IPPR

REPORT

MARCH OF THE MODERN MAKERS

AN INDUSTRIAL STRATEGY FOR THE CREATIVE INDUSTRIES

Will Straw and
Nigel Warner

February 2014

Institute for Public Policy Research

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ABOUT IPPR

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The purpose of our work is to assist all those who want to create a society where every citizen lives a decent and fulfilled life, in reciprocal relationships with the people they care about. We believe that a society of this sort cannot be legislated for or guaranteed by the state. And it certainly won't be achieved by markets alone. It requires people to act together and take responsibility for themselves and each other.

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EXECUTIVE SUMMARY

Creativity and the arts have always been an important part of our country's culture and democracy, but in recent years the UK's creative industries have become an increasingly significant part of our economy and labour market as well. They are now a major comparative advantage for the UK. Indeed, the creative industries are growing faster than almost any other sector of the economy. The aim of this report is to highlight where particular strength and comparative advantage lies within this broad sector, and how a more co-ordinated and concerted approach to government policy could maximise those strengths.

According to new government data, the growth of the creative sector's gross value added (GVA) in 2012 was, at 9.4 per cent, nearly six times faster than that of the rest of the economy. This growth is broad-based among all the related sub-sectors (see definition below), but since emerging from the recession in 2009 advertising and marketing, film and TV, and design have performed particularly strongly. In so far as there is a 'march of the makers' in the UK, the creative industries are those modern makers.

These promising figures follow a period of considerable upheaval for many sub-sectors, involving major disruption to the revenue and investment mix of those parts of the creative industries that have been most affected by the transition to digital production and distribution. Music, film, television content and advertising were particularly badly affected. Sales of physical products like CDs, DVDs and computer games have rapidly declined, with revenues only gradually being replaced by broad growth in digital sales. These trends were exacerbated by the recession, since these sectors tend to be reliant on a combination of disposable income and discretionary corporate budgets for advertising.

Defining the creative industries
As defined by the government, the 'creative industries' includes nine broad sub-sectors: advertising and marketing; architecture; crafts; design (including fashion); film, TV, video, radio and photography; IT, software and computer services; publishing; museums, galleries and libraries; and music, performing and visual arts. Within this list is a group of sub-sectors that face specific challenges and opportunities relating to the proliferation of digital technology – particularly those sectors that tend to be technologically aided in the creative process, and that have higher levels of digital output. While these factors can exponentially increase the prospects for sales revenue, they also

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expose those creative sub-sectors to the problems associated with product reproduction at zero marginal cost. We have tended to focus on these sectors in this report, but believe that the broad thrust of our recommendations will support all sub-sectors in the creative industries.

Alongside their rapid growth in domestic sales, the UK's creative industries show strong signs that they are winning the global race for creative content. Between 2009 and 2011, exports of the creative industry's services grew by 16.1 per cent, compared to 11.5 per cent for UK service exports overall. From Americans watching Downton Abbey, to Asians listening to Adele, to Africans tuning into the Premier League, British content is global. However, competition from overseas is becoming increasingly intense. Countries with more effective industrial policies are quick to steal a march on us, as, for example, Canada has done in the video games sector in recent years, through an aggressive set of tax incentives.

Creative enterprises are important sources of employment: one in 12 jobs in the UK are either in the creative industries or in 'creative' jobs in other sectors. Jobs in film and TV, design, IT, software and computing, and publishing are growing particularly rapidly. The fact that the sector is growing means that there are opportunities for people with a range of different skills. However, many of the jobs are self-employed and unpredictable, so particular attention must be paid to problems around access to employment opportunities in the sector, as well as to workforce development and training.

Developing an industrial strategy

In recent years, a cross-party consensus has emerged around the need for the UK to develop an industrial strategy as a means of managing and supporting the country's comparative strengths in the face of rapid technological change and globalisation. The Department for Business, Innovation and Skills (BIS) has set out criteria for which sectors should be covered by such a policy, stating that the government would 'back those sectors which are likely to have prospects for success in the future, in terms of generating increased value added and employment in the UK economy' (BIS 2012).

Despite the success of the creative industries in fulfilling precisely those criteria, it has not been included as one of the 11 sectors for which the government has set out an industrial strategy. This is a mistake. While the 'information economy' has been included, the clear areas of overlap between the information technology and creative industries are not recognised in the government's strategy documents.

It could be argued that the creative industries are performing so well that they do not need an industrial strategy. Indeed, some will argue that the best thing that government can do is to 'get out of the way'. But there are three important reasons why a new, unified, industrial policy approach is needed for the creative industries.

First, the sector is already affected by a multitude of overlapping government interventions, and drawing these together into a more coherent and a strategic approach therefore makes sense. Second, because the sector is rich in high-skilled, high-value-added jobs it is an important test case for whether Britain can win a global 'race to the top', rather than descending to the bottom with a proliferation of low-skilled, low-productivity jobs in the traded and non-traded sectors. Third, creative centres exist across the UK, which helps create a more dynamic and competitive economy overall, but they are not sufficiently integrated with, nor given as much support as, London, the global hub.

To address these three issues, IPPR believes that an industrial strategy for the creative industries is vital.

The UK has a strong comparative advantage in the generation of creative content. Whether in software generation, games development, music, TV content and formats, film or fashion, creativity is what we do, and what we do well. An industrial strategy for the creative industries should therefore be centred upon a set of policies and interventions that maximise opportunities to create great content and to exploit it both at home and abroad.

As with those sectors for which the government has already adopted an industrial strategy, in this report we focus on a series of cross-cutting policy themes – namely investment, workforce development and skills, technology, regional support, and export promotion.

Supporting investment for businesses is critical for the creative industries. With a large proportion of small and medium-sized enterprises engaged in financially 'risky' activity, the sector is particularly vulnerable in an unstable economic climate. Investment in new-content businesses has relied heavily on venture capital and overseas investors, with UK banks and indigenous creative institutions insufficiently engaged, particularly over the longer term. Technological change, the ease of intellectual property (IP) theft and the recession have affected traditional revenue streams.

The creative industries survive or fall on innovation and the discovery of new talent, so skills are critical. Universities and the wider education system has a major role to play in spotting talent, turning that raw material into the finished product, and ensuring that technical expertise is developed. Relatedly, the creative industries can be hard to break into, with some sectors suffering from a demographically narrow intake.

The creative sector has done too little to explain and promote the employment opportunities available within it.

Technology clearly underpins the success of the sector: both broadband and spectrum policy are critical to maximising growth opportunities. Digital infrastructure development for broadband (both fixed-line and mobile) currently takes too little account of both how consumers are using smartphones and tablets, and how content convergence is driving take-up. Most government spending to date has been on the supply side, rolling out new infrastructure, rather than on addressing gaps on the demand side. This includes helping both citizens and businesses who are not currently online to understand the opportunities available to them, and assisting those who have difficulties with internet access or using online services.

Tax reliefs have increasingly become a key part of the UK's arsenal for attracting global talent, investment and production. But this is a global trade war – one that risks being won by markets and governments with deeper pockets. It is therefore vital that financial incentives are buttressed with world-class facilities, skilled and experienced technicians, efficient and creative producers and reliable and attractive locations.

Co-location or 'clustering' is cited by inward investors as an important factor in their decision to operate in the UK. London is a key driver of activity for most creative sub-sectors, but other UK centres are also important economic contributors to the creative industries' overall success. There is a particular case for increased government funding and support where there are already clusters of similar activity, close supply-chain linkages, and crossovers between local educational establishments and media businesses that help them to maintain the talent pipeline. This needs to be properly integrated within the national strategy for the sector.

As well as a thriving domestic market, the creative industries are set to benefit from foreign sales both to the developed world and to rapidly growing countries with expanding middle classes. Growing scale in content production and exploitation at home is critical to our future export success. Yet with so much content now being virtually free to replicate, the creative sectors are particularly vulnerable to lax enforcement of IP protections. Furthermore, despite the sector's size and growth potential, on trade missions it has been treated less favourably than more traditional sectors. For example, 'creative and media' is one of 20 key sectors listed on UK Trade and Investment's website, but this refers only to games and mobile content.

In carrying out research on these broad areas, our aim has been to move away from the zero-sum approach that has tended to dominate previous policy reports on the creative industries. Instead of looking at measures that benefit one part of the sector as opposed to another, we have developed policies to support growth across the sector as a whole. The right policies and interventions to support investment, education and skills, technology, and export promotion are critical to this effort.

Recommendations

To maximise the UK's existing comparative strengths across the creative industries as part of a comprehensive and co-ordinated industrial strategy, we make the following recommendations.

1. Government should provide clear and coherent leadership. Responsibility for developing and driving industrial policy for the creative and information economy should be assigned to a single organisation. The Information Economy Council and the Creative Industries Council should be merged into a new Creative and Information Economy Council (CIEC), empowered to develop and implement a single industrial strategy for the sector overall. This body must ensure that the relationship between core arts and cultural funding and the commercial creative sector is much better understood and articulated across government.
2. A new British Investment Bank, created by the current or a subsequent government, must be developed with sufficient expertise and direction to ensure that it becomes a viable source of longer-term investment in the creative sector, particularly for small businesses, and especially in the nations and regions.
3. The UK's existing public sector broadcasters, including the BBC, should provide further 'venture capital for creativity' in the wider content production sector through their investment and commissioning policies. More generally, 'public interest' in media competition policy should recognise the importance of creative investment.
4. Tax reliefs must be designed so that they are not overly restrictive, and work effectively to support talent development, innovation and content production – particularly where there is a risk of losing business overseas.
5. In the context of copyright reform, the new Digital Copyright Exchange must be allowed time to demonstrate its value. Meanwhile, further disruptive changes to copyright law in the UK and EU should be reined in. A 'terms of trade' for sharing the IP created through public sector procurement and collaboration should be developed in order to support innovative businesses to exploit the IP they generate.
6. Employer-led training programmes should be rolled out across the creative sector, supported by match-funding from government (as at present). This should be integrated within an industrial partnership approach, linking employers to education providers through the sector skills councils at the national and regional level.

Greater diversity should be encouraged across the creative sector workforce (in both the public and private sectors) with specific initiatives to encourage training opportunities for underrepresented groups in the creative workforce.

7. Policy that aims to develop digital infrastructure must recognise the importance of demand for great content in driving consumers towards the use of new communications technologies, and utilise this demand to encourage further internet take-up. Decisions on future spectrum use should take full account of the importance of the current spectrum allocation in supporting content investment, particularly in television broadcasting.
8. Government institutions should focus more of their time and resources on the support of creative clusters outside London where there is significant potential for growth and job creation. Although progress has been made by Arts Council England, a more evidenced-based approach is needed to create a more equitable ratio of funding per head between London and other regions for all forms of public funding for arts and culture.
9. Greater knowledge exchange between educational institutions and creative sectors should be encouraged, in order to help expose creative businesses, particularly smaller ones, to new research and ideas that can form the basis of greater innovation. Creative businesses should also work more closely with colleges and universities to develop the talent pipeline. The CIEC should help make this happen.
10. Industry, through its representative bodies, should be given more control in identifying and growing new markets for UK creative content – for example, by allocating a proportion of business support funding to relevant trade bodies. Ministers and officials should provide more consistent support for the protection of intellectual property in these markets.

INTRODUCTION

Methodology

The research presented in this report was conducted through a combination of desk research, roundtable discussions, and face-to-face interviews. Roundtable discussions were held on the following four topics:

- investment in content and talent in the creative industries
- securing the UK's comparative advantage in the creative industries
- the development of the UK's digital infrastructure
- the regional requirements of an industrial strategy for the creative industries.

Each roundtable discussion included between 20 and 25 industry stakeholders and representatives of the government and other political parties, including Baroness Bonham-Carter, Lord Clement-Jones, Lord Gordon, Helen Goodman MP and Therese Coffey MP.

The last of the four roundtable discussions took place at MediaCityUK, Salford, and was organised by Creative England. This helped inform our analysis and recommendations on the importance of ensuring that a national industrial strategy has a spatial dimension, supporting those areas of the country where creative endeavours form an increasingly important part of the local economy.

In addition, we conducted face-to-face interviews with senior figures from across politics, broadcasting, telecoms, film, the arts and regulatory bodies.

Structure of the report

In chapter 1 of this report we analyse the state of the creative industries in the UK, looking specifically at their contributions to growth, trade and employment. Chapter 2 sets out our arguments in favour of adopting an industrial policy for the creative industries. Chapter 3 examines the overlapping issues that confront the industry, and focuses in particular on investment in creative companies and content, workforce development and skills, infrastructure roll-out, regional policy, and the problems that are holding back UK exports to new markets. Finally, chapter 4 sets out a 10-point plan for maximising the growth potential of the creative industries in every region of the UK.

1. THE SUCCESS AND COMPARATIVE ADVANTAGE OF BRITAIN'S CREATIVE INDUSTRIES

Any report about the creative industries must be clear at the outset about the scope of what will be covered. There has been a great deal of debate about what constitutes 'the creative industries', and what should be excluded. We do not wish to revisit that debate, and instead build on the most recent government definition.

Following research by Nesta (Bakhshi et al 2013a), in 2013 DCMS conducted a consultation on the correct classification and measurement of the creative industries (DCMS 2013), in which they drew a distinction between creative occupations and creative industries. While we support this enlargement of the definition to include people doing creative jobs outside the creative industries, we have focused our research on the creative industries themselves. DCMS also narrowed its original list of 13 creative sectors down to nine broader categories:

- advertising and marketing
- architecture
- crafts
- design: product, graphic and fashion design
- film, TV, video, radio and photography
- IT, software and computer services
- publishing
- museums, galleries and libraries
- music, performing and visual arts (DCMS 2014).

Within these sectors, we have focused our attention still further. The table below, reproduced from Reid et al 2010, places the creative industries in a matrix which illustrates whether each industry's output is physical or digital, and whether its creative process is manual or technology-aided. The sub-sectors towards the top-right of the diagram are the largest employers and those with the fastest growth. For example, crafts, design and architecture are the three smallest creative industries sub-sectors, according to DCMS (2014), in terms of both GVA and employment.[1]

1 Museums, galleries and libraries are also among the smallest sectors for employment, but GVA figures for it do not exist.

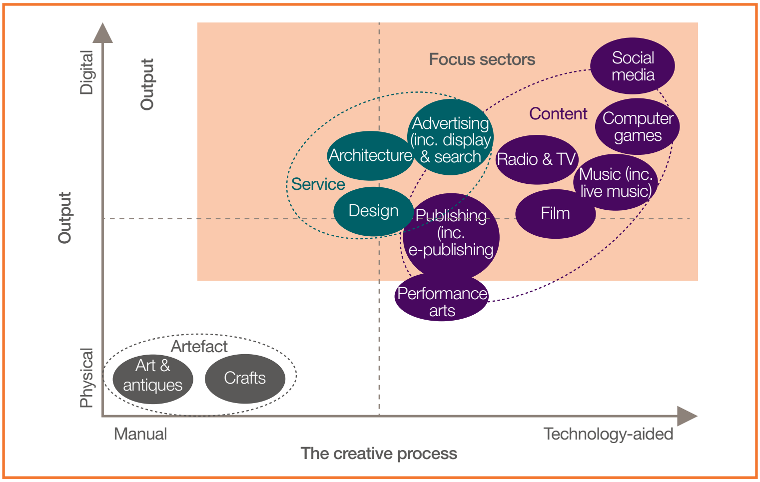


Figure 1.1
Re-describing the UK creative industries

Source: adapted from Reid et al 2010: 41

Nonetheless, while we have focused our analysis and policy prescriptions on those sub-sectors that generate the greatest value, and which tend to have both a more technology-aided creative process and higher levels of digital output, we believe that many of our policies are cross-cutting and will support all sub-sectors within the creative industries. For example, the British Fashion Council (2013) has stated that their policy priorities are skills development and export support, both of which are covered in some detail in our recommendations in chapter 4.

1.1 The march of the modern makers

Over the last four years, the UK economy has slowly emerged from the longest recession in living memory. At the end of 2013, GDP was still 1.3 per cent below its previous peak.[2] Yet while GDP in nominal terms grew by only 5.4 per cent between 2008 and 2012 (and fell in real terms), the creative industries have gone from strength to strength, having grown three times as fast (DCMS 2014). Internationally, the UK is also developing a significant comparative advantage across these sub-sectors.

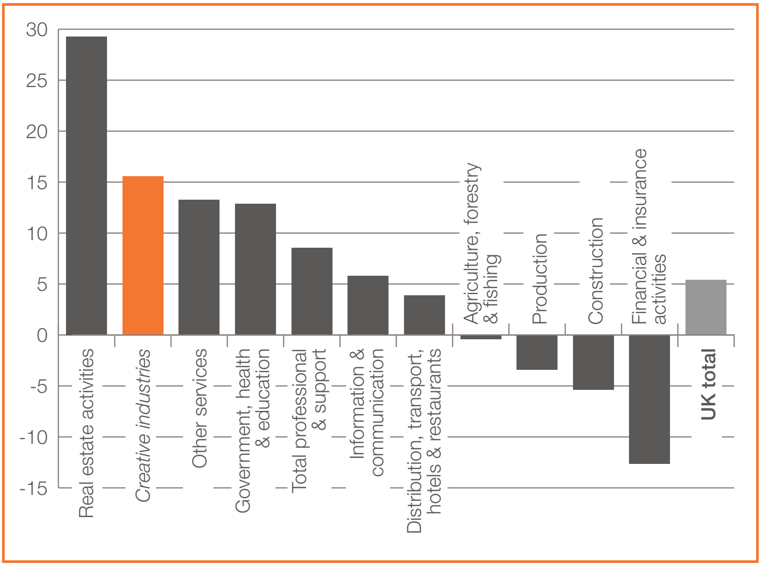
According to a new statistical study by DCMS (2014), gross value added (GVA) rose by 15.6 per cent across the sector from 2008 to 2012.[3] As figure 1.2 shows, this is a faster rise than in any other economic sector apart from 'real estate activities' and is following a steady upward trajectory. The ONS has recently concluded that 'spending on creative, arts and entertainment services... has large positive impacts on UK output' (ONS 2014).

In so far as there is a 'march of the makers' (Osborne 2012) in the UK, the creative industries are the modern makers.

2 IPPR calculation based on http://www.ons.gov.uk/ons/rel/gva/gross-domestic-product--preliminary-estimate/q4-2013/stb-gdp-preliminary-estimate--q4-2013.html

3 Unless otherwise stated, all data in this chapter comes from this DCMS 2014 report.

Figure 1.2
GVA of creative industries and 'Blue Book' sectors (% change), 2008–2012



Source: DCMS 2014

The recession hit the creative industries hard, with four of the eight sub-sectors[4] for which there are data experiencing a fall in GVA in 2009. Between 2008 and 2009, the GVA of the sector as a whole declined by 2.4 per cent. Since then, however, its growth has been robust, reaching 9.4 per cent in 2012 – a rate nearly six times faster than that of the rest of the economy. This has been true of every subsector, with advertising and marketing, film and TV, and design (including fashion) having performed particularly well since 2009. Only architecture and publishing have grown as slowly as the economy at large over this period, as figure 1.3 shows.

This rapid growth in GVA mirrors upbeat industry reports on domestic sales. In late 2013, the Entertainment Retailers Association (2013) reported their 'best result since 2009' for music, video and games, with sales growing by 4 per cent to £5.4 billion. This reflected the fact that sales of games in the UK were up by 6.6 per cent in 2013, and that video sales grew by 3.7 per cent, although music sales declined 0.5 per cent (ibid). These overall increases masked big shifts in the mode of sale: physical sales fell in every sub-category while digital sales rose, including a 33.7 per cent rise in music streaming sales (through services such as Spotify, Deezer, O2 Tracks and bloom.fm), and a 40.2 per cent rise in digital video sales (iTunes downloads, for instance, as well as streaming services like Netflix, LoveFilm and blinkbox). Similar sales trends have occurred in publishing: total sales were up 4 per cent in 2012, to £3.3 billion, including a 66 per cent rise in digital sales, which amounted to £411 million (Publishers Association 2013).

4 See the introduction for a full list of sub-sectors; GVA data is not available for the ninth sector, 'museums, galleries and libraries'.

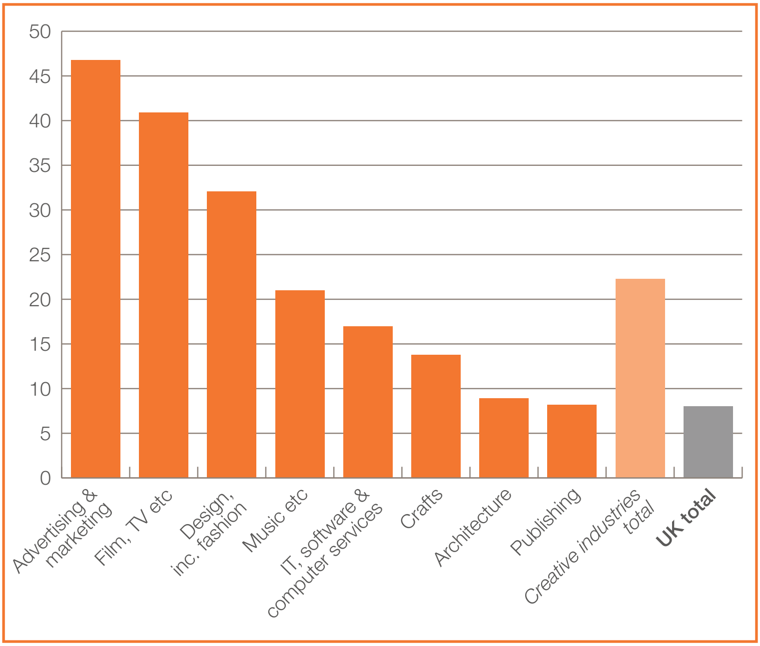


Figure 1.3
GVA of the creative industries (% change), 2009–2012)

Source: DCMS 2014

This may mean that those areas of the creative industries that have been most affected by the transition to digital production and distribution are now moving into a new and better phase in the digital era, after a decade or more of disruption to their revenue and investment mix. Four areas in particular illustrate the combined effects of digital disruption, diversifying revenues, and recession. They are also a key part of the post-recession growth story.

1.1.1 Music

In the music industry, the ‘switch to digital’ saw total retail spending on recorded music fall by a third between 2006 and 2012, as a result of the decline in record company income from the sale of physical formats such as CDs (BPI 2013a). However, the industry benefitted from a significant uplift in revenues from live performances – up 15 per cent year-on-year to £1.6 billion in 2011 (PRS 2011). The core UK music industry is today worth over £3.5 billion in terms of GVA, and £1.4 billion in exports. But it is important to view the whole value chain, including performers and writers, recorded music sales and online streaming revenues, live music, music publishing, music representatives, music producers, and recording studios and staff in order to assess the health and potential of the industry as a whole (UK Music, 2013).

1.1.2 Film

The gross annual revenues of the UK film industry (including theatrical, rental, television and online revenues) have stabilised at around £4 billion since 2006 (BFI 2013). However, this represents a marked reduction in revenues since the peak in DVD sales in 2004 (ibid). Online distribution of digital films is currently a small, though rapidly growing, part of the overall market. Overall investment in film production in the UK has hovered consistently around the £1 billion mark over the last five years, following the introduction of Film Tax Relief in 2007 (BFI 2014). This figure is heavily dependent on inward investment, which contributed £868 million (80 per cent) towards the total UK production spend in 2013 (ibid). Although spending on domestic UK feature films fell slightly in 2013, this followed a fairly stable period in the five years between 2007 and 2012, buoyed by the continuing support of a number of public sector bodies such as the BFI (which distributes National Lottery funding), BBC and Channel 4.

1.1.3 Television content

The revenue mix of UK television has also shifted. A decade ago, subscription revenue earned by pay-TV companies such as Sky and Virgin was level with advertising revenues, with each accounting for approximately a third of total UK TV revenue[5] (Ofcom 2012a). Today, by contrast, subscriptions comprise over 40 per cent of all TV revenues in the UK (Ofcom 2013a). Television advertising revenues remain resilient, but have been overtaken in recent years by internet advertising revenues. There is strong growth in online display advertising, which is most directly competitive with linear TV spot advertising (Ofcom 2013b). The contribution of the TV licence fee to overall revenues has declined in real terms, following the freezing of the fee in 2011.

Britain's public service broadcasters (PSBs) – BBC, ITV, Channel 4 and Channel 5 – have historically contributed over 90 per cent of expenditure on original UK television production (Ofcom 2008). However, over the last five years that investment has fallen by as much as 13 per cent in real terms (Ofcom 2013c). While the PSBs still fund the lion's share of UK-originated TV content, subscription-based services are increasing their investments – they spent up to £500 million on first-run commissions in 2011, for instance (Oliver and Ohlbaum 2012).

The high level of competition in the UK between free-to-air channels and terrestrial, satellite and cable platforms has led to a significant growth in revenues for the independent production sector, which increasingly produces both television and film content. According to the Producers Alliance for Cinema and Television (Pact), the independent sector's TV revenues grew by as much as 16 per cent in 2012, to £2.6 billion – its third consecutive year of growth (Ofcom

5 The remaining third of total TV revenues was composed of the proportion of BBC licence fee income allocated to TV; direct grant funding to S4C; and other commercial revenues including sponsorships, TV shopping and premium-rate telephony services.

2013c). Additional funding for content is also being provided through co-productions, and by independent producers themselves, with deficit funding which is estimated to be worth approximately £100 million in 2011 (Ofcom 2012b).

1.1.4 Advertising

Advertising revenues, and the contribution that 'advertising and marketing' make to GDP, have fluctuated significantly in recent years. The advertising and marketing GVA fell by a dramatic 16.5 per cent between 2008 and 2009 (DCMS 2014). Since then, advertising and marketing has enjoyed the strongest recovery of all the creative industries, with its GVA growing at 18.4 per cent in 2011 and 26.3 per cent in 2012. This has brought the sector's total GVA to £10.2 billion – second only to 'IT, software and computer services' among the creative industries (ibid).

This dramatic rise in GVA is based upon recovering levels of advertising spend, which once again exceeded £17 billion in 2012, and are expected to have grown by 3.8 per cent in 2013 and by a further 5.3 per cent in 2014 (AA 2014). This investment in advertising has channelled funds into nearly every other creative industry, with over £500 million spent on radio advertising, over £4 billion on TV and over £5 billion on online advertising in 2012 (ibid). According to Deloitte (2013), the revival in the UK advertising market has had – and will continue to have – a positive impact on the rest of the creative industries, by providing revenue streams and investment.

1.2 The 'global race' for creative content

Alongside growth in domestic sales, exports have grown strongly in recent years, demonstrating an increase in the comparative advantage that the UK has in its creative output. Global competition between the digital, screen-based industries is becoming particularly intense. This is driven by rising consumer demand across the world – particularly for film and television content and video games, which are together forecast to experience growth of around 6 per cent per annum to 2016 (PwC 2013). In the emerging BRIC markets this growth in demand is expected to exceed 10 per cent per annum over the same period (ibid).

Between 2009 and 2011, exports of services from the creative industries grew by 16.1 per cent, compared to 11.5 per cent across the service sector as a whole. IT, software and computer services accounted for 46.5 per cent of exports from the UK creative industries in 2011; film, TV and video was the second largest sub-sector, accounting for 27.5 per cent. Interestingly, the sub-sector which grew by the largest percentage between 2009 and 2011 was publishing.

The success of UK creativity in the global context is well documented. The 2014 Oscars include nominations for two British films, one British director, two British actors in the 'best actor' category, and one each in the best actress and best supporting actress categories. Meanwhile, the British-made film Gravity received 10 nominations, including best editing, best cinematography, best music, best production design, best sound editing, best sound mixing, and best visual effects.[6] More generally, the UK is second only to the US in its share of earnings (15 per cent) from the global film box office (BFI 2013).

The export of TV content to international markets has been a significant area of growth for the UK in recent years. The UK is now ranked third in the world overall in terms of its market share of exports in audio-visual and related services (Bakhshi et al 2013b); it is the world's leading supplier of TV formats, and is second only to the US as a supplier of finished television content (Eurodata 2013). The value of sales of UK TV programmes and associated activities grew from £632 million in 2005 to £1,224 million in 2012 – which is itself a 4 per cent rise on 2011. Revenue from exports to China rose by 90 per cent to £12 million, while the US remained the UK's largest export market, with sales up by 11 per cent, to £475 million (Pact 2012). Drama has established itself alongside factual entertainment as a key driver of exports, with programmes like Parade's End, Sherlock and Downton Abbey proving particularly successful (ibid). Inward investment is also strong, with the sector described as 'an international centre for broadcasting and television production' (CoBA 2013).

The UK advertising industry has been ranked second in the world in terms of 'creative excellence' for every year since 2007 (Gunn Report 2013). While advertising and marketing exports fell between 2009 and 2011 – reflecting the reduction in marketing spend and the wider recession – advertising exports are now returning to pre-recession levels, and contribute over £2 billion each year to GDP.

In the music industry, British artists took a 13.3 per cent share of the global market in 2012, up from 12.6 per cent in 2011. The UK is the second-largest producer of recorded music in the world after the US (BPI 2013b), and was responsible for five of the world's top-10 bestselling albums in 2012, including Adele, who topped the list with 8.3 million record sales (IFPI 2013).

Between 2010 and 2013, revenues from global sales of TV rights for the Premier League football increased by more than half (55.4 per cent) to £2.2 billion, as table 1.1 illustrates. This included a six-fold growth in revenues from South America, and a doubling in takings from North America and the Caribbean (Harris 2013).

Finally, the UK is the fourth-biggest global market in book publishing, and over 40 per cent of UK publishing revenues come from exports. (Publishers Association 2012)

6 http://www.bbc.co.uk/news/entertainment-arts-25757345

Continent/ region	£m	US$m	€m	% change (£) from 2010 to 2013	Population (m)	£ per person
Asia	941	1,470	1,101	77.20%	4,200	0.22
Europe (outside UK)	607	897	690	38.60%	739	0.82
Sub-Saharan Africa	205	328	240	20.60%	900	0.23
Middle East & North Africa	205	320	240	-9.00%	500	0.41
North America & Caribbean	179	280	210	198.70%	529	0.34
South America	96	150	112	668.00%	390	0.25
Total	**2,233**	**3,445**	**2,593**	**55.40%**	**7,258**	**0.31**

Table 1.1
Value of English Premier League overseas TV deals, 2013–2016

Source: adapted from Harris 2013
Note: Pounds were used to calculate percentage change: dollar and Euro percentages may differ due to currency fluctuation.

The UK succeeds in attracting strong inward investment from global – and particularly US – creative businesses. Many international media companies now use the UK as their European or global hub, including Disney, Discovery, Sony, National Geographic, Viacom, Turner and NBCUniversal. The UK is home to four of the world's major blockbuster film and TV production studios, at Pinewood, Shepperton, Leavesden, and Longcross (PwC 2013). In a recent industry survey, business leaders cited a number of factors – the UK's language, its creative talent, production facilities, skills base, broadcast infrastructure, strong domestic market, financial environment and the strength of its existing media-sector clusters around the country – as key factors that influenced their decision to make the UK their access-point to European and other international markets, including Africa and the Middle East (CoBA 2013).

Nevertheless, there are many competitive pressures on the UK's current global comparative advantage. Overall, according to Nesta (Bakhshi et al 2013b) the UK's global market share for 'audio-visual and related services' fell by a third between 2002 and 2010. Global markets produce trade wars of the kind that our creative industries, and especially the audio-visual industries, are increasingly obliged to engage in.

The UK video games industry provides a cautionary tale on the nature of the global race in the entertainment and media sector. The UK video games industry slipped from third in the international development rankings (by retail sales) in 2008 to sixth place in 2010. Canadian developers overtook the UK, and new competition is growing strongly from other countries, particularly those in Asia and Scandinavia (Livingstone and Hope 2011). UK games companies struggle to attract finance from international publishers because competitors in other countries such as Canada, France, Singapore and the

US 'receive significant tax breaks for games production, which effectively reduces the cost of game development. For example, in Quebec in Canada, tax relief stands at 37.5 per cent' (TIGA 2013). Industry figures suggest that employment in the UK games development sector declined by over 10 per cent between 2008 and 2011, while the Canadian games industry's workforce grew by a third (ibid).

1.3 Good but unpredictable jobs across the sector

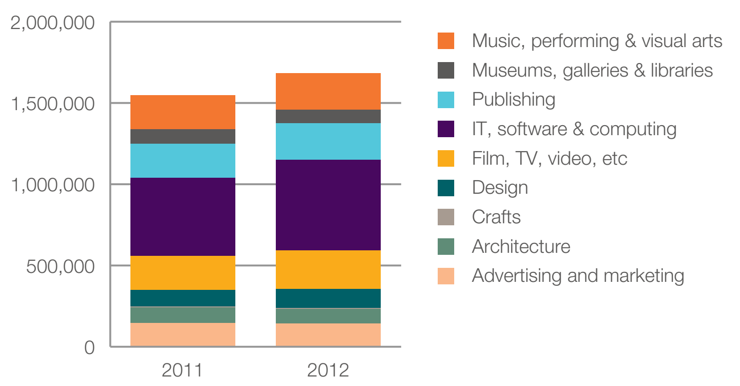
Across the creative industries, recent growth has translated into rapid job creation, with employment in the sector up by 8.6 per cent between 2011 and 2012 (DCMS 2014).

Employment within the creative industries (that is, excluding people working in creative jobs outside these sub-sectors) was 1.68 million in 2012, accounting for one out of every 18 jobs in the UK.

Among the sub-sectors of the creative industries, employment in film and TV grew at 13.6 per cent between 2011 and 2012, IT, software and computer services grew by 15.6 per cent, and design by 16.2 per cent, as illustrated in figure 1.4.

DCMS has estimated that, in 2012, there were a further 866,000 creative jobs outside the creative industries, which combined to make up the total of 2.55 million jobs in the 'creative economy' as a whole.

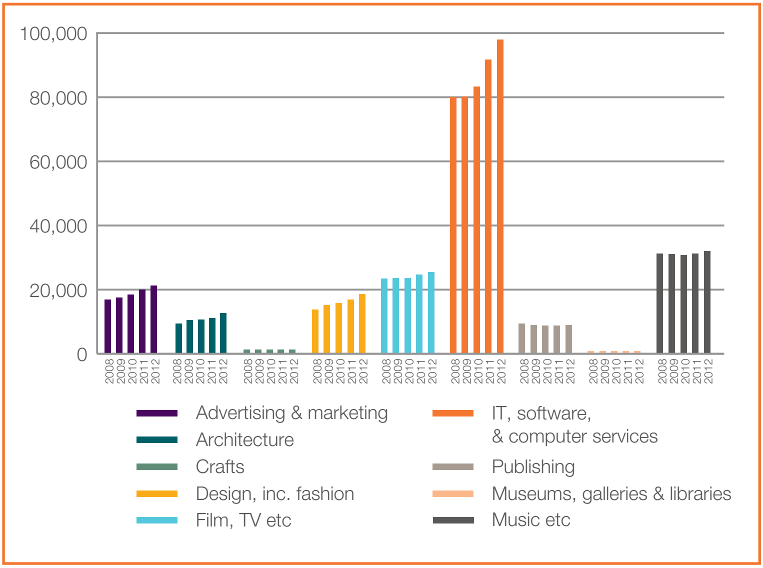
Figure 1.4
Employment in the creative industries 2011 and 2012, by sub-sector



Source: DCMS 2014

Of all jobs within the creative economy, nearly a third (29 per cent) were self-employed in 2012 (DCMS 2014). This in itself creates particular problems regarding access to employment opportunities, workforce development and training. Data published by Creative Skillset (2011) suggests that the overall proportion of self-employed workers in the creative industries in 2012 had increased by 4 percentage points since 2010, when the proportion was 25 per cent – this would certainly be consistent with the rapid increase in the number of enterprises in the creative industries over this period. Data gathered by IPPR using the same methodology as DCMS shows that the number of enterprises rose in every sector of the creative industries, aside from publishing, between 2008 and 2012, as figure 1.5 below shows. Overall, the number of enterprises in the creative industries grew from 187,000 in 2008 to 219,000 in 2012 – an increase of 17.5 per cent.

Figure 1.5 Number of enterprises in the creative industries by sector, 2008–2012



Source: DCMS 2014

2. THE CASE FOR AN INDUSTRIAL STRATEGY FOR THE CREATIVE INDUSTRIES

After 30 years in which politicians were afraid to use the phrase, there is now a cross-party consensus that Britain needs an 'industrial policy' as a means of managing and supporting Britain's comparative strengths in the face of rapid technological change and globalisation. In this chapter we set out why the creative industries should be prioritised by government in this way.

2.1 The return of industrial policy

The revival of the term 'industrial policy' – which gained notoriety following a number of policy misadventures in the 1970s – began in the aftermath of the global financial crisis. In April 2009 Lord Mandelson, then business secretary, published *New Industry, New Jobs* (HM Government 2009), which made several explicit references to industrial policy. The report explained that:

> 'What government does – or does not do – when it taxes, regulates, buys goods and services or acts in any of a range of ways shapes the conditions in which British businesses and their employees develop and capitalise on their competitive advantages. This means making Britain's economic and industrial renewal the remit not just of the Department for Business, but of all government departments.'
>
> HM Government 2009

Since taking office in 2010, Lord Mandelson's successor as business secretary, Vince Cable, has made a number of statements about the need for an 'industrial strategy'. In a speech in September 2012, Mr Cable said, 'The government shapes the British economy with its decisions every day… We can have an industrial strategy by default or design. Ignoring this reality is not a policy – it is just negligence' (Cable 2012).

The following month the chancellor, George Osborne, referred in his speech at the Conservative party conference to a series of government policies to support Britain's 'global lead' in aerospace, computing and synthetic biology, among other sectors. He described these efforts as a 'modern industrial policy', and called himself its champion (Osborne 2012).

The question remains, however: what precisely constitutes an industrial policy, and when should it be applied? Without using the phrase, Margaret Thatcher successfully prosecuted industrial policies for the aerospace and automotive industries during the 1980s. Subsidies and industrial co-ordination by her government were critical to the establishment of Airbus in the UK. State aid, particularly to encourage the entry of Japanese automotive companies, laid the foundation for Britain's thriving car industry (Pourvand 2013). Explicit government policy in the form of the 'big bang' of deregulation also helped the financial sector to grow. However, these interventions were made largely on an ad hoc basis following pressure from vested interests – and more broadly, free market orthodoxy allowed the erosion of Britain's comparative strengths.

Little has changed since then in terms of the explicit rationale for which sectors become the target of industrial policies. *New Industry, New Jobs*, for instance, alighted on eight sectors, but provided no supporting analysis explaining why these were chosen (HM Government 2009). The highlighted sectors – which included advanced manufacturing, low-carbon industries, and life sciences and pharmaceuticals – may well have been the right ones, but it remains unclear why ultra-low-carbon vehicles or engineering construction were favoured over other sectors.

Despite making up over four-fifths of the UK's economic output, the service sector – including the creative industries – was largely absent from the policy document. Indeed, 'professional and financial services' was the only service sector to which it made an explicit reference. One of the eight sectors was 'Digital Britain', but this element of the overall strategy focused on digital infrastructure rather than on the creative industries.

Under Vince Cable, an attempt has been made to put criteria in place to determine which sectors should be the focus of industrial strategies. A government report (BIS 2012) which accompanied Cable's speech outlined the following criteria.

> 'A key principle underpinning the government's sector approach is to back those sectors which are likely to have prospects for success in the future, in terms of generating increased value added and employment in the UK economy. In this respect, it is important to consider the key economic, social and wider drivers of growth and their relevance to sector potential over the next decade. The main drivers are likely to be:
>
> - rising incomes and changes in patterns of demand
> - changing business practices and new technology
> - increasing demand for environmental products, processes and standards, and
> - demographic and lifestyle changes.'
>
> BIS 2012

Using these criteria, a strong argument could be made for making the creative industries a priority, particularly with regard to the first two bullets. As we mentioned in chapter 1, the GVA of the creative industries grew by 15.6 per cent between 2008 and 2012, and since the trough in 2009, growth across all of its sub-sectors has been faster than for the economy as a whole. Meanwhile, employment in the creative economy overall grew by 6 per cent between 2011 and 2012, to 2.55 million.

Nevertheless, despite the fact that it is growing faster than every sector of the economy apart from 'real estate activities' (DCMS 2014), the creative industries was absent from the list of 11 sector-specific strategies that have recently been compiled by the Department for Business, Innovation and Skills (BIS) (2013). Instead, the list is once again dominated by manufacturing sectors, including aerospace, automotives, life sciences and various energy sub-sectors. 'Financial services' has ominously been removed from the list compiled by Lord Mandelson, but has been replaced with 'professional and business services'. The only other service sectors to be included are 'international education' and the 'information economy'.

With regard to the latter, the Information Economy Strategy (HM Government 2013) refers only to 'software, IT services, communications and data management'. This document refers in passing to the creative industries as one of a number of sectors –including healthcare and smart energy – which could provide opportunities for the information economy. There is scare acknowledgment in Information Economy Strategy of the links between the two sectors. For example, there is little recognition of the importance of investment in creative content for driving take-up of broadband and internet use among consumers.

2.2 Why the creative industries?

It could be argued that the creative industries are performing so well that they do not need an industrial strategy. Indeed, some will argue that the best thing that government can do is 'get out of the way'. However, there are three important reasons why the sector needs a new, unified and explicit industrial policy approach.

First, the creative industries are already affected by a multitude of overlapping government interventions. Funding is dispersed through the BBC, the Arts Council and various tax reliefs. Regulation affects the roll-out of broadband, spectrum policy, advertising and the intellectual property regime. International relationships and diplomacy affect the legal framework within the EU and the exploitation of new markets. Drawing these interventions together into a more coherent and a strategic approach therefore makes sense.

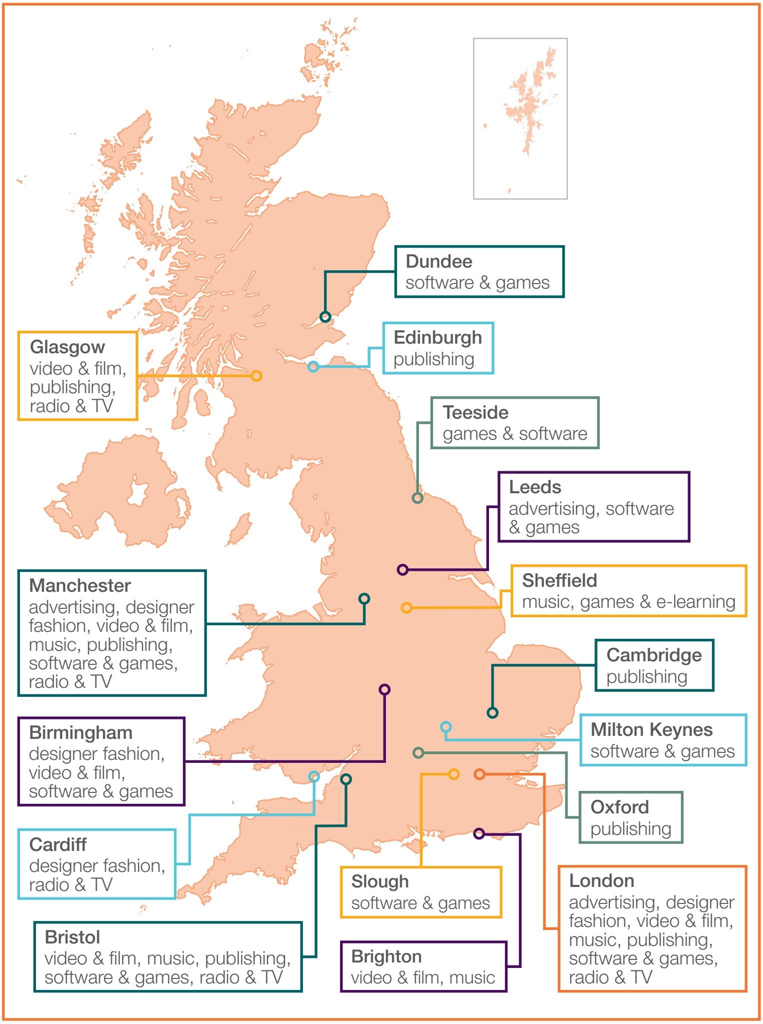
Relatedly, it is possible that BIS did not include the creative industries as one of their 11 sectors because they see the creative industries as a multitude of interlinking sub-sectors with very specific needs. While there is some truth to this (some of our recommendations in chapter 4 do relate to specific sectoral issues), the majority of issues – particularly those around investment, skills, intellectual property, and regional support – relate to all creative sub-sectors. It is therefore essential that government policy is co-ordinated in order to maximise existing strengths within the sector.

Second, although London is clearly the heart of the creative industries in Britain, the sector's growth reflects numerous successes all across the UK. As figure 2.1 below shows, creative clusters and centres of excellence are emerging across the UK. Regional hubs include media and advertising in Manchester, games in Teesside, TV production in Bristol, design in the West Midlands, software in Slough (Chapain et al 2010, Channer et al 2013). Having creative centres dispersed around the country, rather than concentrated in a single centre, produces a more dynamic and competitive economy. A degree of strategic co-ordination between national and the regional levels will help avoid waste and maximise opportunities for co-operation and growth.

Lastly, if the government wants to ensure that the 'global race' to which it refers (Cameron 2012) is a 'race to the top', then it should do everything that it can to support growth sectors with a clear comparative advantage, and which are capable of generating a rapid expansion in highly skilled jobs. **At a time when many jobs in the UK – particularly those in the retail and hospitality sectors – are low-skilled, low-productivity and low-paid, the creative industries are notably bucking this trend. It is therefore essential that government policy is properly co-ordinated to ensure that the sector has constant access to a pipeline of creative talent, and that success of the sector and the opportunities that it offers are widely advertised and celebrated.**

For these three reasons, we believe that the creative industries could be even more successful in providing broad-based growth and job creation if a co-ordinated, industrial strategy were adopted.

Figure 2.1
Map of UK creative clusters



Sources: Chapain et al 2010, Guardian 2014, IPPR interviews

3. GOOD, BUT COULD DO BETTER

Following the sharp economic downturn in 2008–09, the creative industries have bounced back. Despite changes to traditional revenue streams and a more complicated investment mix, economic estimates show strong areas of growth within the main sub-sectors of the creative industries. As outlined in chapter 1, GVA is higher now in every creative industries sub-sector than it was in 2009, with particularly strong performances from design, film and television, advertising and marketing, and IT. For the reasons set out in chapter 2, we believe that the sector is in need of an industrial strategy to help maximise these strengths.

Against this backdrop, this chapter looks at the challenges facing the sector. We will examine how investment in creative companies and content is threatened by the factors outlined earlier in the report, and describe problems with workforce development and skills. We will show how government policy on broadband rollout, digital inclusion and spectrum policy is failing to equip Britain for the digital age, demonstrate the need for greater support for regional centres of excellence and creative hubs, and focus on the need to build on the UK's comparative advantage in global markets.

3.1 Investment in creative companies and content

Supporting investment for businesses is critical to the creative sector. With a large proportion of small and medium-sized enterprises (SMEs) engaged in financially 'risky' activity, the sector is particularly vulnerable in an unstable economic climate. Investment in new-content businesses has relied heavily on venture capital and overseas investors, with UK banks and indigenous creative institutions insufficiently engaged, especially over the longer term. At the same time, technological change, ease of IP theft, and the recession have affected traditional revenue streams.

3.1.1 Government funding

Public funding for the arts and cultural organisations has been cut significantly, which has led to a shortfall in funding for some sectors. For example, overall spending on arts and culture decreased by 8 per cent between 2010/11 and 2011/12, from £1.83 billion to £1.69 billion (a £138 million reduction). Meanwhile, the Arts Council faces significant cuts, with its grant-in-aid funding being cut by 29.6 per cent in real terms between 2010 and 2014, from £449 million to £350 million. Local authority spending on arts development and support, museums and galleries, and theatres and public entertainment was cut by £71.5 million (9 per cent) between 2010/11 and 2012/13.[7]

These cuts are likely to end up being counterproductive. Arts Council England estimates that for every pound that the government invests in the arts, the UK economy grows by £4 (Guardian 2014). As the *Guardian* (2014) highlighted in a recent editorial:

> 'Rewards for public funding at the grassroots level are harder to quantify but equally tangible: Mr [Steve] McQueen found his calling at Goldsmiths and has been supported by the publicly funded Tate galleries. Adele is a graduate of the state-backed Brit school of performing arts. Ms [Judi] Dench and Mr [Steve] Coogan have worked extensively for the BBC, while the games industry is supported by likes of the University of Abertay in Dundee.'
>
> Guardian 2014

3.1.2 Market interventions

In 2012 the UK government announced a new package of tax reliefs for the creative sector, building on the tax relief regime for the film industry introduced in 2007. This film tax relief is credited with supporting over £5 billion of investment in British films between 2007 and 2012, and a 70 per cent increase in the film production workforce over the same period (HM Treasury 2012a). The 2012 budget announced new reliefs for 'high-end' television (including drama and documentaries), animation and video game development (although the latter remains entangled in an EU state-aid challenge). In the 2013 autumn statement, the chancellor announced a further revision of the package, including a consultation on the tax treatment of spending on theatres and theatre productions, and measures to benefit UK visual effects companies commissioned to work on international productions (HM Treasury 2013).

Tax reliefs have increasingly become a key part of the UK's arsenal for attracting global talent, investment and production. But this is a global trade war – one that risks being won by markets and governments with deeper pockets. It is therefore vital that financial incentives are buttressed with world-class facilities, skilled and experienced technicians, efficient and creative producers and reliable and attractive locations. The US and the UK have long had a strong comparative advantage in these areas, but countries such as Canada, South Africa, Hungary, Russia, Malaysia and China are quickly developing the facilities and expertise to allow them to compete more strongly.

7 Data supplied to IPPR by Arts Council England, January 2014.

Previous legislative interventions have had a marked impact on the size and structure of parts of the UK creative sector. The growth and success of UK independent television production, for example, owes a great deal to the introduction of quotas requiring the PSBs to commission 25 per cent of their production from independent companies, and to the provisions of the Communications Act 2003, which established the basis for new terms of trade and underwrote the ability of producers to retain and exploit their intellectual property.

These arrangements have become embedded in the UK television market, and the main PSBs now commission significantly more than 25 per cent of their content externally – 46 per cent in the case of the BBC in 2011/12 (BBC Trust 2013). The terms of trade provide a floor for negotiations between producers and broadcasters, even for purely commercial broadcasters to whom the legislation (and relevant guidance) doesn't technically apply.

Underpinned by legislation, the market in broadcast commissioning works effectively, competition is fierce, and UK content is world-conquering. However, the success of the UK independent production sector somewhat masks the fact that all of the top six major independent producers are either financed by venture capital arrangements – which are inherently short term – or substantially owned by overseas companies (Televisual 2013). The benefits of inward investment for the sector, and for the creative industries more generally, have been immense. Nevertheless, our own home-grown institutions should do more to provide long-term investment for the UK's independent producers, particularly small independent start-ups which often struggle to attract either debt or equity financing.

The growth of the independent production sector in television has not been mirrored in radio, where independent radio producers can only pitch for a maximum of 20 per cent of eligible productions (which excludes, for example, news and current affairs) on BBC radio (Radio Independents Group 2012). As a consequence, the UK has struggled to grow an independent radio production sector of the critical mass that would allow it to thrive in the way that TV production has.

Scalability in parts of the UK creative sector is a burning issue, given the intensifying global competition. UK governments have long been concerned to protect plurality of ownership within the UK and promote competition within the domestic industry. Consolidations of the kind naturally expected in other markets – particularly in times of revenue contraction, as witnessed after the 2008 crash – have not occurred among the bigger market players in television. Recent reports of a potential sale of Channel 5 by its Northern and Shell parent company led one leading analyst to write, 'Regulatory and strategic considerations suggest that neither ITV nor the pay-TV platform operators, Sky and BT, are likely to emerge as serious bidders and that an overseas group from the US is the most likely outcome if a sale is to take place' (Enders Analysis 2014). In such a rapidly changing market, policy must take account of the wider global market in which UK companies operate, particularly in the context of ever-greater competition between digital platforms for advertising and marketing expenditure. It seems extraordinary, for example, that competition remedies (establishing advertising price controls) that were applied to the Granada/Carlton merger that formed a single ITV in 2003 remain broadly unchanged, despite the digital television revolution that has replaced the five channels in most UK homes with at least 50, and the explosion of the online market for media content, in the intervening period.

Advertising is a key part of the investment story for PSBs and telecommunications providers alike. It is supported by a regulatory and legislative regime that – through the work of the Advertising Standards Authority – is regarded by global companies and other European countries as the gold standard in self- and co-regulation of advertising in the world. This has helped maintain the UK's status as the world's fifth largest advertising market, home to stable advertising revenue for different media and a leader in advertising services. In 2012, £9.3 billion of advertising spend flowed through the creative industries – TV, radio, cinema, newspapers and magazines (AA and Warc 2012). Nevertheless, the competing interests of government departments periodically create great uncertainty in the advertising market. Potential European interventions into the content, placement and targeting of adverts risk undermining the UK's leadership in areas such as online advertising.

3.1.3 The 'copyright industries'

The shift from physical to digital content creation and distribution in key parts of the creative sector has led to an explosion in copyright infringement in the UK and across the world. The latest research by Kantar Media for Ofcom, conducted between March and May 2013, estimated that 199 million music tracks were consumed illegally in the UK alone during that period (Kay 2013). This was followed by TV programmes (54 million), films (30 million), computer software (9 million) and e-books (7 million); illegal consumption of video games was lowest, at 5 million.' Furthermore, Kantar's report state that, 'of all internet users who consumed content online over the three-month period… 30 per cent consumed at least one item illegally' (ibid).

Against this backdrop, a speech by Prime Minister David Cameron in November 2010 succeeded in driving a wedge between content producers and internet technology companies in the UK. Standing at the heart of 'Silicon Roundabout' (now Tech City) in east London, he said:

> ‘The founders of Google have said they could never have started their company in Britain. The service they provide depends on taking a snapshot of all the content on the internet at any one time and they feel our copyright system is not as friendly to this sort of innovation as it is in the United States. So… we are reviewing our IP laws, to see if we can make them fit for the internet age. I want to encourage the sort of creative innovation that exists in America.’
>
> Cameron 2010

The resulting review, written by Cardiff University’s chair of digital economy, Professor Ian Hargreaves, split opinion not only over the substance of many of its recommendations, but also over the primary motive behind the work: that UK copyright law was ‘not fit for purpose’ in the digital age.

The reception of the Hargreaves report was not helped by some over-egging of the economic pudding. Supporting documents suggested that the combined economic impact of a range of copyright reforms and relaxations could be as much as £5.5 to £7.9 billion per annum (Hargreaves 2011). Within this total, for example, a copyright exception for private copying – format-shifting for private use – was said to offer a potential annual benefit of between £0.3 billion and £2 billion. These figures have since been revised markedly downwards. In the House of Lords on 5 December 2013, the copyright minister, Lord Younger of Leckie, made reference to the whole bundle of proposed copyright exceptions generating ‘together’ between £500 million and £790 million over a 10-year period (Lords Hansard 2013). These figures, drawn from impact assessments made by the Intellectual Property Office in 2012 (IPO 2012), present a much more modest estimate of the potential upside of a number of relaxations of existing copyright law.

In September 2013, the cross- party culture, media and sport select committee, published the report *Supporting the Creative Economy*, which contained damning conclusions about the development of policy in this area:

> ‘We think Hargreaves is wrong in the benefits his report claims for his recommended changes to UK copyright law. We regret that the Hargreaves report adopts a significantly low standard in relation to the need for objective evidence in determining copyright policy. We do not consider Professor Hargreaves has adequately assessed the dangers of putting the established system of copyright at risk for no obvious benefit.’
>
> Culture, media and sport select committee 2013

The committee was particularly scathing about the proposed new copyright exceptions. However, it also welcomed the development of an online digital copyright exchange (launched as www.copyrighthub.co.uk in July 2013), designed to ensure greater access to copyrighted content and facilitate its reuse under licence.

The committee also criticised the government's failure to implement fully the copyright enforcement provisions contained in the Digital Economy Act 2010 (DEA). The government's implementation of the DEA has been, by its own admission, 'badly delayed' (DCMS 2013).

Overall, government policy both on both promoting value in intellectual property and on protecting intellectual property from theft has unravelled somewhat. Enforcement measures are delayed, proposals for new copyright exceptions are being brought before Parliament with unproven benefits and potential risks, and new systems for better access to copyright material have not yet been given a chance to prove their value. Against this, proposals from the 2006 Copyright Review conducted by Andrew Gowers, on matters such as copying for educational purposes, remain to be implemented.

3.2 Skills and workforce development

The creative industries survive or fall on innovation and the discovery of new talent, so skills are critical. Universities and the wider education system has a major role to play in spotting talent, turning that raw material into the finished product, and ensuring that technical expertise is developed. Relatedly, the creative industries can be hard to break into, with some sectors suffering from a demographically narrow intake. The creative sector has done too little to explain and promote the employment opportunities available within it.

Trends in policymaking concerning skills and workforce development have moved closer to a more employer-led approach in recent years (BIS 2011). The government's flagship Employer Ownership of Skills pilot (EOP) offers £340 million in funding to match employer contributions towards the development of a skilled workforce in a number of key sectors. The programme focuses on various levels of apprenticeships, courses and internship schemes led by industry or, in many cases, intermediate organisations such as Sector Skills Councils, which draw together a number of employers within an overall industrial partnership.

There is considerable support and interest in this programme across the creative sector. Historically, many creative companies and institutions have relied upon enthusiastic participants in internship programmes as a recruitment stream, with many of these internships being either low-paid or unpaid. Passion and enthusiasm for a specific creative industry are often regarded as equally important as formal qualifications as a criteria for attaining a job in the sector.

This habit of informal recruitment and poorly-paid internships has perpetuated a lack of diversity in the sector, notably in the proportion of non-white people and those from less well-off backgrounds working in the creative industries. This is particularly acute at senior levels. The proportion of non-white people working in the creative sector is roughly half of that in the rest of the economy, and this proportion actually fell during the period 2009 to 2012 (Creative Skillset 2013).

Across the industry, changing demand for skills has led to the establishment of a number of specialist colleges and universities that focus on the technical skills as well as the creative talents needed to ensure the continuing success of the creative sector. Art, design and fashion colleges, along with drama schools, have long existed to supply a pool of creative talent to the industry. The overlap between digital content creation and computer engineering has seen the emergence of a number of specialist colleges offering further and higher education courses in, for example, digital production, broadcast computing, web media, and product and interaction design.

Alongside established institutions such as the National Film and Television School, dedicated university-sector colleges have been established, such as Ravensbourne College of Design and Communication in south-east London, which specialises in digital media and communications, the University of Teesside's' Digital City of Innovation, and the Bournemouth Skillset Media Academy. These institutions work to supply the growing demand for technologically capable and creative talent for the film, television, music, games and other creative software industries.

In addition, companies themselves have established formal links with institutions to help ensure that the qualifications and experience that students attain during the course of their studies will be in demand by employers when they graduate. Some examples of this include the following.

- The Guildford Academy of Contemporary Music, with its courses focusing on sectoral business skills, scouting talent, and other subjects.
- The Arts University College Bournemouth, which has a visual-effects studio supported by the visual effects company Framestore.
- The University of Sunderland offers a BSc in Games Development, which feeds a strong cluster of games development companies in the North East.
- The University of Salford has strong links to the Media City development which is supported by ITV and the BBC.

An important advance has also been made with the development of the Creative Skillset 'tick' accreditation, awarded to academic and vocational courses which are identified as clearly meeting the needs of employers across the creative sector (Creative Skillset, no date).

However, concerns remain that, overall, skills policy for the sector is insufficiently geared towards the demands of creative enterprise; that educational institutions do not exploit their role in creative research and development and knowledge-transfer; and that the creative sector has done too little to explain and promote the employment opportunities available to students in schools and colleges.

The latter point is particularly true further up the talent pipeline in schools, where there remains a lack of awareness of the roles available, and the qualifications that are attractive to employers, within the creative sector. Ensuring that students in years 12 and 13 understand the options open to them, and the requirements that would be expected of them by employers in parts of the creative sector, remains a challenge yet to be addressed by a number of industries.

3.3 UK infrastructure in the digital age

Technology clearly underpins the success of the sector: both broadband and spectrum policy are critical to maximising growth opportunities. Digital infrastructure development for broadband (both fixed-line and mobile) currently takes too little account of both how consumers are using smartphones and tablets, and how content convergence is driving take-up. Most government spending to date has been on the supply side, rolling out new infrastructure, rather than on addressing gaps on the demand side. This includes helping both citizens and businesses who are not currently online to understand the opportunities available to them, and assisting those who have difficulties with internet access or using online services.

3.3.1 Broadband rollout

The strength of the UK's digital infrastructure – broadband and broadcast, fixed and mobile – is a vital feature of the domestic market for creative content. It is also critical to the successful trade in creative goods and services between UK companies and our access to global markets, and an important feature in attracting overseas creative companies to set up here.

Domestically, the UK is one of the world's most advanced markets for communications technologies and the consumption of creative content. UK consumers are the most frequent online shoppers, lead the world in digital TV take-up (via aerial, cable or satellite dish), and are the most likely to access TV content over the internet via smart TVs, PCs, tablets and smartphones. The average UK household now owns more than three types of internet-enabled device. (Ofcom 2013a)

Consumers are choosing to connect these devices to the internet largely over WiFi networks, with as much as 80 per cent of data traffic from mobile devices carried over WiFi (Kenny et al 2014). Much of this is accounted for by in-home usage (90 per cent of households with a fixed broadband connection have a WiFi router) or via public WiFi networks. Three-quarters of tablet owners who connect to the internet say they only use WiFi (Ofcom 2013a).

The importance of the internet as a vehicle for the distribution of creative content continues to rise, with nearly half of all respondents to a 2013 Ofcom survey saying that they use the internet for TV and video viewing. Furthermore, while 90 per cent of total TV consumption is still traditional live broadcast TV, the popularity of online services such as the BBC iPlayer is growing by as much as 30 per cent year-on-year, and attracting as many as 200 million TV requests in peak months (Ofcom 2013a).

In the public sphere, digital networks can also help to connect centres of cultural excellence with places of access such as schools and libraries, as well as general audiences in widely dispersed communities. Schools in more remote areas can regularly benefit from virtual access to public museums, archives and galleries, even if a physical visits are more of a rare treat. Bespoke content created for distribution on digital networks can be highly innovative, engaging and inspirational.

It is widely recognised that 'the availability of high-quality creative content can be a key driver in the take-up of new technologies, in particular broadband internet, digital television and mobile communication' (EC 2009). Yet the relationships between internet services providers, online distributors and aggregators, and content producers are strained. This is partly due to disputes over responsibility for action against piracy and IP theft, but also because the systems for distributing creative content over the internet have yet to provide a sound business model to support anything like current levels of content investment.

However, this picture is beginning to change in the UK, as companies that have historically focused on establishing physical networks begin to invest in content. For example, BT has moved into the broadcast of major sporting events, and Sky is now the UK's second largest internet service provider and promises to invest up to £600 million in original UK television content by in 2014 (Sky 2013). Other giants of the internet however, operate on business models that have not yet begun to support substantial investment in creative content. This includes Google, which is now reported to earn more in advertising revenue from the UK market than all the UK's commercial PSB channels (ITV, Channel 4 and Channel 5) put together (Ofcom 2013a and eMarketer 2013).

3.3.2 Digital inclusion

The government has set a target of 95 per cent of UK households having access to superfast broadband (24 mbps or above) by 2017, and 99 per cent by 2018, through a combination of fixed-line, wireless and 4G mobile services. £1.2 billion is being invested in a combination of rural and urban programmes to ensure that super-fast broadband is available to those communities which may not have been served by the market alone (Alexander 2013).

Today, nearly three-quarters of UK homes have a fixed broadband connection, of which approximately 17.5 per cent is categorised as 'superfast'. However, the rate of increase in broadband take-up appears to have slowed to a standstill. According to the Office of National Statistics, 14 per cent of the UK population (over seven million people) have never used the internet (ONS 2013), and Ofcom has found that a large proportion of these people say they do not intend to do so (Ofcom 2013a).

In 2013, Ofcom's cities project looked at broadband access and take-up across 11 UK cities. The study found that even though in basic broadband was universally available in all 11 cities, take-up of it was patchy: 57 per cent in Glasgow, for example, and 76 per cent in Birmingham (Ofcom 2013a). A detailed study for the Carnegie Trust which focused specifically on Glasgow suggested that the city's low level of broadband take-up was due to a combination of demographic and attitudinal factors (White 2013). Take-up levels are particularly low among older and poorer households, but they also reflect attitudes towards the use of new technologies, with women in non-connected households tending to be more interested than men in exploring the possibilities of the internet. Cost was also regularly cited as an issue, although with basic broadband services now available for less than £6 pounds per month assuming you already have a phone line (Ofcom 2013a), other factors must also be relevant. The Carnegie Trust's research found that a range of factors, such as fear of new technologies, lack of basic computer skills, literacy issues (much online material is still text-based), and lack of awareness of what the internet has to offer, were keeping some people offline.

While the government is primarily focused on ensuring that high broadband speeds are available across the country, the relatively high numbers of people who have still not experienced and understood the benefits of internet connection remains a concern. In this context, the development of a digital-by-default programme for delivering public services online, and the increasing need for online access to educational materials (particularly for families with school-age children), both have the potential to contribute to further social division unless internet take-up can be improved. As with the digital TV switchover, a plan that harnesses the ingenuity and popularity of our creative industries, as well as engaging a wider network of community organisations, could do a great deal to help address this challenge.

3.3.3 UK spectrum policy

The ecosystem that supports high levels of investment in UK creative content depends upon the maintenance of a successful, competitive digital marketplace. Competition between terrestrial television channels and alternative television platforms has helped to stimulate high levels of investment in original TV content in the UK. However, competing demands for the ultra-high-frequency (UHF) spectrum, which is currently used to deliver broadcast television signals, present a challenge to that well-functioning and competitive marketplace.

PSB's revenues remain critically dependent upon access to broadcast networks, which enable them to reach 98.5 per cent of UK homes. Mass audiences generate high advertising revenues, and the universal availability of BBC services provides a rationale for the universally-applicable television licence fee. While there is increasing consumer demand for data (including audio-visual material) delivered over the internet (though forecasts of levels of demand differ considerably), the case for reallocating the spectrum that is currently available for broadcasting and selling it to mobile networks for the purpose of data distribution has not been sufficiently tested. Government thinking to date has failed to sufficiently take into account the importance of the spectrum in preserving the UK's rich and varied choice of world-renowned television content. They have also failed to account for the very high proportion of online data traffic that, while consumed on mobile devices, is in fact largely accessed via Wi-Fi networks, which do not compete with television broadcasting for available bandwidth.

3.4 Regional centres of excellence and creative hubs

Co-location or 'clustering' (and the convenience and proximity to the creative supply chain that it engenders) is cited by inward investors as an important factor in their decision to operate in the UK. Some evidence suggests that creative businesses choose to locate themselves in close proximity to each other more than businesses in most other sectors (Chapain et al 2010).

London is a key driver of activity for most creative sub-sectors, and according to DCMS over 50 per cent of UK creative enterprises are located in London and the South East (DCMS 2011).

However, other UK centres are also important contributors both to the creative industries' overall economic performance and, critically, to economic growth and job creation in local areas. Regional centres also contribute a diversity of ideas and influences that make our creative industries dynamic and world beating. As outlined in figure 3.1, there are a wealth of creative 'hotspots' around the UK.

Drawing from a substantial body of work on economic development and clustering,[8] as well as the 2012 review by Sir Tim Wilson on business–university collaboration (Wilson 2012), we can identify a number of components that contribute to successful creative clusters.

- A core of creative firms operating in close proximity, either as competitors or collaborators (or both).
- Areas of collaboration between firms, educational institutions and public bodies, including innovation, production, design and information-sharing.
- Supply-chain connections between firms in close geographical proximity.
- An environment (in both physical and business terms) that attracts creative professionals.
- Global connectivity through good physical and digital infrastructure.
- Effective local leadership, involving both the public and private sectors.
- Good connections with educational establishments, in order to provide an efficient talent pipeline, and promote knowledge exchange.

Clearly not all of these elements are present or established to the same degree in all areas. Clusters tend to arise organically, at least at first, with companies in some cases not even being aware that there are other, linked organisations on their doorstep (Chapain et al 2010). Clearly, proximity alone is not enough. As the Wilson review stated, 'Leadership is needed to broker connections – between universities and businesses, strategic organisations and stakeholders, [and] local and national programmes' (Wilson 2012).

Relationships with local universities as a source of both skilled talent and creative research and development is still very much a 'missing link', according to Nesta (Chapain et al 2010). There are exceptions: connections between higher education (HE) institutions and local arts and cultural organisations in particular have grown in recent years, with the takeover of the National Glass Centre by Sunderland University and the University of Derby's ownership of the Derby Theatre providing two recent examples. Nevertheless, research commissioned by Creative England and the Arts and Humanities Research Council (AHRC) identified few locations where the focus of creative industrial activity coincided directly with a specialism at a local HE institution (Channer et al 2013). Outside London, it found that the example of Lancaster stood out as 'the only major HE hub that combines workspace for creative businesses, a business school

8 See for example, Porter M (1990) *The Competitive Advantage of Nations*, New York: Free press; Florida R (2002) *The Rise of the Creative Class*, New York: Basic Books; Channer et al 2013; and Chapain et al 2010.

with creative industry expertise, and an overlap with a major creative industry cluster in its main sub-sector focus (design)' (ibid).

The Wilson review underscores the importance of the role that specialist intermediaries can play at the local level to support businesses in terms of making connections, accessing sources of finance, sourcing talent and exchanging knowledge. Local Economic Partnerships (LEPs) have the potential to fulfil this role. However, as identified in the IPPR report Northern Skills for National Prosperity (Henderson et al 2013), a lack of clarity and co-ordination at a national, strategic level is acting as a barrier to the further development of the LEP's role in supporting growth and jobs at a local level. 'This lack of co-ordination, and the difficulty of LEPs having to interact with too many central government departments, undermines efforts to develop a coherent approach at the LEP level' (ibid).

3.4.1 Regional funding

Additional resources are needed to support the regional development of creative clusters, particularly where there are already clusters of similar activity, close supply-chain linkages, and links between local educational establishments and media businesses helping to maintain the talent pipeline. However, the public sector contribution – joining cultural investment with commercial creative growth – is unbalanced across the country. Government spending on arts and culture, for example, is currently heavily skewed towards London. Although the proportion of Arts Council England funding that goes to London has fallen, the capital still receives over 40 per cent of it (see figure 3.1 below). Meanwhile, 54.2 per cent of the BBC's programming spend was spent in London in 2012. The corporation is committed to reducing this proportion to 50 per cent by 2016, but obviously this would still mean London's spend being equal to that of the rest of the country combined (BBC 2013).

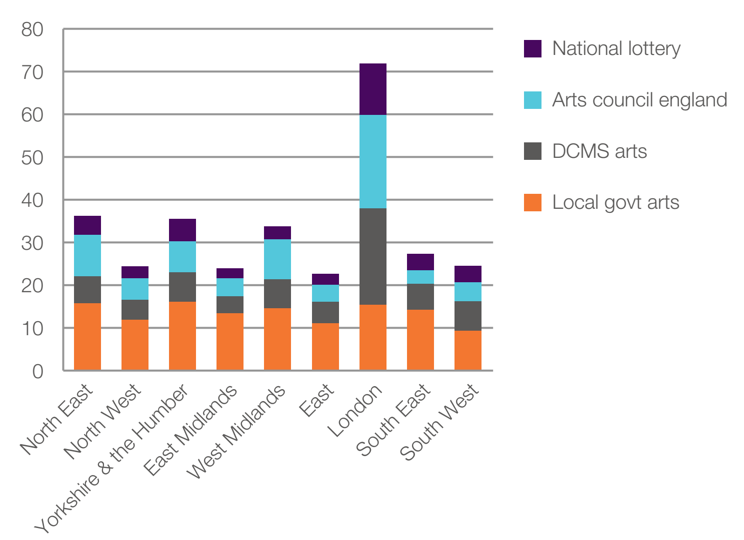
Main public funding for the arts and culture in England comes from four sources. On an annual basis, local government spends £720 million; DCMS directly provides approximately £450 million of funding for national museums, galleries and libraries; around £440 million is distributed by Arts Council England from general taxation; and an additional £317 million is distributed from National Lottery funds.[9]

Some argue that London should get the lions' share of arts and culture funding, since it is both the UK's most populous region and the largest driver of growth. A recent report suggested that expenditure by DCMS and Arts Council England produced a benefit per head of population in the capital of £68.99, compared to £4.58 in the rest of England (Stark et al 2013). IPPR believes that the picture is more nuanced than this report suggests, but that Londoners still receive spending per person that is around three times the average for people outside London.

9 Data supplied to IPPR by Arts Council England, January 2014.

Using regional breakdowns of overall funding for 2012/13,[10] IPPR has calculated that £71.89 per person is spent per person in London, compared to an average of £24.01 in the rest of England – a ratio of 3:1. However, this masks considerable variation, including just £22.67 in the East of England and £36.20 in the North East. Figure 3.1 below shows a breakdown of arts and culture funding by both source and region. It shows that while local government spending per person is relatively evenly spread, the capital gets a far greater proportion of DCMS, Arts Council England and National Lottery funding. This perhaps reflects the fact that around three-quarters of decisions about the allocation of funding to the rest of England is decided at the centre of government in London (Stark et al 2013).

Figure 3.1
Arts and culture funding by region and by source (£ per person)



Source: Data supplied to IPPR by Arts Council England, January 2014.

3.5 The UK's comparative advantage in global markets

As well as a thriving domestic market, the creative industries are set to benefit from sales abroad from both the developed world countries and rapidly growing countries with expanding middle classes. Growing scale in content production and exploitation at home is critical to our future export success. With much content being virtually free to replicate, the creative sectors are particularly vulnerable to lax enforcement of IP protections. Despite the size and growth potential, the sector has been looked upon less favourably than more traditional sectors on trade missions. For

10 A proxy was used for DCMS arts and culture spending using 2011/12 Public Expenditure Statistical Analyses data for 'cultural services' from HM Treasury. All other figures are based on outturn data provided by Arts Council England.

example, 'creative and media' is one of 20 key sectors listed on UKTI's website. But this refers only to games and mobile content.

3.5.1 The UK, EU and global markets

Domestic policymaking in relation to the digital and creative industries is underpinned by a significant body of EU law and practice. To some extent this recognises the unique place the creative industries occupy in Europe's social and cultural life.

Landmark measures such as the 2000 E-commerce Directive, the 2001 Copyright Directive, and the 2007 Audio and Visual Media Services Directive provide the framework within which UK legislation and regulation for the creation and distribution of creative content has evolved.

Since 2010, much of this work is being re-examined under the broad heading of the 'Digital Agenda for Europe', led by European Commission (EC) vice president Neelie Kroes. The breadth of this initiative is vast, comprising seven 'pillars' which in turn support well over 100 individual areas of action which between them propose to update, reform and revise major areas of policy affecting the creative sector (EC 2014).

In areas such as copyright protection and enforcement, television content regulation, online video regulation, spectrum policy, broadband rollout and access, digital literacy, net neutrality, data protection, and territorial licensing, the EC is rapidly advancing an agenda which has the potential to affect radically the framework in which the UK's creative enterprises operate, both at home and on an EU-wide basis (EC 2014).

In this context, it is important to recognise that the interests of the UK creative sector are not always shared by other EU countries. For example, our creative industries represent a larger share of our economy than is the case for other member states. According to the British Council, the UK has the 'largest creative sector in the European Union'.[11] We have the largest broadcasting hub in Europe, the leading online advertising market, and the largest e-commerce industry (Ecommerce-Europe 2013). Furthermore, the EU is a major market for English-language content.

The UK therefore has more to lose from adjustments to the current legal and regulatory system, which – as interpreted by our parliament and the UK courts – works broadly well. There are clearly risks in reopening discussions about the Copyright Directive (which have the potential to weaken current copyright protections for creative works), or changes to the ability of content owners and distributors to licence services on a territory-by-territory basis (an important source of revenues), or revisions of the E-commerce Directive, which could undermine welcome recent

11 http://creativeconomy.britishcouncil.org/Policy_Development/policy-environment/

developments in the UK courts which have enabled action to be taken against online copyright infringement.

On spectrum policy, there are industry concerns that moves towards the harmonisation of UHF spectrum use across Europe will not take sufficient account of the disruptive impact this may have on consumers of terrestrial TV. These concerns are not without foundation: while digital terrestrial broadcasting is a popular platform in the UK (as well as in Spain, Italy and France), in many other countries cable and satellite platforms predominate (EC 2013). This means that, in terms of protecting the interests of our free-to-air broadcasters, the UK has only a few allies, whereas the demand from mobile network operators for harmonised spectrum use is pan-European.

Ofcom's response to the EC's consultation on media convergence reflects, in many ways, the broad interests of the UK creative sector:

> 'Any revisions to the applicable European regulatory framework should ensure that Member States are able to adapt to changes in their national markets and to meet the expectations of their citizens, (which are likely to vary across Europe, given the different social and cultural role played by audio-visual content in each country).'
>
> Ofcom 2013b

The sector is responding to the global digital challenge
Meanwhile, the digital and creative industries are responding in commercial terms to the opening up of markets that has been brought about by the growth of digital infrastructure across Europe and the world. New systems for licencing content on a pan-national basis are mirroring new developments in digital storage for content, such as cloud-based services. The connectivity and mass adoption of smart devices is also facilitating the cross-border storage and transportation of content.

These are market responses to the challenges of ensuring access to content on a multinational basis, which have huge advantages for consumers across the world. With or without policy changes at the EU level, a single transnational market for digital content is being created.

The openness of digital markets, the security of online content distribution, and ensuring effective competition are all critical to those markets working effectively both for consumers and content providers. The EU has an important role in promoting competition to protect net neutrality against attempts by internet service providers (ISPs) to exert excessive control over traffic on their networks, which could choke off access to new markets for content providers. In the UK this is managed effectively by competition between ISPs, which discourages behaviour that could cause consumers to switch suppliers.

In providing access to global markets, the expansion of UK Trade and Investment's (UKTI's) role and funding in recent years is supported across the industry. The work of UKTI has also been augmented by the introduction of new 'trade envoys' – often senior parliamentarians such as Baroness Bonham-Carter (Mexico) and Baroness Scotland (South Africa) – and the introduction of IP attachés (based on the US model). IP attachés provide for a more sustained presence in target-country markets, with a specific focus on supporting UK businesses in dealing with local copyright issues. However, these developments need to be matched with more sustained business-led engagement, especially in new markets.

3.5.2 Lack of coherence at the strategic level in the UK

At home, government policy in recent years has been divisive. The close relationship between content creation and IP exploitation on the one hand, and digital technology development and distribution on the other, has been insufficiently understood in government.

As outlined in chapter 2, the creative sector has been omitted from the 11 sectors earmarked by BIS to be the subjects of long-term industrial strategies. There are overlaps between the 'information economy sector' (which is one of the 11) and the creative sector, but there has been little recognition of the links between them. The Information Economy Council and the Creative Industry Council are entirely separate bodies. Similarly, with regards to digital infrastructure development, there is little recognition of the importance of investment in creative content as a means of driving take-up of broadband and internet use among consumers.

Several government departments have an impact on policy in the creative space, but there is not enough joined-up thinking between them. With regards to the placement and content of advertising, for example, legislative interventions have been either proposed or implemented by five separate government departments (as well as several non-governmental bodies) over the last decade. Co-regulation works well across the industry (and for consumers), but responsibility in government is less easy to pin down.

In public policy terms, too little attention is given to the relationship between the UK's core cultural foundations – education (in both the arts and ICT), open access to cultural experiences, and important public institutions (like the BBC) – and the success of the wider creative and information economy.

The links between the arts and cultural industries and the commercial creative industries need to be better articulated and valued. Museums, archives and galleries provide vital inspiration for designers. Subsidised theatres incubate new writing and acting talent, as well as costume and set designers. Creative works can be tested in publicly-supported organisations that have more flexibility to take risks on new artistic ventures that, in some cases, go on to become huge commercial successes. Public institutions are commissioning bodies for creative content, and providers of training and employment for creative individuals.

Other, less quantifiable, externalities of creative endeavour have been too easily overlooked: the pluralistic and universal provision of news and information (often subsidised by entertainment content); the UK's success in attracting 30 million tourists (and their spending power) annually; our capacity to exploit the 'soft power' of our cultural exports; and the contribution of the creative and cultural industries to the country's sense of wellbeing and quality of life. All are important in creating the dynamic that shapes the success – and future success – of the UK's creative industries.

3.6 Summary

In this chapter we have identified a number of challenges to the future success of the UK's creative industries, highlighting issues with investment and intellectual property, workforce development and skills, infrastructure, regional policy, and export growth, as well as the general underestimation of the economic potential of the creative and cultural sector.

In chapter 4 we will consider some individual policy responses to these challenges, set within the context of an industrial strategy for the sector that focuses on innovation and content-creation to maximise growth and job opportunities in the sector as a whole.

4. A 10-POINT PLAN FOR THE CREATIVE INDUSTRIES

It has been said that the winners in the 21st century will be the countries that have 'the cash, the commodities or the creativity' (Standard Chartered 2010). With little in the first two categories, Britain will only win a global 'race to the top' through its creativity.

We contend that the UK has a strong comparative advantage in the generation of creative content. Whether it is software generation, games development, music, TV content and formats, film or fashion, creativity is what we do, and what we do well. An industrial policy for the creative industries should therefore be framed around those policies and interventions that maximise opportunities to innovate and create great content.

An industrial policy for the creative sector should identify key areas of potential growth and jobs, identify any barriers to realising that potential, and offer solutions. In particular, it should provide more coherence to the range of existing government interventions that affect the industry, support creativity as Britain's primary means of winning the 'race to the top', and ensure that creative clusters and regional hubs are able to flourish.

The analysis presented in this report suggests that at the heart of this industrial policy should be a programme that supports British institutions, companies and individuals that make great creative products, and enables them to innovate and to develop, produce and sell those products at home and around the world. In policy terms, in recent years the dial has been turned too far in the direction of major technology companies – many of which are not headquartered in the UK, do not reinvest their profits here and, in some cases, pay very little in terms of corporation tax in the UK. The next phase in the development of our creative sector should see the dial turned back in the direction of content creation.

The successful development of digital infrastructure is vital, but only half the story. As well as access to reliable networks, consumers care passionately about content that is engaging, informative and user-friendly. This is the domain of the content creators – the modern makers.

The starting point for industrial strategy should be a coherent and consistent approach from the top, to enable public and private sector organisations to work together effectively to maximise the growth potential on offer.

4.1 The creative industries are serious business

Omitting the creative industries from the group of 11 sectors identified for an industrial strategy approach (BIS 2013) is a serious mistake, as the sector's performance in the last year alone has shown. This oversight highlights the fact that the creative industries are simply not taken seriously enough by government. Well-known creative talent is often brought out to sprinkle stardust on an otherwise mundane governmental press event, but there are few beyond the committed teams in DCMS that take the sector seriously. Campaigns by high-profile individuals in the arts – such as Lord Fellowes' argument for a tax relief for high-end television (BBC News 2012) – occasionally resonate with HM Treasury, but ad hoc responses are not a substitute for a coherent, strategic approach.

The launch of the Creative Industries Council in 2011 was welcomed by the sector as a recognition of the need for government departments, skills and funding bodies, and the industry to come together to develop a joint approach. Yet the perception remains that this need is not taken seriously outside DCMS, and the absence of enthusiasm from BIS to develop an industrial strategy for the creative industries – combined with the establishment of an Information Economy Council (with which there are considerable overlaps) – has further reinforced that perception.

Action point 1

Leadership from government should be clear and coherent. Responsibility for developing and driving the industrial policy for the creative and information economy should be placed in one organisation. The information economy council and the creative industries council should be merged into a new Creative and Information Economy Council (CIEC) empowered to develop and implement a single industrial strategy for the sector overall. This body must ensure that the relationship between core arts and cultural funding and the commercial creative sector is much better understood and articulated across government.

The Creative and Information Economy Council (CIEC) should be the central point of contact and resource for the industry, and for quasi-governmental organisations (such as LEPs) operating local economic plans. Staffed by a permanent secretariat of civil servants and industry secondees, the CIEC should operate under joint BIS and DCMS jurisdiction, and include balanced representation from the different parts of industry and academia, as well as from the Treasury, the

Intellectual Property Office and UKTI. The Council should be tasked with developing and overseeing implementation of the industrial strategy for the creative industries to which we hope the analysis and ideas in this report will contribute.

The CIEC would be well-placed to assess the interrelationship between public funding for the arts and cultural institutions, and its impact on growth and productivity in the creative industries. As a first action, the CIEC should review the evidence base (drawing on earlier work by the Work Foundation (especially Reid et al 2010) and, more recently, by the Centre for Economics and Business Research for the Arts Council (2013)) and present the economic case for core arts and cultural funding as an integral part of an industrial strategy. This should include a call for any discretionary spending (when it is found) to be focused on those sectors of the economy – and the public institutions that underpin them – that have the greatest potential to grow and create jobs. Clearly, as we demonstrated in our analysis in chapter 1, the creative industries is such a sector.

Alongside DCMS, BIS and the Treasury, a number of other government departments have an interest in, and impact on, developments in the creative sector, including the Departments of Health and Education. An explicit industrial strategy for the sector, driven by the CIEC, would help to draw these disparate threads together in a coherent way. So in education, for example, any proposals to reform the curriculum in relation to arts education or technology could be assessed by the CIEC against their contribution to the industrial strategy for the sector overall. This is not to say that educational outcomes should simply be skewed towards serving the interests of the sector in a purely instrumentalist way. Rather, decisions about relevant areas of education reform should be informed by the expertise that the industrial council would offer. Perhaps in future this will help ensure that problems such as those that arose with the development of the now-abandoned English Baccalaureate certificate will be avoided.

The CIEC would also assist in areas such as regulatory reform, where issues that affect the creative industries should be seen through the filter of the Council and its overall responsibility to steer implementation of the industrial strategy. This would include the consideration of proposals for regulatory change and the examination of their effect on issues critical to the sector, such as investment in creative content.

Beyond government, there is much that industry can do to co-ordinate itself more effectively. Developments such as the CBI's focus on the sector (CBI 2014), and the nascent development of the Creative Industries Federation are important steps towards developing stronger representation for the sector overall.

4.2 Support investment in creative companies and content

The profile of investment funding for creative content has become more complex in recent years. Film funding is notoriously difficult to secure, since it relies on a mix of public and private sources, tax reliefs, sale and leaseback arrangements, co-productions and so on. Investment in television content has diversified along the same lines. New and smaller production companies report finding it particularly difficult to access sources of investment, either through loans or equity finance.[12] For more enterprises to grow and establish the critical mass required to manage complex projects, the current pool of available investment needs to be expanded. There are a number of ways in which this can be done.

The proposal for the establishment of a new British Investment Bank (Dolphin and Nash 2012) is designed to overcome two key failures in the current investment market: underinvestment in infrastructure, and a lack of long-term funding for SMEs. The creative sector is composed of approximately 84 per cent SMEs (Creative Skillset 2011), many of which are looking to raise either between £500,000 and £2 million, or between £5 million and £10 million – neither of which are particularly attractive ranges for banks and other institutional investors. Government initiatives, such as the Funding for Lending scheme has struggled to encourage net additional lending to small businesses, reliant as that scheme is on the actions of third-party institutions.

According to Dolphin and Nash (2012), a British Investment Bank 'that successfully met a simple remit to increase significantly lending in just these two areas [infrastructure and SMEs] would contribute to better-balanced and more sustainable growth in the UK in the future.'

Action point 2

The development of a new British Investment Bank by this (or a subsequent) government must ensure that the institution has sufficient expertise and direction to make it a viable source of longer-term investment in the creative sector, particularly for small businesses, and especially in the nations and regions.

12 'The generation of intellectual property in the creative industries tends to come from a myriad of small or start-up enterprises. These companies require finance to become established, but few have fixed assets. The intangible assets they generate during development are difficult to value until after launch, making it difficult for financiers to invest if they do not understand the sector and its business models. Moreover, content businesses, especially digital content businesses, are 'hit driven', therefore requiring a portfolio approach to investment to mitigate risk.'
(Access to Finance Working Group [2012] *Creative Industries Council: Access to Finance Working Group Report*, London: Creative England.)

To achieve this, the British Investment Bank will need to be directed to employ considerable expertise in assessing (and realistically pricing) risk for investments in creative companies. If working through existing commercial banks to unlock investment, the British Investment Bank will need to bear a substantial proportion of the risk inherent in lending to SMEs, and particularly to creative-sector SMEs.

The bank should be tasked with targeting lending at a regional level, which could help increase the number of creative enterprises in existing creative clusters outside London and the South East. This would help build capacity in other high-growth areas of creative activity in the UK. It has been suggested that the British Investment Bank could offer more favourable loan terms for SMEs in UK regions that qualify for regional aid – such as the north of England, Wales, Scotland, Northern Ireland, and Cornwall as well as parts of north and east London (Dolphin and Nash 2012). Investment needs to focus on supporting small businesses with the potential for high growth (rather than propping-up failing enterprises). This would be aided by looking more closely at areas where clusters of creative activity offer the greatest growth potential. The British Investment Bank's insight into this will be enhanced by working closely with LEPs and other local partner organisations.

As well as loan financing, the larger UK creative institutions need to be encouraged to extend equity investments in small and innovative companies.

Action point 3
The UK's existing public service broadcasters, including the BBC, should provide further 'venture capital for creativity' in the wider content-production sector through their investment and commissioning polices. More generally, 'public interest' in media competition policy should recognise the importance of creative investment.

For example, in television production, the preponderance of overseas and private equity funding needs to be challenged by more investments from existing UK media organisations.

The forthcoming charter review process for the BBC (the current charter runs to the end of 2016) and licence renewal discussions for Channel 4 (its current licence is due to expire at the end of 2014) provide an opportunity to consider the wider role of both public institutions in supporting growth and job creation in the creative sector.

As part of the charter review process, the government should call on the BBC to re-examine its policy towards investment in UK independent production via its commercial arm BBC Worldwide. BBC Worldwide has made investments in independent producers before – notably Left Bank Pictures (producers of *Wallander* and movies like the *Damned United*) in 2007. Andy Harries, the chief executive of Left Bank, said in 2008:

> 'I do *not* believe that the market in the UK would have provided the funds for Left Bank to launch. I think BBC Worldwide have created something original and something very important for our business. They – alone – were prepared to back new start-ups in the UK at that time.'
>
> Left Bank Pictures 2008

However, concerns about growing commercial activity by BBC Worldwide – most notably its acquisition of the Lonely Planet travel guide imprint – led the BBC Trust in 2011 to recommend that its scope be more restricted, including exiting from any venture that 'is not in-keeping with the BBC brand'. Supporting the UK creative sector is clearly part of the BBC 'brand', and both the BBC Trust and management should look again at its strategy for domestic UK investments (BBC Trust 2011).

This should include reconsidering the BBC's role as a major UK commissioning centre in both television and radio. The charter review process should re-examine the arrangements for BBC programme commissions whereby, currently, 50 per cent of BBC television hours are guaranteed for in-house producers, 25 per cent is guaranteed for independent producers, and 25 per cent is an open market. With independent producers winning the vast majority of commissions in the 'middle quarter' (also known as the 'window of creative competition', or WoCC), it is unrealistic to assume that, in future years, 50 per cent of commissions should automatically go to the BBC's in-house producers. The BBC should end segmentation in commissioning and ensure that in future (with the continued exception of its news outputs) the BBC operates an open market for the very best creative ideas, wherever they emerge from.

According to the BBC Trust (2013):

> 'In 2011–12, the BBC invested £887m in commissioning new network television programmes. Around £457m (52%) of this total was commissioned from the BBC's in-house television production teams, and around £430m (48%) was commissioned from independent producers.'
>
> BBC Trust 2013

If the process for commissioning BBC content (excluding news) was opened up to the best ideas wherever they come from, there would be further opportunities for independent producers to compete for BBC investment. If, for example, independent producers succeeded in winning a further 20–25 per cent of BBC commissions, that could mean an additional £150–200 million of 'venture capital for creativity' for the wider television sector.

The same approach should be taken in radio: the BBC should develop a terms of trade arrangement and set targets for an expansion of the proportion of independent commissions. Of course, whether or not the BBC is able to sustain this role as a substantial source of investment in the UK creative content industries will depend critically on the level of the licence fee settlement, which will be agreed before the end of 2016. Having been reduced by 16 per cent in real terms over the current licence fee period, further reductions in the level of funding available for the BBC are likely to result in further reductions in the overall PSB spend on UK original content.

Channel 4 is currently developing a strategy for investment in small independent television production companies, following the launch of a £20 million fund to support business growth and development. The fund runs for three years, at the end of which the scope for extending and expanding the scheme should be assessed. Exploring the scope for an expansion of this role within the sector should be part of the conditions for the extension of Channel 4's licence at the end of 2014.

Given that many independent production companies make both TV and films, a strategy to provide further investment and revenue opportunities will create a number of benefits besides the growth of TV. These will include music commissioned for video content, spin-offs and joint ventures with games and website developers, exports, and tourism. Not every production can have the global impact of *Downton Abbey* or *Sherlock*, but the more our public institutions can support the UK creative marketplace, the more potential is there to be realised, and, ultimately the fewer profits will disappear overseas.

Actively acquiring independent producers is already a business strategy for commercial PSBs. ITV, for example, bought So TV, The Garden and Big Talk productions in 2012/13 to help boost the company's overall production turnover and generate further overseas sales of programmes and formats. However, despite operating in an increasingly global market place, UK commercial broadcasting has yet to generate any domestic players of international scale. To the extent that this inhibits investment in both content and content-producers, it should be addressed. The fact that the competition and regulatory system would seem so unreceptive to the idea of an ITV–Channel 5 merger, for example, makes little sense within a market of at least 50 channels on free-to-air TV, and many hundreds more on pay-TV platforms. We risk needlessly hampering our indigenous media enterprises with an overly restrictive media competition regime that was designed for an earlier age. At the very least, media public-interest assessments (part of the competition regime for media mergers) should recognise the strategic value of investment in UK content.

Action point 4
Tax reliefs must be designed so that they are not overly restrictive and work effectively to support talent development, innovation and content production, especially where there is a risk of losing business overseas.

The creative sector tax relief regime has provided incentives for films to be made in the UK where, in their absence, they would have been made overseas. The new tax relief for TV will have similar benefits as long as it is not overly restrictive. In the case of high-end television production the threshold of £1 million per hour appears to be set for the most expensive dramas, while other categories, such as documentaries, are unlikely to reach that level of spend in any but the most exceptional of circumstances (Culture, media and sport select committee 2013).

It has been suggested that the threshold should be lowered to £650,000 per hour for eligible documentary content, to bring it more into line with similar tax reliefs in place in competitor countries (Discovery Networks 2012). The funding required to do this does exist, as a result of the delay in the implementation of the video games tax relief, which is likely to lead to a £10 million underspend in 2013/14 on the overall package of creative sector reliefs. Given the small number of additional documentaries that are likely to qualify, and HM Treasury's (2012b) estimate that the upper-end cost of high-end television tax relief 2014/15 would be £25 million, a £10 million underspend in the creative sector package overall could be expected to meet the additional costs for reducing the threshold on documentary programming over the current spending review period.

The chancellor's 2013 autumn statement also announced proposals for a limited tax relief for commercial theatre productions and a targeted tax relief for theatres investing in new works or touring productions to regional theatres. Given the impact that cuts to local authority spending are having on regional theatres, this is welcome. Regional theatre is an important breeding ground for talent and creativity. Danny Boyle, mastermind of the 2012 Olympics opening ceremony, trained in regional theatres, for example. Consideration needs to be given to how such support could also benefit the 'subsidised' theatres and productions in the regions, which are feeling the impact of ongoing spending cuts just as acutely.

Action point 5
In terms of copyright reform, the new Digital Copyright Exchange must be allowed time to demonstrate its value. Meanwhile, further disruptive changes to copyright law at both the UK and EU levels should be reined in. A ‘terms of trade’ for sharing the IP created through public sector procurement and collaboration should be developed in order to support innovative businesses in exploiting the IP they generate.

While sources of institutional finance, including loans from a British Investment Bank, venture capital from PSBs and tax reliefs, can all provide vital finance for the creative industries, revenue from direct sales and royalties will always form the backbone of turnover for the sector. Yet despite this fact (explored in chapter 3), measures to combat internet piracy and those designed to enable easier access to copyrighted materials have become out of step with one another.

The development of the Digital Copyright Exchange (which comprises almost a third of the expected overall economic benefit envisaged in the Hargreaves report [2011]) needs to be given time to bed down and realise some of the benefits it offers. Greater discoverability for copyrighted material and access through licencing is an approach that benefits both the users of copyrighted material and the copyright-holders themselves. The new system should be given time to properly demonstrate its value.

On tackling piracy, a series of recent court decisions based on the provisions of Copyright Act (1988) have enabled UK internet service providers to block access to sites which have been judged to link to pirated material, such as Newzbin2 and the Pirate Bay. These decisions have encouraged a more positive atmosphere among content creators, helping to support confidence for investment in UK content. At the same time, talks between government and industry have resulted in progress towards developing voluntary processes to mirror the key anti-infringement provisions of the Digital Economy Act. While these are positive steps, it is nevertheless necessary for politicians on all sides to give a clear commitment that, if voluntary action from both sides of the industry does not translate into meaningful action to tackle copyright infringement, then measures of the kind proposed in the Digital Economy Act will be introduced. More must be done to bring advertisers and online payment companies into the discussions, to ensure that effective action can be taken across the board to choke off revenues to websites that intentionally facilitate copyright infringement

Against this backdrop, the government should not proceed with the planned introduction of a series of new copyright exceptions at this time. The benefits of them are unproven, and their risks uncertain (Culture, media and sport select committee 2013). In the case of a private copying exception (to allow consumers to transfer content from CDs to digital storage) there is a clear risk that the government will pass laws to enable a form of consumer behaviour that is rapidly becoming technologically out of date. However, there are areas in which government policy is still playing catch-up on the earlier Gowers Review of Intellectual Property (HM Treasury 2006). For example, concerning the use of material under copyright in educational environments, Andrew Gowers recommended two changes to the Copyright, Designs and Patents Act 1988 regarding distance learning and the use of whiteboards in schools. Those recommendations are echoed in the government's response to the Hargreaves report. Eight years after changes were originally proposed to bring legislation into line with modern educational practice, it is time for their implementation.

Overall, in the copyright sphere at the moment, less is more. Further revisions of the EU Copyright Directive should be resisted strongly by UK ministers. It is not surprising that EU member states with creative sectors that do not have such significant export markets should want easier access to British content for their consumers. It is important that UK ministers and officials are not steamrolled by an agenda that does not best serve the interests of content creators in the UK. Instead they must argue for the preservation of the country-of-origin principle, protect content providers' rights to distribute on a country-by-county basis, and ensure that new data protection provisions are not overly restrictive of legitimate commercial activity by platforms and advertisers. The current status of these provisions supports investment in creative content, and it should remain so.

However, there is scope for the further development of ideas about the better use of public-sector IP in the UK, which could help stimulate growth, particularly in the digital and design sectors. Innovative approaches to public procurement are key to this, and experiments are being undertaken in a number of areas. For example, the Technology Strategy Board's Small Business Research Initiative is exploring how commissioning models for some public agencies – the NHS, local authorities, colleges and libraries – could be improved by sharing more of the IP generated in the delivery of contracts by small creative companies. (TSB 2012) This work needs to be extended further across the whole range of national and local public institutions.

It should become the default position that where a public contract stimulates the creation of innovative new products or services, the intellectual property is either retained by the contracted supplier or shared on a 'terms of trade'-like basis, similar to that which operates between broadcasters and independent producers in the television market. Public agencies should not hold on to intellectual property rights if they have no interest in exploiting them, so the burden of proof should shift to the public institution to demonstrate why it needs to retain the IP. This could shift the ethos of public procurement in ways that would provide significant stimulus to agile and innovative companies, many of which work in the creative economy.

4.3 Develop an employer-led approach to skills and workforce development

Action point 6
Employer-led training programmes should be rolled out across the creative sector, supported by match-funding from government as at present. This should be integrated within an industrial partnership approach. These programmes should link employers to education providers through the sector skills councils at the national and regional level. Greater diversity should be encouraged across the creative sector workforce (in both the public and private sectors) with specific initiatives to encourage training opportunities for underrepresented groups in the creative workforce.

The £340 million Employer Ownership of Skills pilot offers an opportunity to recognise the particular needs of the creative sector, and to deliver on the scheme's promise to put employers in the driving seat for skills policy. Its match-funding should enable even the smaller business organisations that predominate in the creative industries to open up paid training opportunities within their organisations. The programme needs to be sufficiently flexible to recognise that while traditional apprenticeships are appropriate for many roles and organisations, they will not always be appropriate for all employers in the sector, particularly small firms. Internships are much more common in some parts of the sector, and can be extraordinarily valuable ways for young people to gain insight, knowledge and experience of creative employers. They must be properly paid, but match- (or part-) funding of the kind currently offered through the EOP programme and the Arts Council-funded Creative Employment Programme should continue to be made available for these kind of training opportunities, as well as for more formal apprenticeships. Where Industrial Partnerships exist, bringing together Sector Skills Councils, employers, academic institutions and third-sector organisations, they should be the vehicles through which funding is directed. These Industrial Partnerships should be afforded sufficient discretion to allocate funding in accordance with particular sectoral needs.

Within these arrangements, specific support should be dedicated to programmes that actively encourage greater diversity in the sector. The business case for greater diversity is well rehearsed (see, for example, Deloitte 2011). In the creative sector, the need for a diversity of ideas generated by people from different backgrounds and experiences is important to ensure continued innovation and, crucially, reach out to increasingly diverse audiences both at home and abroad. The Equality Act 2010 provides for specific training initiatives to support underrepresented groups; this should become a dedicated strand of activity within the Industrial Partnership approach. Equally, funding bodies should require specific actions of grant recipients (when awarding for National Lottery funding in film or the arts, for example) to encourage both more industry-based training and more diverse participation. As a body funded by all of us, the BBC has a special responsibility in this regard, and should report annually on the composition of its workforce to demonstrate that it has achieved greater diversity in all of its main areas of training and employment.

There is also a strong case for developing a degree of decentralisation within the skills system (Henderson et al 2013). In particular, this could involve the delegation of some responsibility for careers or skills funding for employer-led programs to LEPs, with the LEPs also being given direct control over some of the spend (perhaps 5 to 10 per cent). This would enable them to support their own growth plans with specific skills funding to meet local employer meets.

However, this needs to be part of an integrated approach: overall co-ordination of the program should reside at the level of the Industrial Partnerships, which would have oversight of the skills agenda and report to the industry council – the newly created CIEC in this case.

The creative sector urgently needs to do much more to explain and promote the training and employment opportunities available in the sector to students in schools and colleges. Enlisting famous names, media entrepreneurs and young people working in the industry, the Industrial Partnership for the creative industries should organise a rolling roadshow to attract new talent into the sector, and to help young people of school age think about the qualifications they should pursue that would be most relevant to the employers in their areas of interest.

4.4 Ensure that UK infrastructure is equipped for the digital age

Action point 7
Policy to develop digital infrastructure must recognise how important demand for great content is in driving consumers towards using new communications technologies, and utilise this to encourage further internet take-up. Decisions on future spectrum use should take full account of the importance of the current spectrum allocations in supporting content investment, particularly in television broadcasting.

The government has earmarked £1.2 billion of public investment to meet its broadband access targets. With so much concentration on making the internet available, more needs to be done to improve digital literacy and take-up.

Research by Ofcom and the Carnegie Trust (White 2013) suggests that a simple 'build it and they will come' approach will not deliver a fully-connected population. Diverting just a fraction of the £1.2 billion planned expenditure on broadband roll out – perhaps £10 million per year (Barwise 2012) – would provide for a major programme of information and marketing to raise awareness of the many benefits of being online. Nearly half of respondents to Ofcom's annual survey say they use the internet to watch TV and videos (Ofcom 2013a), along with browsing, shopping, networking and banking. As we saw with the success of the digital television switchover, the availability of new and exciting content acted as a magnet to attract consumers.

In the UK, the expansion of online services could be a source of creative development too. Software developers should be tasked with finding innovative ways to encourage the public to use services online. IP sharing models (as described above) should form part of a strategy to encourage the development of innovative applications. Over the longer term, software packages created specifically to help engage harder-to-reach and less-well-off communities could be marketable worldwide. Just as the UK leads the world in terms of online shopping, we can lead the world in the development of online services, from medicine to law, from tax to democratic participation. The same ingenuity that is evident elsewhere needs to be brought to bear on getting the UK population online. A myriad of potential partners, including broadcasters, ISPs, charities and local community organisations, could be mobilised to help make people aware of the benefits and learn how to access them. This would build on the current work of Go ON UK and UK online centres, which are valuable but under-resourced services. Labour has proposed the reallocation of £75 million from the existing 'super-connected cities' programme to support digital inclusion through such public routes such as these. We support that proposal.

4G mobile services are part of the solution to the problem of how to make superfast broadband universally available. Yet the government is already moving on, with plans afoot both in Europe and the UK to clear further UHF spectrum (the 700 MHz band) for use by mobile data services. This is part of an international harmonisation programme for mobile networks, but it runs the risk of undermining the economics of broadcast television services, which are the bedrock of UK investment in audio-visual content. Evidence shows that the marginal benefit of increasing the range of the UHF spectrum that is available for mobile data would be small in comparison to the potential downside of undermining the viability of free-to-air television, which enables the PSBs to spend over £2.5 billion annually on original TV content (Kenny et al 2014). Ofcom and the government are conducting a cost-benefit analysis of the prospects for moving terrestrial broadcasting onto a lower UHF band in order to make more room for mobile data services. This analysis must take account of the full potential impact that this change may have on the ecosystem that supports so much investment in UK creative content.

Equally, more focus is needed on the development of low-powered WiFi networks, through which 80 per cent of supposedly 'mobile' internet traffic is actually consumed. In countries such as the US, municipal WiFi networks are rapidly being developed, providing town- and city-wide access to free internet services. Similar developments in the provision of public WiFi are needed in the UK: they may help address internet access issues for households with no domestic broadband, and also reduce the need for additional spectrum allocations to develop new cellular networks, such as 5G. The CEIC – with its combination of technological and creative expertise – should begin work on investigating the scope for expanding public WiFi networks as an immediate priority.

4.5 Nurture regional centres of excellence and creative hubs

London is a global hub for creative enterprise. Any strategic plan to support growth and job creation in the sector needs to recognise the importance of scale in attracting inward investment from major international companies and marketing UK content overseas. Nevertheless, creative enterprise also thrives on diversity, both in terms of the demographic makeup of the workforce and their geographical locations.

An industrial strategy should effectively integrate policy at the national and regional level to promote the health of the creative sector overall, particularly in areas such as knowledge exchange, infrastructure development, skills and planning development.

Action point 8
Government institutions should focus more of their time and resources on the support of creative clusters outside London where there is significant potential for growth and job creation. Although progress has been made by Arts Council England, a more evidence-based approach is needed to create a more equitable ratio of funding per head between London and other regions for all forms of public funding for arts and culture.

Links between the CIEC and local economic plans need to be formally established. Key strategic geographical areas for parts of the sector, such as those identified in chapter 3, need the support of a single central body to help them bring together potential local partners from industry, local authorities, trade unions and academic institutions to draw up the equivalent of a local industrial strategy. The role of the CIEC should be to help identify key local strengths and ensure that groups which have historically had difficulties communicating with each other – such as small businesses and academic institutions – can do so with a shared sense of purpose.

Proposals to enable greater regional investment in SMEs through the British Investment Bank are discussed in section 4.2 above. Further support for the sector outside London could be provided through a more equitable distribution of the available funding for the arts and cultural sector. Although public funding on arts and culture between the regions is more evenly balanced than some studies have suggested, on a per capita basis funding from DCMS and Arts Council England in particular are heavily skewed towards London. While it is essential that London's strength as a cultural centre is not undermined, efforts to divert more funding to the regions to support creative clusters need to be accelerated.

Industrial policy would also enable local decision-making to reflect national strategic priorities more closely, in areas such as planning, for example. This is already possible, though controversial, in the case of infrastructure projects that are deemed to be of national importance. However, an industrial strategy must overcome contradictions whereby one area of policy promotes growth without recognising that other areas of policy are restricting that growth. So, for example, the policy to encourage inward investment through creative sector tax-reliefs is less effective if, as a country, we do not have the capacity to accommodate the extra activity that they create.

One current example is of the plan to develop the Pinewood studio complex in Buckinghamshire. There is a risk of losing value in the creative economy overall if we do not develop the studio capacity to accommodate the extra productions that are expected (by the Treasury among others) to flow to this country as a result of a more favourable tax regime. Where a planning decision is 'called in' by the secretary of state, this potential loss of value should be factored in to the final decision-making over whether or not a development is to be permitted. However, it must be demonstrated that the development of the existing site is likely to generate more value than building elsewhere would. This goes to the heart of clustering policy, encouraging companies and institutions focused on the same sub-sector to co-locate in order to deliver additional benefits, such as a connected supply chain. There are currently 250 interconnected enterprises operating on the Pinewood site.

Action point 9
Greater knowledge exchange between educational institutions and creative sectors should be encouraged to help expose creative businesses, particularly smaller ones, to new research and ideas as the basis for greater innovation. Creative businesses should work more closely with colleges and universities to develop the talent pipeline. The CIEC should help make this happen.

According to the AHRC, it is rare for higher education institutions to be located in close proximity to clusters of creative businesses that specialising in the same creative subsector (Channer et al 2013). It is clearly difficult to direct educational institutions to create courses that coincide with, and benefit the specialisms of, the local creative economy. One role of an industrial council can be to help higher education institutions identify areas of local economic strength and forge partnerships with and between local businesses, business organisations and elected bodies in order to share information and work more effectively together.

Good examples of collaboration, such as the links between the University of Sunderland and the software and games development cluster in the North East should be brought to the attention of other areas so that good practice can be shared.

Greater industry integration with the activities of colleges and universities should also be encouraged. Examples such as Framestore's development of a spin-off studio at the Arts University Bournemouth benefits both the company (which gets skills and resources in addition to those in its London base with which it can develop projects) and the university, which has gained an open route through which its graduates can gain commercial experience. The Academy of Contemporary Music in Guildford is also industry-integrated, with numerous partners offering experience and internships to ACM students, and scouting sessions and talent competitions at the school providing record labels with many potential new artists.

An early action for the industrial council should be to host conference events in a range of areas identified as key creative clusters (following the Nesta model) to bring university course providers, research students and businesses together to share best practice and examine the scope for further collaborative projects.

4.6 Build on the UK's comparative advantage in global markets for creative content

Action point 10
Industry, though its representative bodies, should be given more control in identifying and growing new markets for UK creative content, by, for example, allocating a proportion of business support funding to relevant trade bodies. Ministers and officials should provide more consistent support for the protection of intellectual property in these markets.

As with the skills agenda, the government should develop a more industry-led approach to supporting the interests of the creative sector in European and international markets. Within the EU, ministers and institutions such as the Intellectual Property Office need to do more to promote the interests of Britain's creative industries in current debates over the development of a digital single market.

A warning comes from one leading UK media analyst: 'the EU Commission appears to have taken the view that [the] creative industries are failing to support the digital single market' (Enders 2013). The onus is on the UK government to ensure that proponents of the digital single market have a better understanding of the vital role that investment in great creative content plays in making that market attractive to consumers. The Creative and Information Economy Council – with its combination of industry, academic and public-sector expertise – should be urgently tasked with producing an engagement strategy for business and ministers to address the European policy debate and the 'Digital Agenda for Europe'.

This should include focusing on those areas of law that *do* need updating in the interests of content creators. For example, the 2002 directives that apply to electronic communications networks were created at a time when audio-visual material was not yet widely distributed online (three years before YouTube was founded). So early provisions designed to ensure the availability and discoverability of public service content on cable and satellite networks need to be clarified for the present-day world in which every broadband network is a potential source of audio-visual content.

European trade delegations are an important interface between Europe's creative industries and the global marketplace. Again, the UK government needs to ensure that the interests of our creative industries, particularly in areas such as copyright protection, are properly represented in the messaging as well as the personnel of such delegations.

The creative sector has historically been under-represented on trade missions by UK ministers to key target markets. High-profile UK personalities are a useful part of any trade mission, especially where ministerial visits are designed to 'seal the deal'. However, what is really needed is more sustained engagement by representatives of the creative sector with key target markets such as Brazil, China, India, and Russia.

An industry-led approach would see trade bodies and other industry groups given more support and flexibility to engage with overseas markets on a sustained basis. So, for example, Tradeshow Access Programme (TAP) funding (or a proportion of it) should be provided as a grant to trade bodies such as Pact or the British Fashion Council to enable them to organise and support their members in maintaining and growing their presence in target markets. In Shanghai, for example, the international zone is a secure space in which global companies can establish a presence. UK bodies in the creative sector should establish a standing presence there, with government support provided through TAP or similar programmes. The network of IP attachés – currently based in China, Brazil, India and south-east Asia – should continue to be extended, and should mirror the US programme in having, as an objective, the promotion of UK government IP policy internationally.

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