Creative Industries Key Sector Report

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CREATIVE INDUSTRIES – KEY SECTOR REPORT

1. Overview

1.1 Description of the Sector

Creative industries are those that have their origin in individual creativity, skill and talent. They also include industries that have the potential to create wealth and job creation through the development, production or exploitation of intellectual property. The sector is made up of 13 distinct industries:

- advertising
- architecture
- arts and antiques
- crafts
- design
- designer fashion
- film
- interactive leisure software
- music
- performing arts
- publishing
- software and computer services
- TV and radio

1.2 Scope and Performance of the Sector

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<td>Creative Industries</td>
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The sector is characterised by Scottish owned, small businesses. In 2008, 97% of enterprises were small (0-49 employees). Splitting this category further shows that 60% of creative industries registered enterprises had zero employees whilst 37% of all creative industries registered enterprises had 1-49 employees. The majority of enterprises in the sector are Scottish-owned (97%), accounting for 69% of employment. Self employment of 24% in 2007 is double the Scottish average. Annex A gives a fuller statistical description of the sector.

Turnover varies considerably across the sector, with computer games and software (£1.7b in 2007), architecture (£1.5b in 2007) and publishing (£0.8b in 2007) – these three sectors accounted for over 75% of the sector’s total turnover in 2007.

Employment in the sector increased by 3% between 2006 and 2007, while the estimated number of enterprises registered in the sector increased at a faster rate than the average of the Scottish economy over the last decade.

Recent GDP data show that output in the creative industries sector fell during the first quarter of 2009, down 0.9%. However, this fall was of much smaller magnitude than that measured across the Scottish economy as a whole, which fell 2.4%. However, the creative industries sector maintained positive growth in year on year terms at 3.0%, compared to a 1.2% fall in the economy as a whole.
1.3 Rationale for Key Sector Status

The Government Economic Strategy (GES) states that: some sectors and firms offer the opportunity to strengthen Scotland’s areas of international comparative advantage, through achieving critical mass and boosting productivity. Sectors have the potential to make a significant contribution to increasing Scotland’s growth where:

- Scotland has distinctive capabilities and businesses with the potential to be internationally successful in areas of global demand;
- They currently account for a significant part of the Scottish economy and reflect the contribution of all areas of Scotland; and
- Government intervention can make a significant difference to future success by facilitating or accelerating development in areas where the market alone cannot deliver the best outcome.

Scotland’s creativity is recognised throughout the world and has a strong international reputation. Scottish art, film, fashion, music and literature are well recognised as is its design, IT and computer gaming industries. The sector has grown rapidly over the past 10 years and with appropriate support has potential to grow further

Targeted public sector intervention will be important if the sector is to deliver its potential. Intervention will be particularly important to: ensure appropriate support for business growth and maximising economic opportunities for creativity; build effective infrastructure; and improve education and develop skills fit for creativity in the 21st century.

1.4 Productivity

There are, of course, different ways to measure productivity. This paper uses a measure of productivity which can be constructed at sector level using the available national statistics. Comparison of GVA per employee across sectors is, however, limited as this measure does not capture the possible variation in hours worked per employee. We also know that the national statistics do not capture the very many freelance enterprises that choose not to register for VAT or PAYE and so do not capture their level of productivity.

GVA per employee across the creative industries was £38,700 in 2006. This compares to the Scottish average of £47,400, the key sector average of £59,500 and the manufacturing sector average of £60,700. This may reflect a higher level of capital intensiveness in manufacturing.

There is considerable variety of GVA per employee across the industries which make up the key sector. GVA per employee is highest in computer games, software, and electronic publishing (£72,000); then architecture (£60,000), advertising (£47,000), designer fashion (£45,000) and publishing (£41,000). Music and the visual performing arts (£16,000), and the art and antiques trade (£21,000) have a GVA per employee considerably under the sector average (£39,000). GVA per employee data for the other sub-sectors of the Creative Industries key sector (Video, Film & Photography and Radio & TV) is disclosive.

There are geographic differences in productivity. A recent report commissioned by Highlands and Islands Enterprise1 show that in the Highlands and Islands Enterprise region, GVA per employee across the sector was £25,064.

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1 Baseline of the Creative Industries Supply Chain in the Highlands and Islands, published 8 June 2009
2. **Opportunities and Challenges**

2.1 **Opportunities**

The creative industries sector has considerable potential for growth and Scotland is well placed to take advantage of this opportunity, capitalising on its comparative advantages, including the English language, inventiveness and innovation. Internationally, a UN report found that the creative industries are one of the most dynamic emerging sectors in world trade. Between 2000 and 2005, the report suggested that global trade in creative goods grew at an average annual rate of 8.7%. Exports from the creative industries to the rest of the world, outside the UK, stood at just under £1.1 billion in 2007, nominally the same level as 2003. Overall creative industry exports represent around 5% of Scotland’s total international exports. Despite the current economic conditions, the National Endowment for Science, Technology and the Arts (NESTA) is still predicting GVA growth in the sector as NESTA believe that this is an area of high future demand, significant existing strengths and strong technological changes.

2.2 **Challenges**

**Impact of economic downturn**

Recent GDP data show that output in the creative industries key sector fell during the first quarter of 2009, down 0.9%. However, this fall was of much smaller magnitude than that measured across the Scottish economy as a whole, which fell 2.4%. Despite the small fall in output over the most recent period, the creative industries sector maintained positive growth in year on year terms, at 3.0%. This compares favourably to the Scottish economy as a whole where output fell by 1.2% in year on year terms.

Given the disparate nature of the sector, the impact of the current economic downturn is being felt differently across the 13 industries. As evidenced by investment spending by creative industry businesses and by household spending on creative outputs at the UK level, economic activity in a number of the creative sectors is strongly pro-cyclical. It is particularly likely that business-facing creative sectors such as advertising, architecture and software may be particularly vulnerable to the slowdown in activity. It is more uncertain how consumer-facing industries will be affected – while consumers may rein in spending in recessionary times, they may also be more likely to spend available cash on more affordable entertainment forms – across the UK for example, games sales are reportedly holding up well. Most creative enterprises are small so may face more barriers in accessing finance during the economic downturn. However, it might be that the nature of the sector, small and flexible with enterprises not simply motivated by profit, but also by creativity, means that some businesses will be able to maintain their position, supported by networks and project based collaboration, building on a common approach across the sector.

**Implications of limitations in the statistical picture**

The Standard Industrial Classification (SIC), which classifies businesses by what they produce or the type of activity in which they are mainly engaged in, does not fit exactly with creative activity in the economy. The SIC approach is industry based and so likely to overestimate in parts as non-creative jobs may be included within the 13 industry subsectors but undercount creative jobs that may exist in other sectors. However, the data available is valuable in giving us an idea of the makeup of the creative industries and providing useful

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2 The Creative Economy Report 2008 – UN Conference on Trade and Development and UN Development Programme


5 NESTA (2008) ‘Attacking the recession – how innovation can fight the downturn’.
indication of growth trends over time. We are exploring other options to address the data gaps by continuing to supplement the statistics based on industrial classification with information from occupational based data. It is not a challenge unique to Scotland - and we will consider the different approaches, to capture and monitor the industry, undertaken by the UK government.

Ensuring effective industry engagement

The diversity of the sector means that there is no-single structure for engagement with it. There are four industry advisory groups (IAG), co-ordinated by Scottish Enterprise, covering parts of the sector. Each group is at a different stage of its development but their remit is similar – to develop industry leadership and investment in the sector, setting clear priorities for growth in areas where Scotland has or can develop an international comparative advantage. The IAGs have looked at areas to prioritise:

- Digital Media - investment, innovation and internationalisation
- ICT - development of more product companies, improving access to capital and driving commercial innovation
- Construction (covering architecture and design) - centred on four themes identified in the industry strategy of Positioning, Procurement, People and Planet
- Textiles (covering designer fashion) - the importance of fashion design in improving the overall impression of Scotland as a textiles centre and how to support them.

There are no organisations which would claim to be able to speak authoritatively for the sector. In moving forward with Scotland’s Creative Industries Partnership (SCIP)6 (see section on Public Sector Interventions), the Scottish Government is looking at ways of more effective engagement processes. This report recognised that there were already various mechanisms for engagement with the sector including the IAGs, the trade groupings supported by Highlands and Islands Enterprise and the local based networks supported by local authorities which had specific purposes in supporting the ongoing work of the enterprise agencies and local authorities. However, more needed to be done to ensure effective engagement and a series of reference groups will be formed to reflect the 13 sub sectors to allow comprehensive and effective practitioner involvement across the sector. All groups will work closely together where there is a common opportunity and common contribution to be made.

The Minister for Culture, External Affairs and the Constitution, has held events in February, June and October and will continue with a programme of regular quarterly update events with the sector. This will ensure the Government is kept up to date with progress and hears of any issues direct which will improve the knowledge of practitioners’ perspectives. Scottish Enterprise has just established its own Creative Industries Steering group to co-ordinate its own response.

Skills and responding to technological advance

Those involved in creative industries need a range of skills from the creative and technical relating to their specific industry to entrepreneurial, management and general business skills to help commercialise creative ideas and run a successful business. Rapidly changing and advancing technology presents an opportunity for innovation, new products and markets, but also a challenge in ensuring skills keep pace. Digitisation and downloading has had a downward pressure on price but has widened access and demand. It has also led to a need to look at how best to protect and enforce copyright as technology advances. Digital Britain7

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6 http://www.scotland.gov.uk/Topics/ArtsCultureSport/arts/creative-industries/creative-industries
7 http://www.culture.gov.uk/what_we_do/broadcasting/5631.aspx/
was published by the UK Government in June 2009. The report provided actions and recommendations to promote and protect talent and innovation in our creative industries, to modernise TV and radio frameworks and support local news, and introduces policies to maximise the social and economic benefits from digital technologies. The Sector Skills Councils working in the creative sector, in particular Skillset and Creative and Cultural Skills have identified a potential skills gap in these areas. One of the first tasks for the Creative Industries Coordination Group, as set out in the Partnership Report, will be to bring together relevant organisations to look at skills issues to ensure future needs are identified and prepare policy advice and information for Government.

New business models

New business models are needed as the value chain changes. Technology has radically altered the way in which the creative product can be distributed. This opens up the market (the creative practitioner can connect directly with the consumer) but it also makes for a very crowded market place where consumers need signposts and to trust brands. Downloads have changed the music industry and there is the potential for publishing to go the same way with e-books. The public sector has to support industry to be ahead of the curve in Scotland by adapting business models, for example the added value of publishers may be in their editing expertise rather than in the printing and distribution of books. The business model presents a challenge for a traditional view of investors where there can be a lack of understanding and suspicion about the “product”. This is set out in more detail in section 3 on Public Sector Interactions.
3. Public Sector Interactions

3.1 Strategic level

Government sets the policy context and holds the leadership role for creative industries. Its overarching aim is to promote Scotland’s sustainable growth by ensuring creative industries have the environment and support to enable them to flourish. The Minister for Culture, External Affairs and the Constitution is committed to ensuring Government cultural policy encourages and sustains those who create, ensures that their work is accessible and guarantees the opportunity to take part in creative activities. The aim is to support creators, give access to creations and involve everyone in creativity.

Unlike other more “mature” key sectors, there is no formal action plan bringing together the strands of work to support creative industries, although that is not to suggest that work is not ongoing. The Government is committed to delivering on the potential for creative industries and will draw together an action plan to deliver key outcomes, setting out the overall direction, identifying the support needed for creative industries to deliver these outcomes in order to achieve increased growth and productivity and identifying which bodies will deliver that support. The plan will be evidence based, identifying what is known about where public sector intervention is most effective in adding value and areas where no intervention is necessary. The Government will develop this plan over the next six months, involving a range of key organisations with the expectation that it will be finalised and implementation underway by April 2010.

3.2 Operational level

As part of the Government’s simplification agenda, the delivery landscape is changing. Creative Scotland is being established, bringing together the Scottish Arts Council and Scottish Screen. This has implications for the range of organisations involved in providing support to creative practitioners and an effective partnership approach has been agreed in Scotland’s Creative Industries Partnership Report.

A wide range of organisations across the public sector provide support to those involved in creative industries. Organisations such as Scottish Enterprise, Highlands and Islands Enterprise, the Scottish Arts Council and Scottish Screen (which will become Creative Scotland), local government, skills agencies and further and higher education provide different services.

The Creative Industries Framework Agreement was published on 5 February 2009 to set out how the complementary roles of the key organisations will fit together, emphasising the need for an effective interface and joined up approach. It describes at high level the essence of the roles:

- Creative Scotland will provide research, intelligence and advocacy across the creative industries and will lead co-ordination activity in developing the sector. It will develop the functions of the Scottish Arts Council and Scottish Screen using its sector specific knowledge, skills and experience;
- The enterprise agencies will identify and develop growth sectors, sub-sectors and businesses to maximise the economic potential of the sector; and
- Local authorities will support creative industries in their area and have responsibility for the Business Gateway which will provide generic business advice and signpost to other specialist support and advice.

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8 [http://www.scotland.gov.uk/Topics/ArtsCultureSport/arts/creative-industries/framework-agreement](http://www.scotland.gov.uk/Topics/ArtsCultureSport/arts/creative-industries/framework-agreement)
Scotland’s Creative Industries Partnership Report, published on 18 June 2009, is the result of the short life working group set up after publication of the Framework Agreement and sets out a number of recommendations to support the creative industries. In summary, its recommendations are:

**Scottish Government**
- The Scottish Government will set out the process for developing an action plan which is to be finalised and implementation underway by April 2010.
- With Scottish Local Government, the Scottish Government will ensure organisations deliver against their commitments.

**Working Together**
- Delivery partners will work together to understand the sector better, to ensure an appropriate response to its needs. Creative Scotland will support this with information and dialogue;
- Creative Scotland will coordinate research, the provision of effective and consistent information and effective and consistent advice and appropriate support.
- Creative Scotland will coordinate the assessment of the overall state of play, opportunities and challenges and take stock of appropriate advice and support.

**Effective Engagement**
- During 2009, Creative Scotland will form a series of reference groups reflecting the 13 creative industries to ensure creative practitioners have a significant and credible voice in the development of policy.

**Coordination**
- During 2009, Creative Scotland will convene a Creative Industries Coordination Group informed by the intelligence and information coming from the reference groups, ensuring agencies work together effectively to benefit the sector, complementing existing groups.
- The Coordination Group will have 3 key tasks:
  - Providing information, analysis and strategic advice to policy makers;
  - Looking at opportunities for growth and barriers to success;
  - Overseeing the identification of opportunities for strategic intervention.
- The Coordination Group will look at the skills agenda as an early priority action

**Accessing Support**
- The Business Gateway will be the primary entrance route for new or pre-start creative businesses into the enterprise process, a one stop shop signposting to other sources of advice.
- Specialised providers and Scottish Local Authorities will cooperate to ensure effective services;
- COSLA will ensure development of the Business Gateway is linked in the wider creative industries activity.
- Working with COSLA, Creative Scotland will provide advice, training and material to the Business Gateway network and will look at the provision of other types of services to offer creative entrepreneurs.

**Nurturing and Developing**
- The enterprise agencies will work closely with Creative Scotland through the Coordination Group, informed by its outputs, and bilaterally on tactical interventions which will deliver significant benefits to the sector.
• Organisations will work together, sharing information, to ensure creative practitioners have a more seamless journey through the system and that Creative Scotland will collate, analyse and circulate information.
• The enterprise agencies will get better at articulating the support on offer and Scottish Enterprise will have a clearly designated person to coordinate their activities across the creative industries sector, working directly with Creative Scotland.

Monitoring

• To ensure the implementation arrangements are working effectively, the Minister for Culture, External Affairs and the Constitution and COSLA’s spokesperson for Community Well-being and Safety will require a six monthly written progress report from the Coordination Group;
• To hear the views of the sector of progress, the Minister for Culture, External Affairs and the Constitution and COSLA’s spokesperson for Community Well-being and Safety will meet representatives of the reference groups every six months;
• These arrangements will be reviewed during 2011.

The agencies involved in SCIP are committed to its successful delivery and this will build on the support they currently provide to the creative industries.

3.3 Public Sector Delivery

The enterprise agencies

Scottish Enterprise and Highlands and Islands Enterprise are the agencies that support the economic development of creative industries. They provide individual company and business environment support.

Scottish Enterprise

Examples of the sort of support they provide include:

• Account management services – providing growth potential companies with an account manager to ensure they have access to the range of services, networks, market research and information on offer and to help them overcome barriers that are preventing growth;

• Funding and awards – a variety of funding and awards are available to support creative industries including risk capital, Regional Selective Assistance, funds to improve competitiveness through: innovative and commercially viable products or processes; the development of new products, process and services; and significant technological advance and support for pre-commercialisation of leading edge technologies from universities, research institutes and NHS Boards, helping researchers export their ideas and inventions to the global marketplace.

Specific Initiatives (often developed and delivered in partnership):

• Building infrastructure – such as the Digital Media Quarter on the Clyde, Seabraes Yards in Dundee and Trongate 103, a new arts and creative space in Glasgow city centre;

• In IT and digital media – the Digital Media Joint Investment Fund, the Informatics Forum at Edinburgh University, Dare to Be Digital video games development, Interactive Tayside network, and Wireless Innovation a team of advisors providing support.
Highlands and Islands Enterprise

HIE also offers support through its account management system, as well as offering a range of potential funding and awards. Through its interventions, HIE aims to assist in growing the sector and increasing its productivity and has identified a number of growth areas. Current priorities include: designer fashion, music, publishing and screen and broadcast. Through support of HI Arts areas such as Crafts and Visual Arts are supported and HIE also support major infrastructure programmes such as the Fàs centre in Skye and the new media centre and studio facilities in Stornoway.

Along with other key partners such as the Scottish Arts Council, MG Alba and others, HIE works with the region’s trade groupings to:

- Strengthen networking and public private sector partnerships, including growing our international networks, and strengthening industry input in HIE’s work;
- Increase showcasing opportunities, including the goNORTH creative industries showcase, and other important events in Scotland such as the Celtic Media Festival, or internationally, e.g. Musexpo.
- Support Research and Development through training, advice and potentially funding for development of content ideas; and
- Strengthen distribution, encouraging attendance at trade events selling content and talent, the role of festivals and retail outlets, as well as looking at new methods of reaching markets and new business models;
- Provide specialised advice as required.

Scottish Development International

SDI works with the enterprise agencies to promote Scottish creative industries across the world. SDI aim to create partnerships with overseas investors, opening up new channels to markets, technologies and products. This, along with the expertise shared by the international companies who set up in Scotland, helps to promote the expansion of Scotland’s portfolio of first-class exports. Scotland has key strengths in knowledge, high level skills, technology and innovation that can be exploited as Scottish companies look to explore new markets across the world. These overseas business services facilitate the growth of Scotland’s economy by helping companies build on these strengths as they develop international trade.

The Scottish Arts Council (SAC)

The Scottish Arts Council (SAC) is an executive non-departmental public body, established by Royal Charter. Most of its funding (£47 million in 2008/09) comes from the Scottish Government and it also distributes £15 million of Lottery funds.

For those involved in the creative industries, a range of the functions of SAC are relevant such as: support for creative practitioners; professional development and training; international showcasing and promotion of creative practitioners; support for Foundation and Flexible arts and cultural organisations; development of arts and creative infrastructure; support for the production and promotion of new work including work using new technology, support for arts projects encouraging engagement, research and advocacy; support for education work and training; and support for arts markets.

SAC’s intervention has concentrated on:

- arts and antiques with support for Own Art, National Collections, Art Fairs and Festivals and the Venice Biennale;
- crafts including craftscotland.com and schemes to support individuals operating as small businesses, skills development and residencies in schools;
- music including sector support, networking, advocacy and investment in production and touring of content;
- performing arts – dance and drama support for professional development, commissioning, production, touring, research and production companies and venues;
- publishing including supporting Publishing Scotland, supporting Scots and Gaelic and grants to publishers for individual titles, supports book festivals; and
- software – help to develop innovative business models using digital technology.

**Scottish Screen (SS)**

Scottish Screen (SS) is the national agency for the development of the screen industries. It receives £3.2m from the Scottish Government and distributes £2.2m in lottery funds. It aims to inspire audiences, support new and existing talent and businesses, educate young people, and promote Scotland as a creative place to make films, television and digital entertainment.

Scottish Screen invests in ideas, skills, talent, projects, events, businesses, audiences and organisations that drive forward the development and growth of the screen industries across Scotland. Specifically, it supports:
- Screen content development;
- Screen content production;
- Business development;
- Talent development;
- Digital media – content and platforms;
- Skills development;
- Audience and market development;
- Festivals and cultural cinema hubs; and
- Moving image education and media literacy.

Scottish Screen promotes the development and growth of the sector through research, policy development and advocacy. Specifically, it:
- Monitors and analyses industry statistics and trends;
- Responds to industry relevant policy consultations; and
- Promotes the needs of the sector to government and others.

Scottish Screen promotes Scotland’s screen industries internationally. Specifically, it:
- Supports Scottish businesses, talent, product and projects to reach international markets
- Promotes Scottish businesses, talent, product, locations and projects at international markets
- Attracts business and business activity to Scotland through its screen locations service

**Creative Scotland**

The Scottish Parliament is currently considering provisions to establish Creative Scotland as the single national statutory public body for the arts and culture in Scotland. Ministers intend Creative Scotland to build on the strength and success of its predecessors, the Scottish Arts Council and Scottish Screen, but with a wider remit and greater influence than the two separate bodies. It will use its increased influence and remit to support, in a dynamic and responsive way, the vibrant arts and creative sectors in Scotland. Artists and creators will be at the heart of the new body, which will be a strategic and forward-thinking development organisation which will also have a key role in supporting Scotland’s creative industries.
**Local Authorities**

Local authorities support creative industries at their local level and are one of the biggest investors in Scotland’s creative sector. Support includes: the development of cultural strategies to direct future investment and programme development; development of business and arts infrastructure, including cultural quarters as part of area based regeneration and performance and rehearsal space, workshops and galleries, marketing and promotion, networking and local awards, festivals and developing employment opportunities.

**The Business Gateway**

The Business Gateway, under the governance of local authorities, provides practical help, advice and support for new and established businesses on topics such as start up, finance and grants, taxes, returns and payroll, employment, health and safety, premises, environment and efficiency, exploiting ideas, IT and e-commerce, sales and marketing, regulation, licences and contracts, international trade and business growth. It operates a series of start up courses, business workshops and events.

**Developing professional technical and creative skills**

There are a range of organisations involved in articulating the skills needs of the workforce and in responding to that need, including the Sector Skills Councils: independent, employer led, UK wide organisations representing the skills and training interests of small to large business with the aim of reducing skills gaps and shortages and improving productivity and business performance. Scotland’s colleges and universities provide training for those wanting to enter the creative industries, for example, the Scottish Funding Council is investing £5.8 million in a Network of Excellence in Creative Media Education based at the University of Abertay and Edinburgh Napier University and Edinburgh College of Art. The network will help to address the skills needs in the creative media. This will join the existing Creative Loop Skillset Media Academy comprising of 6 colleges. The Government has also provided funding for an additional 50 Modern Apprenticeships in the creative industries.

**Specialised Support**

There are a number of public sector bodies which provide specialised support to the sector, some of which are regional in nature, including:

- **Cultural Enterprise Office (CEO) (funded by Scottish Enterprise and Scottish Arts Council)** - offers business advice and training to creative businesses. In the last quarter it responded to 1000 information enquiries and 600 clients attended events and advice sessions. Its annual budget is just under £0.5 million.

- **National Endowment for Science Technology and the Arts (NESTA)** - has a team based in Dundee and ran “starter for 6”, an enterprise training programme for innovative businesses which provides participants with a tailored business support package including enterprise training, telephone coaching, peer mentoring and grants of up to £10,000. This programme is now being taken forward by the Scottish Arts Council. NESTA also carries out policy research and practical programme trials.

- **Architecture and Design Scotland** – a company limited by guarantee funded directly by the Scottish Government, with a budget of around £0.75m, acts as Scotland’s champion to inspire better quality in design and architecture.

- **National Intellectual Assets Centre for Scotland** – provides advice to businesses about intellectual assets.

- **HI-Arts** - the arts and cultural development agency for the Highlands and Islands of Scotland which aims to increase access, nurture artistic talent and increase the economic impact of the arts and heritage in the region.
4. Assessment of the Effectiveness of Interactions

We have identified (in section 2) some of the key challenges that the structure of the sector presents for maximising growth in the sector. These focus on: challenges in ensuring effective industry engagement; the need to develop entrepreneurial and business skills and to respond to technological advance; and the need to develop appropriate business models.

4.1 Strategic level

The Government is taking forward work to articulate its overarching aim for the sector so that we are clearer about what success will look like. Debate continues about how best to define this sector and we have adopted a consistent approach with the Department of Culture, Media and Sport in defining the sector as being made up of 13 discrete industries. Creativity does of course play a key role outwith those 13.

The definition of the “creative economy” is an evolving concept based on creative assets potentially generating economic growth and development. It can foster income generation, job creation and export earnings while promoting social inclusion, cultural diversity and human development. It embraces economic, cultural and social aspects interacting with technology, intellectual property and tourism objectives. At the heart of the creative economy are the creative industries.9

Other approaches include grouping the sector by activity. NESTA’s Creating Growth report10 suggests that such a model would not be intended to replace the DCMS definition, which is important in many ways but that it is a useful tool in policy development for three main reasons. First, to incorporate a greater awareness of the differences between the sectors. Second, to incorporate a greater awareness of the differences within the sectors. Third, to draw out commonalities based on the ways in which commercial value is created, where this value is located, and consequently how it can be enhanced (through advice, support and investment). In short, the model needs to be useful in an analysis of the creative industries as industrial sectors rather than as a set of creative activities based on individual talent. The refined model segments the creative industries into four groups, bringing together those sectors that have sufficient commonalities (in terms of business models, value chains, market structure and so on) as to warrant a common approach for policy.

The report describes these groups as:

- Creative originals producers – artisans, craft workers, design makers;
- Creative experience providers – where the experience is consumed at the time and place of performance – theatre, opera, dance;
- Creative content producers – where original intellectual property is creative – film, TV, games and music, publishing, fashion; and
- Creative Service providers.

In the Technology Strategy Board’s Creative Industries Key Technology Strategy11, a further approach is considered. Given the speed of technological change and market development since the original definition of the creative industries was first coined by DCMS in 1998 and 2000, and the resulting blurring of boundaries between some sub-sectors and increase in

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9 The Creative Economy Report 2008 – UN Conference on Trade and Development and UN Development Programme
11 http://www.innovateuk.org/creativeindustriesstrategy09.ashx
the degree of disparity in others, they found it helpful to identify areas of commonality and to cluster the sub-sectors accordingly. This has involved comparative analysis of the two key factors: the relative importance of technology to the innovation occurring in the sub-sector and the nature of the final output. This resulted in re-categorising the sub-sectors into three main groups:

- **Services** – Advertising, Architecture and Design (including Fashion Design);
- **Content** – Games, Film, TV, Radio, Publishing, Music (and Performing Arts: dance, theatre etc); and
- **Artefacts** – Fine Arts, Crafts.

This includes a new sub-sector: Social Media, recognising the upsurge in consumer generated content. Software development has been removed although games and leisure software is retained. Live Music is included in Music rather than Performing Arts. In comparing these three categories, the report states that the content sectors accounted for 70% of the creative industries GVA in 2006.

Considering these alternative definitions would allow a response based on common business models rather than outputs and would look at interventions that matter to the whole creative economy rather than to individual sub-sectors. It would act as an aid identifying the areas with the greatest potential for economic growth and the sorts of intervention which are necessary and successful.

Government clearly needs to concentrate on areas where it can add value – including social, public, educational and cultural as well as economic. A recent success was staging the MOBO (Music of Black Origin) Awards in Glasgow which was an opportunity to showcase Scotland’s creative industries. Exploring how to celebrate Scotland’s creative industry successes is a key area for Government to consider.

In its “Creative Britain”\textsuperscript{12} document, published in February 2008, the Westminster Government set out 26 commitments to support creative industries in England with business support structures and developing a pool of skilled, talented people. The Scottish Government ensures that Scottish perspectives are taken into account where the work is relevant to Scotland.

### 4.2 Operational level

While the wider debate on the creative economy takes place, work is being done to ensure that creative industries are effectively supported. Due to the desire to create unique creative content and the predominance of self employment, growth in this sector is unlikely to be solely evident in the development of larger firms. The way in which the sector operates, with complex networks creating scale not through traditional business structures but through partnerships, temporary sub-contract arrangements and specialisms, also presents challenges for the public sector response. That might suggest encouraging: networks, building connectivity and facilitating contacts as necessary, as well as supporting the individual business to ensure that practitioners can share ideas, expertise, innovation, and complementary skills, reflecting the way in which the sector operates in reality.

As growth is driven by new start up businesses, one of the challenges for the sector and for those who engage with it is in encouraging longer term growth and in overcoming some of the challenges that the sector is facing, such as strategic development, business planning

and financial management. Further consideration needs to be given as to how far the sector has unique needs that a generic response cannot address and how far the public sector should offer more specialised services without which growth would not happen.

The Government believes delivering services in partnership ensures a more effective approach for the practitioner who gains from a variety of organisational expertise; there is a need to ensure a more seamless journey for those accessing services. We need to ensure that the way the public sector supports and responds is effective in facilitating growth in this sector, enabling it to deliver its potential. The pace of change in the sector is a key challenge to ensuring that the public sector interventions are designed to be flexible to help the sector make the most of the opportunities of change.

Part of the work of the Scottish Creative Industries Partnership will be to map existing support, intervention, and impact, helping to address gaps in current provision and helping to judge what needs to be done to ensure public sector intervention is as effective as it can be in supporting creative practitioners. Anecdotal evidence suggests that creative practitioners do not feel that the intervention recognises the particular needs of their sector or potential for growth and that there are gaps in provision. However, given public sector resources will always be finite, there will be a need to take difficult decisions over prioritising support, to ensure that its limited resources are used in the most effective way to foster sustainable economic growth. The work of the Scottish Creative Industries Partnership, informed by the sector will identify priorities, actions and resource needs for sectoral development.
5. International Perspectives

The UK has the largest creative industry sector in the EU and relative to GDP probably the largest in the world. (Staying ahead – the economic performance of the UK’s creative industries - Work Foundation 2007)

- **Comparisons from European Union** – this 2006 report commissioned by the European Commission demonstrated that the cultural and creative sector is growing and developing at a higher pace than the rest of the economy, also in terms of employment, and can be seen to drive economic and social development and innovation. In 2003, the sector had a turnover of more than Euro 654 billion, contributing 2.6% of EU GDP. The sector's growth was 12.3% higher than the growth of the general economy. Whereas total employment in the EU decreased in 2002-2004, employment in the cultural and creative sector increased by 1.85%. Furthermore, the sector serves as a tool for social integration and territorial cohesion, and can contribute to sustainable development and societies.

- **Worldwide comparisons** – we have done a recent literature review looking at the approaches towards creative industries and their potential in other countries. Further work on the policy response of other governments will be valuable in identifying common themes and international practice, however it should be noted that these give limited insight into the effectiveness of the interventions taking place in these countries. For example,

  - New Zealand has identified the creative industries as one of three industries that offer the greatest potential for economic growth along with ICT and biotechnology. Since 1994, they have developed a government wide approach to creative industries and formed Creative New Zealand as its main instrument for developing policy and delivering funding. Policies, combined with political support and cultural leadership, is proclaimed to have contributed to strong economic growth particularly in the film industry.

  - Australia too sees its creative industries as key and supports them through its national cultural policy, Creative Nation. It has recently established an innovation centre to help boost the productivity of businesses in the creative sector.

  - Research in the Netherlands and Sweden has suggested that given the heterogeneity of creative industries and the different ways of working and constraints faced, specific policies tailored to individual subsectors are more effective than those attempting to stimulate growth as a whole.

  - Recent discussions with those involved in the creative industries in the USA (the Center for Urban Futures, a New York Think Tank and others) show creative practitioners face similar challenges around the need for improved business skills and the ability to plan for future activity. Policy responses include providing work space for freelancers with advice and support available, networking opportunities, supporting mentoring and offering graduates tax incentives.

  - With a history of creativity and innovation all across the country, Scotland is also a member of the international Districts of Creativity Network. As cross-border collaboration contributes to a creative and entrepreneurial environment, along with eleven other creative regions from three continents, we share experience with our partners and participate in joint projects to foster innovation, creativity, internationalisation and entrepreneurship.
The most recent GDP data shows that output in the creative industries key sector fell during the first quarter of 2009, down 0.9%. However, this fall was of much smaller magnitude that measured across the Scottish economy as a whole, which fell 2.4%.

Despite this small fall in output, the sector maintained positive growth in year on year terms, at 3.0%. This compares favourably to the economy as a whole where output fell by 1.2% in year on year terms.

**Enterprises (2008)**

In 2008, there were 8,485 registered enterprises operating in the Creative Industries sector, representing 5% of all registered businesses in Scotland. The number of enterprises in the sector has increased by 27% over the last decade compared to growth of 4% across all industries in Scotland.

The creative industries sector is characterised by small businesses. In 2008, 97% of enterprises were small (0-49 employees). Splitting this category further shows that 60% of creative industries enterprises had zero employees whilst 37% of all creative industries registered enterprises had 1-49 employees. Despite accounting for the majority of enterprises, small firms accounted for just 36% of employment in the sector. Conversely, whilst large firms (250+ employees) represented just 1% of enterprises in the sector, they accounted for 52% of employment in 2008. Medium sized firms (50 - 249 employees) accounted for 2% of enterprises and 11% of employment.

The majority of enterprises in the sector are Scottish-owned (97%), accounting for 69% of employment. 2% of enterprises have ownership based in the rest of the UK and comprise 13% of employment in the sector. Foreign-owned firms represent just 1% of enterprises, but account for 19% of employment.

The Labour Force Survey which samples households and individuals shows that around a fifth to a quarter of the creative industries workforce is self employed. That is more than double the average for all industries across Scotland.

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13 Note that this data only covers registered enterprises – i.e. those that are registered for VAT and/or PAYE. Therefore small companies not registered for either are not covered by this data.
Turnover and GVA (2007)

The latest available data show that in 2007 turnover in creative industries stood at £5.2 billion, while GVA was £2.4 billion in that year. Over 1998 – 2007 turnover increased by 66% in real terms, while GVA increased by 54% over the same time.¹⁴

Looking at a sub-sector level, two of the sub-sector data are disclosive – Radio and TV, and Designer Fashion.

Among the sub-sectors where data are not disclosive, the computer games and software sector had the highest turnover and GVA in 2007, accounting for 32% of turnover and 42% of GVA in 2007.

Again, although comparable data is not available for some sub-sectors, among those where data is available, the greatest increases in turnover (in real terms) between 1998 and 2007 have taken place in the ‘music and visual and performing arts’ (137%) and ‘architecture’ (115%) sub-sectors. In terms of GVA, the greatest increases over the same period were in the advertising (137%) and ‘music and visual and performing arts’ (122%) sub-sectors.

Labour Productivity (2007)

Similarly, in 2007, GVA per employee are not available individually for the sub-sectors of Radio and TV, and Designer Fashion.

However, across the entire creative industries sector, average GVA per employee stood at £41,600 in 2007. This compares to £61,300 in the manufacturing sector and £29,500 in the service sector.¹⁵

¹⁴ GDP deflators have been applied to convert data into 2007 prices.
¹⁵ Note that the definition of service sector here excludes financial services and some parts of the public sector.
Looking at productivity over the longer term\(^{16}\), as the graph shows there is variability across the sub-sectors themselves and also across the years shown. Both in 1998 and in 2007, the computer games, software and electronic publishing sub-sector had the highest GVA per employee.

However, by 2007 the architecture sub-sector was just marginally below the ‘computer games, software & electronic publishing’ sub-sector (£60,600 & £60,800 respectively).

**Employment (2007)**

Creative industries accounted for a total of 60,700 employee jobs in Scotland in 2007. This is 7% of the GB total across these industries and is a 3% increase on 2006.

In terms of employment at the sub-sector level, as the figures aside shows the computer games, software and electronic publishing sub-sector is the single largest sub-sector, with 28% of employment in the creative industries sector as a whole. The designer fashion sub-sector is the smallest in 2007, with around 1% of employment.

**Exports (2007)**

In total, exports by the Creative Industries in Scotland increased by 36% (in real terms) between 2002 and 2007. Across the years shown, exports to the rest of the UK accounted for around two thirds of total exports, with the remaining third going to locations outwith the UK. In 2007, the value of exports to the rest of the UK was just over £2 billion, while exports outwith the UK stood at £1.1 billion.

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\(^{16}\) GDP deflators have been applied to original data to convert to 2007 prices so that real term comparisons can be made.