

DACS Transparency Report for Financial Year 1 January to 31 December 2016

Readers of this Transparency Report are asked to refer to DACS' audited Financial Statements which comprise a balance sheet, an income and expenditure account, a cash flow statement and a strategic report. The strategic report provides information on DACS' activities during the financial year. The DACS Transparency Report contains the following information that is required by the Collective Rights Management (CRM) Regulations:

1. DACS' legal and governance structure (page 1)
2. About DACS (including a section on granting a licence) (page 2)
3. Board Directors' remuneration and key management personnel (page 2)
4. DACS' Special Report (page 2) including:
 - 4a Operating Results (Income and Expenditure Report by category of rights managed)
 - 4b Amounts due to rights holders
 - 4c Income arising from the investment of rights revenue
 - 4d Managing artists' rights
 - 4e Costs of rights management
 - 4f Distribution timetable
 - 4g The amount attributed to, but not yet distributed to rights holders by date of collection
 - 4h Social, cultural and education services.

DACS intends that in future years the Transparency Report will be audited by a person who is eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006(a). DACS will appoint the auditors approved to audit DACS' Financial Statements to audit the Transparency Report as required under the CRM Regulation section 2(b). The 2015 and 2016 Transparency Reports have not been audited as DACS' auditors await guidance on the audit requirements from the Institute of Chartered Accountants in England and Wales (ICAEW) at the time this report was produced.

This report, DACS' Annual Review and DACS' Financial Statements are published on DACS' website. For a copy of DACS' Annual Audited Accounts please visit dacs.org.uk/about-us/what-is-dacs. They will be updated on an annual basis.

1. DACS' legal and governance structure

DACS is a not-for-profit company limited by guarantee without share capital incorporated under company number 01780482. The governing document of DACS is the Articles of Association adopted on 26 September 2016. DACS is governed by a Board of Directors who ensure that DACS fulfils its mission to transform the financial landscape for visual artists and artists' estates. The Board consists of Member Directors and Non-Member Directors who, since the introduction of the CRM Directive into UK law through the CRM Regulations in April 2016, will be voted in by an ordinary resolution of the company's members at the Annual General Meeting. DACS holds four Board meetings per year and Directors also participate in sub-committees of the Board: Business Development, Communications, Finance and Audit, Legal, and Remuneration.

Company information, including a list of Board Directors, can be found on page 1 of DACS' Financial Statements.



2. About DACS

Established by artists for artists, DACS is a not-for-profit visual artists' rights management organisation. We collect and distribute royalties to visual artists and estates through Artist's Resale Right, Copyright Licensing (including Artimage) and Collective Licensing – our Payback campaign.

For artists

DACS campaigns for the rights of visual artists and pays them their due royalties that help them sustain their livelihood and practice.

For beneficiaries and heirs

DACS helps artists and artists' estates receive the royalties to which they are entitled, helping to support their legacies.

For Art Market Professionals

The Artist's Resale Right is the most significant new right for visual artists and their heirs in recent years and means that artists or their beneficiaries could be entitled to a royalty each time work is resold with the involvement of an auction house, gallery or dealer for €1,000 or more. DACS works with galleries, dealers and auction houses to administer this right effectively and ensure artists receive an ongoing stake in the value of their work.

For copyright clients: Granting a licence

DACS provides a copyright licensing service for clients who request permission to reproduce our members' artwork in a range of formats, for example in a book, on merchandising, as a theatre backdrop or on a website. DACS reserves the right to refuse a licence request in certain circumstances, such as where permission has not been granted by the rights holder. Where this happens, DACS informs the client in a timely manner and any unlicensed requests are recorded and reviewed on a quarterly basis.

3. Director's remuneration and Key Management Personnel

Director's remuneration

	2016	2015
	£	£
Director's emoluments	55,198	64,087
Costs of defined contribution scheme	719	534
	2016	2015
	No.	No.
Average monthly number of non-executive Directors	10	11

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the organisation, directly or indirectly, including Directors, Chief Executive Officer, and Chief Operating Officer. Total remuneration paid to key management personnel during the year was £261,619 (2015 - £287,848).

4. DACS' Special Report

The Special Report should be read in conjunction with DACS' Financial Statements and Annual Review, both of which are available on the DACS website.

DACS manages Copyright Licensing, Artimage, Artist's Resale Right (ARR), and collective rights (which for this report include Public Lending Rights and Extended Collective Licensing).

In line with the newly implemented CRM Regulations, DACS' Income and Expenditure Report, at the end of this report, includes financial information by category of rights managed, showing revenue, the costs of rights management and the amounts that become payable to artists in the financial year. The section on Royalties by Department shows the amount that was paid to artists by category of rights managed. DACS does not use any of the amounts deducted for social, cultural and educational services, but in 2014 DACS helped established DACS Foundation, a charity providing grants to visual artists and estates to help make their legacies and archives more visible and accessible to the public.

Income and Expenditure by category of rights managed

The Income and Expenditure Report gives the operating results for each category of rights managed by DACS. An explanation of each section of the report is given below.

4a Revenue

Revenue is recognised in DACS' Accounts when it is confirmed by contractual agreement or through sales invoice and can be reliably measured. It is shown in the accounts net of any, discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Copyright: Individual Administered Rights are those that can be administered on a transaction or on an individual basis. Income is recognised once approval has been obtained.

Collective Rights are those that cannot be administered on a transaction or on an individual basis. They are usually licensed under a blanket licensing scheme operated by a third party, and where there is uncertainty regarding the timing and amount of such funds, the income is recognised on a notification basis only.

Artist's Resale Right is conferred by UK legislation, which allows DACS to collect income on behalf of qualifying artists on secondary sales made by art market professionals. Income under the Artist's Resale Right is invoiced once DACS has been informed that a qualifying sale has been made to a third party by the art market professional. DACS does review each sale and agrees it with the art market professional. Revenue is recognised once the sale has been confirmed with the art market professional.

Further rights management:

DACS also manages the following rights which are collected by DACS' sister societies based overseas. These are included in the collective rights for the purposes of the Transparency Report:

Extended Collective Licensing (ECL) allows collecting societies to run licensing schemes without permission on an individual basis from the copyright owner, such as an artist, photographer, illustrator or artist estate. This means that in addition to granting licences on behalf of its members, a collecting society can also grant licences on behalf of copyright owners who they do not directly represent, but who are covered by the scheme.

Public Lending Rights are received by DACS from sister societies where public lending libraries pay a royalty to the Lending Right Foundation for books that they loan. DACS receives a share of these royalties that are received on our behalf by our sister societies, for instance through the Dutch Public Lending Right.

4b Amounts due to rightsholders

The amounts due to rights holders are based upon a percentage of the revenue collected by DACS during a financial year, after DACS has covered its costs. The percentage deducted from each category of rights is shown in section 4d on Managing Artists Rights below. Payments to rights holders are made as per DACS' distribution timetable detailed in section 4c.

4c Income arising from the investment of rights revenue

Funds that arise because of a timing difference between payment being made to DACS by clients, art market professionals or other collecting societies and payment being made by DACS to the rights holder are invested as per DACS' Liquidity, Investment and Treasury Management Policy, which is available on DACS' website or upon request. This income is allocated to each category of rights based on the average balance of funds due to, but not yet distributed to, rights holders during the year and is shown in the Income and Expenditure Report by category of rights managed as interest and investment income. Unrealised gains are excluded from this allocation and are reported separately in the investment revaluation reserve in DACS' reserves. As explained in section 4d Managing Artists Rights, this information is used by the DACS Board to determine the percentage of royalty required to cover DACS' management and administrative costs for each category of rights.

4d Managing Artists' Rights

DACS deducts a proportion of the rights revenue it receives to cover the cost of managing and administering the royalties and ensuring that they are paid to artists in an accurate and timely manner. The percentage deducted is outlined below and in DACS' distribution policy. The distribution policy is available on the DACS website or upon request.

Rights that are managed directly by DACS are charged at a higher rate than those that are managed by overseas collecting societies with whom DACS has an agreement to collect royalties overseas. The overseas collecting societies are known as sister societies and they license DACS' repertoire in their territories under their own rules and tariffs. DACS makes the same deduction for repertoire it represents directly or through sister societies for licensing through DACS.

Individually Administered Rights: Copyright

Managed directly by DACS: 25%

Managed by DACS' sister societies overseas: 15%

Individually Administered Rights: Artimage

Managed directly by DACS (Artists): 35%

Managed directly by DACS (Collections): 30%

Collectively Administered Rights

Collective photocopying and television re-transmission or recording for educational use distributed in DACS Payback scheme: 16%

Extended Collective Licensing: 16%

Public Lending Right: 15%

Artist's Resale Rights (ARR)

Collected by DACS from UK auction houses, art dealers or galleries: 15%

Collected by DACS' sister societies overseas: 0%

4e Costs of rights management

The cost of rights management is detailed in DACS' Income and Expenditure Report. This report gives a break-down of all costs incurred by DACS. The Income and Expenditure Report by category of rights managed shows the cost of managing each category of rights, split into direct and indirect costs.

Direct costs

These are costs incurred exclusively for managing a specific category of rights. The direct costs include the cost of staff employed to manage or administer that service and other direct costs that can be directly attributed to a specific category of rights.

Indirect Costs

Costs that cannot be directly attributed to a specific right but are for administration and other services that benefit all rights managed by DACS are allocated to each category of rights based on either revenue or direct staff. The method considered most appropriate as a driver of the cost has been adopted. Occupancy costs are allocated based on the number of staff directly employed to manage or administer a category of rights, all other costs have been allocated on a revenue basis.

4f Distribution timetable

The distribution timetable is established by the Distribution Policy. Distribution of amounts due to rights holders is put before the Annual General Meeting, and repeated here:

Copyright - Individually Administered Rights are distributed to DACS direct members each quarter,

- 60 days after the end of the quarter (this usually occurs around the 20th of the second month after the quarter-end).
- The distribution includes all royalties from copyright sales invoices which have been issued and paid on or before the last working day of that quarter.

Artist's Resale Right (ARR) Distribution to Individuals

- ARR due to individuals is distributed monthly before the last working day of the month, but usually on the 15th.
- The distribution includes all royalties resulting from invoices that have been issued and paid on or before the last working day of the previous month.
- If DACS receives notification that the ARR had been remitted to DACS in error (usually, but not always, due to a sale being cancelled) after a distribution has been made, DACS reserves the right to collect this incorrect payment from the rights holder. Where possible this will be collected by deducting the amount paid incorrectly from the next payment due to the artist. If this is not practical the artist will be asked to send payment back to DACS. DACS is obliged to refund the art market professional for ARR remitted to DACS in error.

Copyright Individually Administered Rights and ARR to Sister Societies

- DACS' sister societies are paid every quarter, 60 days after the end of the quarter (this usually occurs around the 20th of the second month after the quarter-end).
- The distribution will pay out all royalties from copyright and ARR sales invoices which have been issued and paid on or before the last working day of that quarter.

Public Lending Rights

DACS pays Public Lending Rights royalties annually in September, 9 months from the end of the financial year. Payment will be made for royalties collected in the previous financial year; for example royalties collected by DACS in 2016 will be paid in September 2017. Public Lending Rights is distributed on the basis of claims submitted by royalty holders.

Extended Collective Rights

DACS pays Extended Collective Royalties quarterly for monies collected in the previous financial year; for example royalties collected by DACS in 2016 will be paid quarterly throughout 2017, with the last payment in the financial year being August. Royalties will be paid when the required compliance procedures have been met by the rights holders (e.g. with-holding tax forms received and bank details provided).

Collectively Administered Rights

DACS' current distribution policy is annual distributions in retrospect, as sufficient time is needed to consolidate the data and to establish and find the correct rights holders.

The annual distribution will pay out royalties received from collective sales invoices which have been included in the Financial Accounts for that financial year and therefore meet DACS' revenue recognition criteria in that year. From 2017, the distribution will be made annually in September, 9 months from the end of the financial year. Adjustments to the amount payable are made for the following reasons:

- A small contingency is retained by DACS to allow for a fair and equitable distribution in case of any unforeseen circumstances such as lost postal claims or technical problems.
- Any unclaimed contingency from one year will be added to the following year's distribution.
- Any claims that DACS has not been able to pay out of the previous year's distribution and are no longer payable (see note on requirements from claimants below) will be added to the distributable amount.

- If the Board of Directors deem it appropriate funds received in the year of distribution, but normally payable the following year will be distributed early. The 2017 distribution will include funds received from the Copyright Licensing Agency (CLA) in 2017 that relate to 2016 CLA licences.
- The allocation of payments to rightsholders will be claims based, with claims being made through DACS' annual Payback scheme. In 2016 this scheme will operate based on availability only for publications and television. This means if the claimant can show that their work was available for copying through the inclusion in the relevant media they will be allocated a proportion of the publications/programmes royalties received by DACS for distribution.

From 2017 onwards steps will be made to increase the use of usage data provided by the CLA and other collective bodies to facilitate the distribution. DACS will ensure that members are kept informed of any changes to distribution as they occur.

- DACS' terms and conditions for Payback members will be changed to include the provision that although Payback members can terminate their membership with DACS with one month's notice, their termination will only take effect from the next financial year. Firstly, the payments that DACS receives from licensors of secondary rights are not all equally split between calendar months throughout the year or clearly allocated for specific uses; they generally reflect the licences granted and therefore the distribution policies of third parties. It is therefore necessary to consolidate the payments received during DACS' financial year in order to achieve a fair and balanced allocation to rightsholders for the full term of their membership. Secondly, the current agreement with the CLA envisages an annual declaration of mandates held by DACS. This in turn is reflected in the licences that the CLA grants to their licensees which are usually for longer periods and not on a monthly basis. Terminations throughout the year would also have implications on the percentage share allocated by the CLA to a visual art representative which would lead to distortions in the allocation.
- The claims process includes the requirement that the correct VAT, tax and bank details are provided to DACS for payment to be made. If these details are not provided DACS will allocate a payment to the claimant, but will hold this until the relevant criteria are met. If these criteria cannot be met before the closure of the following year's payback campaign and no communication has been received from the claimant despite at least 3 attempts by DACS using the information provided by the claimant on their claim form, the funds will be added to the following year's total amount due for distribution as noted above.

4g Social, cultural, educational and other activities

DACS does not use royalties collected to fund social, cultural, educational and other activities. However, DACS does conduct a programme of research and innovation to ensure we are in a good position to make the most of opportunities to develop income for artists and artists' estates from royalties and to defend artists' rights.

DACS: Creating value through cultural and educational activities

DACS engages in research and education, which allows our knowledge and expertise to find applications within emerging fields such as visual intellectual property in fashion. To develop this interface with the public we work independently curating our own special projects and events and



also in partnership with organisations such as SPACE, an - The Artists Information Company, - and Artquest who are equally engaged with issues affecting artists and artists' rights.

DACS runs a series of dynamic talks which explore issues facing contemporary artists such as copyright and infringement, commissioning in the public realm and new technology that impacts on visual artists.

We have invested resources in partnership with Higher Education research with Oxford University to ensure that DACS is positioned to capitalise on key emerging developments which are relevant to our membership. As these activities form part of DACS' research activities they are allocated to specific licensing activities as part of the indirect cost allocation. Research is allocated to each business category on a revenue basis.

Activity that exists outside of the main activities of DACS is shown under 'other activities'. This includes the costs associated with running the Art 360 project in partnership with DACS Foundation established by DACS in 2014 the income and expenditure relating to Artimage. All the costs associated with the Art 360 project are covered by Arts Council Grant received in 2014.

DACS purchased some art works from DACS Foundation in 2015. The art works were donated to DACS Foundation for the DACS Foundation Auction, which raised money for DACS Foundation's projects. In our accounts the art works form part of DACS' fixtures and fitting in Fixed Assets.

Income & Expenditure

	2016	2015
	£	£
Turnover	16,692,860	19,508,176
Payable to Artists	(14,058,517)	(16,408,887)
Other Cost of Sales	(24,262)	(108,652)
Gross Profit	2,610,081	2,990,637
Occupancy	89,060	74,593
Directors Remuneration	55,198	64,087
Salaries and Other Staff Costs	1,820,448	1,743,259
Professional Fees	255,867	217,394
Finance Charges	26,962	29,406
Communications	110,769	88,308
Telephone, Stationery and Office Costs	210,333	191,993
Travel & Subsistence	16,129	17,037
Other Expenses	56,513	40,116
Depreciation/Loss on Disposals	183,197	255,537
Research & Development	34,502	73,149
Grant Delivery Costs	175	1,693
Total Expenses	(2,859,154)	(2,796,572)
Other Operating Income	84,195	60,848
Fair Value Movements	77,303	13,434
Exceptional Items	(39,212)	(47,066)
Operating Profit	(126,786)	221,281
Investment income	42,692	24,126
Interest Receivable & Similar Income	29,054	35,932
Profit Before Taxation	(55,040)	281,339
Tax on profit	0	(11,487)
Total Income	(55,040)	269,851

Income & Expenditure by Category of Rights

	ARR		COPYRIGHT		COLLECTIVE		Other Activities	
	2016	2015	2016	2015	2016	2015	2016	2015
	£	£	£	£	£	£	£	£
Revenue	10,740,774	12,060,286	2,026,114	1,966,303	3,847,086	5,404,933	78,887	76,654
Payable to Artists	9,228,282	10,319,727	1,546,482	1,497,896	3,231,453	4,540,400	52,300	50,863
*Other Cost of Sales	14,437	42,727	2,162	15,027	7,650	15,704	13	0
Other income							84,195	60,848
Net Income	1,498,055	1,697,832	477,470	453,380	607,983	848,828	110,769	86,639
*Direct Costs	235,484	248,468	218,571	243,464	111,060	86,564	197,440	136,013
Gross profit	1,262,571	1,449,364	258,899	209,916	496,923	762,264	(86,671)	(49,374)
Interest & Investment Income	19,731	20,057	2,028	1,276	49,838	52,054	77,402	62
Contribution	1,282,302	1,469,421	260,927	211,192	546,761	814,317	(9,269)	(49,312)
*Administration Costs	1,291,689	1,262,808	243,661	205,888	462,652	565,939	9,487	8,026
*Occupancy Costs	29,101	26,400	38,754	30,841	9,262	8,716	11,943	8,635
Net Profit	(38,489)	180,213	(21,488)	(25,537)	74,848	239,662	(30,699)	(65,974)
*Exceptional Items	0	0	0	0	39,212	47,066	0	0
Profit before taxation	(38,489)	180,213	(21,488)	(25,537)	35,636	192,596	(30,699)	(65,974)
*Costs of rights management	1,570,711	1,580,403	503,147	495,220	590,624	676,924	218,883	152,674
Costs (before exceptionals) as a % of Revenue	15%	13%	25%	25%	15%	13%	0%	0%

Royalties by Category

Collective Revenue Details

Opening Balance	2,979,026	2,668,021	884,930	764,671	5,538,267	6,313,279
Current Year Collection	9,228,282	10,319,727	1,546,482	1,497,896	3,231,453	4,540,400
Total Payable to Artists	12,207,308	12,987,748	2,431,412	2,262,567	8,769,720	10,853,680
Total Distributed	9,227,509	9,965,271	1,597,571	1,419,812	5,890,785	5,313,466
Closing Balance	2,977,940	2,979,026	883,040	884,930	2,876,929	5,538,267
Not Yet Due/Payable	580,862	1,113,793	407,547	368,821	127,923	0
2016	1,624,109	0	419,581	0	2,627,378	0
2015	223,493	1,237,070	31,650	488,110	97,963	5,192,731
2014	177,553	228,351	8,782	8,444	9,483	169,336
2013	194,381	227,577	6,218	8,953	13,515	121,816
2012	74,352	79,326	8,117	8,978	667	54,384
2011	36,552	39,182	420	440	0	0
2010	21,753	24,727	553	846	0	0
2009	14,985	25,534	173	338	0	0
2008	24,157	1,646	0	0	0	0
2007	4,101	296	0	0	0	0
2006	1,642	1,522	0	0	0	0

	2016	2015
Reprography	3,110,148	4,814,581
International Extended Collective	221,252	45,650
Cable Transmission	289,640	296,456
Educational Recording	226,000	222,524
Public Lending Right	45	25,722
TOTAL	3,847,086	5,404,933