

GOVERNMENT RESPONSE TO CMS SELECT COMMITTEE REPORT ON SUPPORTING THE CREATIVE ECONOMY: THIRD REPORT OF SESSION 2013-14

Introduction

The Government welcomes this Report and the Committee's recognition of the cultural and economic importance of the creative industries to the UK. They are a great success story for the country, playing a key role in its securing economic growth. We also welcome the level of response to the call for evidence – a testament to the scale and diversity of the sector and its willingness to engage in the debate on its role in the UK economy.

DCMS and the Government overall remains wholly committed to helping the creative industries maximise their economic success, through establishing the right business conditions to help them thrive, identifying opportunities and mitigating barriers to growth, in areas such as tax, exports and inward investment, education and skills and access to finance. We are working hard with industry to develop its strategy for growth, building on the good work already being undertaken by the Creative Industries Council and its sub-groups.

The Government's response to the Report's conclusions and recommendations is given below.

Olympic & Paralympic Legacy

1. We welcome the efforts of UKTI to promote the UK creative industries overseas and believe international trade missions should contain wide cultural representation. The greatest effort should continue to be directed towards ensuring that UK creative talent and businesses are assiduously promoted not only by UKTI but in all work to promote British business overseas.

(Paragraph 14)

UKTI is working closely with the sector and across government under the GREAT campaign to ensure that the creative industries are promoted with impact internationally and benefit where possible from promotion of business alongside culture. New initiatives which heavily feature the creative industries include the GREAT Weeks which provide high profile and prestigious overseas missions to the world's fastest growing markets including Vietnam, Japan, Mexico, Russia, Brazil, Hong Kong, UAE, South Korea (and China, Turkey and USA dates to be agreed). UKTI's new Sector Advisory Group led by Tim Davie, BBC Worldwide and Ed Vaizey, Minister for Culture, Communications and the Creative Industries, met for the first time in November and will seek to ensure a strategic approach that focuses effort on high value opportunities and delivering an effective programme of international activity.

The Prime Minister's visit to China in December, accompanied by Maria Miller and the new Trade Minister Lord Livingston, included a strong Creative Industries delegation. Ministers are keen to support creative industries companies when they travel overseas, for example the Chancellor of the Exchequer recently visited China with a Tech Delegation which included creative digital companies.

UKTI has led groups of creative companies to Brazil, South Korea, Taiwan, Dubai and Qatar to help capitalise on the global recognition of UK expertise in music, film, TV, architecture, advertising, branding and design. Similar missions are planned in Russia and Japan.

2. The excessive constraints imposed by the Olympic No Marketing Rights Protocol and the inadequacy of the Supplier Recognition Scheme mean that the benefits from the participation of UK businesses in the 2012 Olympic and Paralympic Games are not being properly realised. This deeply disappointing state of affairs endangers the economic legacy that British companies in the creative and allied sectors have a legitimate right to benefit from. It reflects badly on the wider Olympic movement that, in other contexts, is all too ready to celebrate individual and collective achievement. (Paragraph 17)

3. We recommend that the Government review, as a matter of urgency, whether the supplier recognition scheme can be improved to meet the objective of allowing British firms to promote their contributions to the 2012 Olympics and Paralympics. This is all the more pressing as firms throughout the UK seek to gain contracts for the next games in Rio de Janeiro. (Paragraph 18)

The Supplier Recognition Scheme is a first in the history of the Olympic movement, being the first time the IOC has allowed such a scheme, allowing suppliers to promote their involvement in a Games. More than 750 companies have been awarded licences to actively promote their role in supplying the Games in business to business communications, including at trade shows abroad. It has helped to contribute to the huge success of British business since the Games. More than £11 billion has been generated in trade and investment in just over a year. To date we estimate that UK companies have won over £130m in deals from the Brazil 2014 World Cup and the Rio Olympic and Paralympic 2016 Games. In Russia UK companies are estimated to have won 60 contracts already ahead of the Winter Games in Sochi early next year and the World Cup in 2018.

There are some categories of business which are excluded from the scheme. These exclusions are required to protect the ongoing legal rights of worldwide sponsors who helped pay for the Games. These categories include, as the committee report notes, 'audio, video and audio-visual equipment, recording devices, navigation equipment and cameras'. The exclusions are in place for legal

reasons – by virtue of its obligations to the IOC (and its own sponsors/licensees), the British Olympic Association (BOA, which manages the scheme) is unable to grant licences to companies who fall within these excluded categories.

The Committee refers to a comment by the Arts Council England to the effect that people can publicise their involvement in the Cultural Olympiad. Any supplier to LOCOG or ODA, *including* in respect of the Cultural Olympiad, needs to apply for a licence under the Supplier Recognition Scheme if they want to actively promote their involvement in London 2012, where their contract with LOCOG includes a ‘no marketing rights’ clause protecting the rights of Games’ sponsors.

Licensed companies are delighted with the scheme, and a survey carried out by the BOA of Scheme licensees found that 60% of respondents had won new contracts as a result of the Games and, of these new contracts won, 63% could be attributed to the Supplier Recognition Scheme. Of those companies which had won new contracts, over half were valued between £100k and £10m and the biggest contract, won by a construction firm, was valued at between £5m and £10m.

The sector has celebrated some notable successes. For example, during a trade mission led by Lord Coe to Brazil in March 2013, it was announced that two UK architecture firms had won prestigious contracts to deliver venue designs for the Rio 2016 Olympics –AndArchitects will work with a partner in Brazil to design the Handball Arena, while Scottish-based 3DReid will help deliver Rio’s Olympic Velodrome. Stella McCartney, designer of the Team GB uniform also recently launched her first store in Beijing.

Copyright protection

4. The relationship between the strength of Britain's creative industries and robust copyright laws is acknowledged by the Open Rights Group which aims radically to liberalise the use and sharing of copyrighted content. While we share the Open Rights Group's attachment to freedom of expression via the internet, we firmly repudiate their laissez-faire attitudes towards copyright infringement. (Paragraph 19)

The Government notes the Committee’s views on the Open Rights Group.

5. We encourage businesses to use the current law to bring claims wherever it is feasible for them to do so. There nonetheless remains a systemic failure to enforce the existing laws effectively against rife online piracy. (Paragraph 28)

The Government is pleased that the Committee has acknowledged the importance of businesses using the current laws to protect their IP rights. It has taken decisive action to support them to do so through reforms to services which exist to facilitate the pursuit of IP claims.

In terms of use of laws against online infringement, copyright owners are already using site-blocking powers under Section 97a of the Copyright, Designs and Patents Act to take action against infringing sites, and this is becoming increasingly streamlined and effective. According to reports, 38 sites have now been blocked as a result of 9 applications to the court by copyright owners. As these cases have been taken through, standards of evidence have been established and as a result rights holders have a relatively quick way to protect their IP rights.

The Government recognises, however, that technological advances in online piracy and counterfeiting continue to threaten businesses and consumers. That is why it is providing £2.56m to the City of London Police IP Crime Unit (PIPCU). This new unit is dedicated to tackling serious organised IP crime online and, as one of the first units of its kind in the world, it keeps the UK at the forefront of online IP enforcement.

In addition, to support SMEs who often find it hard to enforce their rights, the Government provides a Mediation Service (run by the Intellectual Property Office) which offers a low cost way of resolving disputes without going to court, providing rights holders with more options for resolving their IP disputes at a variety of costs. The Government recommends that rights holders attempt to mediate alleged infringements in the first instance, as in many cases parties can negotiate a solution before taking legal action in the courts.

The Government has also taken forward a series of reforms to the Intellectual Property Enterprise Court (IPEC) (formerly the Patents County Court) to make it easier, cheaper and quicker for businesses to protect and enforce their intellectual property. The key changes to IPEC include: the introduction of a scale of recoverable costs, capped at £50,000; capping damages at £500,000; a time limit on case hearings of two days to reduce costs; and the creation of Small Claims Track for copyright, trade mark and unregistered design cases under a value of £10,000.

In addition, the popular and well regarded Patent Opinions Service provided by the IPO allows businesses to receive non-binding opinions on a range of issues concerning patent validity. This provides a quick and cost-efficient means to facilitate the resolution of disputes in relation to UK national and EP (UK) patents. With strong support from users of this service, the Government's IP Bill (which is currently going through Parliament) will extend the range of issues on which an opinion can

be given, and introduce a similar Design Opinions Service which will give businesses an opportunity to seek an impartial opinion about a potential design dispute.

Lastly, the Government has ensured that IP crime is part of the agenda of the recently-established National Crime Agency (NCA), demonstrating a clear recognition that tackling this serious economic crime is important to economic growth, and making a clear commitment to tackle all forms of piracy and counterfeiting, including online piracy.

6. We strongly condemn the failure of Google, notable among technology companies, to provide an adequate response to creative industry requests to prevent its search engine directing consumers to copyright-infringing websites. We are unimpressed by their evident reluctance to block infringing websites on the flimsy grounds that some operate under the cover of hosting some legal content. The continuing promotion by search engines of illegal content on the internet is unacceptable. So far, their attempts to remedy this have been derisorily ineffective. (Paragraph 31)

7. We do not believe it to be beyond the wit of the engineers employed by Google and others to demote and, ideally, remove copyright infringing material from search engine results. Google cooperates with law enforcement agencies to block child pornographic content from search results and it has provided no coherent, responsible answer as to why it cannot do the same for sites which blatantly, and illegally, offer pirated content. (Paragraph 32)

The Government notes the Committee's views on Google, and agrees that tackling infringement online needs a holistic approach in which all parts of industry, in collaboration with Government and enforcement Agencies, play their part. Government welcomes the moves made so far by Google, and notes that copyright owners acknowledge the quick response when Google are informed of links to infringing material. However, we would also agree that Google and other search engines need to go further in working with copyright owners to prevent users of their services being swamped with infringing site, especially as evidence suggests that many people are unsure about the legal status of the sites they access. Government will continue to work to develop a mutually satisfactory result.

8. There should be within Government a powerful champion of IP with a duty to protect and promote the interests of UK IP, to co-ordinate enforcement of IP rights in the UK and overseas and to educate consumers on the value of IP and the importance of respecting IP rights. Logically the IPO should take on this role. Yet too often it is seen as wishing to dilute copyright rather than defend and enforce it. (Paragraph 34)

The Government welcomes the Committee's recognition of the need to champion our IP. The role of the IPO in the copyright arena, like any other copyright office in the world, is to achieve a balance between the interests of all the different users of the system.

Lord Younger, the Minister for Intellectual Property, is responsible for promoting the intellectual property framework as a whole - for creators, for the diverse industries who use copyright, and for British citizens – to find a fair balance for creators and consumers of content, and to enable the economy and society to benefit from knowledge and ideas. In addition, DCMS Ministers and other BIS Ministers promote and support the creative industries.

The IP Minister, along with the European Commission, is hosting an international summit on the enforcement of IP rights in the UK and overseas in London next summer. This event will bring together delegates from across the world to debate IP enforcement and highlight international best practice. It will also showcase the UK as a centre of excellence for IP-rich industries and a place for companies to invest.

Part of the new City of London Police's IP Crime Unit's (PIPCU) remit includes deterring and preventing online IP crime by raising awareness of online IP crime, prevention strategies and criminal justice consequences.

In addition, the Prime Minister has appointed Mike Weatherley MP as his adviser on intellectual property, with a focus on IP enforcement issues relating to the creative industries. This appointment further demonstrates that embedding an effective and modern IP enforcement framework, whilst protecting the interests of citizens and consumers, are priorities for the Government.

9. We recommend that the Intellectual Property Office's annual reports include an assessment of the degree of online copyright infringement and the extent to which identified search engines and other internet services facilitate this (Paragraph 35).

The annual reports of organisations like the IPO are required to look back on the activities of the organisation over the previous year. The Government, however, has no formal powers to collect data on the degree of copyright infringement, and in many cases the companies involved are not based in the UK and are, therefore, beyond the reach of UK law. The Government has done what it can to highlight the issues. For example, over 2012/13 the Government (via the IPO) funded a year-long piece of research into online copyright infringement. This research was managed by Ofcom, and produced by Kantar Media, and has helped to improve our understanding of consumer behaviour,

and attitudes towards accessing copyright material via the internet, both legally and illegally. The Government can confirm that these findings will be covered in the IPO's 2013/14 annual report on the impact of its activities on innovation and growth.

Also relevant to the Committee's recommendation is the Annual IP Crime Report, which is published by the IP Crime Group. This annual report provides an annual overview of the impact of IP crime, how it is being tackled, and the results of the annual Trading Standards survey.

We further recommend that the Government consider how it might incentivise technology companies to hinder access via the internet to copyright infringing material. (Paragraph 35)

The Government will continue to support innovation in technology to protect against online copyright infringement and welcomes this recommendation.

The Government considers that technology offers the potential to tackle IP infringement perpetrated both on-line and via hard goods, and to assist growth in legitimate markets. Earlier this year, the Technology Strategy Board launched a competition to find new technology solutions to help enforce digital IP rights. Through the competition, the Government provided £297,029 to fund innovative technology solutions to boost the enforcement of IP Rights on-line and highlight the availability of legitimate sources of supply. The funding was awarded to two organisations: the University of Surrey and White Bullet. The University of Surrey is investigating a novel technology for protecting digital content, such as music and videos downloaded via the internet, which will automatically block digital content obtained illegally. White Bullet have created and are now disseminating the first global standard to rate websites by reference to IP infringement risk.

10. We recommend that the maximum penalty for serious online copyright theft be extended to ten years' imprisonment. Criminal offences in the online world should attract the same penalties as those provided for the physical world by the Copyright, etc. and Trade Marks (Offences and Enforcement) Act 2002. (Paragraph 37)

The Government notes that this was a recommendation arising from the Gowers report, produced for the previous administration but which was not implemented. It further notes that cases of online copyright infringement can be prosecuted under the Fraud Act 2006, as well as 'conspiracy-to-defraud' offences, both of which carry a penalty of 10 years. These offences often require a lower burden of evidential proof than copyright offences, require less specialist knowledge on the part of prosecutors, judges and juries, and offer higher sentencing options.

Nonetheless, the Government is aware that there are a range of views regarding any increase in the penalties for online copyright infringement. Lord Younger, the Minister for IP, has indicated that he will look into the issue and report his findings in due course.

Discouraging piracy

11. While the practical implementation of the Digital Economy Act continues to be delayed, millions of pounds are being lost by the creative industries with serious consequences for the wider economy. We urge the Government to resolve the current impasse on implementing the Online Copyright Infringement Code without further delay, and in response to this Report to set out a clear timetable for doing so. (Paragraph 41)

12. We recommend that a copyright infringement notification system envisaged by the Digital Economy Act be implemented with far greater speed than the Government currently plans. By targeting information letters to the worst infringers, early implementation will, we believe, serve an important educative purpose which could percolate more widely. (Paragraph 46)

13. We are encouraged by the progress that has been made towards instituting a voluntary system of warning letters following discussions involving internet service providers and rights owners. If this can be achieved by mutual cooperation rather than legislation, it will be a major step forward. However, should voluntary initiatives such as this prove unsuccessful then the Government should ensure that the equivalent measures in the Digital Economy Act are promptly put into effect. (Paragraph 47)

The Government recognises the frustration of copyright owners, and agrees a mass-information campaign would have real benefit, and it is unfortunate that the Digital Economy Act 2010's online infringement of copyright provisions have been so badly delayed. As explained to the Committee, this is due to a combination of factors. The DEA has been beset with problems almost from the beginning, being subject to judicial review up to Court of Appeal level that delayed introduction of the supporting secondary legislation (which sets out who pays for what, and how the process will work in practice). The cost-sharing SI then ran into difficulties in terms of complying with *Managing Public Money* principles, and these issues have been exacerbated by the re-classification of Ofcom into Government's accounts by ONS which has required some accounting changes.

Discussions between DCMS, HMT and Ofcom officials have agreed a new simpler fee structure, halving the number of fees. It should comply with *Managing Public Money*, and along with a

suitable netting off agreement this means that the fees can be used for the purpose intended. A new SI is being prepared to reflect this structure, and Government would hope to complete this part of the work in the near future.

However, in terms of complying with the Committee's wish for implementation to be done at far greater speed, this is unlikely to be achievable because of the requirements of the legislation itself and other regulatory strictures, including the need to notify the code to the European Commission.

The Government has therefore warmly welcomed work by industry to develop a voluntary process. Government believes that such an industry-led solution would in any case be preferable to a legislative model, being quicker, more flexible and cheaper, and increasingly in the interests of both ISPs and copyright owners. Government has offered support, including agreeing not to remove or pause the online infringement of copyright provisions within the DEA. An effective VCAP would be the best solution, but should efforts to develop VCAP come to naught then Government will, as the Committee recommends, move to implement the DEA. Should the industry led model fail, we will bring the DEA into force as soon as practicable.

14. Following all the evidence we have received, we think Hargreaves is wrong in the benefits his report claims for his recommended changes to UK copyright law. We regret that the Hargreaves report adopts a significantly low standard in relation to the need for objective evidence in determining copyright policy. We do not consider Professor Hargreaves has adequately assessed the dangers of putting the established system of copyright at risk for no obvious benefit. We are deeply concerned that there is an underlying agenda driven at least partly by technology companies (Google foremost among them) which, if pursued uncritically, could cause irreversible damage to the creative sector on which the United Kingdom's future prosperity will significantly depend. (Paragraph 55)

The Hargreaves Review was an independent review carried out by Professor Hargreaves and supported by leading academic and professional experts. The Committee has taken evidence from Professor Hargreaves on his analysis and recommendations and he will be able to comment on this aspect of the Committee's report himself.

When considering the implementation of Professor Hargreaves' recommendations, the Government conducted its own analysis. This included additional consultations and the preparation of impact assessments looking at costs and benefits. The process enabled the Government to gather more information from stakeholders. All evidence submitted to the Government by the creative industries

and other interested parties was considered objectively and impartially. No compelling evidence has been provided to support the arguments that there will be significant costs or risks that would result from the proposed changes to the copyright system.

The estimates in the impact assessment reflect the best available evidence contributed from a range of sources, including the creative industries. The economic analysis was approved by the independent Regulatory Policy Committee.

The Committee's comments on Google are noted and addressed in the Government's response to recommendations 6 and 7.

15. The Copyright Hub is a welcome development which should prompt the Government to redouble its efforts at working with industry to develop overseas markets for British IP content. (Paragraph 58)

The Government welcomes the Committee's support for the Copyright Hub. A fully operational Copyright Hub will have great benefits both for creators and for users of copyright material. The Government has supported the creation of the Copyright Hub in a number of ways, including through provision of seed funding. It is now for industry to show what it can deliver and Government hopes that industry partners will continue their work towards the vision that Ian Hargreaves and Richard Hooper have defined between them.

The Committee's attention is drawn to the work of the four IP attachés the Government has employed to improve the prospects of British companies in priority markets. The IP attachés based in China, India, Brazil and South East Asia have given direct business support to 230 businesses with current IP issues in the past 12 months. They have also helped over 2,000 UK businesses through their outreach and business education work, giving them the information they need to avoid potentially expensive IP litigation and enforcement work.

16. We believe participation in a copyright exchange or membership of a collecting society should both be voluntary, though the former will offer rights holders the advantage of visibility and the latter can provide an administratively convenient way of obtaining royalties. (Paragraph 60)

The Government as a general principle agrees that it is for rights holders to manage, exploit and enforce their rights as they choose, and hence their membership of a collecting society should be voluntary. Individual rights holders are entitled to choose how they give permission for the use of

their copyright works. The Government believes that where collective right management frameworks have been established they should be fair and transparent for members and users.

The Government believes that the development of copyright exchanges or hubs should be a matter for the rights holders and the industry concerned, but it notes that such undertakings are likely to be of more value to the extent that participation in them can be widened and increased.

Exemptions from copyright law

17. We are not persuaded that the introduction of new copyright exceptions will bring the benefits claimed and believe that generally the existing law works well. We recommend that the introduction or amendment of copyright exceptions should be contemplated only following detailed impact assessments and after proper parliamentary scrutiny on an individual basis.

(Paragraph 68)

The Government notes the Committee's view but believes that copyright exceptions have an important role to play in the copyright framework.

The Government's amendments to copyright exceptions aim to end the current situation where minor and reasonable acts of copying which benefit consumers, society and the economy are unlawful. The proposals have already been subject to extensive consultation and were accompanied by detailed impact assessments which have been subject to independent review by the Regulatory Policy Committee. This evidence and analysis was presented to Parliament for consideration alongside the Government's policy statement of December 2012.

It has since held a technical review of the draft regulations. It is the Government's intention to lay the draft regulations before Parliament in 2014.

The subject of copyright exceptions came up regularly during the passage of the Enterprise and Regulatory Reform Act and was debated as recently as 5 December 2013 in the House of Lords. Parliamentarians will have a further opportunity to debate the detail of the Statutory Instruments when they are laid, as they will be subject to affirmative resolution.

18. We are not convinced by Hargreaves' implication that a facility for private copying is factored into the purchase either of music or devices that store, play or copy it. (Paragraph 73)

The Government notes the Committee's view, but points out that, as highlighted by the BIS Select Committee in its 2012 Report, the practice of buying a CD in order to copy and listen to it on a

personal device is commonplace, and it would be unusual if this practice were not factored in to consumer purchasing decisions.

The Government's impact assessment supports this analysis and no evidence was presented during consultation that undermines it. Surveys have shown that people generally expect to be able to store and play content they have bought, using devices they own, and think it should not be illegal to do so.

The Government's narrow private copying exception - which will be the narrowest in Europe - aims to support reasonable use of lawfully-purchased copyright materials. The limited scope of the exception, which will allow content creators to control the use of their works using technological measures, means that it will not undermine the ability of the creative industries to invest in and provide new content.

19. Legal subscription-based cloud services are already emerging from business-to-business deals in which rights holders are properly rewarded. We consider this to be a welcome development that should be encouraged and we would not want it compromised by a hastily drawn private copying exception that the Government might subsequently regret. (Paragraph 76)

The Government agrees that all legislation should be carefully drawn up. The development of the private copying regulations has taken place over a long period of time, and takes into account the Government's extensive consultation. It is important to note that unlawful peer-to-peer file sharing and other harmful behaviour online will continue to be illegal.

Through its measures on private copying, the Government aims to meet consumer expectations of being able to legitimately store and use content they have bought, using all types of modern technology, including cloud storage. The Government also welcomes the development of new cloud-based services that offer more to consumers than mere storage of copies e.g. streaming. The proposed changes will not cover these services, so industry can continue to license them.

The Government hopes these changes will increase consumer choice and competition by allowing people to privately store copies they have already paid for, in any type of storage, without having to seek permission or pay again for the privilege, encouraging the development of the basic cloud storage technology alongside more sophisticated offerings, and promoting innovation and competition in this growing market.

20. We believe that there needs to be far more detailed consideration before any private copying exception is introduced. In particular, we recommend that any changes to copyright law should take full account of the material differences between the audiovisual and music sectors and indeed current and likely future technological changes. We do not believe a case has been made for applying a private copying exception to audiovisual content and it should therefore be excluded. (Paragraph 82)

The Government notes that the private copying proposal first appeared in the Gowers review of 2006, which was drawn up for the previous administration, and which the previous administration publicly endorsed but did not fully implement. Discussions on the issue have therefore been in progress for a considerable number of years.

The Government agrees that copyright needs to meet current and future technological challenges and that is why it is proposing to implement a technology-neutral exception. Copyright also needs to make sense to consumers, and there is little evidence that consumers draw a distinction between what they are legally allowed to do with different types of electronic file format. As the Committee notes, the private copying exception will not apply to rented or streamed content and will not prevent the use of copy protection, for example like the restrictions which currently exist on DVDs and other audio-visual content.

By applying such copy protection, providers of audiovisual content will be able to limit consumers' ability to make private copies. Limiting the scope of the exception by carving out audiovisual works entirely would undermine the common sense objective this measure seeks to achieve.

Funding and finance

21. Increasing use is being made of personal data to target online advertising better. While concerns around this have prompted reviews of data protection legislation, we do not think the targeting of appropriate advertising—essential to so many business models —represents the greatest threat to privacy. (Paragraph 85)

We are keen to ensure that barriers to growth are removed as far as possible, including ensuring that the next data protection framework promotes economic growth and prosperity by making sure data protection rules reflect the requirements of modern enterprise. Reforms to the data

protection framework must balance providing a sound basis for economic growth, the use of open data and protecting citizens' rights and public security. We will continue to work with industry, the European Commission and other Member States to deliver this.

22. We are disappointed by the blinkered and unimaginative approach of lending institutions. Investors need to talk to and engage with the creative industries which represent no higher risk than many accepted by the banks and which may produce considerable rewards. (Paragraph 87)

The Government is determined that companies in all sectors are able to access the finance that they need to succeed. This is particularly the case for high growth companies who often struggle to obtain the most suitable forms of finance for their needs.

The Government believes that greater competition in the SME banking market is key, and we are continuing to reduce the barriers to entry for new institutions who may be more receptive to the needs of SMEs. We have already seen the encouraging growth of a range of new "challenger banks", who have innovated with a focus on strong relationships with individual small businesses, and new approaches to financing high-growth companies. The Banking Reform Bill, currently before Parliament, will introduce a further set of changes designed to enhance competition.

The Government is also carrying out work on how intellectual property can be used more effectively as collateral for funding creative businesses which do not have fixed assets. In October 2013, it published a report highlighting the challenges small and medium-sized businesses face when seeking finance based on their strength in intellectual property. The report includes recommendations on ways to help businesses, particularly SMEs, seek finance from banks to invest in jobs and growth.¹

We are also supporting creative industry start ups who struggle to gain access to finance due to a lack of track record through the Start Up Loans company, a £117m programme which provides finance and mentoring services to those wanting to start a business. Start Up Loans recipients in the creative industries sector have to date received over £4,950,768 of support. The Enterprise Finance Guarantee also assists businesses who lack collateral and/or a track record by providing a government guarantee on a proportion of a bank loan.

The Government is also keen to further diversify the sources of growth finance to SMEs, including increasing the availability of equity finance, from business angels to institutional investors. The

¹ Banking on IP? <http://www.ipo.gov.uk/ipresearch-bankingip-sum-281013.pdf>

Government has a variety of schemes and interventions to encourage the use of equity finance, including the Seed Enterprise investment Scheme and the Enterprise Capital Fund Programme.

23. The Government should vigorously promote both the Enterprise Investment Scheme and the Seed Enterprise Investment Scheme. Given their particular importance to creative industries it is essential that their availability, and legitimacy, be communicated to the widest possible range of potential investors. (Paragraph 91)

Government is currently supporting work to improve small businesses' and potential investors' awareness and understanding of the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS). The work to date has included two series of free SEIS educational events, which were attended by around 1,700 entrepreneurs and investors; the launch of a new website (<http://www.seiswindow.org.uk/>) to provide investors and entrepreneurs with information about SEIS and other forms of investment; and a SEIS digital marketing campaign with the Telegraph, Financial Times, and specialist financial websites. A second phase of the digital marketing campaign, which will also include EIS, will be starting this autumn.

The report raises concerns about HMRC delay in dealing with EIS and SEIS applications. HMRC offers a non-statutory, discretionary process via which companies can provide details of their proposed share issue and their activities to HMRC, in response to which HMRC will offer an opinion as to whether the company appears likely to meet the requirements of the scheme. Where assurance is given, this allows companies to provide a degree of comfort to prospective investors that the tax reliefs afforded by S/EIS are likely to be available. Companies are not obliged to seek advance assurance before issuing shares to investors and the lack of an assurance does not prevent them from doing so.

HMRC aims to reply to applications as quickly as possible. The introduction of SEIS last year has meant that applications have reached record levels, and average reply times for applications increased to approximately 18 days towards the end of 2012 and first quarter of 2013, as compared to a period of 13 days for the same period in 2011/12. So whilst there was a temporary slight deterioration in turnaround times towards the end of the fiscal year, it is not correct to say that the process has become "gummed up". Turnaround times are now back to around 15 days.

24. We believe that crowd-funding has significant potential, not least in that it might allow small creative start-up companies to retain control of their IP. The Government needs to examine

whether existing financial regulation is hampering the growth of crowd-funding and whether more guidance can be made available to potential investors. (Paragraph 93)

We are supportive of the crowdfunding industry which provides an alternative source of finance for small businesses in the UK and are keen to support growth in this market. Whilst we recognise the need to protect consumers, in this case the investor, the regulation needs to be proportionate to ensure this market can expand and operate effectively.

The FCA launched a consultation in October on crowdfunding that will review the current regulatory framework.

25. We recommend that the Government open and promote a clear channel of advice to creative individuals interested in setting up business—a creative business 'hub'. We anticipate this will include a key supporting role for public libraries as long-established knowledge centres.

(Paragraph 95)

Government is making it as easy as possible for businesses to start and grow, by ensuring business support is simpler, more joined up and easier to access. Information and tools to help entrepreneurs set up and grow their business is available on GOV.UK. GOV.UK is being constantly improved in response to user testing and feedback. In October changes were made to the business browse page to highlight important content including content on starting up a business and key tools. These and other changes will be tested and evaluated to ensure that content and tools on GOV.UK can be found quickly and easily, and meet the user need.

A sub group of the Creative Industries Council is developing a proposal for a website to give creative businesses a better understanding of the various types of funding available for both start up and development. Creative England's "beginners' guide" to Access to Finance for Creative Businesses website went live in November. The Council is also developing a proposal for a website to market the creative industries internationally.

The Government supports the concept of public libraries as knowledge centres for businesses in the creative industries. The Enterprising Libraries project is a partnership between the Department for Communities and Local Government (£600k), Arts Council England (£300k) and the British Library (£376k) and is an initiative to bring together and develop existing business and intellectual property support. In February 2013 the project announced the 6 Core City libraries to be turned into new 'innovation incubators' and see them roll-out business

support to towns and villages across the country - these were: Newcastle, Birmingham, Leeds, Liverpool, Manchester, and Sheffield. The 2 year project supports libraries to help those taking their first steps in the business world, from the first spark of inspiration to successfully launching and developing a business.

The second stage of this project, the Enterprising Libraries grant programme, was announced on 3 October this year. Ten leading 'Enterprising Libraries' are to receive a share of £450,000 to help local people get started in business - London Borough of Enfield, Devon Libraries; Portsmouth Central Library; Haringey Libraries, Archives and Museum Service; Norfolk Library and Information Service; Hull City Council Library Service; Northamptonshire Libraries; Manchester City Council; Cultural Community Solution London; Middlesbrough Libraries. The 10 new libraries funded will be able to work closely with the 6 core cities network to spread resources amongst communities across the country. The Enterprising Libraries turn library spaces into incubators for business ideas by provide coaching, advice, meeting spaces, and IT support to people interested in developing a proposal and taking it to the market. The projects are focused on fostering entrepreneurship by supporting budding business minds in the local community who are interested in becoming self-employed.

The Enterprising Libraries programme builds upon the success of the British Library's Business & IP Centre which has been offering these services since 2006. It has run over 4,000 workshops, helping create over 2,700 businesses and more than 3,300 jobs. These businesses have increased their turnover by £153 million with an average turnover increase per £1 invested of £8.80.

Tax régime

26. We strongly support the film tax credit. The benefits it has brought in terms of film production have spread across the country, from Glasgow to Chatham, from London to Liverpool. (Paragraph 100)

The Government recognises that tax relief for British films has been vital in supporting the industry and is grateful for the support of the Committee.

27. Among the initiatives we heard about during our visit to Paramount Pictures is a proposal to include in the opening credits of films some information about the economic benefits and job opportunities a given picture created. This is likely to be an effective way of illustrating the economic value of film productions. We endorse this approach and encourage its wide adoption. Furthermore, we do not doubt that the more people see how many livelihoods depend on receiving a fair reward for intellectual property, the more copyright infringement will become socially unacceptable as well as being illegal. (Paragraph 101)

The Government recognises the economic importance of film production to the UK and is grateful to the Committee for bringing the Paramount Pictures proposal to its attention, which it welcomes

28. We deeply regret the European Commission's decision to investigate the validity of the proposed tax relief for video games. Introduction of the credit is long overdue, following its postponement by the Government after the election in 2010. There is clear evidence that such a tax credit would be of great benefit and delays in introducing it are greatly harmful to the industry. We urge the Government to make this point forcefully in its efforts to ensure the video games tax relief gets the go-ahead from the European Commission. (Paragraph 104)

The Government is committed to introducing the video games tax relief as soon as possible and is, together with the industry, working to provide the Commission with the evidence it needs to conclude its investigation quickly.

29. We recommend that the Government closely monitor the operation of the new tax reliefs for animation, high-end television and video games. Consideration should be given to applying a lower core expenditure cost to documentaries if it becomes evident, as we believe likely, that they will fail to qualify for relief on a significant scale. (Paragraph 106)

The Government keeps all tax reliefs under review. HMRC have a specialised unit which will closely monitor the take up of new tax reliefs as is currently the case for film tax relief. The tax reliefs for high-end television and animation television production commenced on 1 April 2013, so it is too early to have any data. State aid approval for video games is still awaited.

30. The income tax system needs to better recognise the freelance nature of employment in much of the creative sector, and the Government should demonstrate how it will effectively acknowledge and respond to this. (Paragraph 109)

There is no statutory definition of the term "freelance" in income tax law by which it is possible to completely encapsulate the varied and flexible nature of workers in the creative sectors. HMRC works continually with stakeholders from this sector (including those organisations represented by the witnesses at the Committee hearing) to ensure its published guidance is accurate, relevant, and reflective of the current industry practices for engaging workers. If applied correctly by engagers in the creative sector, this guidance will ensure workers in the sector receive the appropriate tax treatment which reflects the true facts of their individual terms of engagement.

Education, skills and training

31. The broader arts curriculum has been seriously hit by the Government's approach to performance measurement which we deeply regret. The danger remains that schools will in practice see a continued diminution in the provision of dance, drama and other creative subjects. We therefore recommend that arts are added to the five subject areas currently on which the EBacc assessment is based. (Paragraph 114)

The Government clearly recognises creativity as an integral part of children's development and believes that artistic achievement in all its forms should be accessible to every child. The English Baccalaureate (EBacc) allows pupils to study creative subjects alongside a strong academic core and good school leaders will continue to make time for artistic and cultural education.

We remain fully committed to ensuring pupils receive a well-rounded education, with high quality music, art and design, drama and dance all playing an important part. Schools remain free to offer the subjects they deem most appropriate for their pupils.

To ensure the recognition of arts subjects within reforms to secondary accountability we have announced that from 2016 the key measure by which schools' performance will be judged will include a measure based on pupils' progress in a range of eight EBacc and non-EBacc subjects, including in subjects such as art and design and music, and in high quality vocational qualifications.

The provisional 2013 GCSE results were published on 17 October this year and show that entries to arts subjects have remained relatively stable since the introduction of the EBacc. This Government, with both DCMS and DfE working closely together, is implementing the national plan for music education. In addition, earlier this year the Government published "Cultural Education" to underline

its support for cultural education in schools. Both Departments are working with ALBs, and other parties are overseeing these plans through a joint DCMS and DfE Ministerial Board.

Of course, arts subjects are not the only creative subjects. English Literature, English Language, languages and design and technology in particular, also have a great deal of creative content.

Furthermore, the new subject content in GCSE English literature requires students to study a range of intellectually challenging, creative and substantial whole texts in detail including at least one play by Shakespeare.

Shakespeare is the only named author in the revised National Curriculum, with a requirement for pupils to study at least two plays at Key Stage 3; and in the new criteria for English Literature GCSE, with a further requirement to study a play in Key Stage 4. This will ensure more pupils have an opportunity to learn, perform and enjoy the creative content and skills of drama in performance.

32. We welcome a greater focus on computing in schools, not least because, in the digital age, a practical ability to program computers amounts to basic literacy. It is vital that enough teachers are trained to impart to their students a solid grounding in IT and programming skills. (Paragraph 115) Credit must be given to the Next Gen Report, which has made an important contribution to the evidence base for the skills needs of the UK's video games and VFX industries.

We are taking steps to ensure that there are sufficient teachers with good subject knowledge to meet the challenges of the new computing curriculum. We want all new Computer Science teachers to be able to demonstrate an understanding of key computing concepts and we are looking to help existing teachers to re-train to ensure they have the necessary skills to deliver the new curriculum.

The Government has announced plans to allow top Initial Teacher Training (ITT) providers, including some of the country's best universities, to provide new Computer Science teacher training courses from this year. 780 places have been allocated for 2013/14, around three-quarters of which are in Higher Education Institutions and the remainder in other postgraduate settings and School Direct Training Programmes. To support these places, we are funding new Computer Science subject knowledge enhancement courses, designed to give high quality graduates and career changers the chance to develop the expert knowledge needed to teach Computer Science.

In academic year 2014/15, we are increasing the value of ITT bursaries and scholarships for computing to help recruit the best graduates into teacher training. Bursaries for graduates training to teach computing with a first or 2:1 will increase to £20,000, from £9,000 and £4,000 respectively.

We are also introducing a bursary worth £15,000 for those with a 2:2. The scholarship scheme, run by the British Computer Society, awarded 57 scholarships worth £20,000 last year. This year up to 100 scholarships worth £25,000 each will be available to top graduates with exceptional subject knowledge and outstanding potential to teach.

Working with the British Computer Society since last year, we have established the Network of Teaching Excellence for Computer Science teachers. This programme is forging links between schools, universities and employers. Our aim is to build a network of around 400 'Master Teachers' over the next two years, who will be available for schools to commission to provide training for their teachers. In addition, the Network will develop a comprehensive set of classroom-ready resources covering all Key Stages.

33. Our inquiry has found clear evidence that the Government's focus on subjects like science, technology, engineering and mathematics (STEM) is already having a pronounced impact on the arts and other creative subjects. We believe that the crucial role of arts subjects in a modern education should be recognised and that art subjects should be added to the STEM subjects, changing STEM to STEAM. (Paragraph 117)

We believe that the study of arts subjects forms an important part of a broad and balanced curriculum, and that pupils should be provided with an engaging variety of artistic and cultural experiences throughout their time at school. On 5 July 2013 we published our Cultural Education document which gives details of the programmes we are investing in alongside our partners. These programmes are designed to help ensure that all pupils can participate in high-quality cultural education opportunities; and that those pupils with special interests or promise in subjects such as art, dance and music have the chance to participate in stretching and rewarding programmes.

We do not share the view that it is necessary to add arts subjects to the STEM subjects to give them appropriate recognition. Following our recent review, the current subject composition and entitlements of the national curriculum, including for the arts subjects, will be retained at all four key stages. We have, however, ensured that the majority of subjects have much slimmer programmes of study to give teachers much greater freedom to design their curriculum to better meet the needs and choices of all their pupils. It is also worth noting the important contribution of engineers, mathematicians and scientists to the creative industries; the current shortage of young people entering these professions is a real concern.

In addition, we expect the proposed new accountability framework for secondary schools to have significant positive implications for cultural education. We have proposed that the key measure by which schools' performance will be judged will include a measure based on pupils' progress in a range of eight EBacc and non-EBacc subjects, including English and maths.

34. As it continues to introduce further changes to the national curriculum, the Government must ensure that students up to key stage 3 receive a solid grounding in the arts and design. We believe that students aged 14-16 (key stage 4) must be able to access the widest possible programme of creative subjects to prepare them to play a full part in the knowledge economy. (Paragraph 118)

The Government recognises creativity as an integral part of children's development and entirely agrees that all students up to and including those in key stage 3 should receive a solid grounding in the arts and design. Our 'Cultural Education' document clearly states our firm belief that no programme of education can even begin without making the arts and creativity central to a child's life.

Music and art and design will remain statutory subjects for children between the ages of 5 and 14 in the new national curriculum, being introduced from September 2014. Drama is also an important part of pupils' school experience and forms part of the English curriculum. Additionally, the new national curriculum for PE will include a requirement for pupils in key stages 1, 2 and 3 to be taught dance.

The new programmes of study set out the essential knowledge that all children and young people in maintained schools should be taught. The programmes of study for art and design and music, along with those for design and technology and PE have all been significantly slimmed down so that unnecessary prescription about how to teach has been removed. Teachers will now be better able to use their creativity and their professional judgement in teaching these subjects.

We also agree that students at key stage 4 must be able to access arts subjects. "The arts" is one of four "entitlement areas" within the national curriculum. This means that schools must provide access to at least one course in each entitlement area. Many schools will provide access to more. In the "arts" entitlement areas, there are five possible subjects: art and design, music, dance, drama, and media arts.

Of course, creative subjects, including the arts, need not be limited to the classroom. There are many opportunities for pupils to participate in these activities outside the classroom and many pupils who decide not to study any, or many, arts subjects for GCSE will nevertheless continue to

dance, to participate in drama productions, and to play in the school orchestra or sing in the choir. They may also take part in a range of activities outside school, including those funded by DfE such as area ensembles by music education hubs, national music ensembles and the National Youth Dance Company.

As part of the Government reform of qualifications it has asked Ofqual to oversee the process for reforming GCSEs, including those in arts subjects. It has said that as many of these subjects as possible will be available for first teaching from 2016, with the first examinations to take place in 2018.

Ofqual will work with the Awarding Organisations and subject communities to make sure that new GCSEs in arts subjects provide students with fulfilling and demanding courses of study and have robust assessment arrangements in place.

The Arts Council is already undertaking work to review curricula and qualifications in arts subjects and we know that sector organisations have already started work on proposals for new GCSE specifications. For example, ISM and MEC have been working with Ofqual on the early stages of a new GCSE music specification.

35. We recommend that school children be introduced to the ideas of intellectual property and the nature of business to gain a better understanding of the importance of creativity both to the learning process and to wider society and the economy. (Paragraph 121)

The Government recognises the importance of IP to a wide variety of businesses, and agrees that gaining an early understanding of the idea of intellectual property at a young age is useful. The new national curriculum is slimmer and focused on essential subject knowledge, giving schools and teachers more freedom in what they teach. Schools are free to include IP wherever it may be relevant and beneficial to their pupils.

To support teachers in including intellectual property within their lessons, the IPO has a number of projects to provide interesting and engaging teaching materials. Cracking Ideas is a long standing and well respected initiative, run in partnership with Aardman Animations, which includes teaching resources for schools and a competition for children. The competition receives over 5,000 entries a year and the resources are used in schools throughout the UK. This year the IPO is also running a competition in partnership with UK Music, aimed at teenagers and specifically targeting the issue of illegal downloading of music. The IPO has also teamed up with First News, the UK's most popular

children's newspaper, which is regularly read in classrooms across the country and has over 1 million readers.

The Government also recognises that young people learn in many different ways, and school based initiatives are not the only way to educate children. From 9 September Fun Kids Radio have been running a series of broadcast, developed in partnership with the IPO, aimed at under 12s introducing all aspects of IP in a light hearted way. In early 2014, the IPO, in partnership with UK Music, will launch Music Inc. Music Inc will be a downloadable game which allows players to select and manage artists, releasing their artists' music and trying to fight piracy to make money. Through the game players will develop an appreciation for the work that goes into making music and the devastating impact that piracy can have on the music industry.

36. When it comes to strengthening and nurturing apprenticeships, the Government needs to do much more than exhort and encourage industry to participate. Government has to communicate clearly and widely about the opportunities that exist, giving examples of good practice. The case for tax reliefs for companies—particularly in the creative sector—should be examined more closely. (Paragraph 124)

We agree broadly with the recommendations of the Committee and would like to highlight that we already have an active programme operated by the National Apprenticeship Service (NAS) throughout the year which explains the benefits of Apprenticeships to employers. A particular focus of this work is National Apprenticeships Week which in March 2013 saw employers across the country pledge to recruit over 13,600 new apprentices. Smaller employers with fewer than 1000 employees can also take advantage of the Apprenticeship Grant for Employers which provides £1500 for those smaller employers recruiting 16-24 year olds to help with them with the costs of taking an apprentice on.

We would also like to bring to the Committee's attention that we will shortly publish our Apprenticeship Reform Plan which explains how we will be taking forward the important and radical recommendations made by Doug Richard in his review of the programme. These are key to ensuring that employers are placed in the driving seat so that Apprenticeships are of high-quality and relevant to employers' needs. As part of this we have just consulted on how best to deliver reforms to the way in which they are funded.

As to whether there should be an explicit tax relief for Apprenticeships, it is worth noting that the tax system already makes provision for training. For employers 100% of their expenditure on 'work-related training' for their employees is currently exempt from taxation. For this purpose, 'work-related training' is defined as *"any training course or other activity which is designed to impart, instil, improve or reinforce any knowledge, skills or personal qualities which: are, or are likely to prove, useful to the employee when performing his / her duties; or, will qualify or better qualify the employee to undertake the employment, or to participate in charitable or voluntary activities arising through employment"* (HMRC).

37. Overseas students make a vital contribution to the growth of the UK's creative economy and there are signs that visa and employment restrictions sometimes fail in practice to recognise this. We urge the Government to take more account of the special situation of the creative individuals, many of them uniquely talented, who wish to study and work in the United Kingdom. (Paragraph 126)

The Government recognises the value of overseas students to the creative life of the UK. UK Trade & Investment is seeking to attract the world's best and brightest graduates in the creative industries to establish businesses through its Graduate Entrepreneur Programme, announced by the Chancellor of the Exchequer in the Autumn Statement in December 2012 and it is supporting both new and existing inward investors to enable them to attract the best global talent to ensure that they can grow successful businesses in the UK.

Creative hubs

38. While allowing for local concerns, the planning system should adequately recognise the significance of creative industry infrastructure. A useful initial step would be to revisit the advice to local authorities given in the National Planning Policy Framework. (Paragraph 130)

The National Planning Policy Framework is clear that local planning authorities should plan proactively to meet the development needs of all types of business and support an economy fit for the 21st century. In preparing their local plans, local planning authorities will need to consider what can be done to support all forms of sustainable economic growth. The Framework makes clear that planning policies should recognise and seek to address potential barriers to investment, including any lack of infrastructure or services.

As part of the Government's work in supporting the creative industries' infrastructure, planning changes were introduced in May to support the roll out of fixed providers' superfast broadband in protected areas, in line with changes to the Growth and Infrastructure Act, and in August, a substantial package of planning relaxations was implemented for mobile telecommunications, with specific provisions to support access in hard to reach areas. These changes enable access to superfast fixed and mobile (4G) broadband and improved mobile reception, supporting the creative industries infrastructure in rural areas.

More widely, we share the Select Committee's view that the planning system should adequately recognise the significance of creative industry infrastructure and we share the view, communicated by a number of people within the film and TV industry, that a lack of studio space could result in the loss of international inward investment. Many studios and production facilities in the UK are operating at close to capacity. Given growing global demand and finite capacity, an expansion of those facilities – or the creation of new facilities – is essential to enable any new demand to be met within the UK rather than overseas, with all the economic benefits that entails in terms of exports, investments and job creation.

Creative Industries Council

39. We recommend that meetings of the Creative Industries Council should always be attended by a Minister with direct policy responsibility for intellectual property, given the central importance of this to the creative industries. In practice this will mean either the Minister for Intellectual Property or the Secretary of State for Business, Innovation and Skills. (Paragraph 136)

40. We recommend that a Treasury Minister and a Minister from the Department for Education attend at least one meeting of the Creative Industries Council annually. Ministers and officials from other Departments should attend as determined by agenda items. (Paragraph 137)

41. The Creative Industries Council should publish an annual report which includes an update on the implementation of recommendations made by itself and its sub-groups. Such an annual report should be laid before Parliament. (Paragraph 138)

Originally formed by Government in 2011 as part of its Plan for Growth, the Creative Industries Council (CIC) is now an industry-led forum between industry and Government, co-chaired by Nicola Mendelsohn (Vice President, Europe, Middle East and Africa, Facebook), the Secretary of State for Culture, Media and Sport, Maria Miller, and the Secretary of State for Business, Innovation and Skills, Vince Cable. It focuses on areas where there are barriers to growth facing the sector such as access

to finance, education and skills, export markets and inward investment, data collection, intellectual property and infrastructure, with sub groups established to drive forward implementation plans to exploit opportunities and overcome barriers to growth in each of these areas.

Agendas for CIC meetings are driven by the priority areas identified by the Council's priorities. In addition to the Secretaries of State for Culture, Media and Sport and Business, Innovation and Skills, other Ministers and officials have attended meetings whenever there are significant agenda items relating to their areas of responsibility. Ministers from DfE and the Minister for Intellectual Property have attended meetings in the past and this arrangement will continue to be the case for future meetings.

As an industry-led forum not governed by statute, it would not be appropriate for the CIC to lay an annual report on its activities in Parliament. The Council is, however, keen to be open in its work, and the membership, terms of reference and minutes from meetings, are published on GOV.UK.