



Protecting the value of creativity

Annual Review 2005



Read anything good lately? Being inspired by something we read or hear is a great feeling. But what about the person who sparked that inspiration? Is their talent protected? Creativity enriches our lives and it should be encouraged. The Copyright Licensing Agency Limited (CLA) is a leader in collective reproduction rights management. We exist to facilitate access to copyright materials, represent the rights of authors, artists and publishers and protect the value of creativity. Our licences succeed in bringing rightsholders and users closer together. This year we are unveiling our new logo and corporate identity. We believe it is more reflective of CLA and our work as we move forward in the digital era.

"...licensing is about encouraging creativity and sharing in a way that is economically sustainable..."



Welcome to our review of 2005

It is both a privilege and a challenge to be taking over from Neil McRae as chairman of The Copyright Licensing Agency at this time.

With digital communications and the instant availability of information from every quarter of the globe, some would argue that everything should be freely offered to all. With the best of intentions they would digitise and disseminate our cultural heritage, educational resources and scientific research freely, so that none miss out on the information revolution. Yet, as anyone in business, education, or government knows, there is no such thing as free information. If copying and sharing is not done legally and fairly, there is a real danger that the economic viability of the industries that produced the material we now value, may be eroded and its quality and availability threatened.

At one level, therefore, licensing continues to be about money – about paying for the right to exploit the value that creators have invested in their work. But it is far more than that. It is about encouraging creativity and sharing in a way that is economically sustainable, matching flexibility with respect for intellectual property.

The challenge for CLA today is to enhance the value of its licences, providing users with the facilities they need, in a world where a download increasingly replaces the physical product, to the benefit of both licensees and creators.

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Dr Mel Thompson

Chief executive's report

In 2005 we sowed the seeds of the next phase of CLA's development. We also successfully achieved our financial and other core business goals.



This year's annual report reviews CLA's activities for 2005 and – as we prepare to move to new headquarters – highlights future developments and directions. The global focus in collective management continues to be on licensing digital uses. CLA is acutely aware of the issues involved. Increased amounts of primary revenue derive from digital licensing. Financial investments by publishers are substantial and growing. Authors and visual creators are equally invested in terms of energy and creativity. The ready availability of goods and services on the internet threatens to commoditise works of scholarship and creativity. Smart data capture and editing tools threaten the integrity of those works.

The strength of CLA's licences lies in their robust definition of what is and is not permitted, as much as in the value and utility offered to the users. We shall preserve this strength in any new licences, thereby reinforcing the foundations of copyright in the digital world.

Our Further Education (FE) trial scanning licence concluded its second year, and we completed a research exercise which indicated that there had been no measurable impact on primary sales. This confidence-inspiring news came at a crucial time, when we were negotiating a scanning licence for the Higher Education (HE) sector. The terms of the HE trial scanning licence were duly agreed. The licence permits scanned materials to be placed on Virtual Learning Environments (VLEs) under strict, mutually agreed controls, and with full reporting. Many HE institutions are already benefiting from the licence. When the current HE photocopying licence renews in August 2006, our aim is that the two licences – photocopying and trial scanning – will run side by side, and will ultimately merge into a single licence addressing the sector's broader needs.

CLA's business licence continues to be strongly in demand. There are however signs that this market is hardening, and new compliance measures are planned against persistently infringing organisations.

Enhanced data collection activities in the business and government sectors yielded exceptionally large volumes of title-specific data. In a typical year, CLA now processes some 700,000 lines of title-specific data through its distribution systems. We plan to continue to refine our data collection and distribution methodologies in the coming year.

Sophisticated data collection and distribution methodologies require the support of appropriate systems. In 2005 we completed an extensive and detailed analysis of our internal processes. We have now begun a requirements specification for a system to take us forward into the next phase of development of the business. The new system will need to be web-enabled and fully compliant with the standards necessary for integration. CLA plans to share knowledge and systems development with other rights management organisations wherever possible, with a view to keeping costs low.

CLA's performance invites comparison with that of other Reproduction Rights Organisations (RROs), and so we recently undertook an extensive comparison exercise with the RROs most closely comparable to ourselves. The results were encouraging – CLA compares well in all measures, financial and non-financial. In an era when transparency is of growing importance, it is vital that the UK's RRO can demonstrate best practice. One of our key tasks in the coming year will be to communicate more clearly to rightsholders how we go about the complex tasks of data collection and distribution.

We strengthened the management team during the year, restructuring to bring in a chief operating officer, Michael Orchard, with an extensive background in collective management in the music industry. As this annual review goes to press, we are moving out of 90 Tottenham Court Road into new premises a little further east in London. We have taken this opportunity to give a fresh, dynamic look and feel to CLA's brand. In new livery and a new environment, and with an even stronger team, CLA and its staff look forward to the changes and challenges of the coming year.

Peter Shepherd
Chief executive



Chief operating officer, Michael Orchard



Our new home

"...CLA can now plan with confidence as it faces a rapidly changing future."

CLA exists to ensure that rightsholders receive a fair return for the secondary use of their material; and I am delighted that CLA has, once again, collected a record level of fees (nearly 10% above the year 2003-2004) and has distributed these fees with enhanced accuracy and with greater speed.

The working relationship between the Authors' Licensing and Collecting Society (ALCS) and the Publishers Licensing Society (PLS) – both members of CLA – has been revitalised. After some months of spirited discussions, a new agreement was signed on 5 September 2005 between ALCS and PLS. This agreement confirms the two societies' long-term commitment to CLA and the principles under which CLA will act as a provider of collective licensing. I cannot stress enough how important this meeting of minds is; not only to the working relationships of the two societies, but also, and more particularly, to the way in which CLA can now plan with confidence as it faces a rapidly changing future. In consequence, there is a high degree of consensus on the CLA board for the current business plan and for the strategic issues that we will be concentrating on over the next two to five years.

A highly significant development during the year was the launch of the higher education scanning licence. Nobody will claim that this new product had an easy genesis. CLA had to play a long and patient mediating role between the changing practices and needs of the HE licensee community and the natural concerns of rightsholders that new digital information flow models should be in an orderly fashion to the benefit of all parties. The people at CLA, ALCS and PLS who were involved in this negotiation have learned a great deal and this will help to ease the process of developing digitally-based products in the future.

I should like to take this opportunity to thank all the members of the board and Peter and his team for the help they have given me and for the courtesy and co-operation they have shown me during my chairmanship. And finally, I wish my successor, Mel Thompson, great success as CLA moves forward into a bright future.

Neil McRae

Chairman CLA 2003-2005



CLA international development manager, Raymonde Kilpatrick with a business delegate at the Sunday Times Business Exhibition. Photograph by CLA



FE workshops to support the FE trial licence



Peter Shepherd, at the IFFRO AGM with Mr Abdullah Tarmugi, Speaker of the Singapore House of Parliament and Mr Paul Wee, General Manager, CLASS (Singapore RRO)



Deirdre Howard-Williams ALCS Chair & Martin Richardson PLS Chair at the bipartite agreement signing. Photograph by Susan Greenhill

The CLA Value Chain

During 2005, CLA's executive team developed a statement of CLA's operating policy and principles called "Vision, Mission, Strategy, Values, Goals". This statement was adopted by the board in July 2005 as the basis for both CLA's future strategy and its day to day operation. The full text of this statement is available on our website www.cla.co.uk. The value chain presented below is a visual representation of CLA's operating policy and principles, hence it provides the framework for this report.

ALCS

PLS

DACS

Foreign RROs

Rights and mandates

ALCS, PLS, DACS and international Reproduction Rights Organisations (RROs) give CLA the right to license the copying of their works.

Develop licences

CLA uses the rights to form the basis of negotiations with customers to create licensing solutions that match the requirements of rightsholders.

Sell licences

CLA markets its licences to business, education and government organisations, generating more revenue for rightsholders.



Collect and analyse data

CLA carries out surveys of licensed organisations to find out what is being copied. CLA matches survey data with rightholder works, so that licence fees can be allocated to the appropriate rightholder.

Distribute fees

CLA distributes licence fees to rightholders. The distributions that are made each year determine CLA's financial plan for the following year.

ALCS

PLS

DACS

Foreign RROs



Rights and mandates

Develop licences

Sell licences

Collect and analyse data

Distribute fees

CLA is a non-profit making company owned by authors and publishers through the Authors' Licensing and Collecting Society and the Publishers Licensing Society, to facilitate access to copyright materials and represent the rights of UK authors and publishers. CLA does this by developing and selling licences, and collecting and distributing licence fee revenue.

ALCS is the UK rights management society for all writers. Its principal business is to collect and distribute fees to writers whose works have been copied, broadcast or recorded. It also collects monies for lending and rental.

PLS is a non-profit organisation representing UK publishers on matters relating to collective copyright and licensing since 1981.

In 2002, CLA signed a new agency agreement with the Design and Artists Copyright Society. The agreement allowed copying of artistic works to be covered under CLA licences.

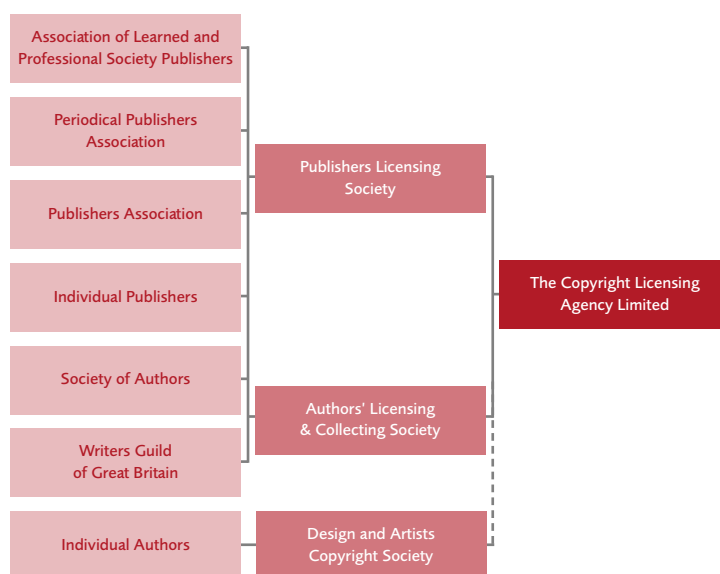
Since its inception, CLA has distributed some £200 million in royalties to publishers, authors and artists.

CLA operates within a legislative landscape drawn by the Copyright Designs and Patents Act 1988 and related legislation. This Act both establishes the rights of copyright owners and also the exceptions to those rights. The Act recognises that copyright owners may exercise their rights collectively, and it establishes a framework for the regulation of licensing bodies such as CLA.

The UK scheme is one of voluntary licensing rather than a statutory scheme like many of those operated in Europe and elsewhere.

Individual copyright owners in the UK, be they authors, artists or publishers, participate in this voluntary licensing arrangement through various representative bodies who grant CLA, on a non-exclusive basis, the rights required to issue copyright licences to users. ALCS and PLS derive their rights either from individual authors or publishers or from other constituent organisations. ALCS and PLS deliver the rights to CLA via an Agency Agreement (Authority to Act), which was recently renewed, granting CLA its rights for a rolling three year term. Similarly, CLA derives its rights to include artistic works within its licences under a separate agency contract with DACS, which was also recently extended until March 2009.

Regarding overseas works, CLA obtains its authority under reciprocal contracts with similar organisations outside the UK, under which CLA and its counterpart exchange their respective repertoires for domestic licensing on terms which are no less favourable than are granted to UK copyright owners. CLA now has 22 agreements in place having recently signed new a new agreement with the Austrian RRO, Literar Mechana.





Rights
and
mandates

Develop
licences

Sell
licences

Collect
and
analyse
data

Distribute
fees

The process of developing a licence from the rights granted to CLA is one of balancing the requirements of the users of copyright materials with those of the rightsholders.

The purpose of such a process is to identify where collective licensing can best add value for all concerned, by providing a benefit that cannot be achieved by other licensing models.

CLA manages this process by ensuring a regular two way dialogue with users and rightsholders and by maintaining a rigorous internal approval procedure that requires key issues, such as the potential impact on primary sales and methods of data collection, to be properly assessed.

This procedure helped CLA gain approval from the board for a new HE trial scanning licence during 2005. The licence, a key part of CLA's e-licensing strategy, was agreed with Universities UK (UUK) and the Standing Conference of Principals (SCOP) and allowed a blanket scanning licence to be in place in time for the autumn 2005 university term. Take up of the licence is excellent and it is expected that more than half of the universities will have signed it by the middle of 2006.

In government and business, the NHS in England have now taken the standard public administration licence with some particular additions, and discussions have now begun with the British Library on extending the rights in their licence.

In all of these cases it is in translating the needs of both users and rightsholders into the right licence that CLA really adds value.

"...collective licensing can best add value for all concerned, by providing a benefit that cannot be achieved by other licensing models"

Rights
and
mandates

Develop
licences

Sell
licences

Collect
and
analyse
data

Distribute
fees

Licences are sold to education, government and the business sectors by the business development department.

Over the last twelve months CLA conducted a series of test campaigns designed to identify the most suitable targets for sales and marketing activity in terms of revenue generated versus cost of sales. The campaigns were aimed at finding the right strategy to grow the number and value of licences obtained from the business sector and to measure valuable data concerning conversion times and rates.

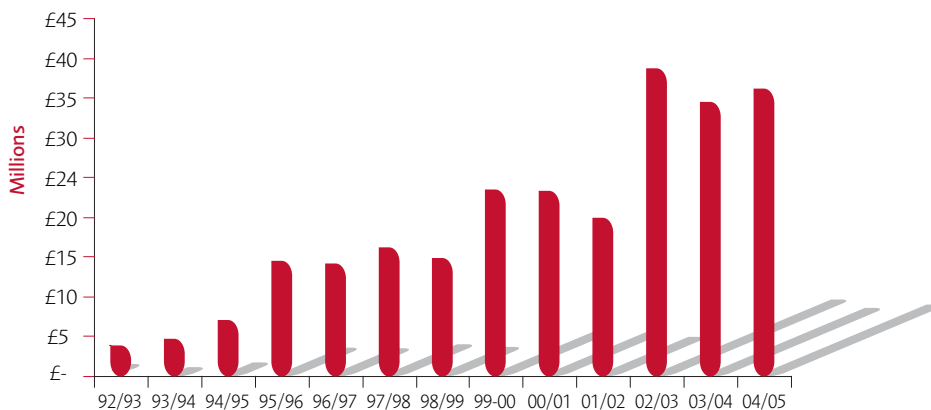
As a result of the learning from these tests we will be concentrating throughout 2006 initially on six priority sectors where we feel that there is the best opportunity to maximise the value of our new business.

These initial target sectors are:

- Pharmaceuticals
- Electronics
- Local authorities
- Law
- Food
- Financial services

The task of the business development department begins with raising awareness of both copyright and CLA's role. Specific organisations are then targeted for follow up. Organisations which delay in reaching agreement may be charged back-dated fees. Following the change in copyright law in 2003, there was a surge of new business licences. Compliant businesses continue this pattern. Those who refuse a CLA licence are considered on a case-by-case basis and may be targeted for compliance action.

CLA distributions 1992 – 2005



Rights
and
mandates

Develop
licences

Sell
licences

Collect
and
analyse
data

Distribute
fees

An important aspect of CLA's role is the collection of usage data from licensees.

In every licensed sector, CLA employs scientifically designed methods to collect data to form a statistically valid representation of the works copied under the licence. The data is used to inform the distribution of the revenue collected. This is done in a variety of ways. Some examples are given below:

Schools survey:

Schools are selected on the following basis to report on their copying

Regions rotated over a 3-year period, with each region visited during autumn, spring and summer, to achieve equable and representative coverage		
Central England	North of England, Scotland, Wales and Northern Ireland	London, South-East and South-West England
Random selection from 10 Local Education Authorities per term, by geographic region, by following school type		
Schools type	Number of schools per term	
Secondary	25	
Primary	175	
Special	25	
Independent	25	
TOTAL	250	

Each school in the sample frame is asked to keep a record of what is copied by making an extra copy of the title page and making a note of the number of pages copied from each publication. The records are collected on a regular basis by CLA field officers.

Higher education survey:

A representative sample of Higher Education Institutions (HEIs) is selected and information is collected in a similar way. However HEIs copy in more sophisticated way than schools. CLA therefore ensures that information collected from HEIs includes copying from reprographic units, libraries and departmental copiers. Course packs are separately identified. A complete record is kept of all scanning.

CLA's data collection operations cost less than 2% of UK licence revenue, and provide a level of detail on a title specific basis in a way which sets standards for other RROs worldwide.

Rights
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Develop
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fees

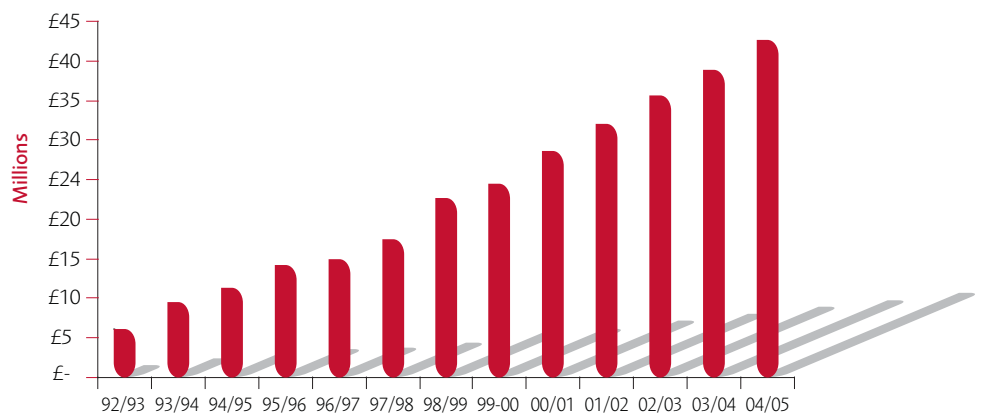
CLA adds more value by processing the information provided by licensees in order to divide the money collected between ALCS, DACS, PLS and RROs in other countries.

Some licence fees, in particular those for document delivery, are collected and distributed on a transactional basis. The licensee is charged a specific sum to copy a work. That sum is divided between the rightsholder organisations representing the parties interested in the work, after the deduction of CLA's subvention.

CLA has adopted a number of general principles to deal with the distribution of revenue collected under licences, which cover the whole of the repertoire:

- 1 The revenue collected is kept in separate pools according to the nature of the licence and the sector of activity it covers (e.g. schools, higher education institutions, different kinds of businesses).
- 2 Information about copying habits and lists of publications copied, or available to be copied, is collected from licensees and is related to the separate pools of revenue so that distributions can be made on a **title-specific basis**, wherever possible.
- 3 The lists of publications from licensees are matched to industry-standard databases, in order to identify (through ISBN or ISSN) the books, magazines, periodicals or journals listed.
- 4 After the publications have been identified, the money collected is divided between the various publications, according to the level at which they appear in licensees' reports.
- 5 Finally the fees allocated to each publication are divided between rightsholders, according to their agreements. Fees for a UK published book are divided as follows: 46% to ALCS for authors, 46% to PLS for publishers and 8% to DACS for visual creators. Fees for a UK published serial are divided 78.2% to publishers, 13.8% for authors and 8% for visual creators.

CLA fee revenue 1992 – 2005



The directors holding office during April 2004 – March 2005 were:

Neil McRae

Mel Thompson

Jane Dorner resigned February 05 **replaced by Nigel Warburton**

Maurice Long resigned December 04 **replaced by Martin Richardson**

Jüri Gabriel

Felicity Hayes-McCoy

Robert Kiernan resigned June 04 **replaced by Dominic Knight**

Ian Locks

Sally Morris

John Seely resigned February 05 **replaced by Jane Liddiard**

Simon Stern

Graham Taylor

Deirdre Howard Williams

Chief executive and company secretary - Peter F Shepherd

Registered Office

Saffron House
6-10 Kirby Street
London EC1N 8TS

Registered Company Number

1690026

Statistical Consultant

QI Statistics

Bankers

Lloyds Bank plc
32 Oxford Street
London W1A 2LD

Auditors

BDO STOY Hayward
8 Baker Street
London W1U 3LL

Financial Statements 2004/2005

CLA is presenting extracts of its financial information rather than the statutory accounts in full.

The full accounts, independent auditors' report and the directors' report can be obtained from The

Secretary, The Copyright Licensing Agency Limited, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

The full accounts which were approved by the directors on 30 October 2005, have been filed at

Companies House. The independent auditors BDO Stoy Hayward LLP, did not qualify their report.

Income and expenditure account for the year ended 31 March 2005

	2005	2004
	£	£
Income		
Subvention income	4,929,739	4,955,383
Outside contract work	149,145	122,500
Total income	5,078,884	5,077,883
Operating expenses	(5,078,884)	(5,077,883)
Result on ordinary activities before and after taxation	-	-

All amounts relate to continuing activities.

All recognised gains and losses are included in the income and expenditure account.

Balance sheet at 31 March 2005

	Note	2005	2005	2004	2004
		£	£	£	£
Fixed assets					
Tangible assets			314,268		168,297
Current assets					
Debtors		3,852,050		4,501,291	
Cash at bank and in hand		21,789,855		17,543,799	
		25,641,905		22,045,090	
Creditors: amounts falling due within one year		4,985,194		4,559,720	
Net current assets			20,656,711		17,485,370
Provision for liabilities and charges	2		(223,000)		-
Undistributed licence fees	3		(20,747,979)		(17,653,667)
Net assets			-		-
Members' funds			-		-

Cash flow statement for the year ended 31 March 2005

	Note	2005 £	2005 £	2004 £	2004 £
Net cash inflow from operating activities	5		4,486,078		3,948,896
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(240,022)		(33,553)	
			(240,022)		(33,553)
Increase in cash			4,246,056		3,915,343

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied consistently with the exception of the treatment of interest receivable.

Subvention income

Subvention income represents revenue to which the company is entitled to cover its operating overheads.

Subvention income collected in the year is calculated at an agreed rate of gross licence income invoiced in the year. The difference between subvention income collected and that required to cover the company's operating overheads is included in the balance sheet. As such the company is a not for profit organisation and, as no tax is expected to be payable for the year, a tax reconciliation is not included in these financial statements.

In the first period of a new contract, subvention income is only recognised when expenditure directly attributable to the distribution of income to the owners of rights has been incurred.

Interest receivable represents bank interest receivable on distributable and undistributable funds and is included as a part of subvention income. Therefore it is not shown separately in the income and expenditure account.

Foreign currencies

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Leased assets

Operating lease rentals are charged to the profit and loss account on an accruals basis.

Depreciation

Depreciation is provided to write off the cost less estimated residual values, of all fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Short leasehold improvements - evenly over the lease term

Furniture and equipment - 15% per annum

Computer equipment - 33⅓ % per annum

Pension costs

Contributions made to a defined contribution pension arrangement are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately from those of the company in an independently administered fund.

2. Provision for liabilities and charges

	2005
	£
At 1 April 2004	-
Charge for the year	223,000
	<hr/>
At 31 March 2005	223,000
	<hr/>

The provision relates to costs arising on the termination of a contract.

3. Undistributed licence fees

	2005	2004
	£	£
Undistributed licence fees	17,259,541	15,464,858
Subvention on account (note 4)	3,488,438	2,188,809
	<hr/>	<hr/>
	20,747,979	17,653,667
	<hr/>	<hr/>

Undistributed licence fees are matched by amounts included in cash at bank and in hand.

All amounts are due within one year.

4. Subvention on account

2005	2004	
	£	£
The subvention on account is analysed as follows:		
Balance at 1 April 2004	2,188,809	1,452,149
Subvention received in the year	5,272,674	4,870,398
Interest receivable	956,694	821,645
Transfer to income and expenditure account	(4,929,739)	(4,955,383)
	3,488,438	2,188,809

5. Reconciliation of operating result to net cash inflow/(outflow) from operating activities

	2005	2004
	£	£
Depreciation	94,051	86,806
Loss on disposal of fixed assets	-	461
Decrease in debtors	649,241	3,244,675
Increase in creditors	3,742,786	616,954
Net cash inflow from operating activities	4,486,078	3,948,896

Schedule of movement of undistributed licence fees for the year ended 31 March 2005

	2005 £	2005 £	2004 £	2004 £
Gross fee collections		42,651,868		38,809,071
Licence fees relating to 2005/06		634,674		-
Subvention income		(5,272,674)		(4,870,398)
		38,013,868		33,938,673
Undistributed licence fees brought forward	15,464,858		16,007,604	
Adjustment to brought forward	-		(2,673)	
		15,464,858		16,004,931
Fees available for distribution		53,478,726		49,943,604
Distributions		(36,219,185)		(34,478,746)
Undistributed licence fees carried forward		17,259,541		15,464,858

Our vision

We envisage a world in which CLA –

- plays a leading role in the collective management of reproduction rights globally, by balancing the needs of users and rightsholders.

in which copyright materials –

- will be delivered increasingly in electronic form, on demand, through a variety of conduits, and in a variety of media, to people in their places of work and study, as well as in their homes.
- will be used lawfully, thanks to the existence of easy-to-use, transparent licensing mechanisms inter-operating on a global basis.

and in which creators and publishers –

- will be able to control the ways in which their works are licensed and used, including the ways in which use of their works is paid for, through emerging new technology and standards.

We will –

- act as a bridge between rightsholders and users, to facilitate the development of licences and licensing strategies, which continue to meet the worldwide market demand for user-friendly, good-value services; providing ready access to the works of the creators and publishers whom we represent.
- develop cost-effective collective management schemes which complement the core business activities of creators and publishers.
- distribute the maximum fee revenue to creators and publishers in respect of copying under CLA licences, using methods which set the global standard for cost effectiveness and accuracy in the collective licensing sector.
- promote respect for copyright, and discourage piracy and infringement, by establishing robust copyright promotion and compliance activities in the UK, and by co-operating with lead bodies and with relevant organisations worldwide in the establishment and enforcement of strong laws, and in the development of appropriate copyright licensing infrastructures.

Our mission



Designed by Sherry Design

Photography by John Behets

Printed on Revive silk, a recycled content paper with 75% de-inked post consumer waste content.

The Copyright Licensing Agency Limited

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