



HOUSE OF LORDS

# Library Note

## **Debate on 3 November: The Creative Industries**

This Library Note aims to provide background reading for the debate to be held on Thursday 3 November 2011:

### **“The Importance of the Creative Industries in the United Kingdom”**

The Note outlines the importance of the direct and indirect contribution made by the creative industries to the UK economy, and examines some of the potential barriers to growth in the sector moving forward.

James Tobin  
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## 1. Introduction

The creative industries are an increasingly important sector of the UK economy. They provide approximately 2 million jobs and over the past decade have grown at nearly twice the rate of the economy as a whole.<sup>1</sup> Such rapid growth is evidence of both the growing importance of the creative industries in an age of increasing digitalisation, with products and services such as video games and social media becoming ever more popular, and the fact that the UK has traditionally been near the forefront of such development. Indeed, according to the Confederation of British Industries (CBI) the UK currently has the largest creative sector in Europe.<sup>2</sup> The Government has identified the creative industries as an important area of future growth, particularly in its intention to 'rebalance' the economy.<sup>3</sup> It explicitly recognised the strength of the sector in its growth review *Plan for Growth* published in March 2011:

The Digital and Creative Industries have the potential to drive significant growth in the UK. Their exports are third only to advanced engineering and financial and professional services.<sup>4</sup>

In order for the creative industries to maximise such growth, however, there are a number of issues or potential barriers which creative firms, industry bodies and other observers have suggested need to be addressed. This Library Note examines the contribution of the creative industries to the UK economy, both in terms of financial contribution and employment, and in terms of its wider contribution to other sectors of the economy. Then it examines the debate surrounding those potential barriers. Given the diversity inherent within the creative industries, this paper does not attempt to address every such issue affecting the sector. It does however attempt to identify and examine some key themes with the potential to have a significant impact, namely: access to finance; competition, tax and tax relief; skills and qualifications; and the protection and maximisation of Intellectual Property (IP).

## 2. Creative Industries

*What are the Creative Industries?*

In its 2001 *Creative Industries Mapping Document*, the Department for Culture, Media and Sport (DCMS) defined the creative industries as:

Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of economic property.<sup>5</sup>

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<sup>1</sup> Department for Culture, Media and Sport website, accessed 27 October 2011:

[http://www.culture.gov.uk/what\\_we\\_do/creative\\_industries/default.aspx](http://www.culture.gov.uk/what_we_do/creative_industries/default.aspx).

<sup>2</sup> CBI, 'What the Creative Industries Are', accessed 27 October 2011:

<http://www.cbi.org.uk/business-issues/creative-industries/in-focus/what-the-creative-industries-are/>.

<sup>3</sup> Department for Culture, Media and Sport website, accessed 27 October 2011:

[http://www.culture.gov.uk/what\\_we\\_do/creative\\_industries/default.aspx](http://www.culture.gov.uk/what_we_do/creative_industries/default.aspx).

<sup>4</sup> HM Treasury and the Department for Business, Innovation and Skills, *Plan for Growth*, March 2011, p 99.

<sup>5</sup> Department for Culture, Media and Sport, *Creative Industries Mapping Document*, published in 2001.

The same mapping document outlined 13 key industries which its authors considered fit such criteria, which have become colloquially known as the 'DCMS 13':

1. Advertising
2. Architecture
3. Art and antiques
4. Crafts
5. Design
6. Designer fashion
7. Film and video
8. Interactive leisure software
9. Music
10. The performing arts
11. Publishing
12. Software and computer services
13. Television and radio<sup>6</sup>

The creative industries sector is characterised by a large number of small and micro businesses.<sup>7</sup> Self-employment, entrepreneurship and business start-ups are also common. As a result, both of this and significant structural changes driven by digital technology of which they are often in the vanguard, business models employed in the creative industries sector are often innovative and dynamic, particularly when compared with more traditional industries. Organisations within the creative industries also often choose to locate in close geographical proximity to one another. As a result, they are better able to take advantage of knowledge-sharing, market development opportunities and concentrated labour markets.<sup>8</sup> These factors are important when viewing the dynamics of the sector, as examined below.

### *Contribution of the Creative Industries*

In December 2010 the DCMS published estimates of the contribution of the creative industries to the UK economy, which demonstrated that as a whole (excluding crafts) they accounted for 5.6 percent of the UK's Gross Value Added (GVA) in 2008.<sup>9</sup> This figure is more than double the European average for this sector.<sup>10</sup> Exports of services from the creative industries totalled £17.3 billion in 2008, equating to 4.1 percent of all goods and services exported.<sup>11</sup> In July–September 2010 (summer quarter) creative employment totalled just under 2.3 million jobs, and there were an estimated 182,100 businesses in the creative industries on the Inter-Departmental Business Register (IDBR) in 2010. This represented approximately 8.7 percent of the companies on the IDBR in total.<sup>12</sup>

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<sup>6</sup> Ibid.

<sup>7</sup> The CBI have suggested that the sector is in fact 'dominated' by small and medium sized enterprises. However, Demos have challenged this assertion, suggesting that though there are a high number of small and micro sized enterprises in the creative industries sector, this is no more prevalent than in other sectors as a whole.

<sup>8</sup> CBI, *What the creative industries are*, accessed 27 October 2011:

<http://www.cbi.org.uk/business-issues/creative-industries/in-focus/what-the-creative-industries-are/>.

<sup>9</sup> DCMS, *Creative Industries Economic Estimates*, December 2010.

<sup>10</sup> European Commission, *Unlocking the Potential of the Cultural and Creative Industries*, March 2011, as cited by Demos, *Risky Business*, 2011.

<sup>11</sup> DCMS, *Creative Industries Economic Estimates*, December 2010, p 5.

<sup>12</sup> Ibid.

A full breakdown of the DCMS figures for GVA, employment, and number of businesses is provided per industry below<sup>13</sup>:

**Table 1: Gross Value Added (GVA) of the Creative Industries, UK 2008 Data**

<b>Sector</b>	<b>GVA at basic prices (£million)</b>	<b>Proportion of total UK GVA (%)</b>
<b>1. Advertising</b>	7,800	0.7%
<b>2. Architecture</b>	3,600	0.3%
<b>3. Art &amp; Antiques</b>	300	0.03%
<b>5. Design</b>	1,600	0.2%
<b>6. Designer Fashion</b>	100	0.01%
<b>7. Film, Video &amp; Photography</b>	2,700	0.3%
<b>9 &amp; 10. Music &amp; Visual and Performing Arts</b>	3,200	0.3%
<b>11. Publishing</b>	10,100	1.0%
<b>8 &amp; 12. Software &amp; Electronic Publishing</b>	26,400	2.5%
<b>8 &amp; 12. Digital &amp; Entertainment Media</b>	200	0.02%
<b>13. TV &amp; Radio</b>	3,200	0.3%
<b>Total GVA for Creative Industries</b>	<b>59,100</b>	<b>5.6%</b>
<b>Total GVA for all Industries</b>	<b>1,053,900<sup>2</sup></b>	

(Source: *Annual Business Survey (ABS)*, Office for National Statistics)

#### **Notes**

1. The data available did not allow us to measure GVA for the Crafts Industry.
2. This figure is taken from the National Accounts Blue Book, and adjusted for the fact that the ABS does not have complete coverage of the economy.

<sup>13</sup> The numbering is that provided by the DCMS *Creative Industries Economic Estimates* document. For an explanation of this, and how the figures are calculated, please see the notes provided beneath each table. Further details are also provided in the technical note published alongside the figures which can be accessed here: <http://www.culture.gov.uk/publications/7634.aspx>.

**Table 2: Creative Employment, Great Britain 2010 Data (July–September)**

Sector	Employees in Creative Industries	Self-employed in Creative Industries	Employees doing creative jobs in other industries	Self-employed people doing creative jobs in other industries	Total Employment
1. Advertising	89,100	25,400	163,800	21,000	299,200
2. Architecture	63,300	35,300	26,300	3,500	128,400
3. Art & Antiques	6,600	3,200			9,800
4. Crafts			66,300	45,100	111,400
5. Design	35,000	56,600	113,500	20,400	225,400
6. Designer Fashion	2,500	3,700	3,200	400	9,700
7. Film, Video & Photography	26,000	13,300	10,700	10,500	60,500
9 & 10. Music & Visual and Performing Arts	67,200	136,300	33,300	69,000	305,800
11. Publishing	151,100	20,500	55,700	9,300	236,600
8 & 12. Software & Electronic Publishing	347,000	81,000	290,600	34,500	753,000
8 & 12. Digital & Entertainment Media	5,600	700			6,200
13. TV & Radio	77,300	37,300	10,500	7,200	132,300
<b>Total</b>	<b>870,600</b>	<b>413,200</b>	<b>774,000</b>	<b>220,700</b>	<b>2,278,500</b>

(Source: *Labour Force Survey (LFS)*, Office for National Statistics)

<b>Employment within Creative Industries</b>	<b>1,283,800</b>
<b>Employment in businesses outside Creative Industries</b>	<b>994,700</b>
<b>Total Creative Employment</b>	<b>2,278,500</b>
<b>All Employment<sup>1</sup></b>	<b>29,189,000</b>
<b>Total creative employment as a proportion of all employment (%)</b>	<b>7.8%</b>

#### Notes

1. Taken from Labour Market Statistics Bulletin, November 2010.
2. The coverage of this data is broader than that of the other bulletin tables, since it is possible to count not only jobs in the creative industries, but also creative occupations in businesses which are classed as being outside these industries, e.g. graphic designers working in a manufacturing firm.
3. The data available did not allow us to measure employment for certain categories. These have been left blank in the table above.



**Table 3: Number of Businesses in the Creative Industries, UK  
2010 Data**

Sector	Number of enterprises	As a proportion of Creative Industry enterprises (%)	As a proportion of all enterprises (%)
1. Advertising	14,800	8.1%	0.7%
2. Architecture	11,500	6.3%	0.5%
3. Art & Antiques	2,700	1.5%	0.1%
5. Design	14,200	7.8%	0.7%
6. Designer Fashion	900	0.5%	0.04%
7. Film, Video & Photography	9,900	5.4%	0.5%
9 & 10. Music & Visual and Performing Arts	30,800	16.9%	1.5%
11. Publishing	7,700	4.2%	0.4%
8 & 12. Software & Electronic Publishing	81,700	44.9%	3.9%
8 & 12. Digital & Entertainment Media	200	0.1%	0.01%
13. TV & Radio	7,700	4.2%	0.4%
<b>Total</b>	<b>182,100</b>	<b>100.0%</b>	<b>8.7%</b>
<b>All enterprises</b>	<b>2,100,400</b>		

(Source: *Inter-Departmental Business Register (IDBR)*, Office for National Statistics)

#### Notes

1. The data available did not allow us to measure the number of enterprises in the Crafts Industry.

#### *Brief Sector by Sector Headline Findings*

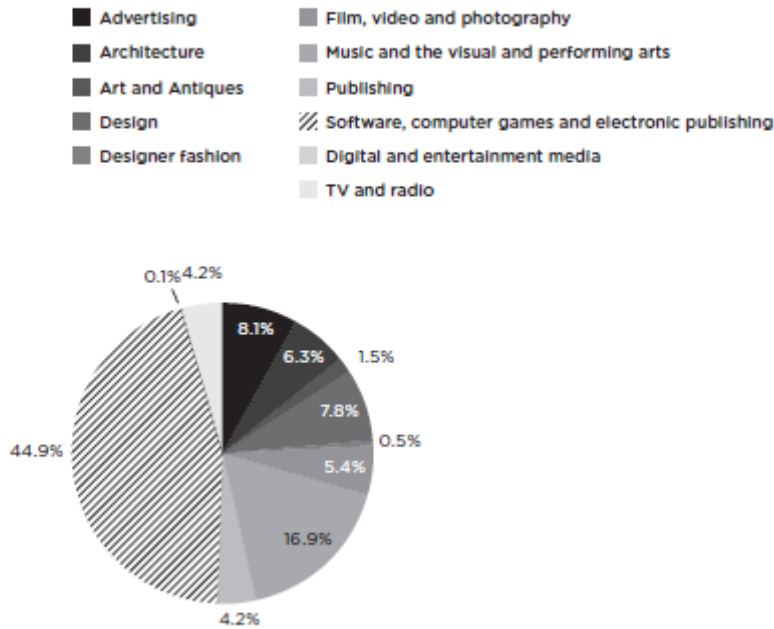
As the above figures demonstrate and as highlighted in the DCMS report, the following sector by sector headline figures can be drawn from the data:

- Software and Electronic publishing accounts for the highest GVA out of all the creative industries at 2.5% in 2008.
- Of the 2.3 million jobs provided by creative employment, 1.3 million are located in creative industries, and just under 1 million further creative jobs were located in businesses outside these industries.
- The Software and Electronic Publishing sector had the highest number of employees out of all the creative industries, with over 600,000. The Music and Performing Arts sector had the highest number of self-employed people, with over 200,000.
- Nearly two thirds of the businesses in the creative industries are contained within two sectors; Software and Electronic Publishing (81,700)

companies and Music and the Visual and Performing Arts (30,800) companies.<sup>14</sup>

Using the figures above, as well as original research using the Office for National Statistics (ONS) Business Structure Database (BSD), the 2011 report by Demos Risky Business provides a useful graphic representation of the contribution of the various industries areas to the creative sector. As above, the measures compared are number of companies (Figure 1), Gross Value Added (Figure 2) and employment levels (Figure 3):

Figure 1 Companies in the UK by creative industries sector



<sup>14</sup> Ibid, p 5. Further information on these figures, including the methods of categorisation used and changes to the way in which GVA has been measured over time can be found in the original publication: <http://www.culture.gov.uk/publications/7634.aspx>.

Figure 2 **Gross Value Added of the creative industries in basic prices (£ million)**

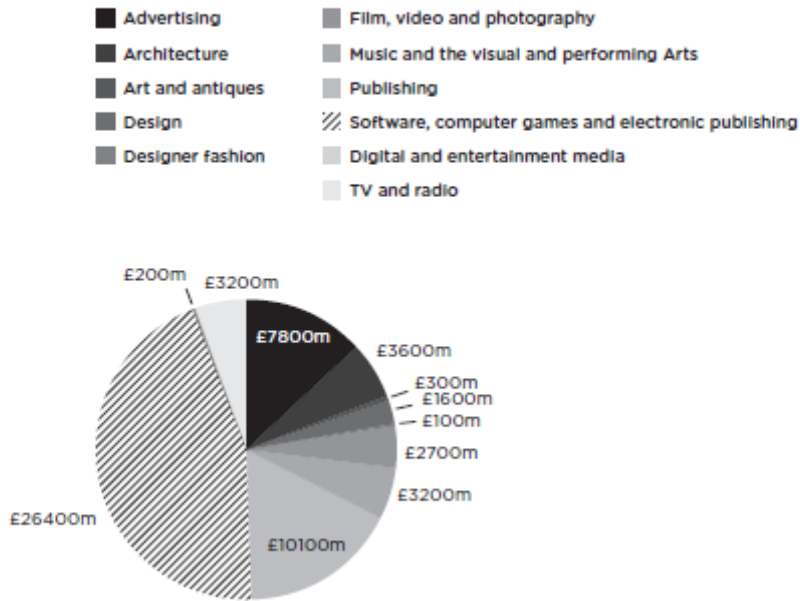
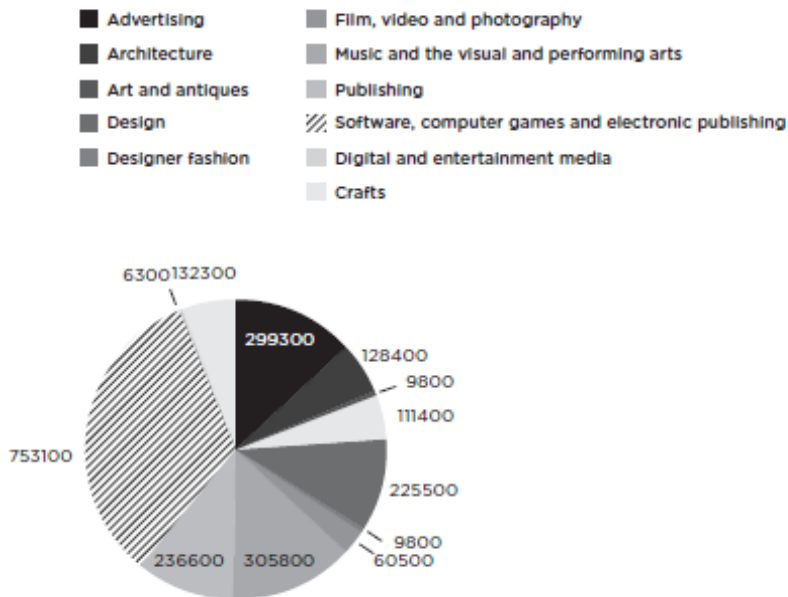


Figure 3 **Employment in the creative industries, broken down by sector**



(Source: Demos, *Risky Business*, 2011, pp 27–9)

### *Wider Contribution of the Creative Industries*

Advocates of the creative industries, such as the Work Foundation, argue that their value should not merely be measured in terms of direct economic or employment benefits. Rather they suggest that it should also take account of the broader positive impact of the creative industries on both the wider economy and society. The 2007 report *Staying Ahead*, and 2010 follow-up *A Creative Block? The Future of the Creative Industries*, outlined a number of areas where they suggested creative industries could create a positive 'spill-over' effect in the wider economy. This included, for example, the role played by creative businesses in increasing innovation in other organisations in other sectors. *A Creative Block? The Future of the Creative Industries* categorises such 'spill-over' into six principal areas:

- *Organisational knowledge and creativity*: Fostering creativity and innovation outside the creative industries.
- *Experiential knowledge*: Firms in the wider economy drawing upon creative business models to provide experiential services.
- *Interdisciplinary knowledge*: Creative industries passing a culture of interdisciplinary working onto firms in the wider economy.
- *Entrepreneurial knowledge*: The creative industries have a high proportion of small firms which 'could inspire risk-taking and an entrepreneurial culture.'
- *Job mobility*: Professionals carrying over ideas and knowledge into other sectors when they move jobs.
- *Demand*: Demand for complementary products in other industries.

The Work Foundation also stresses the importance of inter-relationships between creative industries and other sectors. Such partnerships can increase innovation through the production of ideas and the offering of services which can assist other organisations to develop and grow (such as helping companies to access social media for example). In addition, the creative industries are also intensive users of technology, which can lead in turn to demand for development and adaptation from technology producers.<sup>15</sup>

### **3. Future of the Creative Industries: The Impact of Recession and Potential Barriers to Growth**

The recent recession had a significant impact on creative industries in the UK. As the Work Foundation outlines, given the large number of small and micro businesses in the creative industry sector it is arguably particularly vulnerable to economic downturns due to the difficulty for such firms to absorb exogenous financial shocks.<sup>16</sup> Consequently, the post 2008 recession saw a number of creative businesses being forced to close as demand fell and organisations which purchase services and products from the creative industries cut and streamlined their budgets. This had a significant impact on the advertising industry for example, which suffered the highest level of business failure in

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<sup>15</sup> Work Foundation, *A Creative Block? The Future of the UK Creative Industries*, 2010, pp 26–7.

<sup>16</sup> *Ibid.*

the period under review at 13 percent.<sup>17</sup> The creative industries sector has also been hit by cuts to state-funded revenue streams, such as reductions to the budget of Arts Council England in the most recent spending round.<sup>18</sup>

However, despite a rise in direct unemployment in the sector between April 2008 and April 2009, the impact of the downturn on employment in the creative industries has not been as severe as previous recessions.<sup>19</sup> As demonstrated above the creative industries still employed approximately 8 percent of the UK's workforce in 2010, and the CBI have forecast that given their potential for growth, the creative industries sector could in fact employ more people by 2013 than the financial services sector. An examination by the Demos thinktank in 2011 which mapped the survival rates of new businesses also found that 49.7 percent of new firms in the creative industries were still trading after five years, compared with 46.9 percent in the economy overall.<sup>20</sup>

However, it is also asserted by the CBI and other observers that the creative industries will only achieve forecast levels of growth and allow more creative firms to develop if key challenges are addressed and the environment in which creative industries in the UK operate remains competitive, as explored below.

### *Access to Finance*

There have been widespread difficulties reported by firms in the creative industries sector in accessing finance, potentially as a result of their perceived risk profile and factors such as their comparative lack of assets. Recent analysis conducted on behalf of the Government by Dr Stuart Fraser and IFF Research suggested that—though it was difficult to separate the impact of factors such as general market uncertainty associated with the size of firms involved and moral hazard—in sectors such as software and other creative content in particular, businesses were likely to have greater difficulty in accessing finance than those in the wider economy with similar risk profiles.<sup>21</sup> The report also highlighted that firms within the creative industries could often suffer from greater uncertainties about the demand for their products. No-one knows before it is released, for example, quite how well a new book or film might sell. As a result, even if a firm has had a particularly well selling product in the past, it can be difficult to predict future revenue streams.<sup>22</sup> Creative industries also often incur high development costs, particularly for film, television, video games and animation productions.<sup>23</sup> Such factors, and the associated perception of risk that they may generate, could contribute to reluctance on the part of some lenders to provide capital.

However, analysts at Demos have challenged the suggestion that the creative industries are more inherently 'risky' than other industries. They suggest that wider factors could in fact be more decisive in the difficulties faced by such firms in accessing finance. The

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<sup>17</sup> The figure provided is in comparison with other creative and cultural industries through the recession, not as a percentage of the advertising sector as a whole: Work Foundation, citing Creative and Cultural Skills and Skillset *Strategic Skills Assessment for the Digital Economy*, 2010: [http://www.skillset.org/uploads/pdf/asset\\_14618.pdf?1](http://www.skillset.org/uploads/pdf/asset_14618.pdf?1).

<sup>18</sup> Work Foundation, *A Creative Block? The Future of the UK Creative Industries*, 2010 p 5.

<sup>19</sup> Direct unemployment in the creative industries sector at April 2008 was 43,445, in comparison with 83,660 in April 2009: Work Foundation, citing Creative and Cultural Skills and Skillset *Strategic Skills Assessment for the Digital Economy*, 2010.

<sup>20</sup> Demos, *Risky Business*, 2011, p 23.

<sup>21</sup> Dr Stuart Fraser, Warwick Business School and IFF Research on behalf of the Department for Business, Enterprise and Skills and the Department for Culture, Media and Sport, *Access to Finance for Creative Industry Businesses*, Final Report, May 2011.

<sup>22</sup> *Ibid.*

<sup>23</sup> CBI, *Creating growth: improving access to finance for creative industries*, March 2011, p 2.

Demos report *Risky Business* points for example to a lack of business skills in the sector impeding access to finance (a factor also highlighted by the CBI), and that if creative firms lack a credible business case for funding, then they will be treated in the same way as a non-creative firm in the same circumstances.<sup>24</sup> The Demos report also highlights, as above, that the creative industries have not suffered from a greater proportion of business failures in comparison with the wider economy; in fact the opposite is true.<sup>25</sup>

Both Demos and the CBI have called upon the Government to review and improve existing measures to enable creative firms to access finance such as the Enterprise Finance Guarantee scheme. They have also argued that the Government should do more in facilitating a shared understanding between industry, government, and financial institutions on which type of businesses are suitable for credit funding.<sup>26</sup> The CBI set out these steps as part of four key measures in which the Government could ensure that business support in the creative sector was fit for purpose:

- Retain and improve the Enterprise Finance Guarantee to ensure it is accessible to creative industries.
- Review the effectiveness of the Enterprise Investment Scheme and Venture Capital trusts.
- Retain and improve the R&D tax credit to increase its applicability to creative industries.
- Ensure existing funds used to de-risk investments are effectively targeted.<sup>27</sup>

In its *Plan for Growth* the Government explicitly acknowledged the problems faced by businesses within the creative industries obtaining access to finance.<sup>28</sup> As explored in more detail below, the Government has established the Creative Industries Council (CIC) to examine this and other issues. It also stated its intention to bring together the creative industries and financial community to improve engagement and to examine ways in which the risk associated with debt financing can be addressed, and creative firms can make better use of funding already available to them.<sup>29</sup>

### *Competition, Tax and Targeted Tax Relief*

Given the nature of their output, their size, and their smaller reliance on fixed assets in comparison with the wider economy, creative businesses are often highly mobile. Therefore, in order for the UK to remain an attractive base for the creative industries, and for it to grow its share of such industries in the future, observers such as the CBI have argued that it must ensure a competitive environment for such firms through a favourable system of taxation and less burdensome regulation.<sup>30</sup> There have, for example, been calls for targeted tax relief to assist the creative industries, most notably in the case of the software and games design sector. The UK Independent Game Developers' Association (TIGA) has long campaigned for similar tax incentives to be introduced in the UK such as those which exist in Canada, France and the US to encourage games

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<sup>24</sup> Ibid.

<sup>25</sup> Demos, *Risky Business*, 2011, p 4.

<sup>26</sup> Ibid. Recommendation 10.

<sup>27</sup> CBI, *Creating growth: improving access to finance for creative industries*, March 2011, p 2.

<sup>28</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, p 99.

<sup>29</sup> Ibid, p 102.

<sup>30</sup> CBI, *Creating growth: improving access to finance for creative industries*, March 2011, p 2.

developers to locate there. In his March 2010 pre-election Budget speech the then Chancellor of the Exchequer, Alistair Darling, announced that the Government was prepared to introduce such incentives:

Our creative industries are also a huge source of jobs, wealth and pride. I will offer help to the computer games sector, similar to the steps which are helping restore the fortunes of the British film industry. This is a highly successful and growing industry, with half its sales coming from exports, and we need to keep British talent in this country.<sup>31</sup>

However, following the election the current Chancellor, George Osborne, chose not to continue with the proposals, describing them as 'ill-targeted'.<sup>32</sup> The Parliamentary Under-Secretary of State for Business, Innovation and Skills, Edward Vaizey, also said in a recent Westminster Hall debate that, whilst stressing the importance of the software industry to the UK and the need to support it, in his view such tax relief was not a panacea:

Let us be clear about it: people want a video games tax break because of the competition that we face from Canada. A tax break is not a panacea; France has a tax break, but we have a more successful video games industry. Canada does not have a national tax break for video games. It has two strong regional Governments who actively compete for the video games industry.<sup>33</sup>

Other analysts such as Nick Lovell, director of gamesbrief, have argued against the provision of tax incentives, suggesting that they 'distort the market, create artificial value, and move too slowly for the fast-paced games industry, encouraging creative stultification'.<sup>34</sup> The Government did announce reforms to the research and development tax credit scheme in the 2011 Budget. As stated in answer to the parliamentary question below, the Government believes that these changes will benefit innovative companies undertaking qualifying R&D activity, including the software and games design sector:

Mr Ivan Lewis: To ask the Chancellor of the Exchequer whether he has made an assessment of the effects of tax credit changes in the 2011 Budget on the video games industry.

Mr Gauke: The Budget announced reforms to the research and development (R&D) tax credit schemes, including an increase in the rate of SME R&D tax relief to 200% from April 2011, and then an increase to 225% from April 2012. These changes will benefit innovative companies undertaking qualifying R&D activity in all sectors of the economy, including the video games industry.<sup>35</sup>

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<sup>31</sup> Chancellor of the Exchequer, Alistair Darling, Budget Speech 24 March 2010: [http://www.hm-treasury.gov.uk/budget2010\\_speech.htm](http://www.hm-treasury.gov.uk/budget2010_speech.htm).

<sup>32</sup> *Telegraph*, 'Ed Vaizey: video games tax break still a possibility', 13 June 2010.

<sup>33</sup> *HC Hansard*, 10 November 2010, cols 97–8WH.

<sup>34</sup> As reported by the *Guardian*, 'TIGA, tax breaks, and the future of the games industry', 10 October 2011: <http://www.guardian.co.uk/technology/gamesblog/2011/oct/10/tiga-richard-wilson-interview>.

<sup>35</sup> *HC Hansard*, 29 March 2011, col 214W.

With regard to the issue of regulation, the Government recognised within the *Plan for Growth* that it was an area of concern across the economy:

Reducing the cost of regulation on business has been one of the most consistent themes to emerge from the Growth Review, in particular the costs to small business of complying with regulation.<sup>36</sup>

In order to address those concerns, and wider issues affecting sectors such as the creative industries with large numbers of small businesses, the review proposed:

[To introduce] support for small firms through an unprecedented moratorium exempting micro and start-up business from new domestic regulation for three years; extending the current small business rate relief holiday for one year; measures to open up public procurement to small and medium-sized businesses (SMEs); and increasing the SME rate of R&D tax credit, subject to state aid approval.<sup>37</sup>

### *Skills and Qualifications*

At the same time as heralding the potential of the digital and creative industries for growth, the Government's Growth Review also recognised that skills shortages in the industry were having a detrimental impact on that growth.<sup>38</sup> Despite an 'over-supply' of new entrants to the sector, employers have increasingly reported that graduates do not necessarily have the appropriate skills to work in the industry.<sup>39</sup> The Sector Skills Council, *Creative and Cultural Skills*, suggests that there is a lack of 'both technical and professional skills needs' within and across the industry. They also highlight that only 28 percent of people working in creative and cultural industries are qualified to the appropriate level for the requirement of their jobs, the majority being overqualified for the specifications of their roles.<sup>40</sup> The Government's *Plan for Growth* also recognised that there is evidence that businesses within the creative industries have actually turned down work because of a lack of skilled candidates.<sup>41</sup>

A recent review of the video games industry and the visual effects sector conducted by Ian Livingstone and Alex Hope also drew attention to the issue of skills. Highlighting that the UK's video games industry has dipped from third to sixth place in the global rankings, the Livingstone-Hope review cited the lack of skills and appropriate qualifications as a key reason for this decline. Of the firms surveyed by the review, for example, 31 percent believed that skills shortages were impacting upon their business, and 17 percent of firms reported that they had to fill vacancies with overseas recruits.<sup>42</sup>

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<sup>36</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, p 55.

<sup>37</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, p 7.

<sup>38</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, p 7; CBI, *Skills for the Creative Industries*, 2011, p 2.

<sup>39</sup> CBI, *Skills for the Creative Industries*, 2011, p 2; Creative and Cultural Skills, *Qualifications Blueprint*, 2011, p 5.

<sup>40</sup> Creative and Cultural Skills, *Qualifications Blueprint*, 2011, p 5.

<sup>41</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, para 238.

<sup>42</sup> NESTA, *Next Gen. Transforming the UK into the world's leading talent hub for the video games and visual effects industries: A review by Ian Livingstone and Alex Hope*, 2011, pp 3–6.



The skills deficit in the creative industries is a multi-faceted problem. Observers including Livingstone and Hope, the CBI, and the Work Foundation have pointed to a range of problems across different stages of educational and professional development including:

- School leavers lacking a strong base of STEM (Science, Technology, Engineering and Maths) skills.<sup>43</sup> Critics have also highlighted the focus in the curriculum on ICT office skills, rather than on more rigorous computer science and programming skills for example.<sup>44</sup> There has also been concern that the new English Baccalaureate does not include creative and technical subjects—such as art, music and information and design technology (ICT)—and this may impact negatively upon the creative industries.<sup>45</sup>
- A lack of focus in schools on ‘soft’ employability skills such as team-working, problem solving and self-management.<sup>46</sup>
- A deficit of business relevance in higher education degree courses and a lack of collaboration between universities and employers on meeting skills requirements, despite the large numbers of courses available.<sup>47</sup>
- A lack of employer access to, and engagement with, vocational qualifications in the creative industries. Creative and Cultural Skills highlight that only 6 percent of businesses in the sector have a dedicated training budget for example, and 89 percent of businesses surveyed had never accessed support for training needs.<sup>48</sup>
- Confusion about what vocational qualifications exist and how businesses can gain support to access such qualifications.<sup>49</sup>
- A historical lack of engagement by creative industry employers with apprenticeships as recognised in the Growth Review, because apprenticeship schemes have traditionally not accommodated small businesses looking for higher skilled employees on a contract basis.<sup>50</sup>

In the *Plan for Growth* the Government pledged to improve the stock of skills in the digital and creative industries (D&CI) through:

- Expanding ‘flexible’ advanced and higher apprenticeships which suit the freelance business models often seen in the D&CI, and providing new

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<sup>43</sup> CBI, *Skills for the Creative Industries*, 2011, p 7.

<sup>44</sup> *Ibid*, p 4.

<sup>45</sup> House of Commons Library Standard Note, *English Baccalaureate*, 2 August 2011, SN/SP/6045, p 3; CBI, *Skills for Creative Industries*, p 4.

<sup>46</sup> CBI, *Skills for Creative Industries*, 2011, p 6.

<sup>47</sup> *Ibid*, p 4; NESTA, *Next Gen. Transforming the UK into the world's leading talent hub for the video games and visual effects industries: A review by Ian Livingstone and Alex Hope*, 2011, pp 3–6.

<sup>48</sup> Creative and Cultural Skills, *Qualifications Blueprint*, p 5.

<sup>49</sup> Creative and Cultural Skills, *Qualifications Blueprint*, p 5.

<sup>50</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, para 2.239.

grant funding for SMEs delivering advanced and higher apprenticeships.<sup>51</sup>

- Encouraging universities and business to create free-floating business modules for university students in the sector, so that they get the business skills they need alongside technical and creative skills.
- Publishing information for businesses on how they can support an employee undertaking university study to meet their high level skill needs.
- Focusing STEMNET's future recruitment of STEM Ambassadors on D&CI and other priority growth sectors.<sup>52</sup>

In its *Qualifications Blueprint* published in September 2011, Creative and Cultural Skills also outlined a number of strategic objectives to address the issues above. This included increasing employer awareness of, access to and confidence in the qualifications system, and supporting a shift from supply-led to demand-led qualifications.<sup>53</sup>

#### *Safeguarding and Maximising Intellectual Property (IP)*

The protection and safeguarding of Intellectual Property (IP) is an issue of ever-growing importance for the creative industries in the digital age, particularly given its focus on innovation. Concerns have been voiced that a failure to review and adapt existing copyright and protection laws in particular could impact upon the ability of both the creative industries, and the wider economy in the UK, to adapt and compete in the future.<sup>54</sup>

In November 2010 the Prime Minister commissioned an independent review of the existing Intellectual Property framework by Professor Peter Hargreaves in order to 'maximise its support for innovation and growth'.<sup>55</sup> The review, which reported in May 2011, outlined the importance of Intellectual Property:

In advanced economies like the UK's, innovation is crucial to competitive edge. That makes Intellectual Property (IP) policy an increasingly important tool for stimulating economic growth. Every year in the last decade, investment by UK business in intangible assets has outstripped investment in tangible assets: by £137 billion to £104 billion in 2008. Global trade in IP licences alone is worth more than £600 billion a year: five per cent of world trade and rising.<sup>56</sup>

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<sup>51</sup> This includes as stated in the review providing grant funding to SMEs in order to support the provision of 10,000 additional higher level apprenticeship places. This is specifically intended to help address the barriers many SMEs face in accessing advanced and higher level apprenticeships. Digital and Creative Industries are likely to particularly benefit from this new funding, given the high number of SMEs in this sector, and the capacity within the industry to generate higher level apprenticeships (para 2.240).

<sup>52</sup> HM Treasury and BIS, *Plan for Growth*, March 2011, p 102.

<sup>53</sup> Creative and Cultural Skills, *Qualifications Blueprint*, p 6.

<sup>54</sup> CBI, *Skills for Creative Industries*, 2011, p 6; *Digital Opportunity: A Review of Intellectual Property and Growth, An Independent Report by Professor Ian Hargreaves*, May 2011, p 23.

<sup>55</sup> HM Government, *Government response to the Hargreaves Review of Intellectual Property and Growth*, August 2011, p 1.

<sup>56</sup> *Digital Opportunity: A Review of Intellectual Property and Growth, An Independent Report by Professor Ian Hargreaves*, May 2011, p 4.

Recognising that importance, the review stated that the existing IP framework in the UK was no longer adequate, and needed to be adapted to encourage growth in the changing digital environment:

The Prime Minister asked the Review to consider whether our IP framework needs to adapt in the interests of encouraging innovation and growth. The Review's conclusion is that such adaptation is required. The UK's current IP system is falling behind what is needed.<sup>57</sup>

The review also called for action in the area of copyright which it identified as a particular area of concern:

In copyright, the interests of the UK's creative industries are of great national importance. Digital creative industries exports rank third, behind only advanced engineering and financial and professional services. In order to grow these creative businesses further globally, they need efficient, open and effective digital markets at home, where rights can be speedily licensed and effectively protected.<sup>58</sup>

In order to address this issue, the review recommended that the Government should bring together rights holders and other business interests to create in the UK the world's first 'Digital Copyright exchange'. Such an exchange, the report suggested, would make it easier for rights owners to sell licences in their work and for others to buy them. It would also make market transactions faster, increasingly automated and less costly, and reduce costly litigation.<sup>59</sup> The review added that the Government should take 'long overdue' action to update existing copyright laws to increase consumer confidence and that an immediate priority for the UK internationally should also be to secure a unified European Union patent court and EU patent system.<sup>60</sup>

The review also singled out the need for action with regard to the UK's design sector:

Action is also called for with regard to the UK's important and growing design sector—the largest source of intangible investment in the economy. Designers believe a patchwork of intellectual property right (IPR) provision puts them at a disadvantage in comparison with sectors fully covered by copyright law. With the emergence of fabrication through 3D printing, new technological challenges also arise, indicating the need for a thorough reassessment of IP and design.<sup>61</sup>

The review also outlined the challenges posed by the issue of copyright piracy, but suggested that the measurable impact can be difficult to ascertain and is perhaps occasionally overestimated:

No one doubts that a great deal of copyright piracy is taking place, but reliable data about scale and trends is surprisingly scarce. Estimates of the scale of illegal digital downloads in the UK ranges between 13 percent and 65 percent in two studies published last year. A detailed survey of UK and international data finds that very little of it is supported by transparent research criteria. Meanwhile sales and profitability levels in most creative business sectors appear to be holding up reasonably well. We conclude that many creative businesses are

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<sup>57</sup> Ibid, p 3.

<sup>58</sup> Ibid, p 3.

<sup>59</sup> Ibid, p 4.

<sup>60</sup> Ibid, p 8.

<sup>61</sup> Ibid, p 5.

experiencing turbulence from digital copyright infringement, but that at the level of the whole economy, measurable impacts are not as stark as is sometimes suggested.<sup>62</sup>

In its response to the Hargreaves report, published in August 2011, the Government accepted the conclusion of the review that some IP laws were, in some cases, affecting growth.<sup>63</sup> The Government undertook to improve the evidence base for making decisions on IP policy, and published a plan alongside its response which sets out a plan for action internationally on implementing the Hargreaves recommendations, including the establishment of a European patent court and unitary patent title.<sup>64</sup> The Government also pledged to implement the Hargreaves report recommendation on the creation of a framework for a distributed copyright exchange, and to report on its progress by the end of 2011.<sup>65</sup>

With regard to copyright, the Government stated that it would seek to implement the Hargreaves review's recommendations, subject to key factors such as adherence to existing EU law and international treaties and avoiding market distortion. On that basis the Government stated that it would bring forth proposals in Autumn 2011 for a substantial opening up of the UK's copyright exceptions regime.<sup>66</sup> The response also said that the Intellectual Property Office (IPO) would review the existing patent system, and the existing system of design rights and registration system.<sup>67</sup> The Government concluded by stating that it would undertake consultation over the forthcoming months, and then set out plans in a white paper in Spring 2012 with a view to legislating in this Parliament where necessary.<sup>68</sup>

#### **4. Creation of the Creative Industries Council and the Launch of the Creative Industries Network**

The Government has established a new body, the Creative Industries Council, to address issues such as access to finance and skills as outlined above. The Council, which was announced in the Government's *Plan for Growth*, is a joint forum chaired by the Secretary of State for Business, Innovation and Skills, Vince Cable, and Creative Industries Minister, Ed Vaizey, and includes representatives from across the creative and cultural industries. Its remit is defined by the Government as follows:

The purpose of the Creative Industries Council will provide a forum for the Creative Industries and Government to engage in a joined up way. Members will investigate industry led approaches to boosting the growth and competitiveness

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<sup>62</sup> Ibid, p 6.

<sup>63</sup> HM Government, *Government Response to the Hargreaves Review of Intellectual Property and Growth*, August 2011.

<sup>64</sup> Intellectual Property Office, *International Strategy for Intellectual Property*, August 2011.

<sup>65</sup> HM Government, *Government Response to the Hargreaves Review of Intellectual Property and Growth*, August 2011, pp 6–8.

<sup>66</sup> Ibid, p 8.

<sup>67</sup> The Patent system has also been the subject of a consultation by the Treasury regarding plans for a 'Patent Box' which will allow companies to apply a 10 percent corporation tax rate to profits attributed to patents. Full details can be found via the following link: [http://www.hm-treasury.gov.uk/consult\\_patent\\_box\\_stage2.htm](http://www.hm-treasury.gov.uk/consult_patent_box_stage2.htm).

<sup>68</sup> HM Government, *Government Response to the Hargreaves Review of Intellectual Property and Growth*, August 2011, p 14.

of the creative industries with Government facilitating and removing barriers where appropriate.<sup>69</sup>

Commenting on the creation of the Council, Mr Cable said:

The UK leads the world in creative talent, representing over five percent of our economy and a large and rapidly growing share of our exports. We have the largest creative sector in Europe. But we can't take that for granted. The Creative Industries Council will provide a forum for action by the industry and will ensure that it has a strong voice in developing a partnership with the Government.<sup>70</sup>

Critical of the Government's approach, the Labour Party has also announced a new initiative focused on the sector, the Creative Industries Network. The Creative Coalition Campaign offers the following overview of the scheme:

The network is a new national initiative to signal the Labour Party's support for the UK's creative sector, and will bring Labour policymakers together with businesses, trades bodies, arts organisations and unions. The network will aim to support strong business to business links, and build relationships between businesses, cultural and educational organisations to ensure that Labour's policy development is informed by the experiences and priorities of the people on the frontline of the UK's creative industries.<sup>71</sup>

Launching the initiative, the former Shadow Culture Secretary Ivan Lewis said:

Our challenge is to match our cutting edge creative ideas with an equally creative global business strategy which ensures we can benefit from the new jobs and growth of the future. The Conservative-led government has so far failed to provide the strategic leadership which is urgently required, and in education and the arts, they are implementing policies which are damaging the foundations of our creative success.<sup>72</sup>

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<sup>69</sup> Department for Business, Innovation and Skills (BIS) and Department for Culture, Media and Sport (DCMS) 'Creative Industries Council—Terms of Reference'. The terms of reference also state that as the policy areas under consideration are largely devolved, the Council confines its remit to England only, working closely with the Devolved Administrations where appropriate.

<sup>70</sup> Department for Culture Media and Sport press release, 'Creative Industries Council holds its first meeting', accessed 27 October 2011:  
[http://www.culture.gov.uk/news/news\\_stories/8294.aspx](http://www.culture.gov.uk/news/news_stories/8294.aspx)

<sup>71</sup> Creative Coalition Campaign press release 'CCC hosts the launch of the Labour Party's new Creative Industries Network, accessed 27 October 2011:  
[http://www.creativecoalitioncampaign.org.uk/index.php/news/detail/ccc\\_hosts\\_launch\\_of\\_the\\_labour\\_partys\\_creative\\_industries\\_network](http://www.creativecoalitioncampaign.org.uk/index.php/news/detail/ccc_hosts_launch_of_the_labour_partys_creative_industries_network).

<sup>72</sup> *Independent*, 'Government 'damaging the foundation' of creative industries', 8 September 2011.

