

Imagi-Nation

The business of creativity

A review by
**Ian Livingstone
and PwC**

15 September 2015





Welcome to this report which looks at the health of the UK's creative economy and pushes the creative agenda in the UK.

The UK's Creative Industries are thriving, with growth in output three times that of the UK economy. On an international level, the UK showcases some of the very best creative talent available today, with leading positions across a number of key sectors, from music to art, film to television, and design to gaming.

However further support from the government, along with the creation of a seamless industrial strategy is now required in order to cement the future success of one of the UK's most prized assets.

This report provides an overview of the current state of play within the UK's Creative Industries. It highlights their success, as well as some of the key challenges they currently face. Having read this report, the reader should appreciate the size, scale and importance of the UK's Creative Industries.

The report advances seven specific policy areas the government could target in order to considerably grow the contribution of the nation's iconic Creative Industries to UK plc.

These themes have been developed across the Creative Industries over a number of years and have been refined through a series of highly engaged and informative roundtable discussions involving 50 politicians, policy-makers and key industry executives and practitioners, one-to-one meetings with additional parties and an extensive review of existing secondary research.

We would like to thank Ian Livingstone for inviting us to support him in writing what we believe is a very important report. If you would like to discuss any of the themes in the report in more detail, please don't hesitate to get in touch.

Phil Stokes

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The case for a 7p investment into the UK Creative Industries

An introduction by Ian Livingstone CBE

Creativity is a core strength of the UK which gives us an edge as a nation. Celebrated around the world, UK music, television, film, games, fashion, publishing, theatre, art, design, advertising, crafts and architecture is the valuable bi-product of a long history of culture – and counter-culture. Modern Britain is an open, multi-cultural society, a rich talent pool where ideas stream from diverse free-thinkers collaborating to create innovative new products and services. However, international competition is increasing.

The UK excels at creating world-beating Intellectual Property. But whilst UK creative talent might win the Oscars, the BAFTAs and other coveted artistic awards, too often is the case whereby the revenue derived from UK creativity is banked overseas. It is important that intellectual property is not only created, and protected by law in the UK, but also retained further down the value chain by its creators so that the global revenues derived from IP exploitation flow back to the UK as taxable income. Greater enterprise value is more likely to be built by content-owning companies than by work-for-hire service companies. However, supply-led content companies are considered inherently more risky than demand-led service companies. In the main, content companies are under-capitalised; one consequence being that they are unable to retain ownership of their valuable intellectual property. Investors could do more to understand the value of creative businesses, their intangible assets and their potential to scale, and creative innovators could do more to understand the business of creativity.

Grand Theft Auto

One of Britain's largest creative exports: selling more games around the world than The Who sold records





To build on the success of the Creative Industries, we must further incentivise, invest in, and reward creative endeavour. We must celebrate our Creative Industries' success stories, sending out positive messages about career and investment opportunities. When the BAFTA-winning video game Grand Theft Auto V launched in 2013, it generated global revenues in excess of \$1 billion in just three days. It remains the biggest entertainment franchise in any medium. GTA5 was developed in Scotland. World-class British content and technology merits proper recognition, yet the media headlines of the day focused on the game's notoriety rather than its huge cultural, social and economic impact.

Historically the Creative Industries have been supported by mixed public and private provision – the BBC, Arts Council, Creative Skillset, BFI, Creative England, NESTA, Channel 4, Innovate UK, and others. And much has been done by Government to support the Creative Industries as a sector, particularly in recent times working with the Creative Industries Council and the Creative Industries Federation to implement a strategy for awareness and growth. In a world being transformed exponentially by the speed of technological change, it is vital to understand the needs of digital content companies to scale, in particular access to finance, a skilled workforce and world-leading digital infrastructure. Low costs and high skills are essential for growth in the sector. To this end, the Government has introduced tax relief for video games, animation, high-end and children's television, and theatre

Creative thinking, learning-by-doing, problem-solving, and understanding that failure is success work-in-progress will give young people the mind-set to become job makers not just job seekers.

production. Computing has been introduced as a mandatory subject in primary and secondary schools' curricula with a focus on problem-solving, computational thinking and digital creativity to enable future generations to build new technologies and content. Children will benefit significantly from learning digital-making skills, especially for those later seeking careers in the creative and digital industries. Computer science is 'essential knowledge' for the 21st century, and there is no reason why schools rooted in traditional academic values cannot teach computing alongside the teaching of classics. Computer science ticks all the right boxes for the knowledge economy, at the same time preparing children for life as digital citizens.

An authentic education is imperative for the digital world. Vocational skills are key to the Creative Industries. Know-how is as important as knowledge, and skills are as important as qualifications. Government must continue its vital role in evolving the curriculum, bringing the arts and sciences together (as per Eric Schmidt's advocacy of the multi-disciplinary 'polymath') to encourage innovation. It should no longer be a question of either or. It is essential that school is a place where creativity flourishes. STEM subjects are vital, but it is the multi-disciplinary mix of STEM and the Arts (STEAM) that generates imaginative ideas and problem-solving skills to meet the challenges of a fast-changing, fragmented digital world. Art, music, drama and design promote diverse thinking and self-determination – the raw materials of the Creative Industries. An easy option for policymakers is to marginalise creative subjects in the curriculum on the grounds that students would be better served concentrating solely on STEM subjects in order to get a 'proper job'. Whilst Government recognises the value of culture and praises the creative economy, a strange paradox would exist if at the same time the EBacc penalised schools that favour good arts and creative provision. It is worrying that in the last five years there has been a 29% drop in children taking Design & Technology GCSEs.

School must be a place where the Arts are practiced, especially art itself which has been overtaken by art consumption or art commentary. This shift in art education to the academic University model, driven by the Humanities, has subsumed art practice and replaced it with criticism and contextual studies. Why? Drawing is to art what grammar is to writing or scales and notes are to music – it is a basic building block.

Drawing is a fundamental human activity of expression and helps people gain a richer understanding of themselves and their world. It is not just a worthy craft pursuit, but a base for acquiring other skills. And craft skills today are being used in creative ways in engineering, fashion and even medicine.

Imagination is the key for the ‘maker’ generation. Imagination helps us dream what might be possible, and maths makes us understand what is possible. Leonardo da Vinci, the most renowned polymath of all time, was not only the world’s greatest-ever painter, but also an architect, inventor, mathematician and engineer. His genius was born out of curiosity and imagination. Albert Einstein was not only the world’s foremost theoretical physicist, but also a philosopher and an enthusiastic violinist. Creative endeavour benefits everybody. Today’s Nobel laureates in the sciences are seventeen times more likely than the average scientist to be an artist, twelve times as likely to be a poet, and four times as likely to be a musician.

For too long the Creative Industries have been seen as ‘fluffy’ businesses run by self-indulgent ‘luvvies’. Yet creative ideas are being turned from concept into reality at a rate that was impossible during the analogue age. An explosion of digital content is today being served to global markets via super high-speed broadband. There are now over 2 million ‘Apps’ available on smart phones, a device less than 10 years old. In 2014, sales of smart phones worldwide topped 1.2 billion, a 28% increase on 2013. Digital disruption is everywhere. Opportunity beckons. The release of a digital game is a 90% export story. Businesses not thinking digital are probably thinking dinosaur.

The creative economy is acknowledged as one of the main drivers of future jobs and growth. Investing in culture and creativity yields economic rewards and is not just something nice to have. Imagination, diverse thinking, learning-by-doing, problem-solving, and understanding that failure is success work-in-progress will give young people the entrepreneurial mind-set to become job makers not just job seekers in the Creative Industries and other industry sectors. Collaboration is essential. Collaboration in the classroom as good practice for the workplace, a closer relationship between Higher Education and Industry, and joined-up Government policy from DfE, BIS and DCMS in support the Creative Industries. By working together the UK could significantly increase the size of the Creative Industries sector over the next decade.

The Arts are as important as the sciences. It should no longer be a question of either or.

Four years ago I wrote a short article published in *Creativity, Money, Love* about the need to invest ‘5p’ in support of the digital Creative Industries – Perception, People, Pounds, Pipes and Property. Building on the recommendations in ‘Create UK – Creative Industries Strategy’ I have added ‘2p’ – Place and Picture – for this independent report which was produced following extensive discussions with members of the Creative Industries Council and the Creative Industries Federation, educationalists, industry experts and practitioners. I hope the seven policy areas in *Imagi-Nation* will be used by government, industry and education as a practical framework to build sustainable growth in the short, medium and long term for the benefit of the UK’s Creative Industries, as well as the wider economy.

I would like to thank the PwC team for their invaluable help in producing this report, in particular John Boxall and James Allan, who researched and drafted the report, Julia Surry, for managing the graphic design and events, Mark Maitland for championing the report and Phil Stokes – Creative Industries Leader at PwC – who not only gave his support and guidance, but also kindly hosted the series of dinners at which so many insightful views and expert opinions were gathered from our creative sector guests.



Ian Livingstone CBE

Co-founder Games Workshop, Co-creator Fighting Fantasy, and Video Games Entrepreneur

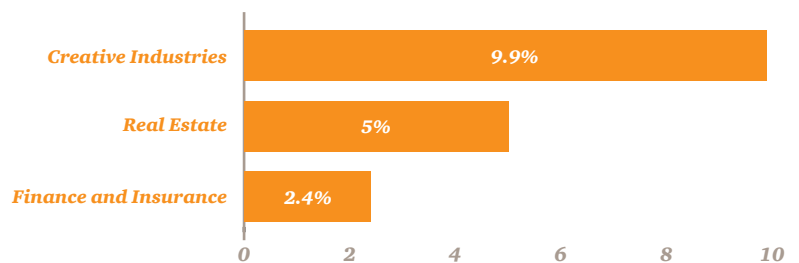
UK creativity has been celebrated around the world for hundreds of years

UK creativity has been celebrated around the world for hundreds of years and is at the heart of what defines Britain as a nation. They are also flourishing, with growth in output of 9.9% between 2012 and 2013, three times that of the UK economy itself, exceeding key sectors such as real estate (5.0%) and finance and insurance activities (2.4%).^{1,2} While Britain's cultural and artistic heritage is therefore vital to its identity, these industries are also a source of much needed tangible financial return for the nation's economy.

However, until recently the UK's Creative Industries have failed to receive the attention they deserve. As a nation, the UK was not recognising its long-standing success in creative content and services. Some notable steps have now been taken by both the government and industry, such as the establishment of the Creative Industries Council (CIC), Creative Industries Federation (CIF) and Creative England. The time is therefore right to reassess both the types and level of investment in the UK's creative sector. This is critical if we are to ensure their future sustainability and success, particularly in the face of an increasingly digital and internationally competitive world.

This report aims to provide an overview of the UK's Creative Industries, highlighting their relative size and importance to the economy, as well as discussing some of the key challenges they currently face. It builds on the work of the DCMS, BIS, the CIC, Nesta, Warwick Commission and others to suggest seven clear policy areas the government should consider for further discussion. These recommendations focus on how best to sustain the Creative Industries and make them even more of a success than they already are today. As a nation, the UK should better recognise, celebrate and promote the success of these industries so that it does not lose sight of what makes it truly 'British'.

Growth in output between 2012 and 2013³



Revenue from the UK's film industry was



£10.4bn
in 2014⁴

The UK's book publishing industry is estimated to be worth...



£10bn
a year¹

The UK is the second largest exporter of music behind the US⁵



What are the Creative Industries and why are they important?

The UK is recognised globally for its creative and cultural content. Advertising and marketing, architecture, crafts, design (product, graphic and fashion), film, TV, video, radio, photography, IT (software and computer services), publishing, museums, galleries and libraries, music, performing and visual arts all form what has come to be referred to as the Creative Industries.⁶ These industries play a significant role in contributing to the success of the economy.

Interstellar

Award winning visual effects created in the UK



The Department for Culture Media and Sport (DCMS) define the Creative Industries as “those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.”^{1,7}

According to the latest DCMS estimates, the Creative Industries accounted for 1.71 million jobs in 2013, a sizeable 5.6% of all jobs in the UK. They also contribute significantly to output, and in 2013 generated £76.9 billion in GVA, which represented 5.0% of the UK total. In addition to this, there are some 0.91 million jobs in creative roles outside the Creative Industries in the wider Creative Economy. Furthermore, service export revenues from the Creative Industries represented 8.8% of the total UK service exports in 2012.¹

The UK's Creative Industries have also been growing much faster than other sectors. Referring to figure 1, employment in the Creative Industries grew at 8.4% p.a. between 2008 and 2013, compared to 0.3% p.a. for the wider UK economy (albeit less differential since 2009). Over the same period, GVA of the Creative Industries grew at 4.7% p.a. compared to 2.2% p.a. for the economy as a whole, as illustrated in figure 2. These statistics clearly demonstrate the size, scale and importance of the UK's Creative Industries.¹

These industries are an engine of growth for the UK economy, and it is therefore vital that the government pays sufficient attention to such a thriving and talented sector. There should also be a recognition of the wider definition of the Creative Industries and the cross-over between Creative Industries and other areas of the economy (e.g. high-end manufacturing and health), both of which were highlighted in NESTA's Manifesto for the Creative Economy.



English National Ballet performing swan lake
Creating extraordinary performances for over 60 years

On an international level, the UK claims to have one of the largest creative sectors within the European Union, and as a proportion of GDP one of the largest in the world.^{8,9} In fact, the UK has the 3rd largest consumer market for filmed entertainment in the world (behind the USA and Japan), generating c.£4 billion of revenue in 2013 (c.7% of world market), and is predicted to overtake Japan by 2018.¹⁰ It is also 3rd in video games (after USA and Japan), 4th in TV content (after USA, Japan and Germany), and 5th in advertising (after USA, China, Japan and Germany).¹¹ Clearly the UK plays a prominent role in the global creative landscape. Their strength was a theme which was also shared in our roundtable discussions. Individuals highlighted that *“the Creative Industries are in pretty good health... they punch above their weight... we are not starting from a position of crisis.”* We concluded that *“no country in the world is in better shape culturally and creatively”* and that the *“British skillset is considered to be unbelievably good.”*

Considering supply, the UK offers a host of success stories. In broadcasting, the BBC is a long-standing iconic component of the Creative Industries, and has grown to become an extremely recognisable international brand. ITV has expanded its production business strongly in recent years and is now the largest unscripted independent production company in the US.¹² Channel 4’s unique public service remit drives it to invest in diverse, unique, innovative and educational content, which directly supports smaller creative businesses in the UK. Success in TV production is indeed very much of an international story, with recent popular series such as ITV’s *Downton Abbey* and the BBC’s *Sherlock* attracting viewers from around the world. In fact, in 2013, revenue from international sales of UK TV programmes was estimated to be c.£1.3bn (a 5% increase from 2012).¹³

Fig 1: Employment growth of Creative Industries and UK economy, 2008-13¹

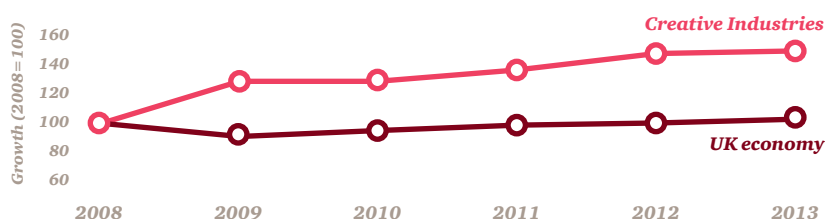
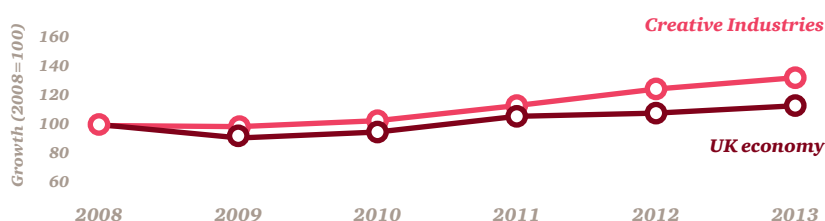
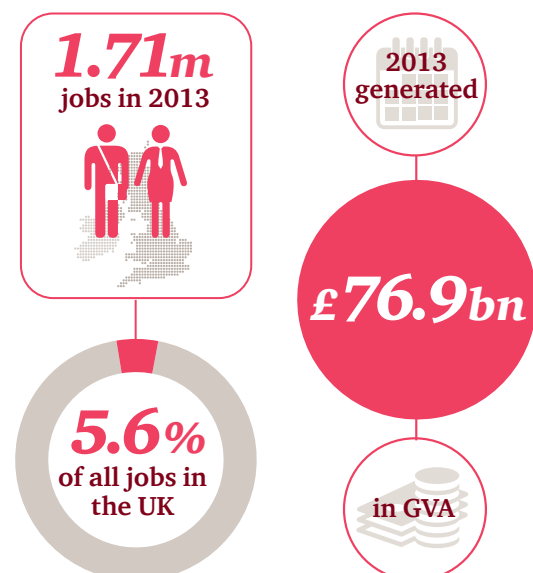


Fig 2: GVA growth of Creative Industries and UK Economy, 2008-13¹



The Creative Industries in numbers¹



By further encouraging diversity and the arts, as well as sciences, the UK will remain a place where creativity flourishes.

In animation, visual effects and games, success is also not hard to come by. For example, Bristol-based Aardman, the four times Oscar-winning animation studio, famous for its stop-motion clay techniques used in hugely popular films such as *Wallace and Gromit* and *Chicken Run*, as well as more recently in *The Pirates! In an Adventure with Scientists!*¹⁴ In visual effects, Oscar award-winning creative studios Framestore, based in London, have worked on some of the highest grossing films, including *Gravity*, *Sherlock Holmes* and *War Horse*, not to mention recently developing the iconic Mars' Galaxy advert bringing Audrey Hepburn back to life.¹⁵ Not to mention Double Negative also based in the UK were the visual effects provider for *Interstellar*. In games the UK hosts a number of internationally successful companies, for example King.com, one of the largest developers of mobile games, with popular hits including *Candy Crush Saga*.¹⁶ Other examples of hugely successful games companies include Rockstar North, the Edinburgh-based video games developer responsible for the critically acclaimed *Grand Theft Auto* franchise,¹⁷ Jagex Games Studio who developed and published *RuneScape* and Sports Interactive who were the developers of *Football Manager*.

In fashion, the UK boasts a range of internationally recognisable brands and retailers including ASOS.com and Burberry. From a cultural perspective, the UK attracts millions of tourists each year to institutions such as the British Museum, Royal Opera House, Natural History Museum, National Gallery as well as Liverpool's Tate and Glasgow's Kelvingrove Art Gallery. In publishing the UK has some of the world's largest companies (e.g. Pearson and Penguin), with the entire UK publishing industry estimated to be worth c.£10 billion¹, where approximately 40% of revenues are derived from exports.¹⁸ What's more, in 2013, UK films earned \$4.1 billion, a sizeable 11% share of global box office receipts, from organisations such as Pinewood Studios. In production, Pinewood Studios is recognised as one of the leading film production companies in the world, producing popular big budget movies such as *James Bond*, *Harry Potter*, *Superman*, and more recently *Star Wars*.

Norman Foster's 'Gherkin'

An iconic symbol of London and great British architecture



Creative Industries represented
8.8%

of the total UK service exports in 2012

8.4%
p.a. growth in Creative Industries

Employment 2008–2013

0.3%
p.a. growth for wider UK economy

The UK music industry is estimated to be worth some £3.5 billion, with £1.4 billion of this derived from exports overseas, making it the second largest exporter of music behind the US.^{5,19} In fact, in terms of album sales globally, in 2014 UK artists took three of the top five spots, with Ed Sheeran's *X* album ranked third, whilst Coldplay's *Ghost Stories* was fourth, and Sam Smith's *In the Lonely Hour* was fifth.²⁰ And in 2014 all of the top-10 album sales in the UK charts were from British acts, the first time since the Official Charts records began.²¹

These examples are just a few of the many creative success stories the UK has to offer. It is clear the UK has a leading international presence in producing and distributing creative content and services. This success is firmly rooted in the depth and quality of the creative talent in the UK, together with fundamental advantages such as the global reach of the English language, as well as a rich history in culture and the arts. It has also been firmly underpinned by supportive government policies, including a long-standing commitment to the arts and culture, in addition to a successful public service broadcasting model.¹¹

Why do we need to do something now?

New government investment, together with the creation of a robust long-term industrial road map, is now required in order to ensure the future sustainability and success of the nation's iconic Creative Industries.

Digital has and will continue to disrupt traditional creative business models. It has fundamentally changed the way creative content is discovered, consumed, shared, stored and monetised. Social media platforms like Facebook, Twitter and YouTube provide individuals with the ability to share creative content in an instant to a far-reaching audience in a way that was never possible before. The division between creative supply and demand has become blurred, with consumers now supplying their own creative content, for example through uploading photos, videos and blogs to the Internet.¹¹ In short, digital is redefining the boundaries of the Creative Industries; more people are being reached, and reached in ways that are different to before. This disruption has indeed brought significant opportunities; sharing content has never been easier, faster or cheaper. But the challenge is to ensure our creators are making the most of such opportunities, and not falling by the wayside to international competitors.

In explaining why digitisation has been particularly disruptive to the Creative Industries, Nesta point to the fact that “many creative businesses produce and sell information goods that can be easily manipulated, distributed and stored using information and communication technologies”.¹¹ We have already seen many Creative Industries heavily impacted by digital technology; the publishing industry and the music industry represent two prominent examples, however there are many more.

It would be difficult to deny that without the Internet many creative individuals and businesses would have previously struggled to gain any sort of recognition or support for their content or services.

It would be difficult to deny that without the Internet many creative individuals and businesses would have previously struggled to gain any sort of recognition or support for their content or services. However now they have the potential to be discovered and followed online by people all around the world in an instant. Generating a ‘buzz’ over social media sites has the ability to see songs, videos, pictures, blogs and messages go ‘viral’ attracting thousands of followers within a matter of minutes. This digital shift has led to the creation of new and innovative revenue streams for creative businesses. For example, considering the audio-visual space, popular online revenue models have emerged, such as freemium, subscription and premium offerings, in response to the threat of digital piracy and the need to monetise online opportunities.



Nick Park
Multi-award winner
and creator of
Wallace and Gromit

Digital revenues as a proportion of total entertainment and media spend within the UK have increased from 25% in 2009, to an anticipated 40% in 2014, and are projected to reach 48% by 2018.²² So digital has and continues to represent the growth opportunity for these creative businesses. Although it is important to appreciate that analogue is still an important source of revenue, with some businesses still dependent on legacy revenues to cross-subsidise forays into the new digital space. So whilst digital has and will continue to provide creative businesses with significant opportunities, particularly in the form of reaching and engaging with larger audiences, it is important for both the government and industry to continue investing in and nurturing their online platforms in order to maximise the return from the digital opportunity (continuing to develop the online presence of the BBC represents a good example).

International competition is also fierce, not only from traditional competitors in North America and Europe, but also from fast growing economies like South Korea, Singapore and China where governments are supporting the development of their own creative sectors.²³ Considering that the United Nations estimated the value of global trade in creative goods and services at more than \$624 billion, which is more than double the value estimated a decade earlier.²⁴ This increasing threat from international competition is raising

The division between creative supply and demand has become blurred, with consumers now supplying their own creative content, for example through uploading photos, videos and blogs to the Internet.

uncertainties and sparking questions about the sustainability of the UK's creative businesses. Young international companies, and in particular US businesses are dominating new internet markets where the UK has historically struggled to compete. Consequently, whilst the UK's Creative Industries have indeed been hugely successful, and we should rightly recognise that, it is also important not to become complacent. In many cases the UK could and should be doing better and this warrants attention. The opportunity is there, but action is required now in order to reap its return.

Despite the digital revolution beginning 15–20 years ago, it continues to drive constant change in the creative sector, and this demands that policy continues to adapt. The very policies that have played a key role in nurturing and shaping the UK's Creative Industries risk now being made redundant by digital technologies. Education, finance and intellectual property are just some of the areas that require attention in order to make them 'fit for a digital age'. In order to respond, the government should adopt a coherent policy framework. In light of this, this report highlights 7 key areas (7 "Ps") which warrant further investigation and support.

The 7Ps

-  **1 Perception**
-  **2 People**
(education and skills)
-  **3 Pounds**
(finance)
-  **4 Place**
(location)
-  **5 Pipes**
(internet)
-  **6 Property**
(intellectual property)
-  **7 Picture**
(data)

The following sections of this report outline and discuss the rationale behind each of these areas separately, and advances specific policy suggestions for further discussion that could significantly grow the contribution of the Creative Industries to the UK plc.



Ed Sheeran

Multi-award winning English singer-songwriter and musician known worldwide for his contribution to the music industry

1st P – Perception

Issue and context

Encompassing all of the following issues is a problem of perception. The Creative Industries have traditionally been viewed as somewhat superficial, lacking true substance, where creative entrepreneurs are perceived as only producing content they desire, with little consideration for its underlying commercial value. Indeed, this theme emerged strongly from our roundtable discussions with a conclusion that the Creative Industries are “seen as soft.”

Our discussions also highlighted that the sector is perceived as low paid: *“You must be extremely passionate about it to do it. Loving what you do has to be more important than talking about the cash.”* This fact can have a consequential impact on diversity with views such as *“a tendency of posher and posher people moving into creative jobs”* as *“families who want their children to do better than they did push children into academic subjects as opposed to creative ones.”*

Arguably all of the forthcoming issues discussed in this report have helped to contribute to this perception issue; however education, access to finance and a lack of reliable data are likely to have played the most important roles. Students at school are taught the importance of STEM subjects, and how they are important for a successful career, whereas more creative subjects tend to be seen as ‘optional extras’, with less value or purpose in today’s modern society. Creative companies also typically lack access to capital to support expansion. This is likely to have contributed to the lack of large international UK creative companies, which ultimately has helped to shape a perception of limited opportunity and reward for a career within the creative sector. In fact there are some very large and successful creative companies (e.g. WPP, Pearson and King.com to name a few); the problem is that these are not necessarily instantly recognisable names. Consequently, unlike in other industries, success within the UK’s Creative Industries may well be harder to recognise, helping to shape this perception issue.



Downton Abbey
British period drama television series and a successful overseas export

Additionally, the lack of reliable and accurate statistics has been a long standing issue within the UK’s Creative Industries, albeit one where significant strides have been made in the UK in recent years. Without accurate statistics to measure performance their perception is undoubtedly going to be skewed. Our roundtable discussions suggested that *“building data sets and strong evidence of the Creative Industries’ growth and disruption will put the spotlight on innovation and creative economies.”* In addition, there was agreement on the need for strong PR – *“telling a great story in an entertaining way”* – and *“creating excellent content and cutting edge videos”* to highlight the creative opportunities available. This would also contribute to a greater understanding for parents, teachers, carers and advisors that the Creative Industries are seen as a credible profession in the same way as other professions.

Vision

Recent improvements in official statistics allow the economic performance of the UK’s Creative Industries to be compared with other sectors on a consistent basis. They show that the Creative Industries have been an engine of growth. It remains the case however that this stellar success is under-appreciated. Ideally it would be possible to envisage a future whereby

individuals who want to pursue a career within the creative sector will be equally recognised and fairly rewarded for doing so. Changing this perception will not be easy; however it is vital for the future success of the industry. The UK’s Creative Industries contribute significantly to the economy and support millions of jobs. As a result, the Creative Industries’ perception should be far more positive, recognising and celebrating its success.

Policy ideas for discussion

Education and access to finance are likely to play a key role in shaping the industries’ perception issue. Arguably by alleviating both of these issues, the longer-term perception issue could be corrected, and we discuss possible remedies and areas for the government to focus on in order to achieve this in the following sections.

The government should continue to invest in improvements to the Creative Industries statistics and should proactively celebrate our creative industries. These statistics should be used to improve the information made available to people thinking of a career in the Creative Industries.

2nd P – People

Issue and context

Skills shortages

The UK's Creative Industries are suffering from skills shortages, particularly in internet-related disciplines.¹¹ This is likely to have been driven by the rapid advancement in digitisation, together with a slow response by education and training curriculums to changes in the skills demanded by industry. The effects of which have been felt strongly in the Creative Industries, where businesses typically sit on the technological frontier.

What's more, with the Creative Industries exhibiting growth three times that of the rest of the economy, the skills gap is becoming ever more apparent. Whilst historically the UK has been able to fill positions by attracting foreign talent, this is becoming increasingly difficult, and should not be seen as a sustainable solution to an underlying fundamental skills problem. Within the Creative Industries, these skills shortages exist across a spectrum of core management, entrepreneurship and technical skills – the very skills that are essential for any creative business to thrive in today's modern economy.¹¹

Evidence of skills shortages

The Livingstone-Hope Next Gen skills review with Nesta reported that 31% of video games companies surveyed claimed that difficulties in recruiting were negatively impacting their business, and this rose to 38% for visual effects companies. Additionally, 17% of large video games companies were filling vacancies with overseas talent.²⁵ These findings were supported by a CIC report, which identified under-investment in human capital, fewer training opportunities, insufficiently structured career progression and unequal job opportunities as prevalent in the industry.²⁶

Skills is a key issue that the Creative Industries needs to address and invest in a more planned and coherent way. If this can be done then there will be further productivity and growth to be gained. However the structure of the industries with so many SMEs and such high levels of freelancing is a barrier. The incentivisation provided by the last Government through providing co-investment to support skills and development that the industries needed has seen a step change, including in areas of high freelancing through the

introduction on voluntary levies. We note that the budget announced that the Government is to introduce a statutory levy on large employers to support reaching the Government's target of three million apprenticeships.

There have already been efforts to work through Creative Skillset to coordinate efforts and this should continue in order to enable a strategic industrial strategy around skills.

Furthermore, employers are not only encountering problems when recruiting new talent, but also their existing workforce is showing signs of skills shortages. In fact, one-third of video games companies surveyed reported that their current workforce required a skills upgrade, and this increased to 65% for larger employers.²⁵ These findings are worrying for the future of the UK's Creative Industries. Underlying skills shortfalls should be addressed as a matter of urgency if these iconic industries are to continue thriving.

Why do skills shortages exist for Creative Industries?

Overreliance on STEM subjects

These skills shortages have arisen at a time when the government is emphasising the importance of Science, Technology, Engineering and Maths (STEM) subjects, with less focus on more creative subjects. In schools, the government has required curriculums to focus on science, English and maths, and this has marginalised more creative subjects like, design, art, music and drama. The Warwick Commission recently reported that between 2003 and 2013 there was a 50% decline in the number of GCSEs in Design and Technology, and a 23% decline in Drama, whilst between 2007 and 2013 there was a 25% decline in other craft-related GCSEs. Furthermore, the report found that a significant portion of students had not taken any creative or cultural subjects at all.²⁷ Again, findings like this are worrying for the Creative Industries. A shortfall in creative talent could considerably undermine the industries' future growth trajectory and should be a priority area for the government.

Ofsted could have an impact by changing their criteria where schools would not be able to be judged as 'outstanding' without a great arts offering



In line with this, a consistent theme from our roundtable discussions was that *“a more multi-disciplinary approach is key when a history of innovation stems from multi-disciplinary,”* but that parents and pupils perceive that *“if you want to get a proper job, don’t study the arts or humanities.”*

So whilst STEM subjects are important, they are not sufficient alone. This is particularly true in the face of an increasingly innovation-led economy. Instead, more focus should be placed on embedding creativity alongside, and within, traditional STEM subjects. A strong pool of creative talent is vital for the success of the UK’s Creative Industries, however recent evidence would suggest that this is being jeopardised. The inclusion of a compulsory computer science GCSE from 2016 is a welcome initiative, but more weight could be given to other creative subjects (e.g. art and design). It has been argued that not including art and design and technology within the English Baccalaureate is a ‘significant threat to the UK’s creative economy’.¹¹

Traditional methods of learning

The slow adoption of new digital learning methods is likely to have further contributed to the industries’ emerging skills shortages. Schools have, at least until recently, relied on somewhat ‘outdated methods of learning’, and as a result students tend to be ill-equipped for a career within an industry increasingly reliant on digital technology. Instead digital should be introduced at an early age, helping students to embrace the new ‘digital norm’ early and providing them with the opportunity to develop the necessary technical skills. And whilst we recognise schools have made some significant inroads to incorporate digital technology into the classroom, not least the introduction of the computing curriculum in 2014, more could be done. For example, schools could better embrace principles of games-based learning, collaborative project work, learning by doing, computational thinking and problem solving, as well

as incorporating new technologies such as Google Docs and One Note given digital tools like these are likely to become commonplace in any career, not least within the Creative Industries.

Early subject specialisation

The current education system also encourages students to specialise in either Arts or Science at an early age. However such specialisation does not recognise the benefits of having a ‘fused’ education, i.e. one which combines aspects of both the Arts and STEM subjects. In fact, according to research by the Warwick Commission, only 8.4% of students who were accepted for a Creative Arts & Design undergraduate course at university had taken A-Level Maths.²⁷ The report went on to support the importance of having a ‘fused’ education, and expressed concern over the lack of students studying across multiple disciplines. It is important to understand that all individuals can benefit from having creative tendencies. Whether or not they go on to become finance professionals, doctors, or musicians is irrelevant.

Higher education and apprenticeships

Whilst this analysis has focussed on the school education system, it is acknowledged that individuals will typically go on to study at university before entering the Creative Industries. In fact, approximately three-quarters of individuals employed within video games, visual effects and interactive media have obtained at least an undergraduate degree, compared to 37% for the UK workforce.¹¹ Other channels into the industries include apprenticeships and colleges.

According to Nesta, whilst many universities offer courses that are described as relevant to a career within the Creative Industries, many of them are failing to actually provide graduates with the type and quality of skills required. In turn, some universities cite that pupils arriving in Higher Education do not possess the relevant fundamental skills to undertake creative courses, and that they are being forced to simplify their courses as a result.

Aside from higher education, some workers enter the industry after attending colleges or vocational education (i.e. apprenticeships). However, this channel has tended to be relatively small, as employers have typically favoured graduates. Furthermore, the industries’ underlying structural features – such as the popularity of unpaid internships, project work and prevalence of small businesses, are key in understanding why apprenticeship hires are unlikely.

The school education system is the area which would appear to benefit most from government attention. However, whilst some of the issues surrounding universities and apprenticeships have recently begun to be addressed, for example the roll-out of Creative Skillset’s ‘Tick’ scheme which has accredited c.175 higher education creative courses, as well as a number of apprenticeship programmes in England, more could be done.²⁸ Additionally, in apprenticeships, positive developments include the £15m of funding allocated to the Creative Employment Programme to support apprenticeships and paid internships in the arts and cultural sector.²⁹

Creative management and entrepreneurial skills

Further to this, creative businesses typically lack management or core entrepreneurial skills that are important for commercial success. According to the Sector Skills Assessment for the Creative Industries, a lack of management skills was one of the most commonly cited skills gaps reported by creative employers, with 40% citing it as a problem.^{30,31} This lack of management and entrepreneurial skills is closely linked to education. With students encouraged to specialise in subject disciplines early on, it is no surprise that individuals searching for employment within the Creative Industries lack valuable business and commercial acumen having been unlikely to study these disciplines alongside their core creative subjects.

This lack of management skills could be addressed through both education at schools and universities, as well as through on the job training by creative employers. Of course, funding such training may not be easy, particularly for smaller creative employers, and so businesses should ensure that they can recognise a lack of management skills early on, and be prepared to bridge any gaps with external talent, if and when required. This ability to better ‘recognise and react’ to management skills shortages would also help to alleviate the access to finance issue, as investors are likely to become more confident in the ability of creative companies to commercialise its content or services.

Vision

The vision for people and education is simple – an education system that actively encourages and supports individuals to pursue their creative interests alongside traditional STEM subjects. Within this, all individuals would have access to an enriching and stimulating cultural and creative education, regardless of their background. Individuals would be encouraged to allow their creative tendencies to flourish, regardless of what subjects they choose to study. The benefits of such a system would be felt far wider and deeper than the Creative Industries alone; all industries could gain from having employees who are more capable of fusing creative thinking with intellectual rigour, particularly in a world where problems are requiring more innovative solutions.



All individuals should have access to an enriching and stimulating cultural and creative education, regardless of their background

Policy ideas for discussion

The UK's education system could better recognise the importance of a ‘fused’ approach, i.e. one which achieves a balance between STEM and more creative subjects. This could be achieved through a combination of adjustments to the National Curriculum and the English Baccalaureate, as well as better matching the skills obtained via a degree in a creative discipline at university and the skills demanded by creative employers. Ensuring the education system is providing the right environment to foster and encourage creative thinking should be a top priority for the government, because after all, it's not just the future success of the UK's Creative Industries which vitally depend on the pool of creative talent, but so too do many other industries in the wider economy itself.

Schools should continue to embrace new digital methods of learning in order to ensure the next generation of talent are sufficiently prepared for a career within the Creative Industries. Such methods would involve a wider adoption of digital making skills in the class room.

More could be done to facilitate better collaboration between higher-education and industry.

UK creative businesses that currently lack management skills could also look to improve the management training they provide to their employees in order to bridge any gaps.

Moreover, we need to build on the HIVE initiative curated by Creative Skillset which aims provides a network of creative people.

3rd P – Pounds

Issue and context

Creative businesses typically struggle to access finance in order to achieve scale

Access to finance, or the lack of, is an important issue facing the UK's Creative Industries, particularly for creative content businesses (e.g. gaming, music, film, TV and publishing).³² During our roundtable discussions, individuals consistently highlighted that *“what we seem to be missing is the capital, and that could be a problem”* and that *“very few companies invest in large scale creative projects.”* There was a feeling that *“no other British industry is this dependent on American money, and if we are too reliant on the US investment community it makes us vulnerable to changes in the US investor segment.”*

In particular, individuals felt that investors wanted *“quicker returns and look to commit to short-term propositions”* rather than offering the *“long money”* needed in some creative businesses that give returns over 10 or even 20 years. However, the problem is not necessarily a lack of finance for start-ups or one-off projects, instead, established creative businesses typically encounter funding issues when they attempt to scale their operations and transition to a larger-sized organisation.³³

There is also a concern that smaller creative businesses who do achieve some form of early success are susceptible to selling out and relinquishing their IP or becoming acquired by larger international competitors. There are many reasons for this, but a common explanation is that smaller creative businesses struggle to access the right kind of finance in order to achieve scale and instead by relinquishing rights and selling up they can still see their projects funded. In order to rectify this, the industry requires a financing framework which provides creative companies the opportunity to grow and expand organically within the borders



Burberry

Created in 1856 by Thomas Burberry, from Hampshire, England; the designs are celebrated all over the world

of the UK, making them less dependent on foreign risk capital. A lack of large creative businesses that have retained their IP results in a missed opportunity in terms of both contributions to GDP and taxable revenues for the UK.

One of the main problems faced by businesses in sourcing financing for expansion is navigating the complex landscape and finding the right funding *“fit”* within the appropriate market, rather than a simple lack of available funding. The ability to find the right kind of financing may also vary between ‘content’ versus ‘service’ creative businesses.

The issue of raising finance has been highlighted previously through work including the Access to Finance and Create UK reports from the Creative Industries Council. The Create UK report outlined that businesses tend to face a number of major challenges in accessing the finance they need to grow, relevant to their stage of development. First, information on available funding and financing options is often fragmented

and hard to navigate. Many creative businesses are simply unaware of the range of financing options open to them, their relative merits, and how or where to find out more information. The second is that the IP-based business model of Creative Industries are not always readily understood by investors, who may be more accustomed to investing in businesses with more physical collateral and find risk difficult to gauge in creative businesses. Investors also often cite the extensive level of investment in technologies and software. Investors of course seek IP, but for many creative businesses the relevant IP is frequently not in traditional tangible IP and patents. And a third and related challenge is that value in the sector is hard to quantify and compare across investment opportunities, especially because it is often highly bespoke in nature.

One solution to these challenges is to construct ecosystems which bring together money, markets and networks to support growing and scaling businesses. This is increasingly common in the tech sector and within the Creative Industries environment has been pioneered by Creative England through programmes such as **Greenshoots**. **Greenshoots** is a partnership between Microsoft and Creative England which incubates games companies, provides them with the technology they need to develop their game alongside a cash investment; importantly it also provides sales, marketing and business expertise to help them to connect in the relevant market. Creative England's "Money Plus" approach not only enables a company to develop and keep the rights to its own IP, it is also one that understands that money alone is insufficient without the right connections to relevant markets and networks.

This stems from the nature of the industry – imperfect information

This financing problem primarily stems from the very nature of creative businesses themselves – the final value of the content or services they supply is almost impossible to ascertain prior to their launch. For example, consider evaluating whether or not to provide financing to a games company producing and distributing apps for smartphones – their past success is not a reliable indicator of future success, given any new release may or may not become a 'hit'.

During our roundtable discussions, we discussed how creative projects were by their very nature "*hits and misses businesses*". This risky perception has clearly had a negative impact on the scale and type of investment coming to the UK's Creative Industries. It is this kind of uncertainty, together with a lack of underlying collateral (intangible assets such as IP are intrinsically difficult to value), which make bank financing harder for creative businesses (the terms are often extortionate and many creative businesses have consequently had to reject the bank's financing offer).³⁴

Investors struggle to understand creative business models, and creators lack information on external financing

This financing issue is further compounded by a lack of information, data and publicised success stories – many investors find it difficult to understand the business models of creative businesses.³³ In support of this financing gap, a study by the Warwick Commission found that businesses in the software and creative content industries faced greater financing difficulties compared to businesses from other sectors with similar risk profiles.³⁵

What's more, creative businesses themselves typically lack the knowledge and experience when it comes to understanding how to access external financing. Creative businesses are typically small and relatively immature, and as a result, management teams, who have traditionally focussed their efforts on producing and distributing creative content or services, tend to lack sufficient experience and commercial knowledge on selecting between the different financing options. This knowledge gap is then compounded by the fact that information on alternative financing is often hard to navigate. As a result, for many SMEs seeking external finance, bank funding tends to be the primary source.³⁶

Consequently, many creative businesses are unable to achieve scale

This lack of financing has arguably impacted the ability of creative businesses to achieve scale, with a significant lack of large creative business with a truly international offering. In a written submission to the DCMS, Ingenious Media highlighted the fact that within content production specifically, the creative economy consists of an "*ecosystem of interlocking micro-businesses, freelancers and the self-employed*" and pointed out that whilst some of these were small because their founders wanted it that way, many others lacked the ability and knowledge to achieve sufficient scale.³⁷ To illustrate this, in 2013 more than 7 in every 10 jobs within the music, performing and visual arts industries were self-employed.¹ This lack of scale also helps to explain why creative businesses typically fail to retain or commercialise their IP, and instead being susceptible to 'selling out' to international competitors in order to finance projects. Clearly there is a need to ensure successful entrepreneurs and creative businesses are sufficiently incentivised not to sell up when they achieve some form of initial success.



London's National Gallery

An important member of the UK's numerous galleries and museums, housing a collection of over 2,300 paintings

Compounding this issue is the fact that public funding for the Arts has declined

Like many other industries, the UK's Creative sector has been forced to endure significant funding cuts in the wake of the financial crisis and subsequent austerity measures. In 2010, following the government's Spending Review, the Arts Council England's (ACE) budget was reduced by 30%, with grants falling from £449 million per annum to £349 million by 2014.³⁸ Funded by both the government and the National Lottery, the ACE plays an important role in inspiring and developing raw creative talent. They provide financial support to a wide range of activities across the arts, museums and libraries – including reading, dance, literature, music, theatre, digital art and crafts.³⁹

It is this kind of public support which has helped to provide a reliable source of creative talent in the UK. In fact, it is widely recognised that funding from the public sector plays an important role in enabling creative risk taking, whereas the private sector generally avoids such risk, and typically invests only in 'successful creative risk taking' (i.e. after the initial creative content or service has been tested).⁴⁰ Going forward, between 2015 and 2018, ACE plans to invest some £1.1 billion of government money and £700 million from the National Lottery into the arts and culture.⁴¹ In order to help protect future financing, it is therefore important for the UK's Creative Industries to ensure their voice is heard collectively by the government.



The BBC

At the core of British creativity and a large exporter of programmes and formats

In support of the role of public funding, there was a strong feeling from our discussions about the link between culture and creativity. We saw *“culture as the raw material of the Creative Industries”* and that *“investment in culture may be more important than the economic and commercial debate.”* There was a view that *“we must continue to make the case for public investments into the arts as it is the way these are funded which has enabled the UK to have the global impact that it does today.”*

The UK's Creative Economy benefits significantly from the contribution of public entities, including the BBC, museums, galleries and other cultural establishments. These entities provide investment into creative individuals and companies in the UK. They provide a distribution channel for creative work. And they also provide a source of training and skills development for the sector. Further, where these entities reside or are established in locations outside London, they provide stimulus for regional creative development.

As an example of the above, consider the BBC. It has a close to unique position within the UK's creative landscape, with 97% of the population viewing its content or services (TV, radio, online and catch up) on a weekly basis, and represents the backbone of British culture.⁴² In many ways it acts as a catalyst for the UK's creative sector:⁴³

1. It acts as an investment arm for British culture and creativity – the BBC is the largest single investor in British creative ideas and talent (writers, actors, producers, musicians, composers etc.); it connects great ideas with funding and with an audience. This includes around £450 million invested in small and micro-sized creative businesses, and support for over 2,700 creative suppliers each year. While the licence fee accounts for around 20% of UK TV broadcast revenues, it is converted into around 40% of the investment in original UK TV content.

2. The BBC generates demand and output in connected industries like music and video-on-demand. Within music, radio airplay can drive increased record sales and exposure for new British artists (e.g. the naming of Sam Smith as ‘BBC Sound of 2014’ in early January led to a spike in his album sales – they rose from 1,000th on Amazon to 6th in the following twenty- four hours). Within video-on-demand, the BBC’s iPlayer acted as the catalyst for the development of UK’s video-on-demand (VoD) market, which is now the largest in Europe.
3. The BBC strengthens the productive capabilities of the whole creative sector through: a) discovering and nurturing talent, b) training and skills development, from journalism to TV production (the BBC is the biggest provider of media skills training in Europe), and c) acting as an ‘anchor tenant’ for creative clusters in the nations and regions – Salford, Bristol, Cardiff and Glasgow. MediaCityUK – with c.200 firms and c.6,400 jobs – has become one of the largest media clusters in Europe.
4. The BBC’s TV services act as a great ‘shop window’ to the world for UK talent and programme-makers and BBC Worldwide is the largest distributor of finished TV programmes outside the major US studios (representing content from over 250 British independent production companies).

The example of the BBC highlights the importance of continuing to support the public bodies that help drive the creative economy. The financial support provided to these should not be seen as a cost, but as an investment that is repaid in the economic growth (and hence taxable profits and income) delivered by it.

Vision

In the future, investors should have access to the data and information they need on the Creative Industries to enable them to actively seek out the most attractive investment opportunities. At the same time, creative companies would have access to clearer information on different financing options, as well as having a better understanding of the value of their IP. In this environment, creative companies would be less likely to relinquish their IP rights in return for external financing. Instead they would have access to long-term UK financing, enabling them to achieve international scale, whilst contributing significantly in taxable revenues.

Policy ideas for discussion

In order to encourage the provision of finance to creative companies, the government could look to promote alternative financing methods, such as peer-to-peer (P2P) lending and crowdfunding, specifically targeted at companies within the Creative Industries. For example, this could be achieved through a specific strand within the British Business Bank, as well as by introducing regulations which help to enable the provision of alternative finance to such companies.

We acknowledge that the government has indeed made some progress on this issue, for example through offering tax reliefs to investors purchasing shares in small high risk companies (i.e. through the government’s Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS)).^{44,45}

However the government could extend the financing support made available to small creative businesses, and in particular, consider the merits of alternative lending platforms such as P2P and crowdfunding. In addition to this, the launch of Creative Industry Finance (CIF) by Creative United (a Community Interest Company set up with support of the Arts Council England) in 2014, offering support to creative businesses applying for a loan from one of the CIF’s partner lenders, is another good example of developments to help support creative businesses

facing financing challenges. There have also been interesting examples of larger companies such as Unilever and Sony supporting smaller creative company growth through work with Creative England. It would be great to see further coordination from both the government and industry in order to continue and expand such programmes in the future.

The DCMS’s Creative Industries Economic Estimates of value added, employment and exports are important for understanding and showcasing the economic contribution of the Creative Industries. Investors need more granular and timely data however, which is not, for example, encumbered by the need of the official statistics to use industrial classifications that are set at an international level and at irregular intervals. The Creative Industries, led by the Creative Industries Council, should consider how such statistics can be gathered and produced. This would enable leading industry bodies, such as the CIC to produce a rigorous annual report, which in turn would provide greater transparency to investors, and raise awareness for the size of the investment opportunity within this fast-growing sector. Other investment industry bodies, such as the British Venture Capital Association (BVCA) could also work alongside the CIC in order promote creative investment success stories. There is also some work being done by NESTA to enable better international comparisons of international creative industry contribution, which would be helpful to assess UK performance amongst global peers.

In addition to this, the government should be careful when considering future funding decisions for public bodies like the ACE, BFI and the BBC. Funding sources like these play an incredibly important role in nurturing and developing creative talent in the UK, and help to underpin the growth of this thriving sector. Continued cuts in funding to these institutions could be detrimental to the UK’s Creative Industries.

4th P – Place

Issue and context

Unequal distribution and creative clusters

Geography plays an important role in the development of the Creative Industries. It is well documented that the UK's Creative Industries are unevenly distributed across the country. In fact, London and the South East of England account for 43% of all employment within the Creative Economy.⁴⁶ Businesses within the Creative Industries typically choose to co-locate near to one another³³, as well as near to other high-tech industries⁴⁶, forming what the industry refers to as 'clusters' – 'highly productive, innovative, fast-growing and potentially resilient concentrations of companies'.¹¹ These clusters have been referred to by the CIC as 'hot-houses for innovation, knowledge transfer and business incubation'.⁷³³

Examples of such creative clusters in the UK include MediaCityUK in Salford, Titanic Quarter in Belfast, TechCity in Shoreditch London, post-production in Soho London, and the Brighton Fuse. In fact, some of the most famous creative clusters can be found in the IT, software and internet companies in Silicon Valley and film in Hollywood. The drivers of this co-location are varied, but knowledge spill-overs and agglomeration effects¹¹, together with market forces and public investment³³, go some way to forming an explanation. Also, as highlighted in the UN's Creative Economy Report⁴⁷, there are many different creative economies, each suited to the particular circumstance of the place that it's in, and therefore different clusters will require different development strategies.

Culture and creativity

The link between culture and creative clusters has also been researched.⁴⁸ For example, the arts and culture have been shown to contribute to the productivity of professionals operating within the Creative Economy.⁴⁹ In addition to this, the research into Brighton's creative hub further illustrates the role of culture and the arts, as well as network effects and natural geographical advantages

(i.e. proximity to London), in explaining the development of creative clusters. What's more, the fusion of technology with the inherent 'non-conformist' approach so widely engrained within British culture, is likely to have helped lead to the creation of creative hubs, such as that in Brighton.

Government has tried to target these clusters

In light of the growth opportunities creative clusters present, policy makers have attempted to target resources in order to scale up existing clusters, or build new ones. In fact, a quarter of Local Enterprise Partnerships (LEPs) have identified Creative Industries as a priority sector.³³ For example, in London policies have been put in place in order to try and attract investment through the establishment of the publicly-funded Tech City UK. Other cities, such as Glasgow and Liverpool have invested in their cultural sectors to try and attract investment. However the success of such policies to date has been somewhat mixed. It has been argued that this reflects the fact that creative clusters have typically emerged organically out of natural advantages, and over long periods of time – creating them from scratch is very difficult.¹¹

Vision

Whilst it is desirable to have a landscape whereby the Creative Industries are more evenly distributed across the UK, we must accept the role of network effects and natural advantages which gives rise to creative clusters. Consequently, it is easier to envisage an economy with better resourced and wider dispersed creative clusters across the UK. Whilst each cluster would be born out of natural pull factors, government support would help to develop and strengthen their growth.

Policy ideas for discussion

The government could work alongside established industry bodies and research institutes (CIC and Nesta) in order to better identify and target regions which possess characteristics most conducive to successful creative clusters, as agreed in the Creative Industries Council's CreateUK Strategy.

This may be best served through a 'Creative Cluster Development Fund', funded by existing regional development resources, and used to strengthen factors such as infrastructure (e.g. investments in offices and cultural centres) and skills (investments in internships and training to retain local creative talent) within each of the clusters identified.⁵¹

Case study: Brighton Fuse

Researchers from the University of Brighton and Sussex conducted a two-year research project, namely the 'Brighton Fuse', in order to better understand the cluster of Creative Digital and IT (CDIT) companies located in Brighton. The research involved a survey of almost 500 firms, and 77 interviews with local entrepreneurs.⁵⁰ The findings from the research demonstrate both the importance of knowledge spill-overs and physical networks, as well as the importance of the arts and culture in explaining the formation of creative clusters. The most common factors related to Brighton that represent an advantage reported by respondents were the proximity to London (60%), access to skilled labour (49%), access to collaborators (48%), Brighton's reputation (45%) and Brighton's cultural life (42%). The research also supported the view that the success of building clusters from scratch was unlikely, although bottom-up government policies to support local firms once the cluster was established could help, as was the experience with Brighton. Improving digital infrastructure, increasing office space, as well as addressing skills gaps, were identified as areas the government could target in order to alleviate any constraints to the cluster's ongoing development.

5th P – Pipes

Issue and context

Digital is transforming the Creative Industries

The digital revolution has had a profound impact on the Creative Industries. It has impacted how people produce, research, consume, interact with, and distribute creative and cultural content and services. It has increased participation in informal cultural and creative activities, generated additional networks and forms of interaction, transformed the production and distribution of established art forms, and at the same time led to the emergence of new art forms.²⁷ It is therefore vitally important that businesses operating within the UK's Creative Industries have access to high-speed/high-quality 'fit-for-purpose' broadband in order to succeed in an increasingly digital world.

Overview of UK broadband policies

According to Ofcom's latest statistics on internet take-up in the UK, as of Q1 2014, 82% of adults had access to household internet, having risen from 73% in 2009.⁵² The OECD state the UK is 7th in terms of fixed broadband penetration⁵³, and 13th when considering wireless penetration. Denmark, South Korea and Norway are all ahead of the UK in terms of both fixed and wireless broadband penetration.⁵⁴

In December 2010, the DCMS, along with the Department for Business, Innovation and Skills, published Britain's superfast broadband future, which set out the government's ambition and strategy for the UK to have the 'best superfast broadband network in Europe by 2015'.⁵⁵ In order to help achieve this; the government established Broadband Delivery UK (BDUK) in 2010, a component of DCMS. In total, the government is investing over £1 billion in its current broadband policy (BDUK)⁵⁶, which is in place until 2017-18. BDUK has four core initiatives⁵⁷:

1. Rural Broadband Programme – the original investment of £530 million to stimulate commercial investment into the roll-out of superfast broadband in rural areas has since seen an additional £250 million announced in 2013 in order to achieve phase 2 of the delivery.
 - Phase 1: superfast broadband (24 Mbps or more) coverage to 90% of UK premises by 2016 and basic broadband (2 Mbps or more) for all by 2016
 - Phase 2: Superfast broadband coverage extended to 95% of the UK by 2017
 - Phase 3: Explore options to get universal superfast broadband by 2018
2. Super-Connected Cities Programme – c.£150m invested to improve digital infrastructure across 22 cities by 2015. The scheme provides funding to households and SMEs in the form of vouchers (up to £3,000) in order to help stimulate the take-up of 'ultrafast broadband' (exceeding 24 Mbps).⁵⁸
3. Mobile Infrastructure Project – c.£150m to be invested to improve mobile infrastructure coverage for the final 0.3-0.4% of UK premises that do not currently have access to it.⁵⁹
4. Rural Community Broadband fund – up to £20 million invested in order to reach the most remote places which currently lack access to any broadband, or are still on a standard broadband connection (up to 2 Mbps).

Progress of BDUK

The procurement phase of BDUK is now complete and since the beginning of 2013, approximately half of the projects have started to be rolled-out with superfast broadband (at least 24 Mbps).⁶⁰ In February 2015, the DCMS reported that the BDUK programme had extended superfast broadband to over 2 million homes and businesses, and was on track to meet its 95% commitment by 2017.⁶¹

In Ofcom's latest Infrastructure Report (December 2014), 75% of premises in the UK now have access to broadband with speeds of at least 30 Mbps.⁶² Furthermore, Ofcom reported that, as of November 2014, 32% of UK residential broadband connections are up to or above 30 Mbps, having risen from 14% in November 2012. This has led to an increase in the average download speed for residential fixed broadband connections, from 12.0 Mbps in November 2012, to 22.8 Mbps in November 2014.⁶³

However SME broadband access could still be improved

However, the Federation of Small Businesses (FSB) reported that 14% of small businesses see the lack of reliable and fast broadband connectivity to be their major barrier to growth. Furthermore, only 15% of small firms reported that they were very satisfied with their current broadband provision, and a quarter reported that they were fairly or very dissatisfied.⁶⁴ Because of this, the FSB argue many small businesses are unable to access high-quality, 'fit-for-purpose' broadband. According to their research, small businesses typically cite cost restrictions and commercial considerations of internet providers as key barriers to accessing to high speed broadband. Larger businesses can often afford to lease bespoke ultrafast fibre connections, however this tends to be too expensive for smaller businesses.

A number of UK and international studies have highlighted the economic benefits of faster broadband, such as the Government's UK Broadband Impact studies and research by Ericsson, Arthur D. Little and Chalmers University of Technology that sought to link broadband speed increases to GDP growth. Whilst it is not always easy to quantify the economic return of faster broadband, the digital, image/video focused and online nature of many creative companies makes fast, high-quality connectivity even more important within this sector.



Benedict Cumberbatch in *Sherlock*, BBC's spin-off from the original *Sherlock Holmes*, which has been sold and enjoyed the world over

Also, Internet Service Providers (ISPs) have typically been more concerned with providing paid-for content to consumers, where significant weight is given to download speeds, however many businesses require fast upload speeds (e.g. for transferring large files in the gaming and audio-visual industries). This has largely been driven by the fact that selling a bundled package (broadband, TV and landline) to a household has typically been more profitable than selling broadband to a small business (unless it is a leased line). The FSB argue that this focus on the consumer market has been to the

detriment of smaller businesses, with many unable to access high-quality fibre broadband. In fact, as recently as 2014, an investigation into the Shoreditch Tech City hub revealed that many start-ups and tech businesses were without access to high speed fibre broadband.⁶⁵ These findings are worrying for the UK's Creative Industries. Businesses require access to reliable and fast broadband which is 'fit for purpose'. As digital continues to transform the Creative Industries, without such 'fit for purpose' technology, many smaller businesses could face missing the opportunity.

The government is planning a long-term broadband strategy

The government's existing broadband strategy is in place until 2017-18, and there is currently no formal strategy which goes beyond this. However, in July 2013, the DCMS published *Connectivity, Content and Consumers: Britain's digital platform for growth*.⁶⁶ The report announced the government's intention to develop a longer-term digital strategy, setting out actions for both government and industry to take in order to achieve the best connectivity for the UK (from 2015 to 2025).

Following this, in 2014 the government consulted on the issue⁶⁷, and aim to collaborate with industry in order to produce a long-term strategy from 2025 to 2030. The strategy aims to address a number of key areas which were set out in the Terms of Reference published in February 2014.⁶⁸ The consultation asked for views and evidence, as well as possible challenges on a number of issues relating to the implementation of the strategy. Additionally, the government has set up a Digital Task Force to help shape the debate and formation of subsequent strategy.

More recently, the Chancellor announced in his budget speech (March 2015) that the government is committing to a new national ambition to bring ultrafast broadband (speeds of at 100Mbps) to nearly all UK premises.⁶⁹ However, it is not yet clear what 'nearly all' means in terms of coverage, and it is not yet clear how it will be funded.⁷⁰ Consequently it is vital that the government continues to work towards developing a complete national broadband plan, setting out exactly where the UK needs to get to in terms of coverage and speed, and how this will be achieved.

James Bond

British Secret Agent created by English Author Ian Fleming in 1953 has since been adapted for television, radio, comic strip, video games and film



Ofcom has also recently announced a strategic review of the UK's digital communications markets. This will be the second of such reviews, with the first having concluded in 2005. The review is expected to focus on three areas; private-sector investment, competition and deregulation, and could bring far-reaching amendments to the market in order to ensure providers are meeting the needs of customers. The previous review introduced significant changes such as allowing competing providers to access BT's network on equal terms.⁷¹ This subsequent review is welcomed and its outcome should complement the government's development of a long-term national broadband strategy.

However the plan could be more ambitious and better consider the needs of SMEs

In response to the government's announcements, the FSB have highlighted that the strategy must be sufficiently ambitious, and should set out how 'fit-for-purpose' connectivity will be ensured for all.⁷² The FSB also note that the UK's current strategy is not as ambitious as other key international competitors. In fact, the European Commission aims to achieve universal speeds of at least 30 Mbps by 2020, in addition to 50% of households having access to 100 Mbps.⁷³ Furthermore, South Korea is aiming for 90% of the population to have access to 1 Gbps by 2017, and Finland is committed to offering universal access of 100 Mbps by 2015.⁶⁴

Vision

The vision for the UK's future connectivity is simple – the UK should have world-leading digital communications infrastructure, where both consumers and businesses can access high-quality/high-speed internet, regardless of their location or size. In particular, SMEs (i.e. the large proportion of creative businesses) will have universal access to 'fit-for-purpose' broadband technology, and their future productivity, growth and international competitiveness will not be constrained by the quality of their internet connection. Instead the availability and adoption of high speed internet will enable the Creative Industries to flourish and prosper in the digital world.

Policy ideas for discussion

The government could look to continue on its current path in developing its future Digital Infrastructure Strategy for 2025 to 2030. Within this, the strategy could set out its ambition to develop world-leading digital infrastructure that rivals the likes of the US, South Korea and leading European economies.

The strategy could recognise and distinguish between the different needs of consumers and businesses, with specific policies ensuring all businesses, regardless of size or geography, have access to 'fit-for-purpose' technology.

In particular, the strategy could firmly recognise the contribution of small businesses to the UK economy, and in doing so, could ensure appropriate weight is given to them. The strategy should also address a number of key issues that are critical for the success of the UK's Creative Industries:

- UK to have the best business to business communications in the world (e.g. 1 Gbps for key cities and creative clusters/enterprise parks).
- Targets for upload speeds as well as download speeds to ensure appropriate weight is given to business needs as well as consumers.
- Targeted investment to ensure businesses in enterprise parks and creative clusters have access to 'fit-for-purpose' broadband.⁷⁴

6th P – Property

Issue and context

IP creation is important for innovation and economic growth

A strong and stable framework governing Intellectual Property (IP) rights has played a significant role in the success of the UK's Creative Industries. But the importance of such a framework extends well beyond the Creative Industries alone. In fact, many other industries can be thought of as 'knowledge-intensive', whereby business models rely heavily on the ability to develop and commercialise IP assets (e.g. pharmaceuticals).⁷⁵ Achieving a successful IP framework can encourage investment into the generation of creative content, which ultimately helps to create growth and employment for the UK economy.³³

Creativity and innovation typically involve significant costs for the entrepreneur, such as the time and effort, as well as money invested in order to create and develop an idea. In addition to this, there is a very real risk that the venture could fail, and even if it is successful, others may be able to replicate and reproduce the work for a significantly lower cost.⁷⁶ Consequently, IP rights are extremely important because they offer a time-limited return on investment, and hence provide an incentive for the entrepreneur and or financier to commit to the development and commercialisation of the idea or invention. These rights span across a range of different types of IP, and cover invention (patents), creativity (copyright), design rights and trade marks (authenticity).



UK advertising accounts for more than 33% of all UK entertainment and media revenue and is growing at a rate of 4.8% CAGR to 2019

Nesta further highlights the benefit of having an active market for IP, where rights can be transferred between producers and consumers of protected works (through licensing or assignment). Through such a mechanism, creation and invention of IP can be separated from its subsequent exploitation and commercialisation. This could lead to a more efficient allocation of resources through the division of labour, as creators may not necessarily be well placed to exploit their IP (e.g. due to a lack of financial resources) whereas other may be.⁷⁷

Existing IP framework should respond to the emergence of digital

The emergence of digital technologies has made copying and distributing material extremely easy, and as a result, protecting and enforcing IP rights online has become increasingly difficult. Despite this, creative businesses have to some extent successfully adapted and evolved to these challenges, for example by providing consumers with the ability to access creative content and services via the Internet through different devices (e.g. smartphones and tablets).¹¹ Consequently a diverse mix of business models have emerged, including fabrication, purchase, rental, subscription and free-to-consumer advertising funded.³³



Doctor Who

First aired in 1963 and running for more than 50 years, the series is regarded as a cult classic the world over

For developed economies, the importance of knowledge-intensive industries is expected to grow as they continue to move increasingly towards a service-led offering.⁷⁸ Consequently, it is crucial that the IP framework strikes the right balance between granting protection to creators, and at the same time not being overly restrictive on the practices of new digital businesses. An IP framework that is overly protective could hamper innovation and growth.

For example, it would be beneficial to ensure copyright law does not block the development of potentially useful new technologies, e.g. an internet company providing content and/or services which rely on copying text and/or data, but is not undermining the principal purpose of copyright law in the first place (i.e. to incentivise the original investment into the associated copyright works). In order to achieve such an IP framework that is 'fit for the digital age', it must be flexible to the development of yet unknown technologies.¹¹

But UK creative companies struggle to retain ownership of their IP

Despite the importance of IP, UK creative companies have typically struggled to retain ownership and to commercialise their IP. Instead many of them have been susceptible to 'selling out' to foreign investors in return for short-term financing of projects.

Arguably the biggest driver of this is the lack of funding available for small creative businesses; however there is also a deeper issue regarding complacency and the 'norm'. The UK would do well to pursue a culture more similar to the US, where ambitions are high for start-up companies, and the temptation to sell out at early stages is limited.

Copyright law is 'out of touch' with digital reality

Within IP, copyright has been a topic of fierce debate within the Creative Industries for some time. The emergence of digital technologies, and specifically the ability to copy, distribute and produce material almost instantaneously using the Internet, has made many existing copyright laws 'out of touch' with digital reality, and consequently have provided the rationale behind some of the recent amendments.

However it is important to note that piracy has impacted elements of the UK's Creative Industries differently. For example it has clearly had a very negative impact on the distribution of physical products (e.g. traditional boxed video games). Whilst some companies who are using new digital technologies (e.g. server-based games) have actually benefited from pirates distributing their software as it has increased their paying customer base.

Consequently, whilst online piracy has presented obstacles to the distribution of digital creative content (e.g. illegal music downloads), it has also made the distribution of creative content to a far wider audience possible. The ability to reach such an audience at a relatively low marginal cost and in such a short time frame has undoubtedly provided creative companies and individuals with significant opportunities. Previously, many smaller creative companies and individuals would have struggled to gain recognition, but this is now possible with the Internet and platforms such as YouTube and Facebook. As a result, the threat of digital piracy has encouraged many creative businesses to change and innovate their business models.

So long as such opportunities can be properly monetised and the copyright protected, creative companies are set to benefit. Of course, in order to achieve this, the ability to protect and distribute copyright online should be improved. Google has recently made some interesting headway with regards to digital piracy. For example it has introduced changes in its search algorithm to deprioritise links to pirated content, and YouTube's 'digital fingerprint technology' provides IP owners control over the work that they upload, enabling them to more effectively monetise their creative works.

Interestingly, much of the UK's, as well as Europe's, initial response to digitisation was largely reactive, and typically involved 'defending and extending' the level of protection awarded to copyright holders.¹¹ However, more recently both the UK and Europe appear to have taken a more liberalised view by introducing policies to promote the openness and contestability of IP markets, as well as introducing a range of exceptions to copyright law.

The Hargreaves review and subsequent copyright reform

For example, most recently in 2010 the government commissioned their latest review into IP (the Hargreaves Review), which identified that the UK's existing IP framework was not sufficient for the digital age, and was in fact obstructing innovation and economic growth. Importantly the review set out a number of recommendations in order to address these barriers. The key proposals advanced were:⁷⁹

- an efficient digital copyright licensing system, where nothing is unusable because the rights owner cannot be found;
- an approach to exceptions in copyright which encourages successful new digital technology businesses both within and beyond the Creative Industries;
- a patent system capable of preventing heavy demand for patents causing serious barriers to market entry in critical technologies;
- reliable and affordable advice for smaller companies, to enable them to thrive in the IP intensive parts of the UK economy;
- refreshed institutional governance of the UK's IP system which enables it to adapt organically to change in technology and markets.

In response to this, the government announced their support for the review's proposals, claiming they were 'fundamentally the right view', with an estimated gain to the UK economy of 0.3 to 0.6 per cent to GDP by 2020.^{80,81} Following this, in 2013, a new act, namely the Enterprise and Regulatory Act received Royal Assent, which among other things, has led to the provision of Orphan works for the first time in 2014, as well as a number of new copyright exceptions.⁸² The Bill also contained a number of other proposals to bring the UK's copyright legislation in line with the EU.⁸³

In addition to this, following a series of assessments, a pilot of the proposed 'Digital Copyright Exchange' (called the Copyright Hub) was launched in 2013, with the aim of making it easier to identify the owners of copyright works, as well as making it easier for buyers and sellers to transact in licenses.⁸⁴ The hub ultimately aims to become a 'one stop shop' for copyright licensing, where individuals can buy and sell licenses, as well as access valuable information on IP.

In support of this, the government contributed £150,000 of funding to aid its development.⁸⁵ By providing an efficient online marketplace, together with an open source of information on rights ownership, the hub should encourage competition for licenses, and ultimately reduce transaction costs, making it more profitable for rights holders to sell licenses for their copyright works.^{85,86} The hub is predominantly aimed at the long tail of transactions in licences which are of low value and high in volume (e.g. photos, visual artwork, articles or songs). The site is still very much in its infancy, and only reached its first agreement with picture libraries as recently as December 2014.⁸⁷ Consequently it is still too early to properly evaluate the impact of the initiative. However as the hub connects more consumers with license holders it is expected to bring significant benefits to the industries.

In addition to this, in October 2014 a number of measures were introduced in order to further modernise copyright law. Amongst the reforms, a number of exceptions to existing copyright were introduced, for example permitting the copying of paid-for media for personal consumption (e.g. CDs and eBooks).⁸⁸ Other reforms introduced include the Intellectual Property Act 2014, which aims to simplify and strengthen protection for the designs industry.⁸⁹

Following these reforms, the government stated *“these reforms will bring much of Ian Hargreaves’ review to a conclusion.”*⁹⁰

In addition to this, the Intellectual Property Office (IPO) published details outlining the government’s response to each of the ten recommendations made by the Hargreaves review. The responses would indicate significant steps have indeed been taken.⁹¹ Nonetheless, some of these exceptions have been criticised by industry, for example the music industry is pushing for compensation as it claims the private consumption of media exception will cost the industry £58 million in lost revenues per annum.⁹²

In Europe there is a move towards a Digital Single Market which could bring mixed fortunes for the UK’s creative businesses

In Europe there has also been increasing support for a more liberalised IP framework. For example, by promoting the access to Orphan Works, as well as a continued push towards a ‘Digital Single Market’ in Europe. The integration of digital markets across Europe aims to remove barriers to the free flow of online services and entertainment across national borders.⁹³ The European Commission (EC) recently set out 16 initiatives in order to help deliver on its Digital Single Market (DSM) plan. The overarching aim of the DSM is to remove regulatory barriers and move from 28 independent national markets towards a single digital marketplace where transacting in goods and services online across borders is no different to that within borders. In doing so, the EC estimate an annual gain to the economy of €415 billion.⁹⁴

As part of its 16 proposals, the plan outlines its intention to introduce new legislation before the end of 2015 to reduce the disparities in national copyright regimes in order to promote wider online access to copyright works across the EU. According to the EC, specific benefits to the creative sector are far reaching but include: new audiences, improved rights enforcement, actions to combat piracy, clearer rules on copyright works and fairer remuneration for rights holders.⁹⁵ This could present a huge opportunity for creative content businesses if they are able to distribute their copyright works to a wider audience whilst at the same time retaining legal ownership and being fairly remunerated.

However the EC’s plans for a DSM have received some strong opposition. For example, in its plan, the EC stated that it will end ‘unjustified geo-blocking’. Geo-blocking is a technique practised by many digital media firms, including YouTube, Netflix and the BBC iPlayer to prevent users from unlicensed territories accessing its content online.⁹⁴ However should the EC make such practices illegal, the BBC for example may be forced to make content on its BBC iPlayer platform available to users across the EU despite it only being funded by a UK license fee. It has been argued that such a move could interfere with the digital business models of established creative content businesses and could make funding creativity in the future more difficult.⁹⁶ For example, films tend to be financed by making exclusive deals in different countries and so by banning geo-blocking, and effectively introducing a uniform price, this could place a significant threat to existing models.

In fact, back in March 2015, industry trade body Pact CEO John McVay, warned that the proposals to allow content to be available to all in Europe at a single price was a *“a major threat to our ability to sustain the world’s second most successful audiovisual economy”* and further adding *“the notion that anyone in Europe should be able to access the BBC iPlayer for free is absurd.”*⁹⁷

In addition, The Film Distributors’ Association CEO Mark Batey pointed to a “devastating impact on cultural diversity” if geo-blocking and the existing international sales model were to be altered.⁹⁷

Similarly, the British Screen Advisory Council (BSAC) explained, in a response to the public consultation on the review of EU copyright rules, that territorial licensing in the audio-visual sector depends on a number of market-driven factors.⁹⁸ The BSAC also stated that consumers would suffer a loss of cultural diversity in content should a standardized pan-European approach to distribution be enforced because smaller producers and those specialising in niche content would not be able to cover the costs of such EU-wide models. Furthermore, a pan-European model would require significant compliance and technical costs, which when combined with low revenues, would make such a model unprofitable for independent producers and distributors. The British Film Institute also voiced such concerns, and was one of 31 European funding bodies to support a resolution against the proposed geo-blocking reforms.⁹⁸ Because of these challenges, the EC’s commitment to remove unjustified geo-blocking could present a major hurdle for the UK’s creative content businesses.

The UK’s tax regime should be sufficiently favourable to attract and retain foreign investment

As discussed previously, because of an issue surrounding access to finance, many smaller creative businesses in the UK have typically struggled to retain and commercialise their IP. On a number of occasions, small creative businesses have ‘sold out’ to larger international players and relinquished their IP rights in return for financing. A knock-on effect of this has been that the revenues generated from many UK creative businesses have ended up in the country where the foreign investing company is headquartered. Consequently, UK plc forgoes a portion of taxable revenues.



J. K. Rowling's Harry Potter

A huge British hit, contributing significantly to the UK economy

At the same time, the current OECD review of BEPS (Base Erosion and Profit Shifting) is causing some multinational corporations in the creative sector to review where they conduct their activities. The UK could be a beneficiary here, given its current corporation tax regime and it being seen as an attractive place for creative businesses to locate.

It could be in the government's interests to ensure the current tax regime is sufficiently favourable to attract and ultimately retain the returns from foreign investment into UK creative businesses.

However more could be done

In summary, there has been significant progress made over the last few years with regards to addressing some of the key issues surrounding IP, and in particular, the need to adapt certain regulations in the face of an increasingly digital world. And whilst developments like the Copyright Hub are welcomed, more could be done with regards to making the UK a more competitive proposition for investment and commercialisation of IP.

Vision

The UK could be seen as the best place to generate and commercialise IP. Both entrepreneurs and investors would possess the right incentives to retain and commit to the development of IP within the UK. Such an environment would be beneficial for the UK plc by increasing taxable revenues for the government, in addition to fostering innovation and economic growth. Transacting in rights would be simple, straight forward and involve minimal costs, particularly for high volume low value licenses.

Policy ideas for discussion

The policy implications of the most recent IP review were developed some four years ago, and since then, digitisation has continued to advance considerably, with many new business models emerging in addition to changes in consumer behaviours. In light of this, it may be beneficial for the government to consider commissioning a follow-up independent review, with the aim of assessing the progress to date, and ensure the implications of the review's proposals are having the desired effect. Additionally it could identify if any other amendments should be introduced.

The government may also want to consider improving the information made available to entrepreneurs and businesses, where smaller-sized operations are more likely to lack specific knowledge on IP-related issues. By improving access to information, smaller businesses within the Creative Industries should develop a better understanding of the value of their underlying IP, and ultimately help them to capture a greater share of it. This may be achieved via a large-scale public awareness campaign promoting the importance and value of IP. Additionally, resources could be targeted at educating individuals on IP through national curricular courses.

Reviewing the current framework surrounding grants and fiscal incentives for the development and commercialisation of IP in the UK is an important factor. As part of this, tax deductions could be introduced for the costs which can be allocated to workers employed within 'creative occupations' (i.e. those who are responsible for the development of IP relating to the Creative Industries). As part of this, creative businesses would be rewarded and encouraged for investing in R&D and the development of IP.

With regards to the recent plans for a Digital Single Market introduced by the European Commission, the UK government should look to take both a positive and active role in Europe in order to ensure they represent and promote the UK's valued Creative Industries. The implications of the recent announcements, (e.g. the banning of 'unjustified' geo-blocking) could raise issues for certain creative content industries, particularly the audio-visual sector. Consequently the government should ensure these industries are well represented in any future EU-wide discussions.

7th P – Picture

Issue and context

The importance of clear definitions and reliable economic estimates cannot be understated. Without these, policymakers are severely limited in their ability to gain an accurate view as to which sectors are contributing the most to employment, output and economic growth. As a consequence, policy makers may inefficiently target efforts towards some parts of the economy over others.¹¹ In recent years, important changes have been made to the official Creative Industries Economic Estimates which leaves them on a more credible footing with policy makers. They are consistent with the national accounts and use official data sources, allowing rigorous comparisons to be made with other sectors.

Brief history of the industry statistics

In 1998, the DCMS defined the Creative Industries as “those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.”⁹⁹ And in subsequent publications, 13 sub-sectors were included within their definition.¹⁰⁰ Based on these definitions, the DCMS released its annual Creative Industries Economic Estimates (first released in 2002). Using official Standard Industrial Classification (SIC) codes, the DCMS produced estimates of GVA, employment and net exports across the subsectors of the Creative Industries.



The video games industry could be worth as much as £1.72 billion to the UK economy

A significant improvement to the DCMS statistics was made in January 2014, when for the first time a systematic methodology, developed by Nesta, was used to identify which sectors should be treated as 'creative' for measurement purposes. This was based on the key insight that, despite their obvious differences, what unifies the Creative Industries is that they commonly employ a very large proportion of their workforce in creative roles. The methodology uses the official industrial classification system and official data sources and as such is strictly consistent with the national accounts, which makes cross-industry comparisons possible. This is clearly a great step forward for the UK's Creative Industries, and as the latest estimates demonstrate, the creative sector represents a significant driver of economic growth.

However, as with other official statistics using SIC codes, ensuring they keep pace with changes within industries is somewhat challenging because the codes are set in accordance with the UN's classification system and as such are only reviewed once every ten years. This may be somewhat more of a consideration for the Creative Industries given they are typically sitting at the frontier of the digital revolution. Not only are creative businesses changing in response to new technology, but at the same time new creative businesses and even whole industries themselves are emerging, increasing the complexity of capturing their economic contribution. In addition, the statistics currently only capture the value of creative service exports and not those of creative goods. However we understand that the DCMS is currently working to include these, which is indeed welcomed.

The DCMS, together with research bodies such as Nesta, have made significant inroads with regards to improving the quality of the Creative Industries Economic Estimates. Consequently, in light of the progress made, the government should continue to invest in the official statistics, and in particular aim to ensure industries which are less able to be captured by the official classification system are better reflected. It is important to understand that investors and industry have data needs that go beyond the high-level nature of the official statistics. Therefore to encourage investment into the industry, the Creative Industries should work with each other and government – most obviously through the Creative Industries Council – to ensure that timely data on new and emerging sectors is gathered and collated, in order to complement the existing official statistics.

A good example of this is the work done by Nesta on the games sector, a sector which has historically been poorly captured by the official statistics due to the high number of new digital companies. The research identified that there were 1,902 video games companies operating in the UK as of 2014.¹⁰¹ However, approximately only one-third of these were captured by the official games SIC codes, and companies using new technology platforms like iOS were much more likely to be missed. Of those companies not captured by official games SIC codes, some were captured by other digital codes, and some were completely missed as they had not yet selected an SIC code (particularly if the company was relatively young). Interestingly, the report found that established games companies like Rockstar North and Rare Limited did not have specific games SIC codes, and thus their contribution is likely to have been inaccurately recorded in official industry statistics. As a result of these findings, the report estimated that the GVA of the UK games sector could be £1.72 billion, which is higher than previously thought.

Vision

It is crucial for policy makers, investors and industry participants to have access to statistics which reflect the true 'picture' and health of the industry. The DCMS's recent change in methodology for determining which industries are classified as 'creative' leaves the official statistics on a firm and credible footing with policymakers. However it is important to ensure such definitions accurately reflect an increasingly digital industry, where creative businesses and indeed whole new industries are quick to emerge.

Policy ideas for discussion

The DCMS should continue to work with the Creative Industries Council and bodies like Nesta in order to ensure that its annual Creative Industries Economic Estimates accurately reflect the true state of play within the industry. In cases where the internationally agreed industrial classifications are not fit for purpose, as in the case of the video games industry, the Creative Industries should produce estimates that complement the existing DCMS statistics. This should however be achieved through a coordinated effort between both government and the industry itself.

Conclusion

As the latest DCMS statistics demonstrate, the Creative Industries are extremely important for the success of the UK economy, with growth in output three times that of the wider economy and are responsible for millions of jobs. In addition, people skilled in creative thinking help the UK to innovate in other industries, further contributing to economic growth and prosperity.

However the sector has historically failed to receive the attention which it so rightly deserves. The ever advancing digital revolution, along with growing competition from overseas talent, present two clear threats to the future success of our prized Creative Industries.

This report highlighted '7Ps' as the key areas the government could consider in order to improve the sustainability and future success of the Creative Industries. Addressing each of these issues will require a coherent and seamless plan of action, setting out the role of the government, and laying the foundations for the future prosperity of the nation's iconic Creative Industries. This strategy should ensure there is a long-term commitment to the continued development and prosperity of the UK's Creative Industries. Without such a framework in place, the UK risks constraining the success of one of its most prized and internationally recognised assets.

Contributors to the discussion

Attendees across three dinners all contributed to this discussion and therefore the formation of this paper. We would like to extend our thanks to them for taking part. Participants included:

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UK Creative Industries



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