# Report Summary

# Access to Finance
# For the Cultural and Creative Industries
# In the South East of England

## Commissioned by

## Report Summary

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Commissioned by South East of England Development Agency (SEEDA) on behalf of the Creative Economy Partnership

Facilitated by South East Media Network (SEMN)

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December 2009

## Executive Summary

This report was commissioned by SEEDA through its Creative Economy Partnership initiative. The remit was to identify what challenges and gaps existed, if any, for creative businesses in the South East in terms of accessing investment finance. This was with a view to support their development and the sustainability of the creative industries sector as a whole in the South East of England. The methodology adopted was to summarise and review existing, published sources and so, as agreed, undertake only limited primary research.

The report focuses on identifying investment funds which are available to creative companies in the South East and the issues that affect a business's ability to access them. It identifies the challenges this raises and the resulting gaps in provision where public sector support could appropriately and effectively be introduced. It also summarises what specific creative industry funds are available in other nations and regions and how these are funded, managed and structured.

**3 Key Characteristics**

Three of the key characteristics of the creative industries which affect their access to finance are:

i. **Intangibles**
much of the value of the creative industries is vested in intangible assets, whose worth is difficult to calculate, predict or protect until commercialised

ii. **High Risk Profile**
particularly in the television, console games and film industries, high production costs increase the risk profile of investment – this is compounded by the fact that demand is heavily influenced by the subjective issues of taste and fashion

**iii. Distinct Growth Pattern High Risk Profile**
creative companies typically seek steady growth, with expanding and contracting employee numbers dictated by production cycles, rather than the conventional 'high growth' profile with relatively near-term exit strategies. The latter is an underlying requirement for most investment funds, except early stage R&D.

**3 Key Gaps**

Three key gaps in provision are identified:

**i. Lack of Finance: Creative Content IP Generation**
the lack of finance for creative content IP generation due to its high risk profile and its distinct business characteristics

**ii. Non-Technology Innovation Under-Funded**
the emphasis on technology in existing innovation funds means that all other forms of innovation are effectively under-supported

**iii. Need to Develop Investor and Investee Knowledge**
providing investors with an understanding of the market dynamics which typify the creative industries and ways to mitigate risk, and investees with an understanding of investor requirements and their assessment of risk and growth potential.

## 2 Key Areas of Intervention Recommended

To address the industry characteristics and gaps in provision identified above, and address increasing national and international competition, two major areas of intervention are recommended as follows.

### 2 Major Areas of Intervention Recommended

#### 1. Investment in Creative Content IP Generation & in Innovation

Providing investment finance in the South East region which is purposely designed and structured to take considerable risk directed at developing content (creative content IP) and finance which is directed at all forms of innovation in the creative industries, so not only technology innovation, and across all sectors of the value-chain.

#### 2. Integrated Sector Expertise Informing Investment Process

Offering a highly integrated model of sector expertise and advice to support, assess and inform applications enabling businesses to present a compelling investment opportunity. It is recommended that this is complemented by an investor and investee readiness programme which informs the investee on investor requirements, and the investor on sector characteristics and market dynamics informed by key players in the industry.

To implement these, it is recommended that SEEDA, in association with Finance South East, South East Media Network (SEMN), Screen South and Arts Council England in the South East work closely together to discuss how this financial provision for the South East creative industries could be introduced, integrated, embedded and seamlessly linked to the relevant regional support services and proactively communicated to the creative industries in the region. It is further recommended that this collaboration, which would enhance the individual expertise of each of these agencies and deliver an effective, streamlined service to the industry, is continued during the implementation process itself.

# 1. Main Sector Issues

The creative industries are based on individual creativity, skill and talent. They are also those industries that have the potential to create wealth and jobs through developing intellectual property (IP). For the purposes of this study, the creative industries have been taken to comprise: performing arts; publishing; television and radio; computer and video games; film and video; interactive media: and, music. Access to finance is crucial for these – as for other industries. However the nature of the sector creates particular issues for creative companies seeking to access finance.

## Main Sector Issues: Accessing Finance

Seven characteristics of the creative industries particularly affect their ability to access finance and engage with financiers. They are summarised below under the headings: beyond growth; flexible company size; intangible assets; high risk profile; historic link to trade finance; blending cultural enterprise with creative industries; and, under-developed skills in financial presentation.

### i. Beyond Growth

- Growth in the traditional economic sense of a linear increase in turnover and employee levels is not necessarily a primary aspiration for many creative companies, where the intrinsic quality of a product, job satisfaction, independence, freedom of creative expression and company resilience are more importance than quantitative growth. Some SMEs, for example, may prioritise market position, servicing market niches and ensuring long term sustainability over short term ambitions to expand. It can be argued that such business models and strategic aims ensure a vibrant and diverse sector which in turn provides for a more buoyant sector overall.

### ii. Flexible Company Size

- Film, television and games companies tend to have a small core of employees during pre-production and post-production hiring significant teams only during the actual production process, so expansion and contraction of employee numbers is cyclical. Progressive expansion is more typical in other industries.

### iii. Intangible Assets

- With creative content companies value is primarily locked in IP assets, brand recognition and employee talent rather than any physical assets making conventional valuations of company worth largely inappropriate. Finance is hard to obtain from traditional sources as so many creative businesses have few fixed assets and their intangible assets are difficult to value until they are marketed.

### iv. High Risk Profile

- Production budgets in the feature film and console games industry are substantial, in the feature film industry ranging from £1 million[1] into tens of millions. This

[1] Note: Although a low and micro-budget feature film sub-sector is emerging, with budgets from almost zero up to £1 million, the commercial viability of this sub-sector - other than as an arena for testing and developing talent - is subject to lively debate. Its relevance may well grow however in the coming years.

coupled with the 'hits' driven nature of these businesses gives these companies a high risk profile. Traditionally production companies have been required to cede ownership of IP in return for a high risk investment placing them in a weak negotiating position. Investment in those two industries is still typically made by the multinational corporate publishers – in the film industry for example mainly the Hollywood studios such as Warner Brothers or Miramax - which are highly capitalised, own the means of distribution and can exploit assets across multiple platforms, territories and different creative forms.

### v. Historic Link to Trade Finance

- Traditionally much content development and production funding has been provided by the trade itself, by publishers and distributors with relatively little provided by private equity houses, business angels, venture capitalists or other financial institutions. This has meant that creative companies have not needed to develop the private investor presentation skills that the financial markets demand. This is changing however as new business models driven by digital and online developments disrupt this conventional model.

### vi. Blending Cultural Enterprise with Creative Industries

- Engagement in cultural enterprise (eg, dance, music, theatre, video) often provides a 'training ground' for talent that develops commercially into a creative business thus providing a transition route from amateur performance to professional operation, perhaps most obviously in the performing arts and music. But if investment is sought at any point both the creative and the investor concerned have to be clear whether this is primarily a cultural investment or a commercial investment. Arguably blurring those objectives weakens the potential and rationale for both forms of investment.

### vii. Under-Developed Skills in Financial Presentation

- Traditionally the creative industries are a sector where the individual's primary asset is their creative talent rather than their business acumen, hence the importance of business managers to protect IP and/or attract investment. This demands discovering and protecting the commercial value of the content created, and developing a clear and consistent message about this value to potential investors. Because of the tradition of trade financing, eg, through broadcasters, games publishers and film studios, companies have not needed to develop financial presentation skills. However the consensus is that creative businesses need to present themselves now in a way which makes them much more attractive to investors. In turn, investors need to understand the distinct characteristics of the creative industries and how investment risk in this industry sector may be managed.

# 2. Challenges & Gaps in Provision

Given the issues identified in Section 1 above, the following challenges and gaps in provision can be identified.

## Challenges

When looking at the ability of the creative industries – and in particular those companies concerned with generating creative content – to access conventional loan and equity finance, five key challenges have been identified.

These are summarised below under the headings:

i. technology emphasis
ii. funding escalator
iii. high growth requirements
iv. perception issue
v. artistic considerations.

### i. Technology Emphasis

Historically the concept of innovation has been inherently associated with innovation in the fields of science, engineering and technology, specifically excluding what are now termed the 'creative industries'. This legacy is reflected in the fact that public sector funds available to support R&D and innovation tend to be largely, if not exclusively, science and technology orientated.

So, for example, the UK government's key vehicle for supporting and facilitating innovation in UK business – the Technology Strategy Board (TSB) – has a remit to stimulate technology enabled innovation, promoting, supporting and investing in technology research, development and commercialisation. So although the TSB does identify the creative industries as one of its priority sectors, especially the 'technologically-aided' sub-sectors (essentially excluding only the arts, antiques and crafts), it invests (only) in hardware and software technologies engaged by the creative industries in production and distribution, and not in content creation itself (see below for distinction).

| | |
|---|---|
| Content Creation | Computer games; radio and audio; photography and digital imaging; music, mobile content, film and video, television, |
| Digital Technologies | Playout devices including games consoles, entertainment systems, set-top boxes and ipods; Networking facilities including wireless and wifi, broadband, syndicated gateways, dark fibre, cable and satellite; and, Enabling Software including e-commerce; content management systems; metadata, middleware, and streaming technologies. |

Similarly NESTA, the National Endowment for Science, Technology and the Arts, funded through a government endowment, has a core remit and mission to make the UK more innovative. It does have a series of support programme which encourage innovation in the creative industries but its primary investment vehicle, the NESTA Venture Capital fund, is focused on investment in companies “across the technology spectrum with specialists in the team focused on three sectors: Healthcare, Cleantech and ICT”.

So R&D, innovation and commercialisation funds predominantly support innovation in digital technologies in the UK and tend to exclude innovation and commercialisation in content creation.

### ii. Funding Escalator

This exclusion from technology focused innovation funds has a critical knock-on effect. For if companies are effectively excluded from accessing first stage finance, then this makes it more difficult to access second stage finance and so to progress up the ‘funding escalator’. It is possible that the first stage could have been self-financed but this does not demonstrate the ability and skills to attract an external investor and so build a track-record of credibility in the business investment market.

### iii. High Growth Requirements

Investment capital is designed to underwrite risk and generate a return on investment for the investor, whether in the form of debt interest or company equity. Fund managers therefore focus on companies with ‘high growth potential’ equating robust and sustained expansion with a higher probability of a secure return.

But in the case of companies focusing on creative content there is a complex relationship between the creation of a particular product – television programme, game or film – and the growth of the company. This can lead to the cyclical growth / contraction / growth pattern referred to above (section 1 under ‘flexible company size’). Such an ‘unorthodox’ approach to company development can make it difficult to build understanding (and therefore access to finance), and so presents challenges for managers of investment funds - even when companies are actively developing properties with strong commercial potential. This suggests that both investors and investees need to work to build an understanding of this industry characteristic and so remove the associated barriers in accessing finance.

### iv. Perception Issue: Not a Serious Businesses

There are two issues around perception. First there is a strong, mutually beneficial overlap between the not-for-profit, cultural enterprise sector and the for-profit, commercial creative industry sector, with the first often acting as a ‘talent feeder’ for the second. However if these two sectors are merged and blurred in an investor’s mind – or indeed if the company seeking investment does not overtly demonstrate commercial ambitions and set out clearly the benefits of this mixed economy in their business strategy – then the company can be dismissed in a conventional investor’s mind as not a ‘real business’. And second, this perception has traditionally been reinforced by the cultural gap between corporate financiers or ‘city types’ and creative entrepreneurs or ‘creative types’. Consequentially various reports have commented on the need for financiers to understand the nature,

dynamics and risk profile of the creative industries and the creatives themselves to understand the language, culture and requirements of investors.

#### v. Artistic Considerations – A Matter of Taste

One of the factors leading to a high risk profile for content creation in the creative industries is that, being artistically driven, they are subject to the whims of taste rather than the more objective test of utility. This risk is obviously increased where larger investment sums are sought, typically in television drama, feature film and console game production, and the market is underpinned by a 'hits' driven culture. Because the market is so subjectively driven by matters of taste and fashion, market reach and other 'conventional' business planning techniques are of limited use in attempting to quantify or reduce the inevitable risk of developing, producing and selling any creative product. Many investors tend to apply standard assessment techniques and generic market considerations, rather than tailored skills, in assessing proposals from creative industry companies.

## Gaps

From the sector issues discussed in Section 1, and the challenges for the creative industries identified above in this section, five specific gaps in finance can be pinpointed.

They are:

i. Content Creation Companies: Lack of Available Investment Finance
ii. Lack of Sector Expertise Assessing Risk
iii. Erosion of Traditional Funding Sources
iv. Lack of Funding: Innovative Business Models Online
v. Cross-Sector, Multi-Platform Propositions: Under-Funded Innovation

#### i. Content Creation Companies: Lack of Available Investment Finance

In terms of investment requirements, creative companies fall into three broad categories:

| | |
|---|---|
| . content creation companies | - creating the assets |
| . service companies | - supporting asset creation |
| . publishing and distribution companies | - bringing the assets to market. |

So first, there are companies creating the assets, that is developing IP often singularly distilled into a computer game, a book, a film or a piece of music, or distilled into multiple formats over different 'platforms' as cross-platform propositions. In the computer games, film and television world, companies can contain risk by building on already successful formulae (eg, film sequels, TV formats with minor variations), but this is at the expense of new innovative IP.

Second, there are service companies - advertising and design companies for example - whose work is funded by client commissions and driven by client demand. This is relatively low risk activity in purely investment terms. It is possible to start small and grow organically on retained earnings and debt finance, and manage expenditure in a way which matches

revenues. In addition existing grants may be accessed to ease cashflow pressures through, for example, providing working capital.

Thirdly, there are publishing and distribution companies bringing the assets to market. Typically this activity is less high risk than content creation itself unless the publisher is a new entrant in the market with an unknown brand and/or is introducing a new business model. Larger companies in this space have traditionally sought debt and equity finance from conventional investment sources.

Companies marketing digital technologies can be regarded as service companies in this context. Their products, platforms, protocols and applications provide the hardware and software to enable the production, publication and distribution of creative works. For companies actually developing those technologies, R&D and Commercialisation Funds are available to service their investment needs including the Seed, Commercialisation and Acceleration Funds provided by Finance South East.

So the key area where risk is high and under-investment evident is in the content creation companies. These are the companies that have difficulty in raising finance independently of industry publishers and distributors. Apart from the Creative Arts Investment Network (CAIN), very little of what is currently provided by business angels, venture capitalists, private equity houses or other financial institutions is specifically geared to the requirements of these commercial, market-orientated South East companies.

This is true for film and television companies in the South East. It is echoed by the performing arts sector where the main unmet financial need is the availability of high-risk development finance to take projects to a point at which they can be presented to investors for production financing.

Provided the company shows evident financial ambitions, funding early stage prototypes places it in a stronger position to access follow-on development and/or production finance from public and private financiers. This is one area where public sector finance could enable risk taking and also the company to retain a percentage of IP ownership and so a percentage of return on investment.

### ii. Lack of Sector Expertise Assessing Risk

Established commercially viable creative companies often hold the view that current financial systems are not working because, regardless of the current economic climate, the 'decision makers' within the financial institutions are not equipped to calculate the real level of risk or to make informed decisions in these specialised, creative industries.

As the Tom Fleming Report noted in relation to the South East Accelerator Fund[2]

> *"[its] non-sector focus means that creative industries propositions struggle in competition with propositions from other sectors where more intelligence is available to assess risk and thus more confidence is apparent in undertaking investment. This is in part because the expertise is not available to assess the risk profile of creative propositions."*

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[2] Quote from p.18, in *'An Investigation into Developing a Fund for the Creative Industries in the South East: Potential Options, Tom Fleming Creative Consultancy'*, August 2005

Providing the intelligence and expertise to assess risk is therefore essential.

This is reflected in the commentary on the CAIN website:

*"A critical factor in its success to date has been the establishment of a CAIN Forum, a team of sector specialists covering each of the Network sectors, which works with CAIN to assess the creative and business potential of the propositions submitted. It is working with the Forum that gives CAIN its unique positioning in the creative arts sector as the business angel network with a panel of sector specialists who undertake an informed analysis of all potential presentee company propositions as part of the investment readiness process."*

### iii. Erosion of Traditional Funding Sources

This pertains particularly to the television industry. Over the past decade, traditional models for financing television production and development have been eroded. Access to development finance, as distinct from production finance, from broadcasters is now very rare. The commissioning of high quality drama in particular is plummeting so there is now almost no market. Outside of the BBC, finance for some genres of production is very difficult - notably, but not exclusively, high end drama and children's programming.

Looking forward, the interconnection of linear, broadcast television and a whole range of mobile and online platforms will create opportunities and challenges for the independent sector which traditional sources of finance – whether from broadcasters or equity sources – do not appear to be able to meet [3] (see point v. below). There is also a continuing need for independent content production companies to access finance which allows them to retain ownership and control, at least in part, of the IP in products which they produce.

### iv. Lack of Funding: Innovative Business Models Online

The development of the internet, together with relatively low cost production equipment, has provided music, film and game producers with the possibility of marketing and distributing their creative products directly to their customers. Essentially then producers have experimented with becoming their own publishers, marketers and distributors and retaining their own IP. Clearly this requires financial capital to cashflow the venture and underwrite risk exposure. This is a disruptive business model which therefore subverts traditional industry structures and conventional funding mechanisms.

Developments online over the last three years, especially with the growth of social networking and online tools for tracking and analysis, have enabled a novel approach in, for example, low budget independent film-making. Typically this uses a combination of company debt finance and individual investments (eg, 'crowd finance', small investments by a large number of individuals seeking to support the film theme and/or the production team), to underwrite and cashflow production. This is combined with an online film distribution strategy complemented by company-produced DVDs and selected cinema screenings under the direct control of the production company.

This approach effectively transcends any need for engagement in the traditional studio system which dominates feature film production and distribution and requires film

[3] Channel 4's 4iP fund is designed to fund innovations in this area: however the fund takes an aggressive stance on IP – taking a controlling share in the IP of projects it funds – and consequently is of limited use to companies seeking to develop market viability.

production companies to cede ownership and control, either in whole or in part. This is most definitely a niche development at the moment in its early experimental stage with few established routes to generating revenue from content. However it shows the potential of the internet to produce radically different business models. This is an area where innovative content development and novel business models could be encouraged through seed funding.

### v. Cross-Sector, Multi-Platform Propositions: Under-Funded Innovation

There is potential for investment in innovative mobile, online and cross-platform propositions, especially when they fall between the 'stools' of single industry investment schemes, but this requires investors and investment schemes which understand this market, its complexities, and its inherent potential.

For example, one of the specific investment gaps in the television industry is for non-broadcaster finance and, in particular, for enabling IP ownership of content for new platforms – mobile and online. The introduction of the new terms of trade in the 1990s which enabled independent production companies to retain IP ownership, at least in part, in relationship to a single platform, ie, TV programmes, has had a profound effect on the valuation, sustainability and/or growth potential of independent production companies.

If those companies can disseminate their existing IP across other channels and/or modify their creative proposals for a diverse channel distribution, then they can potentially augment their income, diversify their future revenue streams, reduce risk exposure in any one market, and so enhance their asset value and company valuation. Additionally, in so doing, they build competence, knowledge and intelligence around the commercialisation of cross-platform propositions.

# 3. UK National and Regional Responses

*"Some commentators might argue that the growth of the [creative industries] sector over recent years suggests that no action needs to be taken, that the public sector should not be seen to try to 'direct' investment into new businesses, and that 'the market' should be left alone. After all, they note, if this sector has such potential then private investors will – given time – seek out their own opportunities within in.*

*The problem with this argument is that we live in a competitive world. We are increasingly aware – in part through research studies such as this – that other countries have adopted alternative approaches to developing their own creative industries, and that some of these approaches appear to be paying dividends. Meanwhile, in the UK, many creative businesses remain under-developed, their potential for growth unrealised. Most private investors are still unfamiliar with the sector, their wariness about investing unresolved. The result is a classic vicious circle of reduced growth, failed enterprises, and continued investor reluctance."*

*Source: 'Creating Value: How the UK can invest in new creative industries'*, NESTA, 2005

Apart from the Creative Arts Investment Network (CAIN), sector specific funding for the creative industries sector accessible to South East companies comes almost exclusively from public sector agencies, specifically the Arts Council England (particularly for music, literature and the performing arts), UK Film Council (for feature film) and Screen South (primarily feature film). Although it itself has no funds to invest in regional companies, SEMN plays a vital role stimulating and supporting an investment culture in the digital content sector.

In most other UK nations and regions, specific circumstances and the availability of funding have enabled the Screen and Digital Agencies to develop interventions to encourage creativity, entrepreneurship and sustainability in the screen industries (usually defined as film, television and games). These sector specific funds have been set up jointly with the national/regional development agencies and often access European Regional Development Fund (ERDF) finance[4]. They are the result of often substantial research into the need of the screen industries nationally and in each nation or region.

An indicative range of these funds is provided on the following page. This is by no means comprehensive but indicative only.

These sector specific funds, their investment levels, sources of money, industry focus and criteria are briefly noted on the following page. Typically these separate funds have been sourced primarily from ERDF, economic development agency, and/or Lottery funding; have a minimum investment level of £10,000 and a maximum of £500,000 (more exceptionally); are structured as loan or equity finance; and, have annual funding in the region of £2 million. Importantly too, the funding criteria identifies benefits beyond purely the applying company's financial return on investment. These wider benefits include: regional talent uplift; increased inward investment; cultural impact; and, benefit to the local economy.

[4] The South East doesn't qualify for these funds due to its relatively buoyant economy.

Table: Overview: UK Public Sector Investment in Screen / Content Industries – Illustrative Summary

| | Total Funding pa | Maximum Investment | Sources of Money | Investment Platforms | Criteria |
|---|---|---|---|---|---|
| **EM-Media Investment Fund** | £2.3m | 250k | Lottery, ERDF, EMDA | Film, Television, Games, Interactive | Contribution to EM Media's objectives, Risks, Financial Package |
| **North-West Vision Regional Attraction Fund** | c. £750,000 | 250k/25% | NWDA | Feature films, Television | Be based in Merseyside, or working with Merseyside company; Benefit the Merseyside economy; Development of the film/television/digital media industries in Merseyside |
| **Northern Ireland Screen Fund** | c. £2m | 800k | Lottery, Invest NI | Feature films, animation, television drama, new media | Applicants must have 65% of total budget, cultural relevance to NI |
| **Scottish Screen Content Production Fund** | £1.9m | £500k/25% | Scottish Executive, National Lottery | Feature films, animation, feature documentary | Cultural impact, creative impact, business development/ project delivery, project & market readiness |
| **Scottish Screen Digital Media IP Fund** | £3m | £375k (50%) (from £10k) | Scottish Enterprise & Creative Scotland Innovation Fund | Digital interactive media content | Co-investment from private sector, commercial viability, ability to generate revenues for Scottish companies |
| **Screen West Midlands Media & Production Fund** | c. £1.5m | £300k/25% | ERDF, UK Film Council | Feature films, interactive games, TV dramas | Benefit to regional talent; Economic benefit to the region; Recoupment for SWM; Regional theme; Commercial viability; Quality of script and viability of project. |
| **Screen Yorkshire Production Fund** | £1.25m | £600k loan against producer's tax credit; £250k equity | Yorkshire Forward | Feature films, television, video & computer games, new media | Creative content, commercial viability, ability to deliver, impact on company, inward investment, jobs created, benefit to regional production sector |
| **Screen East Content Investment Fund** | £2.25m | £250k / 40% | ERDF | Film, TV, Digital Media | Quality of project, financial viability, ability & commitment, industry |

Cont/

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Table: Overview: UK Public Sector Investment in Screen / Content Industries – Illustrative Summary

| | **Total Funding pa** | **Maximum Investment** | **Sources of Money** | **Investment Platforms** | **Criteria** |
|---|---|---|---|---|---|
| **West Midlands**<br>**Advantage Creative Fund** | £5.4m over 2 phases | £ 250k equity investment (minimum £10k) | ERDF, ACE, Advantage West Midlands | All businesses in the creative industries sector | Market acumen, financial ambitions, appetite for risk, profit and growth orientated. Be West Midlands based.<br>Aim is to strengthen and develop the creative industry sector throughout the West Midlands. |
| **London**<br>**Creative Capital Fund** | £6.5m equity fund total | £500k (50%) (from £75k) | ERDF, London Dev.Agency | All businesses in the creative industries sector | SMEs with high growth potential and strong financial ambition; exit position in 3 – 5 years out<br>Based Greater London (all London boroughs) |
| **North East**<br>**Design & Creative Investment Fund** | c. £3.5m | £60-£120k (£93k average) | One North East (RDA) | Advertising, performing arts, publishing, new media, games and software, film, TV and video | Applicants must have 65% of total budget, cultural relevance to North East |
| **Wales**<br>**Wales Creative IP Fund** | £2m | £500,000 | Finance Wales | Film, TV, games, music | Return on its investments; increased production activity in Wales; competitiveness; creation and retention of IP; increase inward investment |

These schemes seek to:

- make significant investments into market-orientated film, television, music, games and digital media projects
- make a commercial return, and/or
- promote sustainable film, television, music and digital media industry sectors in their nations/regions.

All the funds work on an investment basis for content development and production. However only a minority of the funds, like the Wales Creative IP Fund, have a requirement to make a financial return into the fund as their primary aim. Therefore depending on the origin and motivation of the fund creation, funds may prioritise benefit to the screen economy (whilst also seeking a return on investment) and may accept a softer recoupment position if the proposition has a strong creative and/or economic benefit to the nation/region.

A notable feature of all of the UK funds summarised above is the extent to which they cross-refer projects and companies between production funds and other support services offered by the same agency or its partners. These services include script/concept and project development, company support and investment (for example business planning training, targeted soft loan investment to assist in the recruitment of key staff, or market intelligence support). This cross-referral is fruitful in bringing about investment-ready projects, and is a desirable feature of the investment landscape.

Most of the funds are relatively young having been created in the last three to five years. It is too early to make a valid assessment of their long-term success in delivering a return, whether that return is couched as capacity building, sector profile, innovative activity, talent development, sector strength, sustainability and/or an individual company's financial returns.

# 4. Conclusions and Recommendations

The sections above have identified the following creative industry issues, challenges and gaps in accessing finance. These are presented below in summary form.

### Creative Industries: Issues in Accessing Finance

| Issues | |
|---|---|
| beyond growth | financial motivation may be only one of many business ambitions |
| flexible company size | expansion and contraction cycles typify content creation companies |
| intangible assets | value is primarily locked in intellectual property<br>few fixed assets, intangibles difficult to value till marketed |
| high risk profile | often a hits driven business with high production costs |
| historic links to trade finance | particularly television and games industries and so a lack of experience engaging with public / private sector finance |
| blending cultural enterprise and creative industries | these sectors have complementary but different commercial instincts |
| under-developed skills in financial presentation | limited networking between creative industries and financiers / investment markets |

### Creative Industries: Challenges and Gaps

| Challenges | Gaps |
|---|---|
| Technology Emphasis | Content Creation Companies: Lack of Investment Finance |
| Funding Escalator | Lack of Sector Expertise Assessing Risk |
| High Growth Requirements | Erosion of Traditional Funding Sources |
| Perception Issue: Not Serious Businesses | Lack of Funding: Innovative Business Models Online |
| Artistic Considerations: A Matter of Taste | Cross-Sector, Multi-Platform Propositions:<br>Under-Funded Innovation |

These five gaps can be clustered around 3 substantive issues as follows:

Gap Issue 1: Addressing the Lack of Finance for Creative Content IP Generation

. The lack of finance for creative content IP generation due to its high risk profile and its distinct business characteristics: this has been exacerbated in the recent past by the erosion of traditional funding streams from within the industry itself

Gap Issue 2: Expanding the Concept of Innovation in Public Investor Funds

. The emphasis on technology innovation in existing funds means that all other forms of innovation are effectively under-supported: this means under-investment in creative industries innovation around, for instance, business models (eg, for distribution online), formats (eg, for individual television programmes or online games) and partnerships (eg, for cross-sector and/or cross-platform propositions)

Gap Issue 3: Upskilling Investors and Investees

. Providing investors with an understanding of the market dynamics which typify the creative industries market and ways to mitigate risk, and providing creative companies (ie, potential investees) with an understanding of investor requirements and their assessment of risk and growth potential.

In addition, the definitions of 'high growth companies' most frequently used in public sector investment finance implicitly puts businesses which pursue different growth models/profiles at a disadvantage. It effectively excludes companies which offer that different growth model as an economic outcome. Arguably steady growth, or patterns of expansion/contraction/ expansion to accommodate cycles of production - more typical in the creative industries - potentially offers a more stable and sustainable business development profile and one that is less volatile.

## Responding to Challenges and Gaps

Responding to these three gap issues would support creative IP creation in single medium, and/or in cross-platform propositions, enabling businesses to retain at least part of the IP they generate and enabling them to develop an asset base which is critical for future company development. This reflects the one area of the creative industries where market failure has been consisted reported.

This focus on IP creation and retention is important: first because it's where one of the two critical gaps exists, and second because it's the source of asset growth for creative content companies.

> *The central issues in financing and economic terms is control of IP. It is vital for content companies to retain some IP in their enterprise in order to generate meaningful profits to fund future growth. For unless IP is retained in a content business it will always essentially be a work for hire or project fee-based operation with no intrinsic assets which will generate company value and enable the leverage of future investment.*
>
> Source: Presentation & Discussion Session, DCMS Cabinet Forum event, 26th October 2009

Additionally it is recommended that finance be available to support innovation across all the sectors of the value-chain. The development of digital technologies and online content distribution in the last five years had already, and will continue to, radically change the creation, publishing and distribution patterns which are commercially viable within the creative industries. Traditional publishers and distributors, most obviously in the music and print industries but increasingly in film and television, are now consistently being challenged to adapt their business models to accommodate the characteristics of online distribution and new disruptive approaches. In order to maintain viable businesses and a healthy trading ecology, it is important to support innovation in this sector and thus the growth of future orientated companies in the South East.

## Recommendations

This report arrives at two key recommendations, the purpose of which is to drive sustainable economic development and maintain a competitive creative industries sector in the South East.

**- Investment in Creative Content IP Generation & in Innovation**

Providing investment finance in the South East region which is purposely designed and structured to take considerable risk directed at developing content (creative content IP): also finance which is directed at all forms of innovation in the creative industries, so not only technology innovation, and across all sectors of the value-chain.

**- Integrated Sector Expertise Informing Investment Process**

Offering a highly integrated model of sector expertise and advice to support, assess and inform applications enabling businesses to present a compelling investment opportunity. It is recommended that this is complemented by an investor and investee readiness programme which informs the investee on investor requirements, and the investor on sector characteristics and market dynamics informed by key players in the industry.

It is recommended that these developments should be pursued in the context of wider UK developments, including:

- the recommendations in the *Creative Britain* report
- thinking embedded in the *Digital Britain* report
- the Government's *New Industries, New Jobs* (NINJ) agenda
- the new structuring of Arts Council England and the implications for the South East of England in terms of its structure, resources and priorities
- the UK Film Council and its revised business plan, including for example the proposed digital innovation fund.

Finally too that they should be pursued collaboratively by:

- the main creative industries agencies in the South East – South East Media Network, Screen South and Arts Council England SE
- Finance South East, the public investment agency in the South East
- a representative of the Creative Economy Partnership and its Finance group.

# Appendix:

# Report Commissioner, Facilitator and Authors

**Report Commissioner**
**SEEDA and the Creative Economy Partnership**

In February 2008 DCMS and BERR published *'Creative Britain: new talents for the new economy'.* In response to this report the South East of England Development Agency (SEEDA) set up the Creative Economy Partnership (CEP) to bring together partners who are concerned with supporting the development of the creative industries in the South East. The group addresses a number of key issues for the sector – one of which is access to finance. Through the Finance sub group the Partnership looked to assess the current situation for the sector and make recommendations for enhanced support. In order to do this it commissioned this piece of research drawing together existing knowledge and intelligence.
Contact: seeda.co.uk, +44 (0)1483 484200 (SEEDA HQ)

**Report Facilitator**
**South East Media Network (SEMN)**

SEMN is a member of the CEP and its Finance sub-group is chaired by SEMN's Chief Executive. Core funded by SEEDA, SEMN exists to support digital content companies in the South East of England to win more business, be more profitable and grow globally. Digital content covers a diverse and converging sector which includes: content software, computer games, e-learning, electronic publishing, film, mobile content, website content, music, radio programming, television and web applications. It now encompasses most of the creative industries which are increasingly digitally defined. SEMN runs events supporting a portfolio of activities including: R&D collaborative partnership formation; innovation and commercialisation; access to public and private sector finance; cross-platform business development; international trading relationships; and, securing international distributors and product licensees.
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## Report Co-Authors

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**Chris Chandler** has extensive experience of the public sector's engagement with the creative industries. He has worked with a wide range of public, private and voluntary sector cultural organisations on the development of strategy, business planning and operational delivery, and on evaluation of major national programmes. Formerly Head of UK Partnerships at the UK Film Council he managed partnerships with organisations including regional and national screen agencies and First Light. He led on the creation of strategies for nations and regions, creative industries investment, film heritage, film education and audience development. Having started his working life as a stage manager and lighting designer in the theatre, Chris has worked in local authority arts management and for the BFI.
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**Kay Henning** has a wide range of operational and strategic experience within the creative industries. She initially headed up a university publishing operation commissioning and publishing video, audio and text materials subsequently moving into a senior business development role within the consumer publishing division of BBC Worldwide. On becoming Director of Catalyst Media, she led on the creation of a series of business development strategies including the operation of Media Technium, a hothouse facility for budding media entrepreneurs, for the Welsh Development Agency; The Cube, a commercial incubator for digital content, for Scottish Enterprise; and, FutureLab, engaging innovative technologies and practices, for NESTA in association with their project development team. For over 10 years, Kay has worked with programme directors, studio owners, media centres, screen agencies, creative consortia and economic development agencies to support the creative and economic development of media and entertainment companies across the UK.
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