







4 Helping creative businesses grow and access finance

Challenge	Response
 <u>Exploiting 'spillovers'</u>	 Arts Council to promote creative economy objectives
 <u>Raising business skill levels</u>	 Establish Business Link regional beacons network
 <u>Making finance flow better</u>	 Encourage creative industries to bid for Enterprise Capital Funds, delivering increased investment flow into the creative industries

Businesses, rather than governments, create jobs. So government intervention should be sparing. However, the creative industries are now a central engine of our economy, driving innovation, and they contribute above their weight to the vital task of growing the economy. The Government recognises that we need to cherish the contribution of the creative economy and to work pro-actively with the industry to meet and, where possible, anticipate their needs in the areas where government can make a contribution.

While it will always be the businesses themselves that lead and create the ideas which lead to jobs and wealth for the country, the Government has identified three key areas where we can help, and the Creative Economy Programme will be alert and listening to the industries themselves to identify more as appropriate.

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- Only 35% of creative SMEs use formal business planning techniques
 - Fewer than one in five business managers in the music industry have any professional mentoring in business techniques
 - A third of creative businesses with an annual turnover of more than £1 million have no explicit financial goals.

NESTA 2006

- 4.1 Smaller creative firms share a number of special characteristics and creative processes that combine to produce some distinct business models. Many creative businesses are driven by talent and the interaction of ideas. They often rely on relatively informal networks and project-based working, and have a higher degree of 'hit or miss' outcomes for any individual project. Moreover, particularly in the digital media, their business models are subject to rapid and continuing change.
- 4.2 We need to understand these characteristics better if government policies, especially those for business support and access to finance, as well as regulation, are to meet the needs of creative businesses. DIUS's science and innovation strategy will contribute to our understanding of the overall drivers to success. And we also need to develop a better understanding of the particular circumstances affecting businesses with the potential for substantial growth.

The Prime Minister has established a Business Council for Britain comprising 16 senior business representatives, to advise the Government on how it can best promote the long-term health of the UK economy. The Council will:

- Examine the progress the Government is making to improve the business environment in areas critical to the future of the economy
- Advise the Government on its policies and priorities
- Conduct its own reviews on the areas it believes will determine the future economic well-being of the UK; and, where issues are particularly important, the Council will have the power to establish Special Commissions to make recommendations for reform.

The Council is chaired by Mervyn Davies of Standard Chartered Bank.

- 4.3 With this better understanding, the Government and its partners can adapt their programmes progressively to support successful creative industries, both emerging and established businesses. The Business Support Simplification Programme provides an important context for this.

The Arts Council's *Own Art* and *Take It Away* schemes have made it easy and affordable for everyone to own contemporary works of art or musical instruments.

www.artscouncil.org.uk/ownart

Exploiting links with the cultural sector

- 4.4 As the Work Foundation argued in *Staying Ahead*, the creative and cultural sectors enjoy a symbiotic relationship. Our rich cultural infrastructure and diversity has contributed to the UK becoming a thriving hub of the creative industries (clusters, examined in more detail later in the document, have a part to play here). Indeed, over the last 10 years, one achievement of the Arts Council has been to break down the barriers between the cultural sectors and the creative industries. Of course, EMI and the Sinfonietta still have their differences. Many creative businesses would never dream of seeking subsidy; many theatres, opera companies and orchestras depend on it. In the middle, however, there is a space where subsidy and profit meet, with artists and organisations that are thriving in the mixed economy. The Arts Council deserves much credit for making that middle ground habitable.

Investment in artistic excellence can lead to outstanding commercial success in its own right. The *History Boys* and *The Madness of King George*, for example, started at the National Theatre before achieving success on the screen. Dame Judi Dench, Stephen Frears and Nicholas Hytner have all noted how the commercial success of our film industry depends on the health of our publicly supported theatre.

- 4.5 Arts Council England now proposes to do more to build on that achievement. Its primary aim is to support access to artistic excellence. However, public funding for the arts is a powerful stimulus for the creative industries: for example, in developing skills, providing networking spaces, and underwriting risk which the financial market would not accept.

Advantage Creative Fund

The Advantage Creative Fund invests up to £250,000 into creative business in return for an equity stake. All profits from its investments are retained and used to make further new investments in the future. The Fund's investments have covered initiatives in a wide range of areas since its establishment in 2003, including film production and animation, software, television and new media businesses.

www.advantagecreativefund.co.uk

Commitment 12

Arts Council England will help to deliver the objectives of the Creative Economy Programme

- 4.6 Arts Council England will, therefore, take account of the Creative Economy Programme's findings and commitments in its next corporate plan and its other work. Arts Council England will continue to support creativity through its regularly-funded organisations, its education and skills programmes, and through targeted support for projects that combine artistic excellence and commercial growth. DCMS has also asked other bodies to recognise the impact their investments and policies have on the creative economy and incorporate plans to maximise their benefits into their corporate strategies.

Social enterprise

Particularly for smaller businesses, social enterprise provides an attractive business model, which affords financial sustainability for individuals and small groups of workers, allows businesses to maintain a focus on creative and artistic as well as commercial objectives, and which can readily encompass commercial and social ambitions within a single business entity.

- 4.7 Arts Council England will also continue to work with the Regional Development Agencies (RDAs) to learn from current creative industry financing initiatives and to extend its support for small creative enterprises. Arts Council England runs venture capital schemes specifically targeted at entrepreneurs in the cultural sector who wish to move from reliance on grants to developing successful businesses.

The Creative Economy Working Groups and discussions with industry have improved understanding of the issues involved and how to approach them. This has included developing ideas for categorising the industries when considering their needs for finance and other policy interventions: a good example is the three-part taxonomy identified by Bates and Rivers for distinguishing between businesses involved in creating content, in creative process and in media.

- 4.8 The Cultural Leadership Programme, one of Arts Council England's education projects, will expand its relationships with commercial and business partners to train future senior managers of arts and cultural institutions. This will help them to maximise their financial return on commercial activities, generating further revenue for their creative work.

Raising business skills levels

- 4.9 The diversity of the creative sector is reflected in its range of businesses. It includes multi-national corporations, industries characterised by a high proportion of SMEs (for example, architecture, fashion, crafts) and others which include a spread of large and small businesses (notably software, publishing and television²¹). Yet most creative sector businesses are small, with many sole traders or firms employing only a handful of people. Creative industry workers are more than twice as likely to be self-employed as the whole economy average.²²

21 Proportion of employment accounted for by UK-owned SMEs: Designer fashion 96%, Architecture 92%, Software and computer games 57%, TV and radio 28%, Publishing 28%. Source: *Creative Industry Performance: A Statistical Analysis for DCMS*, Frontier Economics August 2007.

22 *An Assessment of Productivity Indicators for the Creative Industries* DCMS, August 2007.

This diversity is one of the drivers of the sector's success, with start-up companies accounting for 48% of creative industry growth between 1995 and 2005, most of it in the first year of trading.²³

- 4.10 However, this can also make the sector vulnerable to many of the problems affecting small businesses generally. There can be a lack of business planning, inadequate access to the latest technology, vulnerability to business cycles, and an unsophisticated relationship with the finance sector. At the same time, new technologies and diminishing barriers to trade mean that even small creative businesses now find themselves competing in a global economy.

Own It

Established in 2004, Own It, based at the University of the Arts in London, attempts to address the growing needs of creative enterprises to make the most of their intellectual property rights. Funded by the LDA, Own It works across London's creative sector, advising freelancers, entrepreneurs and small businesses on how to retain, defend, negotiate, value and exploit their intellectual property.

www.own-it.org

- 4.11 There is mixed evidence about the extent to which the creative industries experience specific or greater business support issues. Many creative industry firms have no business plan (39%), no training plan (64%) or no training budget (70%),²⁴ all of which can limit their business success. However, these figures are broadly similar for other firms. A separate study²⁵ found that the proportion of creative small firms using formal business planning techniques is just 35%, fewer than one in five business managers in the music industry have any professional mentoring in business techniques, and a third of creative businesses with an annual turnover of more than £1 million have no explicit financial goals. Although the evidence does not point to greatly different problems for creative small firms compared to those elsewhere in the economy, this absence of business planning and training has been raised consistently throughout the industry consultation of the Creative Economy Programme. All of this suggests that an approach to business support that acknowledges and understands the underlying characteristics of the creative industries is needed. Moreover, some parts of the creative industries – notably fashion – lack a coherent body to argue their corner. We will look at how these issues might be addressed. For example, the Government will explore the need to support the British Fashion Council (BFC) to build on its existing strengths to become the **central voice leading the fashion industry**, ensuring any new role is sustainable and supported by business.
- 4.12 There is a shortage of specialist marketing skills, sampling and production support in London. We will help London College of Fashion, the BFC, Skillfast and others to scope a project to develop a **High-Fashion Hub for London** offering the specialist skilled workforce and machinery essential for this. Run by partners and linked to existing sampling/production facilities, the project is intended to be a model for the fashion sector elsewhere in the country.

23 Frontier Economics Analysis of Firm Level Growth in the Creative Industries August 2007.

24 An Assessment of Productivity Indicators for the Creative Industries DCMS, August 2007.

25 Creating Growth – How the UK can develop world class creative businesses NESTA, 2006.

Train to Gain

The Train to Gain service, through its network of Skills Brokers, can help creative industries find the right business development tools and training courses they need to enable their businesses to thrive. The recent Learning and Skills Council Train to Gain Plan for Growth (November 2007 – July 2011) announced that the service will be extended to include the self-employed and the voluntary sector. It also announced a new compact with each Sector Skills Council, including those serving the creative industries, to improve its work with each sector.

www.traintogain.gov.uk

- 4.13 The Government will also work with D&AD²⁶ to help develop a dialogue with the design, advertising and communications industry to understand its challenges more fully, and how government can support its growth.

The Crafts Council

The crafts sector employs nearly 100,000 people and has a turnover of £826 million. The industry is supported by the Crafts Council, the main advocacy body for the sector, which is funded by Arts Council England. The Crafts Council has recognised the importance of crafts to the creative economy: their new strategy aims to 'build a strong economy and infrastructure for craft throughout the country'. The Crafts Council is supporting craft makers by raising their profiles with international design makers, with an annual showcase of UK and International makers, Origin, among its activities. Origin creates a platform for craft makers to exhibit their work and is therefore steadily contributing to England becoming a global centre for innovative craft work.

www.craftscouncil.org.uk

- 4.14 The Government offers access to business support for new and small companies through Business Link. We will now ensure that where there are clusters of creative industries, that support includes specialists who understand the creative industries and their specific needs.
- 4.15 **Improving business orientation:** The familiar problems facing small enterprises are often compounded in the creative sector because of the risky, innovative nature of its product. Much of the value of the creative industries is vested in intangible assets, whose worth is difficult to calculate, predict or protect. Many working in the creative sector are motivated by creative rather than commercial ambition; they may not even see themselves primarily as businesses. A better understanding by the financial sector and among business support providers of these characteristics would help nurture the creative sector in our economy.

²⁶ An educational charity that represents the global creative, design and advertising communities.
www.dandad.org

- 4.16 **Increasing the take-up of business support:** Many small creative businesses do not understand or access business support or external business expertise. So, we need better targeting and marketing of such support together with simplification of the different support services locally. The Business Support Simplification Programme is intended to offer a clear route to business support through Business Link for all businesses, simplifying the current mass of confusing provision. But within this overall framework, RDAs can foster the development of local creative economies, for example by supporting the creative industries through Business Link and through the deployment, marketing and communication of the business support available. We intend to pilot this approach through an RDA network of regional beacons for the creative industries.

Commitment 13

The Regional Development Agencies will establish a network of regional beacons for the creative industries in the South West, South East, North West, North East and West Midlands

- 4.17 The RDAs will develop a network of business support leads for the creative industries to ensure the best services are delivered to the creative economy. RDAs in the South West, South East, North West, North East and West Midlands will ensure that they maximise the impact of business support for the creative industries by:
- raising awareness to ensure that the sector knows what is available and how to access it
 - forging links with specialised providers and mentors
 - developing and disseminating best practice in meeting the needs of the sector
 - assessing the effectiveness of support for the creative industries by collecting and analysing data

Improving access to finance

- 4.18 The UK finance market is rated third best in the world for supporting business funding needs.²⁷ However, the Annual Small Business Survey (2005) estimates that around 25,000 businesses are still unable to secure finance. At the same time, it is generally recognised that the relationship between the creative industries and venture capital is much less fully developed and productive in the UK than it is in the US. So we can do better.
- 4.19 **Financial Awareness:** Potential investors encounter difficulties in assessing the real and potential value of creative firms' intellectual property. During the course of the Creative Economy Programme, business has also argued that the finance markets are reluctant to engage fully with the complex risks and opportunities that characterise some of the faster-changing industries within the creative sector. *The Gowers Review of Intellectual Property*²⁸ recommended that the Government 'should consider whether guidance for firms on reporting of intangible assets could be improved, including the provision of model IP reports'. The Department for Innovation, Universities and Skills is taking this recommendation forward. It will have a particular relevance for creative businesses.

²⁷ Milken Institute Capital Access Index 2006.

²⁸ *Gowers Review of Intellectual Property*, December 2006. www.ipo.gov.uk

Enterprise and the creative industries

The Government will launch an Enterprise White Paper later in 2008, which will set out a vision of enterprise in the UK for the next decade. An important consideration will be how government might help build an enterprise culture across the whole economy, helping support the creative industries.

- 4.20 In a sector where so much value is in the new, the bespoke, or the untried, it is inevitable that there will be issues for investors in assessing risk and for entrepreneurs in raising finance. But part of the problem may be simpler. A Treasury analysis of October 2003 identified many creative small businesses as 'lack[ing] the skills needed to develop a business proposal to a stage where it is ready to attract external investors'.²⁹
- 4.21 Evidence suggests that this lack of sophistication in the dialogue between small creative business and finance reduces the sustainability of firms rather than preventing their initial formation. The Creative Economy Programme Working Group on Business Building Capacity commented that 'the most significant challenge for growth in the creative industries is not at the start-up stage, but rather amongst established SMEs (small and medium enterprises) aged three years or more, stuck at the limits of a lifestyle model of working with a turnover of £300-£400,000 and eight to ten staff'.
- 4.22 **Investment Readiness:** The attitude of owners to ownership is another problem. Creative businesses are often an expression of the highly personal creativity of their founders and owners. More so than many of their counterparts in other economic sectors, they may not wish to have their vision or style of business diluted by the extraneous demands of equity finance partners. They may therefore limit themselves to debt financing.
- 4.23 This, in turn, may put them at a further disadvantage, since many small creative businesses have relatively few tangible assets against which to raise finance. Their real value is almost exclusively dependent on intangible assets. Even where these can be valued accurately and potentially resold, they may still offer poor security for lenders: in the event of the firm's failure, it is often very hard to raise enough from the sale of those assets to offset the firm's debt.
- 4.24 The themes of investment readiness and financial awareness are not unique to the creative industries. They form a fundamental part of the Government's business support offer. Business support in these areas is critical to enabling many small businesses both to establish themselves and to grow. Businesses that have received expert external advice are over 40% more likely to aim to grow their business in the following two to three years than those that have not. However, only a quarter of UK businesses seek advice on business matters each year.
- 4.25 Working through the RDAs, the Department for Business, Enterprise and Regulatory Reform (BERR) is committed to addressing the lack of financial awareness, understanding and formal investment readiness of new and growing businesses. This will include creative businesses. The Business Support Simplification Programme is the key to energising this change.

²⁹ *Bridging the Finance Gap: Next Steps in Improving Growth Capital for Small Businesses.* HM Treasury, 2003.

- 4.26 BERR and the RDAs will also ensure that our creative industries benefit from the support provided through Business Link, by ensuring sector-specific monitoring of their take up of business support and finance, and its effectiveness. RDAs recognise where creative industries play a role in their regional economies and will use the programme – together with emerging best practice – to ensure that creative businesses are in the best position to obtain necessary finance by equipping them with the right business skills to secure both debt and equity more easily.

Investor-ready project for the London film industries

The London Development Agency, the UK Film Council and Film London have formed a partnership to pilot a project designed to make a small number of London-based film production companies more attractive to investors. A business opportunity has been identified in the unfulfilled ambition of private equity funds to invest in UK film production. The UK film production sector clearly requires further business development to secure that investment. This new partnership aims to work with film companies who are willing and able to rise to the challenge and to overcome the current structural and financial obstacles which are currently deterring investors.

- 4.27 **Increasing the availability of finance:** The Government also recognises that there is a finance gap at the smaller end of the market, in both debt finance and equity. The Small Firms Loan Guarantee (SFLG) enables businesses with a viable business proposition, but without sufficient security, to secure debt finance. Around 9% of SFLG loans are to businesses from the creative industries and participating lenders are now considering innovative uses of SFLG to improve their ability to serve new markets.

Commitment 14

We will encourage bids for Enterprise Capital Funds from the creative industries – expecting to see increased investment flows as a result

- 4.28 The Government provides equity fund support through the Enterprise Capital Fund (ECF) programme. ECFs are commercial funds that invest a mix of private and public money in small high growth businesses seeking up to £2 million in risk capital. The funds are already investing in a range of creative industries, including software, digital content and film. Around 25% of businesses supported under BERR's ECF programme are creative businesses.³⁰ The Chancellor has announced three further rounds of funding for ECFs of £150 million over the next three years. The Government welcomes applications to the Enterprise Capital Funds from all sectors of the economy, including creative industries. The UK Film Council will submit a bid to the next round of ECF with the ambition of setting up a fund focused on investment in the audiovisual sector of the creative industries.

³⁰ 17 businesses have received investment. Four of these are creative businesses, covering film (including special effects software), software entertainment, and computer graphic design

- 4.29 We have received some anecdotal evidence from the creative industries that they have experienced particular difficulties in securing equity finance that are not, on the whole, faced by other sectors of the economy. However, other evidence gathered suggests that creative businesses are more likely to suffer from issues of investment readiness (which we aim to tackle through our business support programme as discussed above) than any equity gap specific to the industry and current equity finance support seems to be catering well for the creative industries. We would therefore welcome further economic analysis from the industry to demonstrate the existence of particular challenges experienced by them in securing equity finance that are not, on the whole, faced by other sectors of the economy.

Contribution of the advertising industry

Advertising is the third largest creative industry. In 2005, the industry's GVA – a key economic measure – was £6.5 billion and exports totalled £1.3 billion (*DCMS economic estimates*). It plays a vital role, promoting iconic UK events globally, including Live8 and The Tour De France 'Le Grand Depart'. It will also play a crucial role in promoting London 2012.

Conclusion

- 4.30 The challenge of government is to put the creative economy at the centre of its economic framework, including measures to support and develop small businesses, recognising both the importance of allowing the creative industries to continue to lead and develop policy thinking and the way this best translates into creative action.
- 4.31 For small creative businesses and start-ups, there is an area of investment where the public sector can play a part – through the Art Council's investment programmes and the work of other funders and NDPBs such as the UK Film Council, Museums, Libraries and Archives Council, RDAs and local authorities among others.
- 4.32 As creative companies develop, the Government needs to make sure that our business support and venture capital policies are accessible to the creative industries and fit for purpose. This might include experts who understand the specific needs of the creative industries working in the Business Link system in line with the Business Support Simplification Programme principles.

Film London Production Finance Market

Launched in October 2007, the Film London Production Finance Market (PFM), hosted in partnership with The Times BFI 51st London Film Festival, offered a unique opportunity to introduce new and maintain existing finance to London and the UK film industry. Attended by 70 high-end financiers (including major hedge-fund players) and 70 UK and international producers, the first market attracted projects over a total value of US \$800m. Like all Film London events, the PFM invited producers from around the UK.

Feedback from producers and financiers alike has demonstrated that there is a 'gap in the market' for an event which offers the UK film industry access to major new finance. Film London looks forward to building on the success of the pilot year when the PFM returns to London on 20-21 October 2008 with The Times BFI 52nd London Film Festival.
