areas have been compiled in such a way as to provide the most comprehensive view of the diverse cultural sector. The basic indicators are based on Monitor, the information portal of the Ministry of Finance.

Financial management in the field of culture is monitored with the help of a system of tables recording the variously broken down costs and expenses of the relevant activities, the sources of their financing, the need and creation of capital over time. The processing of the above-mentioned data provides important information for economic and political decisions regarding the given area. On a broader scale, it creates a basis for comparisons and analytical evaluations.

Important information for processing the practical part is obtained through structured interviews and consultations with senior employees of individual departments of culture and Municipal Cultural Centers in Příbram, Beroun and Rakovník. In addition, a personal interview with the councilor of the Central Bohemian Region for the area of culture, historic preservation and tourism was included.

The test (t-test) of the significance of the sample correlation coefficient was used to evaluate the established hypotheses that examine the dependence between two variables. Given the assumption that the data follow a normal distribution, this was the Pearson correlation coefficient. In this case, a positive correlation was tested, i.e. a situation where one quantity grows together with the other. All hypotheses were evaluated at the typically chosen significance level of 5%.

### **3 Research results**

The Central Bohemian Region is establishing twenty contributory organizations in the field of cultural services, tourism and historic preservation. These include seventeen contributory organizations focused on the activities of museums, galleries and monuments, the Central Bohemian Science Library and the Institute of Archaeological and Monument Care. Of all the regions, it finances and manages the largest number of its own organizations in the field of culture and thus fundamentally participates in the cultural life of the region by exercising its founding function. With their program, these contribution organizations also participate in the project called the Central Bohemian Cultural Summer, which aims to revive culture after the coronavirus pandemic. In 2021, the contribution organization Středočeská centrálního tourism was incorporated under the Department of Culture and Monument Care, whose main activity is the development and promotion of tourism in the largest region of the Czech Republic.

The amount of spending on culture varies between the selected municipalities. Studies on the expenditure policy of local governments show that the size of the municipal budget is an important determinant of the level of expenditure. Higher local income means more money for all spending categories. Many studies also show that population size is an important factor in the demand for cultural goods. But population size also correlates with the cost of culture. If there are more people who use cultural services, the cultural infrastructure becomes more complex and expensive.

The theory of fiscal federalism posits that local politicians and their preferences and behavior are a very important determinant of local politics. One example of this behavior is the political cycle, where local government officials change spending in the years just before or after an election to increase their chances of winning. It follows that mayors lobby at election time to get more subsidies to cover the expenses associated with their campaign, which will bring them votes. It is therefore possible that council members will want to secure the favor of their constituents in election years and increase subsidies in the areas most preferred by their constituents. Sanjuán et al. (2020) present a case for Spanish medium-sized cities where a clear political cycle can be observed in urban cultural spending. In the Spanish case, the authors argue that politicians can substantially increase their chance of re-election if they increase spending on culture before elections. The

results in this case show that mayors behave opportunistically, increasing spending on culture in the election year and reducing it in the second year after the election.

According to Jílek (2008), the following criteria are most often found in the samples for the distribution of subsidies: the number of inhabitants, the age and social structure of the population, e.g. the number of children, young people or seniors, the unemployed, and structural characteristics of the local government, such as the number of dwellings or the length of the road network. In addition, the socio-economic characteristics of citizens in the form of income, age and education are important factors that clearly influence the expenditure of municipalities on cultural matters.

Another influence on municipal spending on culture can be a large number of separate subsidy programs that depend on the differences in the requirements of individual artistic and cultural fields: If the support is to be targeted effectively to the needs of each field, the specifics of this field need to be defined in detail, which will to a certain extent, always mean the fragmentation of requirements for individual subsidy areas and the difficulty in setting common goals. Based on the results of the reports of the Supreme Audit Office (NAO), the approach and attitude of supporting cultural activities of the Ministry of Culture, which determines the volume and flow of funds not always completely transparently, and is not always able to evaluate the benefit of supported projects, is criticized. The great fragmentation of requirements for individual subsidy areas and the difficulty in setting common goals among applicants sound very negative. Merging these would significantly contribute to the higher usefulness of the organized cultural events. However, development is moving towards limiting these negatives.

The statistical method of verifying the significance of the correlation coefficient, which expresses the degree of linear dependence between two quantities, is used to compare the financing of culture between the selected municipalities. For clarity, graphs are created regarding the comparison of expenses in the field of culture for each municipality separately and expenses summarized for all municipalities together.

Hypothesis No. 1: As the volume of total expenditures of municipal budgets increases, expenditures on the culture of these municipalities increase.

This hypothesis was divided into four sub-hypotheses. The first three hypotheses are focused on each municipality separately, and the last fourth one evaluates the total expenditures of municipal budgets with cultural expenditures for all municipalities together.

Sub-hypothesis No. 1.1: As the total budget expenditure of the city of Beroun increases, the expenditure on the culture of this municipality increases.

Based on the data obtained and the chosen significance level of 5%, it was not possible to reject the null hypothesis in favor of the alternative hypothesis ( $0.234 > 0.05$ ). Thus, a positive correlation between the examined variables was not proven, that with the increasing volume of total expenditures of the budget of the city of Beroun, the expenditures on the culture of this municipality would increase. The established hypothesis was not confirmed.

Sub-hypothesis No. 1.2: As the total budget expenditure of the city of Příbram increases, the expenditure on the culture of this municipality increases.

The null hypothesis was successfully rejected in favor of the alternative hypothesis ( $0.004 < 0.05$ ) at the chosen significance level of 5%. A positive correlation between the analyzed variables was demonstrated. It can therefore be confirmed that spending on culture grew in Příbram depending on the growing total spending of this city. The established hypothesis was thus confirmed.

Sub-hypothesis No. 1.3: As the total budget expenditure of the town of Rakovník increases, expenditure on the culture of this municipality increases.

It was not possible to reject the null hypothesis in favor of the alternative hypothesis ( $0.356 > 0.05$ ) according to the data determined at the chosen significance level of 5%. A positive correlation between the selected variables was not proven, and therefore the culture expenses of the city of Rakovník are not determined by the size of its total expenses.

Sub-hypothesis No. 1.4: As the volume of total budget expenditures of the analyzed cities increases, their expenditures on culture increase.

The null hypothesis was rejected in favor of the alternative hypothesis ( $0 < 0.05$ ) at the chosen significance level of 5%. A positive correlation between the investigated quantities was demonstrated, and thus the established hypothesis was confirmed. The claim that "as the total expenditure of municipal budgets increases, the expenditure on the culture of these municipalities increases" was confirmed due to the significant difference between the expected and observed frequencies.

Hypothesis No. 2: With the economic development of our society, spending on cultural areas increases.

The second hypothesis was also divided into four sub-hypotheses, where the first three hypotheses are based on each municipality separately and the fourth one assesses the dependence of spending on culture in the range of individual years.

Sub-hypothesis No. 2.1: Spending on the culture of the city of Beroun increases with the passing years.

The null hypothesis failed to be rejected in favor of the alternative hypothesis ( $0.215 > 0.05$ ) based on the data obtained and the chosen significance level of 5%. Thus, a positive correlation was not proven and the hypothesis established. It can be confirmed that spending on culture in the city of Beroun has not increased over the years.

Sub-hypothesis No. 2.2: Expenditure on the culture of the city of Příbram grows with the passing years.

At the chosen significance level of 5%, the null hypothesis was rejected in favor of the alternative hypothesis ( $0 < 0.05$ ). A positive correlation between the investigated quantities was demonstrated, and therefore the formulation of the research hypothesis can be confirmed. The result of statistical research is that spending on culture in the city of Příbram gradually increases with the passing years.

Sub-hypothesis No. 2.3: Spending on culture in the city of Rakovník grows with the passing years.

According to the resulting data, it was not possible to reject the null hypothesis in favor of the alternative hypothesis, as the obtained significance level is greater than the chosen significance level ( $0.201 > 0.05$ ). Therefore, the positive correlation and the hypothesis established with it were not proven. The claim that spending on culture in the city of Rakovník has been gradually increasing over the past twelve years is not valid.

Sub-hypothesis No. 2.4: Expenditures of all selected cities increase with increasing years.

In this part, the examined cities were analyzed in summary, thus the hypothesis with No. 2 conclusion could be confirmed or rejected.

The hypothesis summarizing all the municipalities together was confirmed, including the positive correlation between the investigated quantities. The null hypothesis was successfully rejected in favor of the alternative hypothesis ( $0.032 < 0.05$ ) at the 5% significance level. The hypothesis in the wording: "With the economic development of our society, spending on cultural areas grows." was proven.

The understanding of the financing of the cultural area is, with some exceptions, determined from the point of view of classical economic profitability, rather loss-making (if the multiplier effects of the economic impacts of cultural activities are not taken into account). The management of each city strives for the economic sustainability and stabilization of the cultural organizations established and founded by it, for the support and development of multi-source financing with the most optimal involvement of cooperating actors and funds from public sources (European, Norwegian, state, regional and local), as well as obtaining additional resources from private the business sphere, in particular, in an effort to preserve the self-sufficiency of these cultural entities achieved in recent years. It is desirable to prioritize a system of multi-year support for public benefit projects from the city budget with regard to the economic sustainability of planned long-term events. The event organizers anticipate a multi-year stabilization of the economic security of the cultural activities they organize. The resulting situation forced changes in the legal status of individual cultural entities, which were transformed from originally municipal contributory organizations to public benefit societies together with associations, foundations, endowment funds, registered legal entities of churches, religious societies, and to limited liability companies, which resulted in to a fundamental change in the financing and more flexible management of these organizations and greater accessibility to external resources.

The method of financing important cultural and social events and institutions with the help of multi-year grants, which forces individual entities to cooperate better, but at the same time offers them stabilized means for realizing their own plans, appears to be very advantageous in this regard. In addition, several years of gradual development are guaranteed here. Of the cities analyzed, only the city of Beroun offers multi-year financing through its subsidy program. Multi-year grants are not entirely common, although they facilitate better and more forward-looking security, content application and planning for entities. On the contrary, in some cities, so-called micro-grants, which are limited by time and the amount of funds, are more popular, where the one-year cycle is divided into sub-parts, during which the actions are more easily evaluated and adjusted as needed. This situation is advantageous both for the provider and for the activation of young applicants.

When using multi-year grants, greater demands are placed on the directors and employees of contribution organizations and on the management of their administration. It is necessary to reduce the extensive administrative burden by using information and communication technologies and move to the maximum possible digitization.

Multi-source financing contains a lot of advantages, especially in the usability of a higher amount of funds, but at the same time it also brings the uncertainty of long-term cooperation in the association of these entities, their resulting support and the gradual development of the activities of contributory organizations. The main amount and range of funds is determined by the founder's decision. However, the founder's unstable conditions can often lead to an uncertain determination of the amount of financial support. This creates considerable uncertainty. According to Act 218/2000 Coll. the management of the contributory organization is governed by its budget, which must be compiled as balanced after including the founder's contribution or determining the levy. The contributory organization manages funds obtained from the main or other permitted secondary activity and funds provided by the founder. "Furthermore, the contributory organization manages the funds of its funds, funds obtained from other activities, monetary donations from natural and legal persons, and funds provided from the budgets of territorial self-governing units and state funds, including funds provided to the Czech Republic from the budget of the European Union, from financial mechanisms and accepted by contributory organizations from the National Fund. The main activity is the activity defined by the founders of the contribution organization by a special law and carried out by the contribution organization". (Act No. 218/2000 Coll.)

The reserve fund is mainly used, which allows greater flexibility. The scope and individual competences in the relationship between the founder and the provider are determined by the charter. If necessary, this charter can be modified or changed entirely. The approved financial plan of the contributory organization does not allow the transfer of funds from individual approved chapters, with the exception of the possibility of using the approved procedure for activating the reserve fund. The only way to partially defer funds is if the founder allows the establishment of a reserve fund and drawing from it.

#### **4 Conclusions**

The aim of this work was to evaluate the situation regarding the financing of the area of culture in the cities of Beroun, Příbram and Rakovník. From this analysis, it follows that the district cities provide funds from their budgets both to contributory organizations of which they are founders, as well as to a number of other organizations and natural or legal persons.

When comparing the selected cities and their spending on culture, it follows that Příbram spends the most resources on culture both in the average percentage share, which is 8.2% in the observed period of twelve years, and in the converted state per inhabitant, which reaches an average amount of CZK 1,785 per citizen of the city. In conclusion, we can say that the city of Příbram is a more cultural city in terms of the number of cultural organizations and activities in this area. It spends a larger amount of money on culture from its budget compared to the other analyzed cities, which was statistically confirmed thanks to the established hypotheses.

In conclusion, it can be said that, according to the obtained analytical data, there is a great interest in culture in these cities, both on the part of the participants and its active operators. So far, the support from the individual components of the Central Bohemian Region is not very significant. The management of the region realistically understands this negative situation, and therefore solves it by developing a more detailed concept of culture, which will be followed by the compilation of strategic goals for the next period. The regional office has so far offered a very conservative view of culture with an emphasis on cultural heritage. The area of live art or creative industries is not sufficiently reflected in cultural policy or subsidy programs. Therefore, the analysis of culture in the Central Bohemia region should be the first step towards systematic and conceptual decision-making at the municipal level. Among the basic prerequisites for the implementation of these activities is that citizens have a need for local culture, which can be confirmed in our selected municipalities.

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