





# THE CREATIVE NATION

## Executive summary

*The creative industries are a central part of the UK's global appeal and underpin a thriving creative economy. The UK has the potential to cement our position as the world's leading creative hub provided we take steps now to build on existing progress and ensure that all the underlying industries involved have the foundations in place for long-term success.*

Our culture and creativity is at the forefront of the UK's global appeal, driving the UK's place as a leading destination for Foreign Direct Investment.<sup>1</sup> These creative industries make a vital contribution to the UK economy, with strengths in key sectors including music, broadcasting, video games, and fashion (see **Exhibit 1**). Together, they account for some £36 billion in Gross Value Added, around 10.6% of the UK's exports and 1.5 million jobs.<sup>2</sup> The UK boasts the largest broadcasting hub in Europe, the leading online advertising market in Europe, one of the world's largest music industries in terms of exports, and the fastest growing digital economy in the G20.<sup>3</sup>

In the CBI's report *Playing our strongest hand: maximising the UK's industrial opportunities*, we called on the government to spearhead a new approach to industrial strategy to support sectors of the economy where the UK has particular strengths and high-growth potential. We identified the creative industries as a key sector to get behind. Since then, the government has been busy working in partnership with business to develop a number of sector strategies for some of our high-potential sectors, as well as taking action to create the horizontal conditions that support all businesses to invest and grow in the UK. Now we need a similar joined-up effort from government and industry, using the structures that are already in place, to take steps to secure the future global competitiveness of the UK's creative industries.

**Exhibit 1** Fact check

*Statistics on a number of creative sectors demonstrate that these firms already deliver considerable benefits for the UK economy:*



## £3.5bn

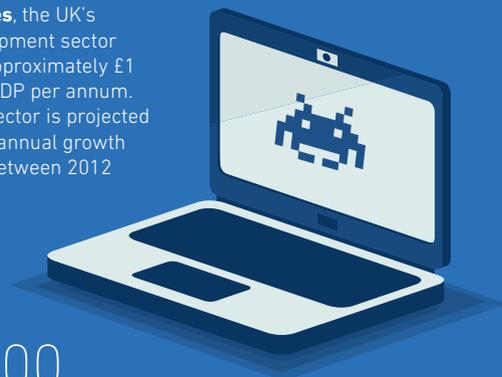
In **music**, the UK music industry generates around £3.5 billion per annum and provides more than 100,000 UK jobs.<sup>4</sup>



In **broadcasting**, the mix of public service broadcasters such as the BBC, ITV and Channel 4 together with commercial broadcasters such as BSkyB help to support the largest broadcasting hub in Europe.<sup>5</sup> UK shows such as Sherlock and formats such as Britain's Got Talent have been exported to multiple territories overseas, showing the high global demand for British content.

## 6.5% growth

In **video games**, the UK's games development sector contributes approximately £1 billion to UK GDP per annum. Globally the sector is projected to grow at an annual growth rate of 6.5% between 2012 and 2016.<sup>6</sup>



## £20.9bn

The UK **fashion industry** was estimated to have directly contributed £20.9 billion to the UK economy or 1.7% of total UK GDP.<sup>7</sup>

## 182,000 UK jobs

There are also around 182,000 **publishing** jobs in the UK.<sup>10</sup>

In **media**, the UK boasts 1,100 local newspapers and two of the leading online websites in the world – the Mail Online and the Guardian.<sup>9</sup>



In **film**, according to a report commissioned by the British Film Institute (BFI), the core UK film industry directly contributes around £4.5 billion to national GDP.<sup>8</sup>



The creative industries are also disparate in size ranging from world-renowned brands such as the BBC and the Premier League through to big multinationals in film and TV (e.g. NBCUniversal) through to sub-sectors such as **animation** – characterised by a range of smaller firms with 4,700 employees in total.<sup>11</sup>

*Looking at the business demographics, Oxford Economics research commissioned by the CBI found that 85.4% of creative firms counted as micro while 12.1% counted as small.<sup>12</sup>*

## The UK's creative economy is in vibrant health with strong sectors generating benefits across the wider economy

The UK's creative industries are found in every region and nation of the UK and are thriving in a number of 'creative hubs', such as the Titanic Quarter in Belfast and MediaCityUK in Salford. In these clusters, larger organisations and multinationals form networks with a wide range of smaller creative firms across a range of sectors, in order to attract talent and generate new ideas (see **Exhibit 2**).

Beyond these direct benefits generated by particular sectors, broader creative services also add value across the economy. For example, a total £16 billion spend in advertising across the economy in 2011 generated a £100 billion effect on total GDP.<sup>13</sup> These wider benefits are also clear in the case of the design industry where for every £1 invested in design, businesses can expect over £20 in increased revenues.<sup>14</sup>



### **Exhibit 2** Rockstar North and Grand Theft Auto V (GTA V)

An example of the vitality and global reach of the creative industries in both UK regions and devolved nations is the development of the record breaking game, Grand Theft Auto V (GTA V). GTA V was developed by Rockstar North, the Edinburgh-based studio of the multinational company Rockstar Games. GTA V achieved worldwide retail sales of over \$1 billion in less than three days, showing the global strength of this creative sector.

## But global competition and the growing digital economy are presenting challenges and opportunities

### The UK's creative industries are currently ahead of the game globally

The UK's pole position in the creative industries can be illustrated through a set of tangible examples. The UK is one of only three net exporters of music and secured the most awards at the Cannes Lions awards for media in 2013. Sales from London Fashion Week resulted in a £100 million boost for the UK economy, showing that this five-day programme is now firmly on the map alongside fashion weeks in Milan, Paris and New York.

A number of indicators suggest that the UK business environment boasts many advantages which help to promote our creative firms relative to international competitors. EY's 2013 Attractiveness Survey shows that the UK remains the major European destination for Foreign Direct Investment.<sup>15</sup> The CBI's own 'Business Environment Scorecard' shows that two of the UK's comparative major strengths are the quality of our research institutions and our competitive tax environment. On the specific example of tax incentives, it's been estimated by the British Film Institute and Oxford Economics that in the absence of Creative Sector Tax Reliefs for film and high-end TV, "UK film

production would be around 71% smaller, reducing GDP by around £1.4 billion a year".<sup>17</sup>

Another inherent strength that benefits the UK's creative sector is the high quality of our content coupled with the global status of the English language which explains the strong position of British produced content alongside that of the United States in foreign markets. Research by Enders Analysis illustrates the growing demand across the EU Single Market for English-language content.<sup>18</sup> Internationally, television exports rose 4% between 2011 and 2012 to reach a value of £1.2 billion with sales to China in particular increasing by 90% in one year.<sup>19</sup>

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*Sales from London Fashion Week resulted in a £100 million boost for the UK economy*”

**Exhibit 3** Creative exports*UK creative exports in the music industry: 'PRS for Music's' growing international income*

'PRS for Music', through its component parts of PRS and MCPS, represent over 100,000 writers, composers and publishers whose musical works are licensed for use all over the world. 'PRS for Music' licenses its members' musical works internationally through its network of agreements with collective management organisations in over 150 countries. In 2012, through these agreements, 'PRS for Music' collected £184.3 million of international royalties. Since 2004, it has seen royalties from overseas more than double, generating a cumulative £1.3bn in export earnings for the UK economy.

While the US and Europe remain the most important overseas markets, accounting for 76% of international income, 'PRS for Music' is achieving growth in many emerging markets. For example, between 2008 and 2012 income from Brazil has doubled, driven by live concert performances and improved receipts from general and broadcasting sources.



## But we've got competition on our hands

This positive picture should give no grounds for complacency on the part of both business and government however. We must look to support our creative industries in fulfilling their potential as our economy evolves and adapts, making sure that the UK remains the key destination for creative firms to operate and do business.

Governments around the world are making overt plays to support their creative firms through targeted policy interventions. In Canada, for example, the gaming industry in Quebec is armed with a 37.5% tax break. This helped to grow the overall Canadian games industry's workforce by 33 per cent between 2008 and 2010.<sup>20</sup> The gaming sector in the UK has seen 41% of jobs move overseas between 2008 and 2011, with Canada unsurprisingly representing the main destination.<sup>21</sup>

The UK's creative industries operate in a competitive neighbourhood in a range of other areas. In the United States, for example, incentives are in place for TV and film production on a state-by-state basis which supported an industry worth \$30.8 billion in 2010.<sup>22</sup> Closer to home, the Dutch have also highlighted the creative industries as one of nine key sectors alongside agri-food, energy and life sciences, to get behind through investment and public/private sector collaboration.

With this activity in mind, UK policymakers must build on existing progress by putting forward a coherent strategy to ensure that we stay ahead, particularly as the UK is in danger of slipping behind rivals like Germany on indicators such as new project start-ups.<sup>23</sup>

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## The expansion of digital platforms presents opportunities for creative industries

The state of the digital economy in the UK is truly world-beating. UK consumers are prolific online shoppers, spending each year an average of £1,083 per head online.<sup>24</sup> This makes the UK the largest per head e-commerce market in the world. Research from the Boston Consulting Group (BCG) calculates that the size of the internet economy in the United Kingdom across a range of industries was 8.3 per cent of GDP in 2010, well ahead of the OECD average.<sup>25</sup>

British consumers are some of the most “digitally savvy” in the world, with the majority of the population now owning smartphones.<sup>26</sup> They want access to creative content and information across a variety of platforms, with research showing that four in five people are now using the internet on the move.<sup>27</sup> Businesses in the UK need to respond to these trends, harnessing the full potential of digital platforms in order to access new e-commerce markets and meet consumer demand for content.

The creative industries are trailblazers in embracing this expansion of the online marketplace, exploiting new marketing opportunities across a range of platforms to deliver high quality content to consumers. Many examples point to the substantial positive activity already underway. For example, Burberry, one of the most “digitally aware” fashion brands, launched its Autumn/Winter 2012 collection across 10 different social platforms such as Youtube, Instagram, and Pinterest, reaching consumers in new and diverse

ways. Similarly, the publisher Reed Elsevier saw its electronic and face-to-face revenues rise to 83% of total revenue in its 2013 interim results. Alliances and partnerships are forming between content providers and digital platform operators in order to deliver products to the “digitally savvy” consumer. For example, in music, Sony Music is exploring the opportunities for collaboration with mobile network operators to deliver compelling music services over 4G platforms.

## But the challenges have also been significant

Whilst there are undoubtedly opportunities for the creative industries to grasp in the ever developing digital world, there are also challenges. The advent of digital platforms has made it much harder for the creative industries to influence how, when and where their content is accessed and therefore how to maintain their revenue stream. Online IP infringement remains a significant issue with the expansion of digital platforms presenting infringers with new ways to distribute pirated content and counterfeit goods.

Just as concerning as the need to maintain revenues in an online environment is the threat of over-zealous policy-making, which risks stifling innovation in the sector. For example, draft reforms to EU data protection rules would, if introduced, disrupt online models for sharing content and advertising.

## The creative industries should be recognised as a key sector to get behind in the UK's industrial strategy

Much progress has already been made on supporting the UK's creative industries. The CBI is an active member of the Creative Industries Council, for example, a joint forum between the creative industries and government that works to tackle the biggest issues facing the industry.

But going forward all arms of government need to collaborate with industry in setting out a vision for how we can secure the long-term competitiveness of the UK's creative industries.

In many areas such as skills, government's role will be to get out of the way, allowing industry-led initiatives to flourish and develop. In others, particularly on the regulatory environment, government must use its clout in the EU and in foreign markets to support the growth of the UK's global creative footprint and protect IP rights upon which the creative industries fundamentally rely.

Collaboration to develop our creative industries as robust and mature contributors to the UK economy means:

- **Laying the right ground rules to facilitate investment in the UK.**
- **Putting in place the enablers that, from there, encourage business expansion.**
- **Tilting the playing field to help creative industries take this expansion overseas.**



## *Laying the right ground rules to facilitate investment in the UK*

### Create a business environment which ensures creative industries can derive value from Intellectual Property

Intellectual Property has a crucial role to play as a driver for future economic growth, not just within our creative industries but through all of our knowledge-intensive sectors. To ensure the UK remains competitive as a hub for generating IP, particularly content protected by copyright, businesses must have confidence that the government is fully committed to making the UK the best place to invest in, develop, and exploit IP.

Government's efforts to support and promote industry-led initiatives, such as the Copyright Hub, are welcome and should continue. The appointment of a central adviser for IP and IP theft is also an important step, as is the support of the IPO's in-country Attachés, offering dedicated support to UK businesses in China, Brazil, India and South East Asia. These advisers should act as champions of enforcement in particular.

But that isn't enough. The nature of IP exploitation and protection changes all the time, so government – and wider industry – must be proactive in its efforts to influence the global framework for IP. This means having a strong and united voice in Europe and the resource to share this message internationally. For our part, the CBI will establish a task & finish group on copyright in 2014, a forum for the UK's creative industries to monitor and report on the progress made to reduce copyright infringement.

**RECOMMENDATION:** The UK Government should be a leading voice in the developing debate on copyright in Europe. There must be unequivocal commitment to developing licensing models across the EU, including a robust position in support of territoriality in licensing, as the bedrock of both the UK and European creative sectors.

### The competition framework for the creative industries must be in-tune with how digital is transforming the industry and agile enough to reflect these changes

The digital revolution taking place across the creative industries is driving change on a number of fronts.

Digital is blurring product boundaries and shaking up geographic boundaries. News media and advertising are two such examples of where the internet is game-changing.

Digital is also making scale much more important. For example, the development of digital platforms has brought local and national content providers into the same arena as larger international players. In areas such as film and TV, UK creative firms still struggle to compete with the scale of the market in the United States which benefits not just from developed markets in content, but also in social networking and in content distribution through platforms such as Netflix. These large markets interact giving US creative firms a clear advantage in channelling content to a broad consumer base. The UK should be looking to build similar national capability to compete on the global stage.

To achieve this, creative industries in the UK need a competition framework in the UK which is flexible to the way in which digital technology is changing market definitions and geographic boundaries. It needs to support the UK's creative firms in scaling up to compete with international rivals in capturing greater global market share.

**RECOMMENDATION:** The new Competition and Markets Authority must be alive to the impact of digital in changing product and geographic boundaries and responsive to these changes; it must also facilitate a dynamic and outward-facing competitive environment for the UK's creative industries, enabling UK businesses to create scale in content markets that are becoming increasingly global in nature.

## Ensure that existing tax measures are best placed to support the creative industries

Many sectors in the creative industries are already benefiting from support and recognition in the tax system, particularly through the important role of Creative Sector Tax Reliefs (see **Exhibit 4**). To secure the UK's comparative advantage here, policymakers must look to build on these reliefs in the short term, through influencing the European Commission to accept a tax credit for video games. In the longer term, government must ensure that current available incentives like the R&D tax credit continue to provide certainty and confidence to the creative industries operating within the wider economy.

### Exhibit 4 Tax reliefs

#### *Existing Creative Sector Tax Reliefs*

There are a variety of tax reliefs already in place for creative firms with a range of requirements in place for each qualifying sector.

Plans to update the existing film tax relief were announced at the Autumn Statement 2013 with a 25% relief available on the first £20 million of qualifying expenditure and 20% for expenditure above £20 million. Additional tax reliefs for animation and high-end television were introduced in April 2013 and set at 25%. The tax relief for video games is still yet to gain State Aid approval from the European Commission. The Treasury consulted over the summer on how to introduce a similar relief for the Visual Effects (VFX) industry.



## *Putting in place the enablers that, from there, encourage business expansion*

### **Ensure creative firms can access the finance they need to grow**

Our creative industries have ambition to grow, but this can only be realised if they have access to finance. The strain on the availability of finance for growing firms is beginning to ease, but creative industries can often face additional challenges when it comes to attracting investment.

As knowledge-intensive businesses, they often have limited physical assets in order to secure debt. Their investments are also often project-based, which can be misunderstood as short-term and risky. It's why many creative industries cannot qualify for support from the Regional Growth Fund, which demands that funding support job creation for more than three years.

All existing government initiatives should be accessible and applicable to creative industries. We see a role for the developing Business Bank here, acting as a one-stop-shop for advice and support for firms struggling to access this support. The CBI is also a strong advocate for the development of alternative sources of finance; we believe the Bank should prioritise investment in alternatives that offer support for IP-intensive businesses in particular.

Most importantly, we need more communication between the finance community and the creative sector, to encourage financiers to lend and invest in an ideas-based industry and to tackle, once and for all, the misperception of the investment potential of IP-led businesses.

**RECOMMENDATION:** The CBI is committed to convening a Taskforce to boost finance for creative industries in 2014, bringing together finance providers and growing creative businesses to find business to business solutions to boost availability of finance.

### **Build on industry-led schemes to provide the creative industries with the broad range of talent and skills they need to succeed**

To continue to be the world's leading creative hub, our creative industries must have access to a broad talent base. CBI research shows that many UK firms are not confident about accessing high-skilled employees in growth areas such as hi-tech and IT.<sup>28</sup> This is a real concern, not least because in the digital environment, creative firms require not only access to skills in art and design, but most often also a 'fusion' of capabilities across technology, maths and science. The creative industries also need to be more accessible - particularly to young people from different backgrounds - if they're going to attract the talent they need.

To achieve this, the industry is taking action into its own hands. Initiatives such as "Creative Access" - a co-funding scheme involving firms such as BSKyB, NBCUniversal, Fremantle Media, ITV, Channel 4 and Sony Music - is a great example of creative businesses doing what they can to attract talent from a wide range of backgrounds. Firms like Aardman Animations, working with the University

of West England's 'School of Animation' to design courses that meet industry demand, are also actively changing the way creative skills are recognised and perceived.

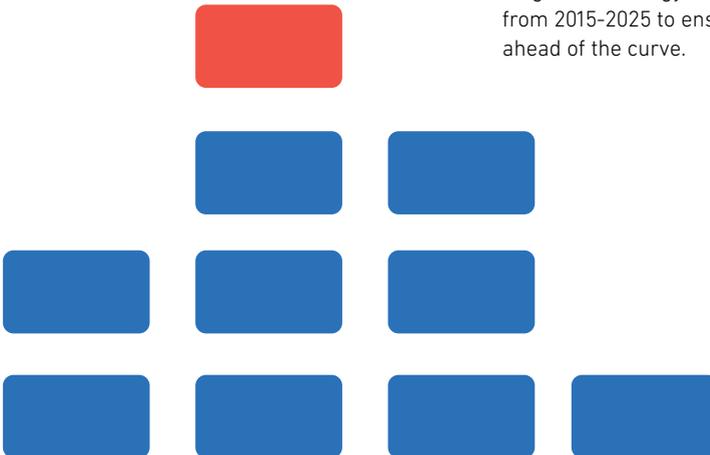
But government has a role to play too. For example, government should work with businesses to promote and mainstream industry-led initiatives, like Creative Skillset's Tick accreditation scheme, which identifies courses which best meet employer needs. Critically, government can actively boost the development of in-work skills by creating and embedding a more demand-led system in the UK. The apprenticeships reforms set out in the Richard Review will play a part in this, but only if incentives to boost apprenticeship training support sectors like the creative industries.

**RECOMMENDATION:** Ensure that new approaches to the apprenticeship system are applicable to the UK's creative industries, including extending the Trailblazer pilots to include creative firms and supporting genuine industry ownership over the content and scope of apprenticeship frameworks.

## Developing the infrastructure and capacity creative firms need to grow

Creative activity relies on collaboration and good connectivity, linking up firms in local clusters and the regions with other creative industries across the country.

The infrastructure around the UK's creative industries is of vital importance to the growth of our creative firms and the broader economy. As well as those creative industries that need the physical capacity to house large-scale productions, creative firms need access to reliable digital infrastructure in order to support production and innovation in content. The UK starts from a positive position here, with OFCOM data showing that the UK has the second highest percentage of households penetrated by fixed broadband among major economies.<sup>29</sup> However, as the CBI argued in our 2013 report *Let's Get Digital*, digital infrastructure has to be considered as a vital part of the UK's overall infrastructure mix alongside transport and utility networks. This is why it's imperative that government and industry push forward with work on a long-term strategy for digital infrastructure from 2015-2025 to ensure that the UK stays ahead of the curve.



## *Tilting the playing field to help creative industries take this expansion overseas*

The export potential of our creative industries is significant and exploiting this now is critical, given the global competition facing our creative firms. The government must 'tilt the playing field' and truly get behind the globalisation of these businesses, helping to provide creative firms with the long-term certainty they need to export world class content across the globe.

UKTI's creation of a sector-wide creative industries taskforce is welcome, looking to support the broadest range of sectors that make up the UK creative industries. This works well alongside focused support on certain sub-sectors like the Music Export Growth Scheme. Both levels of support show a commitment from Government to act as that all important extended sales force, championing them through the foreign office and UKTI at all opportunities.

But support in our Embassies is only half of what it needed. Government must also take action to encourage foreign markets to have the right structures in place for foreign content.

**RECOMMENDATION:** Government should be prepared to use its influence to push for measures in foreign markets that make them receptive to British content. For example, we should secure further co-production treaties on audiovisual content with as many emerging markets as possible and preserve the country-of-origin principle for audiovisual and film services which serves to strengthen London's position as the leading broadcasting hub in the EU Single Market.

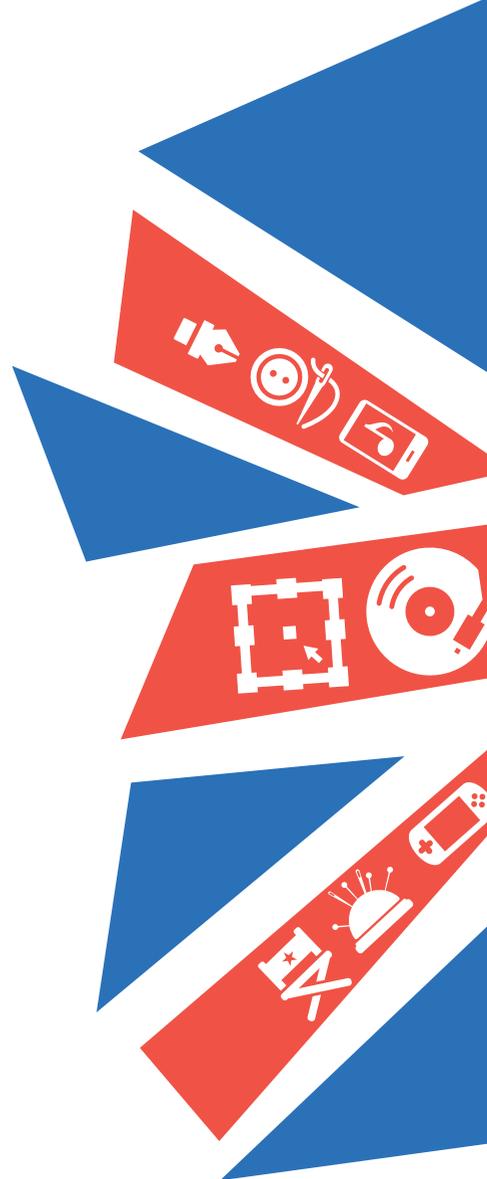
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*Government should be prepared to use its influence to push for measures in foreign markets that make them receptive to British content.* ”

## Measuring our success

The success of this strategy requires government and industry to take joint responsibility, measuring progress towards the successful implementation of these recommendations. We propose the following key performance indicators as guidelines for success:

- The GVA of the UK creative industries to be increased by 3-5% from current value by 2025.
- UK to be a leading exporter across all areas of creative content by 2025.
- UK to maintain its position as the leading global centre for creative industries deriving value from Intellectual Property.
- Levels of inward investment across a full range of creative sub-sectors to be increased by 2025.
- Creative industries of all sizes to be strongly represented on future trade delegations.
- UK Music artists to double their share of US album sales by 2025; year-on-year growth in the number of UK nominations to international award festivals such as Cannes.





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