CULTURE & THE UK ECONOMY

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Star performer needs a broader stage

Difficult journey into a new dimension: production companies must judge whether 3D movies are a fad or here to stay Chris Ratcliffe/Bloomberg

Britain's creativity is not in doubt, says **Brian Groom.** But more investment and structures are needed to support it

The UK's creative talent is in demand across the world. Whether it is *Slumdog Millionaire* or *Harry Potter*, a television format such as *The X Factor*, live cinema broadcasts of National Theatre productions or the Apple iPod or iPad (designed by Londoner Jonathan Ive), the output of the country's writers, artists, directors, designers and craftspeople is widely valued.

Increasingly, it is also seen as a vital component in the country's economic future. Cultural and creative industries support nearly 2m jobs and contributed £60bn, or at least 6.2 per cent, to gross value added in 2007, according to the most recent official figures available – not far short of financial services on 8.3 per cent. The UK has the world's largest creative sector as a share of the economy.

Over the previous 10 years, creative industries grew by an average of 5 per cent a year compared with 3 per cent for the whole economy. "All of them have a considerable role to play in the rebuilding of our economy after the downturn," says Helen Alexander, president of the CBI employers' group.

The National Endowment for Science, Technology and the Arts (Nesta) predicts that these industries will grow by 4 per cent a year, double the rest of the economy, until 2013. That, it acknowledges, is towards the optimistic end of projections.

The creative industries, a concept adopted by former culture secretary Chris Smith in 1997, are a disparate group, encompassing advertising, architecture, art and antiques, crafts, design, designer fashion, film, music, visual and performing arts, publishing and software including computer games. While many parts have emerged from recession in decent shape, they face structural and cyclical challenges.

The subsidised arts and museums sector is braced for potentially large cuts in grants as the new Conservative-Liberal Democrat coalition government grapples with a £163bn budget deficit. Cuts could have a knock-on effect on the commercial industries, which rely on a flow of talent from the state sector. Spending reductions are also a threat to cities and towns that have built regeneration strategies around theatres, galleries and "creative quarters".

International competition is also intensifying, with countries such as China, Brazil, South Korea and Singapore putting innovation and creativity at the centre of their economic programmes. The UK has powerful advantages such as a rich cultural tradition and the global dominance of the English language, but it may still find it hard to keep up with these fast-growing economies.

So-called "digital disruption" – the rapid pace of technological change – poses a particular question for the UK because its cultural sector is dominated by small companies. They can be flexible but often lack the finance to make a big gamble on a new technology. Film production companies, for example, must judge whether the current interest in 3D is a fad or will transform their sector.

Other challenges include how to protect intellectual property from piracy and counterfeiting. There are isues too about how regulation and competition policy should respond to shifting market boundaries, along with the tax environment, access to finance and skills provision.

Alan Davey, chief executive of Arts Council England, the grant-awarding body, says the arts are currently in "really strong" health – the result of 15 years of sustained investment, starting with the creation of the national lottery under the Conservatives and continuing with steady taxpayer funding under Labour. Regional theatre is thriving, he says, and audiences

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Computer games set standard of high growth

Economy

Education funding and tax treatment remain crucial for the sector, says **Brian Groom**

What lies behind the UK's competitive advantage in cultural industries? A long history of artistic creativity, coupled with the dominance of English as the language of business and the internet, partly explain it. Other factors often cited include a traditional emphasis on creative and design disciplines in higher education, an ethnically diverse population, a strong intellectual property regime and investment in institutions such as the BBC and Tate Galleries.

The result is a sector that has grown at above-average rates over the past decade but which has a tendency towards boom and bust, as shown by the dotcom boom. There was anxiety, therefore, that the creative industries might suffer more than other parts of the economy in the recent recession.

Official statistics are slow to catch up but Hasan Bakhshi, senior policy analyst at the National Endowment for Science, Technology and the Arts (Nesta), cites industry figures showing strong sales of video games last year; a rise in cinema admissions; an 11 per cent increase in visits to museums, galleries and other attractions; record ticket sales at London West End theatres; and healthy revenues from live music.

Business-facing sectors such as design, advertising, media and architecture have had a tougher time but the 13 sectors that make up the creative industries delivered average growth of 5 per cent a year in 1997-2007, higher than the 3 per cent average for the whole economy, according to the Department for Culture, Media and Sport. They accounted for 6.2 per cent of gross value added (GVA) in 2007. the last year for which official figures are provided, excluding crafts and design, for which no comparable figures are available.

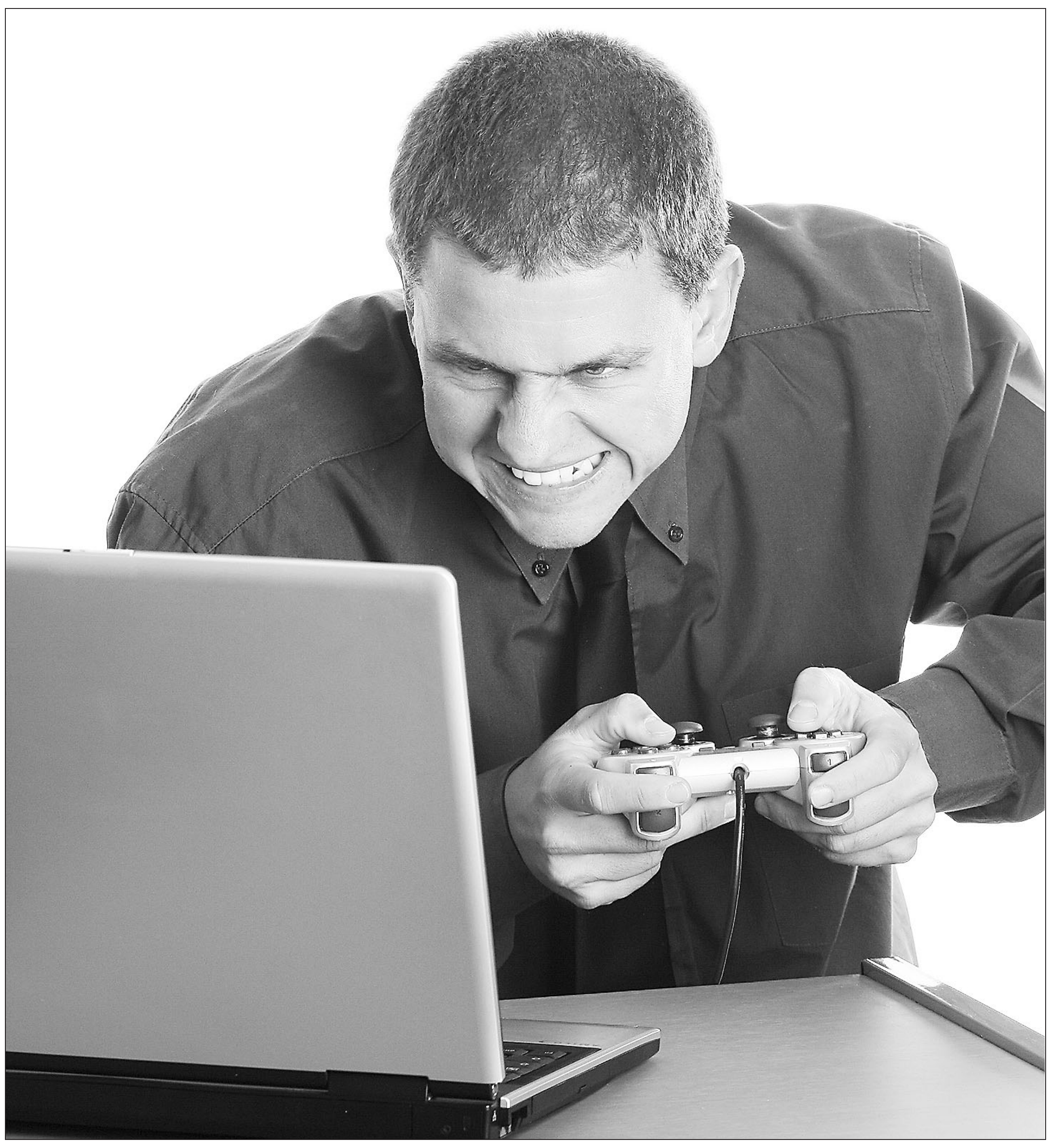
The UK's creative sector is thought to be the world's largest relative to the size of the economy. It employs 1.1m people, with a further 800,000 employed in creative jobs in businesses outside these sectors. Jobs have grown by 2 per cent a year over 10 years, double the whole economy's rate. Exports totalled £16.6bn in 2007, or 4.5 per cent of all goods and services exported.

The biggest grouping was software, computer games and electronic publishing, which accounted for 2.9 per cent of GVA and also had the highest annual growth rate at 9 per cent. Publishing accounted for 1 per cent of GVA; advertising and architecture 0.6 per cent each; music and the visual and performing arts 0.4 per cent; video, film and photography 0.3 per cent; and radio and television 0.2 per cent.

Nesta is sticking to its forecast, made early last year, that the creative industries would grow at an average of 4 per cent a year in the five years to 2013, double the projected rate for the wider economy.

Others are more sceptical, pointing to the intense challenge some of these industries face either from international competition or the blistering pace of digital change. Peter Bazalgette, former creative head of Endemol, producer of television reality show *Big Brother*, says: "If you stick your content in a digital area – assuming it's not ripped off or pirated – whether you are in the music business or the TV business you will find you get smaller revenues."

Mr Bakhshi says demand for the products of these industries is healthy, with households spending more on cultural and creative goods and services. But all agree that challenges must be met if the sector is to fulfil its potential.



Competitive industry: tax incentives have led to a brain drain of computer games talent from the UK Dreamstime

Ed Shedd, head of media at Deloitte, the professional services firm, says: "The UK has a brilliant position in intellectual property generation, be it TV production or games production, and exporting that to the rest of the world – and that's building on a history in the book publishing world."

> 'Applications for fashion courses are going through the roof – and students are getting employment'

According to Deloitte's research, the film, DVD and music markets shrank by 7 per cent between 2005 and 2008, while internet and games software companies grew by about 30 per cent.

Elaine Thomas, vice-chancellor of the University of the Creative Arts, based in Kent and Surrey, agrees that the creative industries seem to be in a reasonably good position. "At the moment applications for fashion courses are going through the roof – and students are getting placements and getting employment opportunities," she says.

Like others in education, she fears spending cuts will disproportionately hit arts courses in an effort to protect science, engineering, technology and maths – a false distinction, she argues, as design in particular plays an important role in industry.

Whatever the health of the creative sector overall, some parts have specific problems – even the otherwise buoyant computer games industry, which contributes about £1bn a year to the economy and employs 27,000.

It has complained for several years about a "brain drain" to countries such as Canada that have been poaching talented developers with lucrative tax incentives, leading the UK to slip from third to fifth place in the global games development rankings. Tiga, the industry association, hopes the Con-Lib coalition will take forward the tax relief promised by Alistair Darling, the former chancellor, in his March Budget.

Although the brain drain is a problem, especially for larger companies, technological change is opening up new opportunities for small, innovative developers.

The rise of distribution platforms such as Apple's iTunes allows developers to sell games direct to customers, earning 70 per cent of the revenues rather than 10 per cent from blockbuster games marketed in shops by global publishing companies.

It is an example of how fast the technology and business models in the creative sector are changing – and how suddenly they can throw open new economic opportunities.

Universities defend 'Mickey Mouse degrees'

Education

David Turner looks at the contribution made by the criticised courses

When critics fulminate against "Mickey Mouse degrees" they are, most likely, thinking of undergraduate courses in the creative and cultural sector.

However, those who offer such degrees make a robust defence of their economic value to society.

Defending Bedfordshire University's courses in Computer Games Development and similar subjects, vice-chancellor Les Ebdon says that some older subjects such as history are "riskier these days" for young people in search of a good job after graduation. Prof Ebdon is also chair of Million+, the pressure group for modern universities, many of which have a strong presence in these subjects.

However, the creative and cultural sector's defence is robust rather than united. Prof Ebdon notes, acidly: "You can do a degree in Media Studies and all you do is sit around studying old French films. And then you're difficult to employ."

The statistics actually suggest that all three subject areas – Computer Games, Media Studies and History – are "risky". For students finishing courses in 2007-8, the average unemployment rate a few months after graduating was 6.4 per cent, according to the Higher Education Statistics Agency. For Historical and Philosophical Studies it was more than a percentage point higher at 7.6 per cent. Creative Arts and Design was higher still, at 8.3 per cent, but Mass Communications and Documentation, which includes Media Studies and Journalism, topped them both at 8.8 per cent.

Does it follow, then, that there are too many students doing creative and cultural courses? Caroline Felton, acting chief executive of Creative and Cultural Skills, a government-funded agency, says: "We are a very graduate-heavy set of industries. In many ways we have more graduates than demand for their work."

Putting the case for degrees in fields such as computer games, Prof Ebdon points to their strong contribution to exports and jobs.

Prof Ebdon argues that the style of British education gives it an inherent advantage over other countries when it comes to the creative industries. "Why is it that the UK is world leader in the creative industries? Because of the way we teach in this country – through discovery." Prof Ebdon illustrates the point by telling the story of a visit to China where he was shown "an old munitions factory on the edge of Beijing" which the authorities had tried to turned into a "creative hub". Prof Ebdon criticises the uncreative concept behind this: "They said, we have tried to make this as much like Tate Modern as possible, and I thought, you haven't got this at all."

Media Studies, too, has its defenders. Joost Van Loon, head of communications, culture and media studies at Nottingham Trent University, eagerly fights back against brickbats from both academia and business.

Prof Van Loon, who says the most common job for media studies graduates is as a press officer, uses a warfare analogy to press his case for the discipline.

According to the famous quote by Marshall McLuhan, the Canadian academic and early pioneer of media studies, "Vietnam was lost in the living rooms of America – not on the battlefields of Vietnam."

Prof Van Loon adds: "Even if you have a media strategy, there's no guarantee you'll win [the war]. But without it you're guaranteed to lose it."

Some scholars have even cited the US interventions in Vietnam and Somalia as cases where wars were lost because of media perceptions, despite overall military success.

But Stephen Alambritis of the Federation of Small Businesses retains the common view among business leaders that what employers need most is more science graduates. Given that the number of places in each subject at university is based most of all on how many young people want to study the subject, he worries that "fashionable" creative and cultural degrees may be squeezing out science subjects.

Mr Alambritis praises the decision by government to use funding to preserve a list of Strategically Important and Vulnerable subjects, including science and modern foreign languages, and calls for continuing

> 'You can do a degree in Media Studies and all you do is sit around studying old French films'

"readjustment" of the funding system to protect these fields.

Ms Felton of Creative and Cultural Skills emphasises the value of degrees in this sector, but argues that many courses should be revamped to give people more practical skills. She notes that some people who do a course in Jewellery Design can design but not actually make jewellery. Ms Felton argues that a broad range of skills for each graduate is necessary in a sector where a high proportion of people run their own businesses. She even argues that undergraduates in the sector should be taught how to write their own business plans and even learn basic accountancy.

One defender of creative and cultural degrees argues that the pejorative use of the term "Mickey Mouse degree" is singularly inapt, as the renowned rodent made Walt Disney millions of dollars.

Wallace and Gromit – the quintessentially English equivalents – were so successful as export earners that models of them used to grace the office of the late Robin Cook when he was foreign secretary. Nick Park, the English animator who invented them, studied Communication Arts at Sheffield Polytechnic.

London Strategy aims to capitalise on a home-grown pool of talent

From the bright lights of West End theatres to the film and media cluster in Soho, London is the creative and cultural capital of Europe. The cultural offerings of world-class theatre, museums, music, and performing arts are one of the biggest draws for international tourists, helping to make London the most visited city in the world.

But the creative sector stretches far beyond cultural attractions and has flourished to become one of the most important parts of the London economy.

The creative and media industries in the capital contribute £21bn to the London economy each year, contributing a sixth of the city's gross value added, a measure of economic performance. The sector is the second largest industry in London after financial and business services.

Almost one-third of all creative industry jobs in the UK are located in London, with a total creative workforce – encompassing creative workers and those in the broader creative industries sector – approaching 800,000 people. More than one in five new jobs in London are in the creative industries.

"The creative sector is incredibly important to London's economy in a number of different ways," says Munira Mirza, director of arts and culture policy for Boris Johnson, mayor of London. Mr Johnson is about to launch a new cultural strategy for the capital aimed at maintaining and strengthening London's position as a world city for culture.

The strategy says: "London's cultural environment has become a significant factor in its competitive advantage."

Some parts of the sector are obviously visible. In spite of the recession, London's theatres have broken all attendance records this year. The arts and cultural sector is worth between an estimated £29.5bn and £34bn annually.

London Fashion Week generates more than £140m a year for the London economy and highlights the capital's role as one of the big four fashion centres alongside Milan, Paris and New York.

The film production and distribution sectors are heavily concentrated in London and the south-east of England, with an economic value of about £4.6bn. Many big record labels are also based in London, including Universal Music Group, Sony Music Group, EMI and Warner Music Group.

London is a publishing hub and global broadcast base with favourable regulation that in 2003 scrapped rules barring non-European companies owning the UK's television and radio businesses, making the UK TV and radio market one of the most liberal in the world.

Some commentators recently called for greater support to creative industries saying the sector would become more important as London's financial and business services sector suffered from the global downturn.

But that was to miss the point that much of London's creative sector is critically interlinked with the financial sector as well as technology-based industries. London dominates the European advertising agency sector, for example, with the European headquarters of two-thirds of the international agencies.

Inevitably some parts of the sector have suffered in the recession, from architecture firms hit by weakness in property markets to advertising and media agencies that relied on financial services.

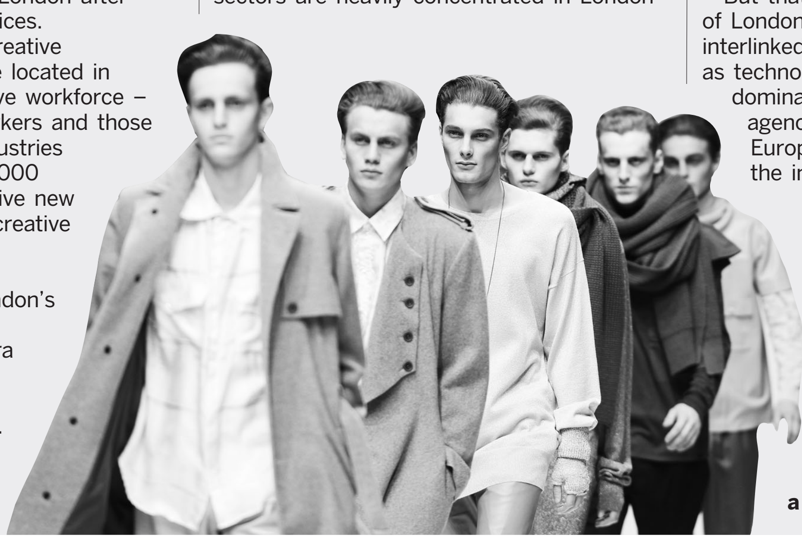
London is also home to more than half of the UK computer games and leisure software industry, and a base for some of the world's largest games publishers such as Sony, Activision, Eidos and Electronic Arts. The growth of the software industry is just one example of the ways that innovation in digital technologies is having a revolutionary impact on the cultural and creative industries, changing the way that creative goods and services are produced, distributed and consumed.

Michael Charlton, chief executive of Think London, the foreign direct investment agency, points to the increasing convergence of creative, design and technology industries as the most significant factor in London's competitive advantage in the sector. Another critical factor is the wide pool of creative talent spawned by respected colleges such as the Royal College of Art, Goldsmiths and Central St Martins.

Mr Charlton says that the health of London's creative industries has maintained a strong pipeline of interest from overseas companies seeking to set up a base in the capital either to join the creative hub or to capitalise on the design capability. For example, Crystal Digital Technology, one of the largest computer graphics companies in China, recently set up its European headquarters in London, while Think London is working with a Chinese white-goods manufacturer that is looking at using London as its design base.

"It's not just the strength of the creative industries," says Mr Charlton. "It's a new dynamism which puts London at the cutting edge of creativity and innovation."

Bob Sherwood



More than a follower of fashion: Fashion Week generates £140m a year for London Getty Images

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Star performer needs a broader stage

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are being built for difficult areas such as contemporary classical music.

The question is what will happen when the current three-year public funding settlement expires next year. Mr Davey acknowledges that if cuts are deep, the council will face hard choices about which organisations to prioritise.

Jeremy Hunt, the new Tory culture secretary, makes clear the spending round will be tough and that all budgets will have to be examined, but he also promises that culture will not be unduly targeted.

People in the arts argue that the budget is too small to make much difference to the deficit – state spending on cultural services is less than 1 per cent of total spending – and that if cuts are severe they would undermine the rich cultural mix that has made London, for example, such an attractive place to visit and work. They could make it harder to attract private investment, which has already dipped in the recession, as private money likes to follow success.

Regional cities are equally nervous after a decade of culture-led generation that has created attractions from Newcastle-Gateshead's Baltic Centre for Contemporary Art and Sage music venue to Liverpool's 2008 European Capital of Culture Year, said to have brought an £800m boost to the Merseyside economy.

Dermot Finch, chief executive of the Centre for Cities think tank, fears that too many places may have jumped on the bandwagon with projects that are over-dependent on public funds and do not create many jobs. "If the public spending crisis washes out some of the less feasible creative quarters that's no bad thing," he says. "We would counsel cities to look to other bits of their economy that are larger."

More collaboration will be needed between arts organisations, whether it is in shared back-office functions or joint productions. "There are a huge number of companies putting on dance programmes," says Colin Tweedy, chief executive of Arts & Business, which encourages business funding of the arts. "Can there be one body which co-ordinates all the dance put on in London?"

The vital thing is for organisations in both the subsidised and commercial sector to keep on innovating. The National Theatre, now open seven days a week, played to 93 per cent capacity last year, its highest attendance in a decade. Now it is reaching out with live broadcasts into cinemas – about 50,000 people worldwide watched performances of Racine's *Phèdre* and Alan Bennett's *The Habit of Art*.

Nick Starr, the theatre's executive director, says there is no doubt the screenings will continue. "Digital innovation is not disruptive or difficult for an arts organisation." he says. "It's pure opportunity.".

> 'Digital innovation is not disruptive or difficult for an arts organisation. It's pure opportunity'
> **Nick Starr, National Theatre**

The issue is trickier for sectors such as music and film. Peter Bazalgette, former creative head of Endemol, producer of reality show *Big Brother*, points also to a drop in the production of original television content.

"We have this exciting digital world, with all its possibilities – YouTube and all the other distribution methods – but the traditional revenue sources are being eroded and the new revenue sources are not emerging half as quickly in the digital arena," he says.

There are other challenges. Patrick McKenna, founder of Ingenious Media, a leading media investment company, says the talent base of cultural industries has been in excellent health for some time.

But, he adds: "The industry or business side of it has quite a long way to go. I am quite honestly worried about where the UK sits in terms of the creative industries generally because we don't seem to have the level of investment in our business capacity to match the quality of our underlying creative talent."

Mr McKenna says the UK needs more companies with the ambition to grow, more commercially savvy management that can attract investment, an investment community that is more knowledgeable about the cultural sector and more funds prepared to invest.

Effect of recession is playing on stages and in galleries

Sponsorship

Peter Aspden looks at the future for funding and sees hard times

It was one of the leading cultural success stories of the past decade: how arts institutions managed to tap into private sponsorship, enabling them to thrive as never before.

High-profile sponsorship schemes became a part of the UK's arts landscape: Unilever's support of the Tate Modern's Turbine Hall installations yielded some of the most imposing contemporary art works the country has seen, loved by millions of visitors.

Travelex's pioneering project to provide thousands of £10 tickets to see top-class productions at London's National Theatre became the capital's greatest cultural bargain, resulting in full houses and a new, younger audience.

Between 2003 and 2008 private investment in the arts – as business support, private donations, trusts and foundations – rose from £454m to a record £687m.

But as the effects of recession made themselves felt, arts sponsorship inevitably dropped. Investment was down by 7 per cent in 2008-9, to £655m.

Now, in a tougher financial climate, arts institutions are bracing themselves for worse.

The UK's mixed funding model for the arts has for years been the envy of the world. It marks a compromise between the US approach, which relies heavily on private money, and the heavily state-subsidised European cultural sector.

Many US institutions have gone under following the onset of the recession, while European arts centres have been unable to act quickly or flexibly as a result of their dependence on government funds.

But Colin Tweedy, chief executive of Arts & Business, a charity that acts as a mediator between the two sectors, says private and public money are inexorably linked, emphasising that any cuts to the public purse will have a detrimental knock-on effect on private investment in the UK.

One consequence of the hard times is that businesses are focusing more closely on the perceived return on investment.

Arts sponsorship was previously regarded as a perk of business life: a chance to entertain clients with free seats and champagne at the opera.

But it is being more finely targeted today. For example, the international flavour of London's cultural life means some companies can use cultural links to support their business interests in emerging markets.

HSBC, which promotes itself as the bank that best appreciates the world's diversity, is sponsoring this summer's Brazil festival on the South Bank. It has previously supported exhibitions at the Victoria & Albert

'Sponsorship has held up well but it is getting more difficult for fund-raisers'

Colin Tweedy

Museum on Chinese design, and at the British Museum on Indian paintings.

Nigeria's Guaranty Trust Bank became the first African corporation to support art in Britain when it sponsored the Tate Britain exhibition of paintings by Chris Ofili, an artist of Nigerian heritage. It is also sponsoring the installation at Trafalgar Square's Fourth Plinth by the British-Nigerian artist Yinka Shonibare.

In the meantime, arts institutions are also having to become more creative in their approaches to potential donors. The Royal Opera House has increased the value of individual donations from £6.7m in 2001 to just short of £20m last year by making donors feel more closely involved with events backstage.

Tony Hall, chief executive, says individual philanthropy was the biggest growth area for revenue-raising, but insists private money cannot make up for public funding cuts. "[Donors] don't want to fill in a gap – they want to put money into things that are successful, not into problems. Anyone who has fund-raised knows that," he said in an FT interview last year.

Other companies have also become more entrepreneurial, a trend bound to be encouraged by the new government. English National Opera has increased the number of artistic collaborations with overseas companies, most notably New York's Metropolitan Opera, to spread the costs of new productions.

Alan Davey, chief executive of Arts Council England, says it is important to think of private investment as an instrumental good for culture. "I see us as a venture capital fund for the creative economy, using our learning, our experience and our networks to build longer-lasting partnerships with the commercial and voluntary sectors," he said in a speech. "Our investment is one of the reasons the UK is the largest cultural goods exporter."

But despite the best efforts of arts institutions, there seems little doubt there are hard times ahead. Mr Tweedy says it is "inconceivable" that the arts budget would escape cuts in a world that is considering cuts in education and health.

"Generally sponsorship has held up pretty well but of course it is getting more difficult for fund-raisers – they are finding a lot of people who just aren't returning their calls," he says.

Business sponsorship is bound to be affected by confidence, he adds. "Wealthy individuals will continue to give, but it will be more difficult for companies. As soon as you tie something to the corporate masthead, you are very exposed."

Mr Tweedy says it is important to create a "big push" to emphasise the national importance of the arts – "something on the scale of Comic Relief. Everyone wants to engage with the arts, and it is one of our greatest success stories.

"We can't allow it to fall at the mercy of the markets."

Funds issue hangs over rebirth plans

Regeneration

One arts chief is showing how to get by with less grant money, reports **Andrew Bounds**

Julia Fawcett can still remember the day the dock gates closed for the final time on Salford Quays. It was the mid-1980s and she was at school. Some 20 years later she was back home, running the Lowry, an arts centre built on the quayside to give the place a reason to keep going.

"There is such a contrast between then and now. The docks employ more people than they did then. The Lowry has acted as a catalyst for the redevelopment of this area. More than £700m in private investment has come in. But the public sector needs to take the first step."

It is a familiar story. There scarcely seems a town or city in the country that has not invested in galleries, theatres and a "creative quarter" in recent years. Glasgow began the trend. Its shipyards sinking, it bid successfully to be European capital of culture in 1990. "Glasgow's Miles better", ran the 1980s slogan, and the city reinvented itself as a gritty but hip destination. There is more shopping than shipbuilding now and the Clyde waterfront is dominated not by cranes but SECC, a concert hall dubbed the armadillo for its distinctive shape. Other cities followed suit: the Baltic in an old flour mill in Gateshead, the Tate Modern in a power station in London that helped transform unfashionable Bankside.

Cardiff has its shiny Millennium Centre on the bay, Leeds the canalside Royal Armouries. Leicester in 2008 opened the Curve, a £61m performing arts centre at the heart of its new cultural quarter.

Glasgow city council is now looking for £5m to support lottery money to build the Riverside museum, which would replace the old transport one. Old industries recycled into the heritage industry. Some might observe that they at least devour less public subsidy.

Now, like many others, Glasgow is "living on thin air", to quote Charles Leadbeater, innovation guru and fellow at the Said Business School in Oxford. The question is whether that can continue in an age of austerity when land values have dropped – no bartering with developers for prime slots – and public sector subsidy is set to be cut.

Andy Burnham, culture secretary under Gordon Brown's premiership, says the lessons of Glasgow were lost on the Conservatives, who cut arts spending in the 1990s recession and lost years of momentum.

Liverpool can only hope the same will not happen this time. Another port that revived itself through culture, its year as European Capital of Culture in 2008 was regarded as the best ever by Brussels. It was also the year the city's population stopped shrinking for the first time since the second world war.

Merseyside and the northwest reaped £754m in extra visitor spending in 2008, with almost 10m additional visitors to Liverpool, a rise of one-third, according to an assessment by Beatriz Garcia, a Liverpool University academic. Hotels were even busier in 2009.

Ms Garcia says Liverpool learned from Glasgow's mistakes. Culture was widened beyond the highbrow. Of the £130m budget, £22.3m came from sponsorship and £4.1m income earned, a greater proportion than usual.

The government took up the idea of a UK capital of culture programme formulated by Phil Redmond, the television producer who was creative director of the 2008 programme; 22 cities from Aberdeen to Southampton have been competing for the 2013 crown.

How they will fund it is an awkward question. Lowry chief executive Ms Fawcett admits that the next few years will be a struggle. But she also believes that the Lowry shows what can be done. It relies on grants for 7 per cent of its running costs, against a typical average of 12 per cent.

It receives, every year, £1m from the Arts Council and £1m from Salford council, figures unchanged since it opened. "The challenge for the Lowry was to create a mixed economic model that had much greater reliance on self-funding. So far we have done it," she says.

The £15m budget has been balanced by a 10 per cent cut in costs over the past two years, with no compulsory redundancies. Audience figures are up. Corporate sponsorship has fallen by half to £250,000 a year. So people buying tickets are invited to donate an extra £1 – one in four do.

But the big success has been its inhouse ticket agency. Unlike many venues the Lowry decided not to outsource ticket sales. But Ms Fawcett wanted to cover the £300,000 cost of running the service. The answer? Sell other people's. Quay Tickets services 70 venues and made a £300,000 profit last year. It is aiming for £500,000 in 2011.

Ms Fawcett's private sector experience – 10 years at Granada Leisure – has been invaluable. "If you have an asset that is costing money you try to recoup some. We are not driven by profit. But we have applied the discipline and rigour of a private-sector organisation. We are as close to a self-funding arts organisation as you can get."

As the cuts bite the Lowry – and many others – may have to get even closer to that ideal.

> Liverpool's year as European Capital of Culture in 2008 was regarded as the best ever by Brussels

The shadow of the axe looms

Politics

Brian Groom looks at the likelihood of painful cuts

Jeremy Hunt, the new Conservative culture secretary, and Ed Vaizey, his junior minister, have set out to charm the arts world for the past three years – with some success. Now comes the big test. Will this painstakingly built relationship survive what seems likely to be a painful round of public spending cuts?

In his first speech after taking up his post, Mr Hunt did little to disguise the tough times to come. "As I look at the public spending round that lies ahead I do feel a bit of 'uneasy lies the head that wears the crown' – what Henry IV said when he had insomnia and what I rather feel when I consider the responsibilities involved," he said.

For investment in arts and culture made by the government "we get a terrific bang for our buck", he added, but all budgets – large and small – were going to have to be examined. He pledged, however, that culture would not be singled out as a soft target, and insisted that cuts in administration and bureaucracy would always be considered ahead of decisions that could affect creative output.

He wants all grant-giving organisations to reduce their administration costs to 5 per cent of the budgets they distribute. Arts Council England, for example, spends 6.6 per cent.

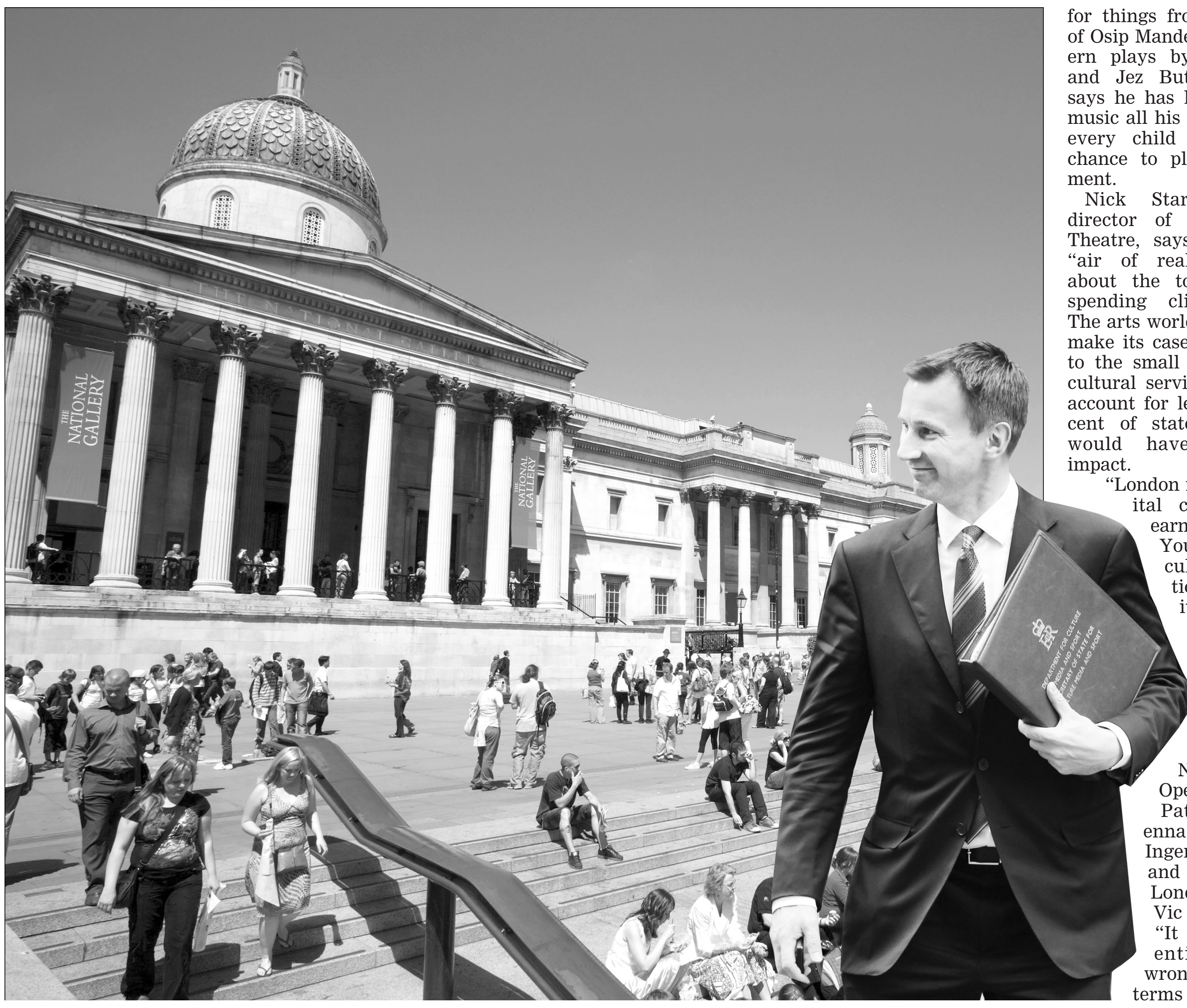
Mr Hunt says he will place an order before parliament in September that will implement the Tories' manifesto pledge to restore the share of National Lottery money going to the arts, heritage and sport to the original 20 per cent each. That could mean each of them receiving an extra £50m a year.

He says three principles will underpin future policy: a mixed economy of public and private support for the arts, with stronger incentives to promote philanthropy; access to high-quality arts for as many people as possible, through continued free admission to national museums and galleries and continued education programmes; and a reaffirmation of the arm's length principle, with no politicisation of funding decisions.

He says he wants to make private giving to arts and culture easier by reforming gift aid and building on the acceptance-in-lieu scheme to make it possible for donors to give works of art to the nation during their lifetimes. He also aims to reward high-performing arts organisations through longer-term funding deals, reassuring sponsors and donors that their support would complement public investment. "I am totally passionate about the arts and culture in this country," Mr Hunt said.

Before the election, he suggested that the arts could receive substantially more funding at the end of the five-year parliament than at present, through a combination of the extra lottery funds and endowments.

Arts executives are cautious, pointing out that endowments take a long time to build up. "The problem I see is that people like



Early pledge: culture secretary Jeremy Hunt says cultural attractions will not be singled out for cuts Alamy/Getty Images

> 'London is a major capital city . . . you need major cultural institutions, you need it to be a place people want to work'

to fund something with their name on or with an immediate return," says Alan Davey, chief executive of Arts Council England.

Many in the arts world are wary, remembering the Thatcher years. In 1979 the incoming arts minister, Norman St John Stevas, was a culture enthusiast who said there would be "no candle-end economies in the arts". But the result was progressive cuts and a mutually hostile climate.

Mr Hunt, who made his fortune in educational publishing, hopes to show that the attitude is different this time. He impressed many with his personal commitment, voicing enthusiasm for things from the poetry of Osip Mandelstam to modern plays by David Hare and Jez Butterworth. He says he has loved classical music all his life and wants every child to have the chance to play an instrument.

Nick Starr, executive director of the National Theatre, says there is an "air of realism abroad" about the tougher public spending climate ahead. The arts world will, though, make its case that big cuts to the small arts budget – cultural services altogether account for less than 1 per cent of state spending – would have a serious impact.

"London is a major capital city, a major earner of wealth. You need major cultural institutions, you need it to be a place people want to work," says Peter Bazalgette, deputy chairman of English National Opera.

Patrick McKenna, founder of Ingenious Media and chairman of London's Young Vic Theatre, says: "It would send entirely the wrong message in terms of the new government's ambitions for the creative industries if it started cutting back on our arts sector."

There is concern, too, about the potential impact on arts spending in the regions. Regional theatre, for example, now depends on a large number of touring and co-productions, so removing funding from a company in one city could have effects elsewhere.

Mr Davey makes clear that Arts Council England will face tough choices about which organisations to fund if cuts are deep. It may be preferable, for instance, to fund one art gallery properly at another's expense, instead of leaving two half-closed.

Manchester The 1980s generation was not so mad after all – it is running the place now

"Madchester" was not so crazy after all. The music and nightclub scene that put the city on the global map in the late 1980s bankrupted its creator, the Hacienda club. But it stimulated a creative and cultural renaissance that has brought in billions of pounds of business.

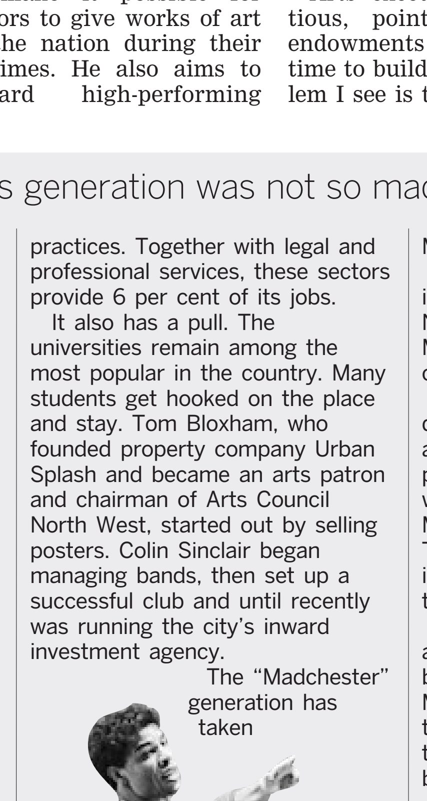
The city, two hours north of London by train, is now the dominant creative hub in the UK outside the south-east, according to a study last year by the National Endowment for Science, Technology and the Arts (Nesta). Quite an achievement for a city that suffered crippling de-industrialisation in the 1970s and 80s, leaving worklessness, poverty and low ambition entrenched in many communities.

In a range of sectors including television, software, advertising and radio, Greater Manchester has more creative businesses than all other northern cities together.

While the city of 3.2m has 3 per cent of the UK's businesses, it has 7 per cent of advertising companies, 6 per cent of radio and television companies, 4 per cent of software and video games companies and 4 per cent of architecture practices. Together with legal and professional services, these sectors provide 6 per cent of its jobs.

It also has a pull. The universities remain among the most popular in the country. Many students get hooked on the place and stay. Tom Bloxham, who founded property company Urban Splash and became an arts patron and chairman of Arts Council North West, started out by selling posters. Colin Sinclair began managing bands, then set up a successful club and until recently was running the city's inward investment agency.

The "Madchester" generation has taken over the city. Peter Saville, who designed record covers for New Order, came up with its "Original Modern City" slogan.



Leap of faith: the international festival last year was a success

But Charles Leadbeater, the innovation guru and author of the Nesta report, says too little of Manchester's cultural economy competes on a global scale.

"Where Manchester has avid and demanding consumers – football and popular music – it has produced great products," he wrote. "[On some counts] Manchester is still too parochial. Today, Manchester's firms are less internationally connected than those in comparable city regions."

Manchester is pushing into new areas. Typical of Mancunian boldness is the creation of the Manchester International Festival two years ago. Many scoffed when the council suggested creating a biennial to rival Venice or Vienna.

But it lured a big name, Alex Poots, from English National Opera in London. And it had a big idea: that all work should be original. In 2009, the second MIF, Rufus Wainwright arrived with his first opera, which had been turned down elsewhere. It was a hit and transferred to New York.

In a classic Mancunian touch mixing the highbrow and the popular, Elbow, the rock band that recently won Britain's Mercury Music Prize, performed hits with the city's resident Halle Orchestra. Guy Garvey, lead singer, attended the Halle as a boy, drawing as much inspiration from it as from the Smiths or Stone Roses.

The 2009 MIF attracted more than 230,000 visitors, 1,300 from abroad, beating the 210,000 target, recruited more than 300 volunteers and attracted local participation.

The overall economic impact of the festival was worth £35.7m, up from 2007's £28.8m.

More than a third of the 09 Festival programme was free and 89 per cent of tickets sold, up from 78 per cent in 2007.

As important, there was press coverage around the world. The New York Times said: "Summer festivals often define predictability. Britain's Manchester International Festival upsets the status quo by exclusively staging original work – and only letting in the very coolest of cool kids."

It is a zeitgeist that Midas, the inward investment agency Mr Sinclair ran before he moved to a property company, is trying to tap into. Tim Newns, deputy chief executive of Midas, says: "Creativity and Manchester have been twinned since the 18th century and that restless need to innovate and challenge convention is still driving the city's world class creative, digital and new media sectors."

Links between business and the arts are growing ever stronger. At the forefront is Umbro, the sportswear brand now owned by Nike and based in Stockport.

Umbro's new England football away shirt was launched not in a sports store but on stage in Paris by rock band Kasabian in February.

It has begun giving a £10,000 grant every quarter to arts organisations in the north-west. "It makes Umbro a patron of culture...almost philanthropic," says Steve Smith, of Ear to the Ground, an events-based communications agency involved in the shirt launch.

"It is about badging, giving people an experience they cannot get elsewhere. You are creating cultural content. The UK is definitely leading the field in this area," says Mr Smith, another student who stayed in town.

As Mr Leadbeater wrote: "If Manchester can address big challenges of education, welfare, sustainability, digital media, with maverick thinking... matched to practical action, then it has a chance to be again a city to which the rest of the world turns for a lead."

Andrew Bounds

Attractions give the UK a head start

Not so secret weapon: the UK is ranked seventh in the world for its cultural heritage, and the Tower of London – behind Tower Bridge, above – had its best Easter attendance in a decade Bloomberg News

Tourism

The industry is cautiously optimistic about help from the government, writes **Roger Blitz**

The UK tourism industry is used to crises. Ash cloud disruption, terrorism incidents, a run on a bank, swine flu fears, bovine spongiform encephalopathy are just some of the threats that in recent years have forced tourism businesses to readjust their short-term forecasts.

That is not counting the UK government putting up the cost of visas, or introducing air passenger duty (APD), and then increasing it.

Nor does it take into account the crisis of confidence brought on by observing destinations around the world raise their game and throw millions more than the UK into marketing and self-promotion.

But industry bleatings must sound a bit rich to most other countries. The Nation Brands index ranks Britain fourth out of 50 countries in terms of culture. It is ranked the fourth best for contemporary culture, seventh for its cultural heritage and eighth for sports. According to VisitBritain, the government tourism agency, inbound visitors are spending £4.5bn a year on culture and heritage.

Christopher Rodrigues, chairman of VisitBritain, said: "When you look at competitive data, culture and heritage is one of the country's great strengths. People love these attractions when they come here, but we have to make sure that people know they are here. The challenge is marketing them overseas."

The UK has another advantage, too. The Olympics is coming to London in 2012. The free publicity London and the UK gets is worth tourism dollars by the spade and bucketload.

Many business complain, though, that tourism has been rather ignored by the government considering it is the UK's fifth largest sector.

According to the Tourism Alliance, a lobbying group for the industry, tourism generates £114bn and generates 2.7m jobs. When you add together all the business involved in hospitality, attractions, events, visitor transport and tourism services, you get to a total of around 200,000, 80 per cent of which are small and medium-sized enterprises.

The bulk of UK tourism is domestic, generating the movement of £67bn around the UK economy, much of it from towns and cities to rural and seaside locations. The "staycation" effect, which has seen many recession-conscious UK residents switch from holidays abroad to holidays at home, is clearly benefiting cultural attractions and, with them, UK tourism.

For example, the Tower of London, Hampton Court Palace and Kensington Palace enjoyed their best Easter attendance figures for a decade. The trend over the last few years has been positive for the British Museum, Edinburgh Castle and Blenheim Palace. The National Maritime Museum, which has relied on overseas visitors, has been noticing a sharp spike in attendance from UK residents.

Earnings from the 32m a year who visit from abroad amount to £19bn. The Treasury makes £3.5bn in tourism from APD and VAT, and overall gets £15bn a year from tourism.

The Association of Leading Visitor Attractions, which represents organisations responsible for 1,600 tourism venues, reported a 3.4 per cent rise in visitor numbers last summer. But the rise averaged 11 per cent for the year as a whole, reflecting how far many attractions have come in promoting themselves year-round.

The UK tourism industry should be on the cusp of a golden period of growth. The rise of affluent classes in China and India has many global tourism destinations licking their lips, none more so than ones with major international hubs like London.

There are internal issues for Britain's tourism leaders to manage. VisitBritain says to get visitors to return, British tourism needs to present culture and heritage "as an inspiring mix of the old and the new", and portray Britain as an evolving country, rather than the perceived "stagnant society stuck in post-war England".

More immediately, tourism is unlikely to escape the chill winds of the UK's grim economic climate. Bob Cotton, departing chief executive of the British Hospitality Association, warned last week that the industry is on the decline again after a good first quarter, and that a VAT hike and public expenditure cuts would be troubling for the industry.

> The 'staycation' effect, which has seen many recession-conscious UK residents switch to holidays at home, is clearly benefiting cultural attractions

Tourism bodies continue to plead for sympathy from government. During the election campaign, the Tourism Alliance called for among other things movement on APD and VAT, a rise in aviation capacity, protection of public funding for tourism and an increase in tourism promotion funds.

The tourism industry during much of the last government was critical of a succession of Labour ministers, doubting the party's interest in tourism. The industry is upbeat about the prospect of the new government taking a keener interest.

George Osborne, the new chancellor, even devoted a speech before the election to tourism, saying tourism was "one of the jewels in the crown of the British economy". With came promises to generate an extra £6.5bn into the economy by setting new targets for domestic tourism.

Against that are worries that the new government will abolish the regional development agencies, Labour's devolved regeneration bodies that drive much of the tourism initiatives around England, and the probability that aviation growth will stall, given the cancellation of the plans for a third runway at London's Heathrow.

Tourism will continue to expect the unexpected from events outside the industry's control. All that tourism businesses ask for is a bit of recognition of the industry's contribution to the culture and the economy of the UK.

Glasgow A year is a short time in the transformation of a city

Tourism is now one of Glasgow's biggest industries, ranking in employment terms alongside financial services, health and the retail sector.

The city attracts nearly 3m visitors a year, generating more than £700m for the local economy.

Civic leaders admit that 25 years ago that would have been unimaginable. Much of the transformation of the image of Scotland's biggest city, world famous as a centre of shipbuilding and heavy engineering, can be attributed to its becoming the first place in Britain to be named European City of Culture in 1990.

Glasgow City Council claims it is the first British city where the arts were used as a catalyst for urban renewal – "a revolutionary model which has since been replicated worldwide".

"The positive economic repercussions of this successful policy have been huge and are still being felt well into the new millennium," says the council.

Achieving City of Culture status – the name was changed to "Capital" in 1999 – was just one of Glasgow's initiatives to change its negative image as a dirty, dangerous place blighted by gangs and football violence.

"Not only did this lower the morale of its citizens, but it greatly hampered efforts to generate a tourist industry, to make Glasgow a visitor centre, and to attract dispersed businesses and inwards investment," says the council.

But one lesson that Glasgow has learned is that transforming a city's image can never be achieved by a single event – no matter how successful. It is a process that requires continual application and investment.

The attempt to improve Glasgow's modern image can be traced back to 1983, when the city launched its "Glasgow's Miles Better" campaign. The same year also saw the opening of a gallery to display the magnificent Burrell Collection which had been left to the city by a wealthy ship owner. Five years later the Glasgow Garden Festival, held on the south bank of the Clyde, further changed perceptions of the city.

However, Mark O'Neill, head of research and development at Culture and Sport Glasgow, is in no doubt about the significance of winning the City of Culture title.

"For us, it redefined us as a cultural tourism city," he says. "When Glasgow opened the Burrell in 1983, people laughed at the idea of visitors coming to Glasgow."

Mr O'Neill says "the single greatest lesson" Glasgow learned is that you only get real value from the year if there is a long-term strategy.

"The five years after the year of culture have to be the focus of the plan," he says. "By the time you have won it, you are trying to deliver massive programmes, people get very focused on the short term – which is inevitable when you are trying to deliver a big project. So unless there are things in place about the follow-through, you can lose a lot of the value."

Charles Bell, arts manager at Culture and Sport Glasgow, also believes that the most important thing about Glasgow's experience as a City of Culture is that it has been sustained over subsequent years.

"There was deliberate choice made in 1990 that there would be a phased implementation of other events during the 1990s, so we had the Year of Visual Arts in 1996 and the Year of Architecture and Design in 1999 – and a number of different initiatives to ensure that momentum did not fall away," he says.

But Mr Bell also thinks it was easier to become a City of Culture in 1990, when there was not the same level of international exchange, and people were not as familiar with the rest of the world. "Now it's that much more difficult, because it has become quite a standard thing to do these big, international festivals: the same artists tend to appear, and travel has become that much easier."

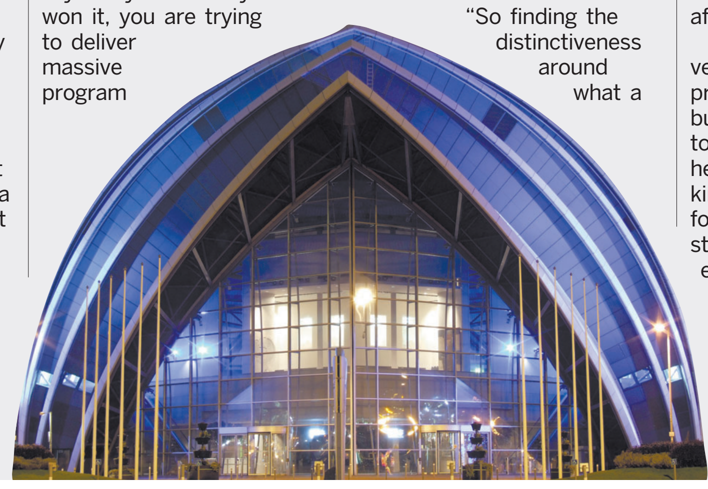
"So finding the distinctiveness around what a City of Culture's offering was probably easier in 1990 – and quite difficult now. But unless you can make it distinctive, it is unlikely to make that much of an impact. Distinctiveness has to be about what is truthful about a city or a region, rather than something that is imposed. Glasgow was able to build on its strengths in terms of its heritage and the cultural legacy we had from previous empire exhibitions, industrial exhibitions and so on – to create something that was truthful to the city, not just a façade that was out over the city's culture, but grew out of it."

Even Glasgow's biggest fans must acknowledge that parts of the city are blighted by poverty and ill-health. As the city's own cultural strategy document says: "Despite Glasgow's successful and continuing transformation, the energy and vitality of this vibrant, metropolitan city, with a significant cultural infrastructure, does not impact on the health and well-being of a large proportion of the city's population."

Mr O'Neill believes Capitals of Culture should strive to maintain local community engagement after the year is over.

"During 1990 there was very good cultural programming in local areas, but we hadn't planned how to sustain that afterwards," he says. "So there was a kind of gap. It was probably four or five years before we started really meeting the expectations raised in local areas."

Andrew Bolger



Dock worker: Glasgow's Clyde Auditorium concert venue Dreamstime