

# THE CREATIVE INDUSTRIES

AN EXPERT GUIDE TO RUNNING A CREATIVE BUSINESS



It's been a difficult few years for Creative Industries businesses in the UK thanks to the double-whammy of Covid-19 and Brexit. Creative businesses have struggled with unprecedented challenges from adapting to new ways of working, to losing some or most of their income, or even mothballing their entire operation for an indefinite period. Now, with the rapid rate of development in Artificial Intelligence (AI), creative industries businesses are facing new challenges from technology; which is becoming much more successful at carrying out creative tasks than most commentators had predicted. At ER Grove we understand the importance of the creative industries to the UK economy, and the unique opportunities and challenges of working in this sector. As creative industry accountants we could prepare you a package that will really add value to your business.

# HOW DO THE CREATIVE INDUSTRIES WORK?

Often people think of musicians, actors and dancers when they hear the term Creative Industries, but in fact the Performing Arts are only one sub-sector of a vast cross-section of industries, each of which has its own ways of working.

At the more 'commercial' end of the industries we have Advertising & Marketing; Architecture; Product, Graphic and Fashion Design; IT, Software & Computer Services. These sub-sectors operate as going concerns, with profit-generation and expansion often key goals.

Live Music, Performing and Visual Arts are some of the most recognizable sub-sectors of the Creative Industries. Other than mainstream popular music, and West End Theatre, these industries often rely on patronage and public funding in order to operate. They often see themselves as preserving a particular culture or art form for future generations, rather than chasing popularity, which often makes them reliant on fundraising grants in order to stay open.

At the heart of the creative industries sit the organisations producing consumable media; Film, TV, Radio, Photography, Music (Recorded); Publishing; Animation & VFX; Video Games. These sub-sectors tend to be a mix of extremely commercial and more grass-roots operations. For every vast global producer of consumable media, there are hundreds of smaller companies making user-centred content 'for the fans.'

At the other end of the spectrum we have the sub-sectors often reclassified as the 'cultural industries.' Heritage, Museums, Galleries and Libraries, and Crafts. These may be run as not-for-profits, and their focus is often on the value that they can bring to communities.

***"They understand business and the challenges involved. They are incredibly proactive, and their input has helped us to shape this business. E R Grove advises on how best to use our money and helps achieve bespoke solutions that are not only perfect for us, but are also ethical - and we really like them for that."***

# WHAT ARE THE KEY ISSUES FACING THE CREATIVE INDUSTRIES IN 2023?

It will come as no surprise that the cost of living crisis and the rise of AI are the most significant issues facing the creative industries in 2023! When belts are tightened, often the first savings to be made are on 'non-essential' or 'luxury' items such as concert and theatre tickets, memberships and subscriptions, and other arts and culture-related spending. Not only are consumers spending less, but organisations such as Arts Council England are also streamlining funding, so many creative industries organisations are finding themselves simultaneously hit by a drop in spending and a drop in funding.

Producers of consumable media that can be accessed from home, or other home-based services such as subscription boxes, and online learning classes in arts and music, had generally fared quite well due to Covid-19. However, now many of these organisations report a drop-off in

subscribers, resulting in price-hikes, a change to their business model, or for some, closure. This factor is most likely linked to the cost-of-living crisis as well as the fact that people are 'back to normal' in terms of their daily activities, and / or three years on may simply have got bored of the services and products that they once relied on.

Brexit is proving an ongoing and particularly damaging issue to any organisations and individuals that rely on touring, due to the government rejecting the EU's offer for visa-free travel for this purpose. The Independent Society of Musician's August 2023 Brexit report found that: almost half (47.4%) of the respondents said that they had less work in the EU after January 2021 than they did before Brexit; over a quarter (27.8%) said that they had no EU work at all; and over a third (39%) of respondents had had to turn down work since 1 January 2021; 40% had had work cancelled in the same period. There have recently been some positive responses from parliament to lobbying groups such as the ISM highlighting this issue, but it remains to be seen what practical steps will be taken to mitigate these issues.

Over successive years, the Creative Industries have been the fastest growing part of the UK economy, and pre-pandemic labour market predictions suggested the sector

would have double the average job growth up to 2024. It remains to see whether the long-term impact of Covid-19, added to the impact of Brexit, and the rise of AI will prevent the industries achieving that growth potential.

Those working within the Creative Industries used to take heart from the fact that it is one of the most 'future proof' sectors, and their jobs are unlikely to be replaced by machines in the near future. It is still the case that computers cannot 'think' creatively, however certain AI tools are becoming extremely good at learning the 'rules' that help them produce convincing creative works, so it might be time for writers, artists, and musicians in particular to start getting a little worried! Across the pond, actors have been fighting their own battle against the use of AI to replace them in film and TV, in an ongoing industrial dispute.

For individuals concerned about job security within the creative industries, there is a somewhat morbid source of hope in that there is likely to be less competition for job roles in the future, thanks to the impact of successive government policies on education focusing on 'facts' and 'core skills' rather than the development of creative thinking. This does of course mean that at an organisational level it might be difficult to recruit the right kind of talent, but for individuals looking at their own career progression and security, this may be of some comfort!

*E R Grove are everything you often don't expect from an accountant - they're human beings. They realise that creatives really want to get on with being creative and that's what they allow you to do. They're always on hand whenever I have a query and they don't blind me with accounting science for their own amusement. Plus, they actually have a sense of humour..."*

INFINITE WISDOM

*"E R Grove have been nothing but consistently available and helpful for us as a young studio. The team are always on hand to answer questions and no query feels like a silly one. We have been amazed at how much easier its been handing our account and payroll over to their team and haven't looked back since."*

ROUNDTABLE STUDIO

**ER GROVE & CO**

Chartered Accountants & Business Advisers

# FUNDRAISING FOR CREATIVE INDUSTRIES BUSINESSES

Creative Industries businesses often start on a shoestring but it's likely that at some stage in their development, these businesses will apply for money either through public funding or private investment.

Public and private funders for creative enterprises almost always require proof of benefit to the community, either through economic or social means. Businesses may need to show how they can create job opportunities, or up-skill the workforce, or create connections and cohesion within the community.

To bid successfully for funding, creative businesses need to provide a cogent and compelling case for support by finding out what the funder wants from their investment, and creating a bespoke bid for each potential funder. The aim should be to 'tell a story' which shows how the business can help the funder achieve its aims, which includes verifiable facts and figures to 'prove' that the outcome can be delivered.

The focus should very much be on what the funder wants to do, rather than the business's own aims and goals - think of the business as the conduit between the funder's money and the funder's purpose or aim.

Some creative industries go down the finance route rather than fundraising, and sometimes this can be a hard sell when you're talking to a bank manager who doesn't understand what your company actually does! This is where your accountant can really add value, by helping you communicate with potential investors in financial terms, providing projections, and showing that your business is a sound investment.

Whether you're applying for funding, or debt, equity or mezzanine finance for your business, it's incredibly important to have a comprehensive business plan with financial projections available to show funders and investors, and a tailor-made pitch that appeals to the funder or investor's core purpose. Contact one of our advisers at ER Grove today to discuss the business planning support we can offer.

# EFFECTIVE MANAGEMENT & ADMINISTRATION FOR CREATIVE INDUSTRIES BUSINESSES

The majority of Creative Industries businesses (95%) are micro-businesses with less than 10 employees, and it's probably fair to say that they are often run by people who are stronger on creative skills than organisational skills! And that's just the way it should be - after all, the creative aspect of your business is what you're selling. But if organisation and administration doesn't come naturally to you, it's a skill that can be learned over time, with help and support from experienced business leaders.

Often, creative micro-businesses have one or two people trying to handle everything, and things can get very messy, very quickly! A great way to take control of your business is to streamline your processes as much as possible, by using automative technology, or outsourcing certain administrative or managerial tasks.

Creative business owners sometimes think that it is cheaper to do everything themselves, which leads to them becoming overwhelmed with the volume of work they need to do. However, using technology such as Cloud Accounting or outsourcing fiddly jobs such as Payroll will actually save you time and money in the long run.

The creative process is at the heart of every creative business's success, but it's easy to get caught up in ideas and projects, and lose track of the need to protect these as your most vital assets. One of your top priorities as a creative industries business owner should be to protect your intellectual property. The ownership of trademarks and registered designs, and patents where appropriate, not only protects you from the theft of your most valuable assets, but also adds value to your business should you wish to sell at some point. Bringing or defending a claim for or against breach of intellectual property can be extremely expensive and time-consuming, and as we've already seen, creative businesses tend not to be either cash or time rich! It's worth taking the time to seek advice regarding protecting your intellectual property, and while you're at it, why not check that you have the correct insurance and other indemnities in place so that you're covered for all types of claims and legal challenges, such as an HMRC investigation.

# SPECIALIST TAX FOR CREATIVE INDUSTRIES BUSINESSES

When starting out in business, many people only know about corporation tax and VAT. What creative business owners need to become familiar with are the many specialist schemes for businesses undertaking certain types of creative work, which can reduce their tax liabilities.

There is a group of 8 corporation tax reliefs that make up the 'Creative Industry Tax Reliefs' scheme. These allow qualifying creative industries companies to increase their amount of allowable expenditure, and pay less corporation tax, or if the company makes a loss, to surrender this and convert some or all of it into a payable tax credit.

These creative industry tax reliefs can be claimed by companies who are liable to corporation tax, and directly involved in the production and development of films, 'high end', children's or animated television, video games, theatrical productions, orchestral concerts, museum or gallery exhibitions, where they have development responsibility from the

beginning to the end of the process.

Without detailed specialist knowledge, many Creative Industries businesses are unaware of the money they could be saving, which is where ER Grove can help. But it's not just tax relief schemes that Creative Businesses should know about, they should also be aware of the pitfalls of incorrect accounting, and underpayment of tax. HMRC can investigate any company they believe has not paid the correct amount of tax, even if the company turns out to have done nothing wrong. Creative Industries businesses often have very irregular patterns of income, which might trigger an investigation through no fault of their own. These can be extremely costly even when you're in the right, and are often an expense that creative businesses simply can't afford. Creative Businesses should therefore consider Fee Protection insurance to help mitigate the costs of an investigation.

*"As a creative business we want to focus on getting our ideas to screen, and E R Grove allow us to do just that! They give their business and financial advice in a way we can digest and action. We always find them open, ready and willing to help and they've helped us with everything from closing investment deals to supporting payroll and pension schemes."*

# TAKING YOUR CREATIVE INDUSTRIES BUSINESS TO THE NEXT LEVEL

Whether you are starting out on your creative industries journey, or looking to expand or develop your existing business, you're going to need support and advice to bring your creative vision to life.

Whether you want to free up your time to focus on the creative process, create a business plan to raise funding, or maximise your profits through tax incentives, here at ER Grove we can help you achieve your goals.

**Book an appointment with one of our ER Grove advisers today to find out how we can help you.**

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