



London Development Agency

The Economic Case for Culture and the Role of the LDA

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Executive Summary

Increasingly both regional and national government is emphasising the important role of culture across a wide range of policy priorities, ranging from tourism and inward investment to regeneration and crime prevention. In particular, this has been clearly articulated by the Mayor's Office through its Culture Strategy.

The LDA must engage and respond to this policy agenda, but as the "Mayor's agency for business and jobs", the rationale for LDA action must demonstrate economic outcomes. Potential interventions or investment in the cultural sector must satisfy three clear criteria:

- Be capable of generating desired economic impacts - those aligned to the objectives of LDA's Economic Development Strategy, and outlined in the Corporate Plan (jobs created, land re-mediated, business space developed).
- Address a demonstrable market failure where the normal workings of the private sector do not lead to the desired results.
- Meet operational delivery criteria (such as leadership, value for money, sustainability etc) and thereby provide LDA officers with sufficient grounds for successful results.

These conditions provide a broad framework for LDA investment in the cultural sector. Of equal importance is being engaged 'at the table' with key partners in order to ensure consistent, coherent planning, leverage and synergy. On occasions this may not require financial investment but rather providing a structural mechanism such as brokerage in order to deliver desired outcomes.

The extent of market failure in the sector coupled with growing evidence (both within London and around the UK) of positive economic impacts associated with cultural investments mean that the LDA will wish to engage in a wide range of potential projects. Several departments within the LDA are engaged in cultural activity and it is important that there is a coherent structure for processing information, responding to requests and making appropriate investment. This has resource and capacity implications that need to be addressed.

Culture is an integral aspect of economic, physical and social planning and it is therefore a key strategic area for the LDA. Although there will always be varying degrees to which interventions will address market failure or generate economic impacts, the LDA must be in a position to assess potential interventions and this paper sets out the rationale for investment and an outline on which to establish priorities.

1. Introduction

This paper is commissioned by the LDA through the Creative Sectors' team in order to set out the principles for intervention or investment in the cultural sector through:

- Consolidating the research base for economic impact of the cultural sector
- Ascertaining the strategic fit with the Mayor's Economic Development Strategy, and to understand and articulate the potential role of the LDA in cultural development
- Understanding more clearly the basis for LDA intervention
- Identifying where the leadership for the role might best be placed within the LDA.

While the LDA has engaged in a range of cultural projects since its inception, there has never been an assessment either of the scale and related capacity issues involved or, more importantly, an agreed rationale for LDA intervention. Cultural projects (as distinct from creative industries) do not appear to have immediate and obvious economic benefits and moreover, there are a number of other bodies that have an interest in or responsibility for the sector.

The definition of culture here is that of the DCMS excluding tourism, creative industries and sport although all these areas relate to the decisions and thinking about where cultural benefit is assured in meeting the objectives of the LDA. Indeed many consultees observed on the danger of disaggregating these elements.

The LDA's portfolio of cultural projects comprises Mayoral priorities and other projects related to wider social and diversity issues, and those inherited from predecessor bodies. In addition, the LDA experiences a high level of demand from a range of organisations either to give advice or potentially to support.

Essentially therefore the LDA's current position is reactive rather than rooted in strategic objectives. Moreover, there is no clear and agreed positioning of the sector within the LDA or informal protocols that allow for transparent lines of planning and responsibility in relation to other bodies.

The intended audience for this paper is primarily internal to the LDA at SMT level and to the Mayor's office; it therefore frames the LDA's existing commitments to cultural projects within its economic and other key objectives and those of major partners as well as setting out some principles that might establish future priorities.

The exercise, though limited in scope and resources, has drawn on an extensive literature review and consultations with other key providers within the LDA and external agencies. Details of these are provided in the Appendices.

2. The Policy Imperative

London's cultural sector is a priority for the Mayor's Office. As London's economic development agency, the LDA must be in a position to work effectively with regional and national policy, both independently and in partnership with other bodies, and have the capacity to mobilise its resources to meet shared objectives.

▪ **Mayoral Policy: The Culture Strategy**

The Mayor is statutorily obliged to plan for culture and moreover has significantly supported London's cultural sector since taking office in 2000. This has been a continuous and coherent theme of Mayoral policy, most clearly articulated in the Mayor's Culture Strategy (2003), which worked with sector representatives to outline a ten year vision for supporting the sector, and incorporating culture across a wide range of policy activities: planning, tourism, economic development, transport, the environment, social inclusion, crime prevention etc. The Culture Strategy is clear about the economic benefits that the sector brings to London, both in terms of growing the economy, and in supporting regeneration activities. A sample of the Strategy's nine main policies highlights this explicit connection between London's cultural sector and wider economic concerns:

Policy 1 "London needs to ensure its cultural institutions and events are of a high quality, world class status"

London's major cultural assets need to be monitored to ensure they sustain and develop their world-class reputation. These raise the city's profile internationally but also bring Londoners together into communities of interest that can stimulate London's economy.

Policy 2 "Improvements in infrastructure and support are necessary to realise the creative potential of London's cultural diversity"

Diversity is an important component in the success of London's culture and creative industries, but this is still insufficiently represented in the principal cultural institutions. Renewing London's cultural infrastructure is important in order to broaden engagement with culture and enrich progression routes into the creative sector.

Policy 3 "London needs to develop its brand and promote itself as a world cultural city and tourism destination"

London's cultural richness is at the heart of the capital's tourist offering, but this advantage needs to be sustained and renewed in order to attract visitors and inward investment, and how these assets are promoted as a key aspect of London's overall brand.

Policy 5 "Education and lifelong learning must play a central role in nurturing creativity and providing routes to employment"

London has a large number of learning institutions associated with culture which helps to support the flow of new talent into the creative and cultural industries and also generates cultural activity – consumption and production – and research and innovation.

Policy 7 “Culture should be a means of empowering London’s communities”

Community-led cultural events, projects and activities not only strengthen a community’s identity and social cohesion, but are an important means of addressing social exclusion and helping people to develop some of the skills needed for employment and enterprise.

Policy 9 “Cultural activity should be encouraged in the development and regeneration of London”

Cultural assets and activities can help to regenerate areas suffering long-term economic decline, making places more attractive to live and a better location for businesses, shops, restaurants etc.

▪ **LDA Economic Development Strategy**

The Economic Development Strategy (January 2005) identifies culture as one of the means by which the LDA can achieve its economic objectives. The EDS makes little explicit mention of specific sectors, including culture, rather it is concerned with over-arching strategies (investing in people, places, enterprise and promotion) and how investments can be used to achieve goals around sustainable growth and regeneration.

At the launch of the EDS the role for the cultural sector was set out by the Mayor;

“Something about the culture of great world cities creates that entrepreneurial and artistic flair which is able to flourish... That is something we intend to strongly nurture in the work that the LDA is doing in the creative industries to recognise their strengths and the way in which they impact outside of the narrow area which they may actually be working.”

The EDS explicitly identifies the following key objectives that set out a more specific rationale for investing in the cultural sector.

- **Global Capital** : Culture plays a key role in maintaining and developing London’s position as a global capital - one of the world’s major centres for commerce, tourism, education etc. The cultural offering must remain distinctive and competitive including promotional campaigns that celebrate the city’s creativity and cultural energy. As the Mayor said at the launch of the EDS: *“I think one of the things that cements our strength as such a strong financial centre and gives us the margin over places like Frankfurt is that once you have had a hard day’s work, this city has a diversity of offerings in terms of cultural and leisure services, unrivalled anywhere else.”*
- **Raising the sector profile** : Major cultural events and activities (London Film Festival, Fashion Week, Notting Hill Carnival etc) raise the profile of London’s cultural sector, and create important showcasing and marketing opportunities for London’s commercial creative industries.

- **High quality urban design** : A well designed public realm, which incorporates cultural assets while remaining sensitive to London's heritage, is highlighted as an important factor in improving London's environment and sense of community.
- **Area-based priorities** : Cultural activity must also operate at the local level to ensure that all of London can access facilities and share in the associated economic benefits.
- **Celebrating cultural diversity** : Cultural events and activities are an important means of celebrating and raising awareness of London's diversity, something that is central to London's overall tourist and commercial offering.

- **London Cultural Consortium**

The newly constituted regional cultural consortium met for the first time in January 2005, chaired by Chris Smith, formerly Secretary of State for Culture. It has been established as a restructured cultural strategy group with the aim of taking forward the implementation of the Mayor's Culture Strategy. Although (as seen above) the Mayor's overall, long-term strategy has already been established, the consortium will have an important role to play in shaping priorities and the LDA (as a member) will be expected to play a key role. As a newly formulated body, the consortium is yet to make any significant policy proposals though it is agreed that the first theme to be explored is regeneration, suggesting that the LDA will have an important role in both leading and delivering on consortium objectives.

- **National Policy**

Regional policies are increasingly reflected and reinforced at the national level where there has been considerable interest in the opportunities that culture provides to drive positive social and economic change. Many activities and capital investments across the UK, supported by a wide range of funding regimes, are now well-known and last year (2004) much of this was brought together into a DCMS policy document, **Culture at the Heart of Regeneration** which focuses on how such interventions have transformed run-down locations and areas that have suffered from long-term economic decline.

Drawing on case studies rather than any systematic evidence base, the document argues that the cultural sector brings direct economic benefits through employment and revenue generation while also attracting talented professionals and businesses. Standard metrics are used to assess the impact of cultural investments such as: job creation, tourism, inward investment, retention of graduates and increased property prices.

While the DCMS has articulated the case for cultural-led regeneration, the Office of the Deputy Prime Minister, working through the regeneration agency English Partnerships is also engaged. The ODPM has a wide remit, which includes planning, housing, neighbourhood renewal,

sustainable communities and social exclusion, all of which are directly relevant to the LDA's work. In addition, the ODPM is closely involved in the Thames Gateway Development, Europe's largest economic development initiative and a major priority for the LDA.

The ODPM publication, ***Regeneration Through Culture, Sport and Tourism***, is closely aligned to both DCMS and Mayoral policy in identifying culture as a "major opportunity for regeneration" through the economic growth of the culture and leisure sector and also as an enabler of community identity, social engagement, environmental improvements and changes in perception - all of which are key stimulators of economic regeneration. Although the publication is now five years old, it is clear that the ODPM continues to emphasise the potential for culture to meet regeneration objectives as Deputy Prime Minister John Prescott reflected at the opening of the Delivering Sustainable Communities Summit in Manchester on 1st February 2005: *'On Tyneside, the Sage Centre, the Baltic and the Millennium Bridge have really made an impact. They've helping to pull Newcastle and Gateshead closer together into a more united community. Now that's a real achievement and it's got the "wow factor" as well. And London's changing all the time, with fantastic new landmarks like the Swiss Re building. These are all architectural statements which reflect the new found pride in our cities.'*

As a devolved administration the GLA and thus the LDA must take its lead from Mayoral rather than national policy. However, the economic and cultural profile of London and the national importance of certain developments and cultural assets (Thames Gateway, national institutions, the Olympic bid, etc) requires a joint approach to central government departments, and a recognition that national policy will inform the LDA's strategy and decision-making around the cultural sector.

▪ **National Lottery**

The UK's single most important source of capital investment in the cultural sector over the last decade has been the National Lottery, working through the Heritage Lottery Fund, the Arts Council, the Film Council and the Millennium Commission. For instance, the Arts Council of England estimates that £2bn had been injected into the arts by the end of 2004 while the Heritage Lottery Fund had spent a total of £660 million on projects in London.

The National Lottery is a funding route rather than a strategic body, so its role is quite different from that of the LDA. Nevertheless, changes within its investment priorities and, in particular, decreasing revenues can be expected to have consequences for the LDA with arts organisations and sector representatives increasingly looking to the LDA to make up the shortfall in funding, particularly around capital investments.

3. The Economic Benefits of Culture

The evidence base for the cultural sector remains problematic and imperfect. Definitional inconsistencies, problems with the SIC codes, different evaluation criteria and a history of *ad hoc* data collection all mean that there is little in the way of a rigorous, longitudinal evidence base from which meaningful comparisons can be drawn and providing evidence for the impacts of cultural investment is an unsystematic process.

The paucity of the evidence base means that little work has been undertaken to assess the additionality of public investment in the cultural sector, i.e. the extent to which impacts following on from an intervention would not have occurred in its absence. This is a serious omission and it is important for the LDA, working with government and sector bodies, to address this as soon as possible if it is demonstrably to justify continued long-term investment in the sector.

However, evidence for public sector investment does exist in as much as there are a number of well-established approaches towards engaging and intervening in the sector, and for which supporting evidence has been collected to inform policy. While a full analysis is outside the range and remit of this paper, below are some of the major strategic approaches to culture which are currently being adopted, and how the LDA positions itself alongside these.

▪ Industrial Development

The sector has experienced rapid growth including increased cultural consumption and production and is recognised as a major source of economic benefit and employment. The creative industries (as the sector is known within an industrial context) addresses the DTI's concerns, namely supporting productivity, innovation, export activity, entrepreneurship and growth.

Creative London is the lead body for LDA investment and intervention in the sector. A number of consultees pointed to the false distinction between the 'industrial' and the 'cultural' and the prevalence of public provision in the creative industries means that there will always be limits to the extent that standard industrial development models can be applied. Indeed culture and the creative industries support and add value each to the other.

Examples

- The importance of cultural and leisure consumption to London's economy is demonstrated by research showing that Londoners spend 25% of their disposable incomes on leisure goods and services.
- The Notting Hill Carnival in 2002 is estimated to have generated approximately £93 million and supported the equivalent of 3000 full-time jobs.

- Arts Council England's Economic Impact Study shows that West End theatre venues generate £1.5 billion for London's economy through a combination of direct and additional visitor spend.

- **Cultural Regeneration**

The role that culture (and in particular, the cultural environment) plays in transforming the physical and economic environment is now recognised. Investment in culture has proved an essential element of economic development, producing a range of benefits including: increases in retail activity, tourism, property prices, and employment; attracting highly qualified workers; and enhancing the quality of life.

Large-scale cultural landmarks (Angel of the North, Bilbao Guggenheim etc) have succeeded in improving perceptions of an area, raising aspirations and, it appears, encouraging both commercial investment and the visitor economy. Certainly the LDA Director of Regeneration and Development unhesitatingly supports the view that culture is an integral part not only of London's built landscape but also of the way in which people perceive and experience the city, residents, potential investors and visitors alike.

The Mayoral priority projects¹, whose delivery is being overseen by the LDA, are all instances of regeneration initiatives that are either led by, or at least substantially incorporate, culture though these projects have taken almost five years to be sufficiently developed (including constructing secure business plans that will allow the LDA to have confidence that it is investing in a sustainable project). Developing the leadership skills and competencies of local stakeholders from the community has been an important element in ensuring that real and rooted cultural regeneration will happen.

Examples

- Research undertaken by the Core Cities Group highlighted the extent to which cities which possess or are actively creating distinct environments, architecture and culture options are successful in attracting a critical mass of highly qualified workers.
- Tate Modern 'before and after' snapshots undertaken by McKinsey show dramatic increases in retail activity, tourism, property prices, and employment in the surrounding Southwark area.
- Recent EU research on the European Capital of Culture programme cites evidence that cities can be revived by programmes of cultural regeneration. Research from Glasgow and Rotterdam in particular, show how the programme succeeded in boosting tourism and enhancing the quality of life.
- The Laban Centre in Lewisham, which opened in 2003 with the help of significant investment from the LDA, has been described by the Arts Council as "instrumental to the physical, social and economic

¹ Stephen Lawrence Centre, the Bernie Grant Centre, Rix Mix, and Talawa Theatre Company

regeneration of the surrounding area” with the creation of 40 full-time jobs and a range of community programmes for local young people.

▪ **Addressing Social Exclusion**

The role that culture plays in engaging with communities and addressing problems associated with social exclusion is the subject of increasing research. The nature of these activities ranges widely - public art projects, artists’ workspace, landmark venues, training programmes, community arts projects etc. Much of this is delivered by cultural agencies in the non-formal learning sector, many with particular expertise in working with young people.

Addressing social exclusion can be described as ‘proto economic development’. Although not directly concerned with ‘jobs and business’, these cultural activities can help equip those from excluded groups with the confidence, self-esteem and social skills they need to become economically active, providing progression routes into education, employment and enterprise.

Examples

- The Notting Hill Carnival plays an important role in engaging with local communities, providing social and professional skills for young people and developing markets for Afro-Caribbean food, drink, music and other cultural products.
- Evaluation of the Arts Council England’s Splash Extra programme, which involves children and young people in arts and sporting activities, found a 5% decrease in crime in those areas where the scheme was run.
- Supporting Talent into Enterprise Project (STEP) report was commissioned by the LDA, and has led to an ongoing capacity-building programme for the non-formal learning sector. This work has built up a body of evidence on how cultural activities are successfully addressing social exclusion in London.

▪ **Cultural Value**

The new paradigm of cultural value recognises the affective elements of cultural experience, practice and identity, as well as the full range of quantifiable economic and numerical data. It seeks a forward-looking model to understand the broad public value (or value destruction) that can result from the decisions both of publicly funded organisations and funding bodies.

This new approach to culture has many advocates and brings together a range of policies within a shared concordat. Thus there is an increasing understanding of how bodies with distinct roles can draw benefit from joint support for a project from the LDA with its economic imperatives to

those bodies charged specifically with cultural support in particular Arts Council England and MLA2 .

Partnership is critical to investment decisions and there are good examples where two or more bodies support the same project in different aspects and for different outcomes. Thus funding bodies will cooperate in support of a project, each gaining from the other to achieve shared objectives and, where possible, ensuring their distinct objectives are met.

Examples

- The Laban Centre has successfully achieved economic development objectives for the local Lewisham area while also providing a distinctive cultural experience. Winner of the 'Stirling Prize for building of the year' surveys have shown a 10 per cent increase in local audiences for its contemporary dance performances.
- The BALTIC Centre for Contemporary Art in Gateshead is at the heart of the regeneration of Gateshead Quays and has already leveraged more than £200million in private investment. The BALTIC has no permanent collection but rather exhibits a series of contemporary art commissions and artists-in-residence, attracting in excess of 250,000 visitors a year.
- The Lowry in Salford is an arts centre with theatre and exhibition spaces that has succeeded in creating new audiences for visual and performing arts in the region while almost having a significant impact on local employment and inward investment.

4. The Role of the LDA

▪ The Economic Role of the LDA

Market failure is a widespread phenomenon, occurring in a number of circumstances and with a number of consequences (Appendix I sets out a more detailed argument for how culture relates to conditions of market failure). There are a number of public agencies and funding bodies that are already working to address the impacts of market failure in London's cultural sector. These include regional bodies (Arts Council England London, London Cultural Consortium, ALM, the GLA, London English Heritage) as well as the activities of national bodies, sector bodies, local authorities and sub-regional agencies. These agencies are seeking to bring positive change in areas as diverse as the quality of the built environment, strengthening and diversifying cultural provision; deepening and broadening cultural consumption, tackling social inclusion, improving access, education and training, and improving civic awareness.

The LDA needs to work with all these agencies in a variety of ways and means - co-financing projects, supporting initiatives with one or more bodies, taking a leadership role to drive forward key objectives. However, the LDA is an economic development agency and its actions must be

² Council for Museums, Libraries and Archives.

focused on investment to remedy, ameliorate and address the results of market failure that are *explicitly economic in their nature*. Interventions must therefore relate to positive economic impacts in line with the Economic Development Strategy as well as the wider requirements of cultural and other strategies for London and the UK.

▪ **The Scope of Economic Intervention**

The relationship between culture, society and economy is complex, fluid and inter-linked and it is hard to imagine an action that would not have some secondary economic impact. Investments that are primarily cultural or artistic in their purpose can have significant indirect economic effects, for instance, flagship public art projects have apparently boosted business confidence, inward investment and the visitor economy.

Thus the LDA is in a position to pursue a wide variety of potential projects and partners without feeling that these are somehow 'off limit' as long as the economic objectives are set and there is some robust means of measuring and evaluating outcomes.

▪ **Partnership with the Sector**

The LDA's role is as a strategic investor and co-ordinator rather than delivery agent and, as a major strategic body for London, it is very important that the LDA is able to access knowledge about the sector even if it is not a direct funder; this form of intelligence is critical to its role as an influencer and strategic authority. The Cultural Consortium will fill part of this gap but it will not, nor should it try to, be fully representative of the cultural sector organisations.

The lack of a sector-wide 'trade body' is evident in the cultural sector and presents an obvious difficulty, as such bodies can be effective vehicles for intelligence gathering and delivery. Given the range and diversity of the sector, a single trade body is not feasible but the sector works well through networks both structured and unstructured. It is suggested that the LDA should considering increasing its role in supporting networks.

There was a view among consultees that all the agencies that invest in and essentially shape London's culture must operate on a much longer timescale and within a more coherent planning framework. It is felt that there is still too much that is done 'on the hoof' resulting in short-term measures, duplication and the lack of real vision.

▪ **Measurement**

The current system is determined by established measurement criteria that apply to all capital projects (land remediated, jobs created, business space developed) and to the objectives and targets set out in an organisation's business plan. In fact a much wider range of criteria come into play and these are outlined in the section below – 4.7 Assessment Criteria.

However, as cultural investment grows, the LDA needs to consider the development of specific cultural measurements that apply across the range of funding streams. These measurements need to be framed within the strategic context and will require the development of both specific short-term outputs and longer term impacts; as one of consultees remarked, the planning timeframe should be ten years in order to make and monitor change.

- **Leadership**

There is a complex landscape of funding streams and departments within the LDA that are engaged in some aspects of cultural development. This is undoubtedly a strength – culture is proving itself as a credible economic development tool to achieve a wide range of ends. However, the danger is a lack of overall strategic impact through duplication and lack of coordination. While consultees within the LDA clearly are working together on both a formal and informal basis, it is important there is a clear leadership responsibility which will include coordination across the LDA and with the range of partners. There seems general support for the idea that this function should reside within Creative Sectors and should be formally recognised and flagged accordingly (for example, currently the term ‘culture’ is absent from names of departments etc.).

- **Capacity Issues**

There is no doubt that the LDA is, and will continue to be, a major player in the development of London’s culture; indeed, to not be seriously and consciously engaged would be inconsistent with its remit, responsibilities and vision. It is already fielding, supporting (both with advice as well as financially) and promoting a very wide range of projects. The sheer number is already proving difficult to manage and internally there are concerns that the skills and experience needed to advise and guide delivery is limited. The weight of the work falls to the Head of Creative Sectors who has knowledge and expertise in this area and the confidence and respect of his colleagues and external partners. However, all consultees were aware that the growing workload is proving difficult to manage and the LDA must address the resource implications of a continued and increasing commitment to culture.

- **Assessment Criteria**

Finally, any intervention in the cultural sector must be assessed on its own specific merits. Addressing market failure and promising economic impacts are both necessary but are by no means sufficient conditions for LDA action and a much-needed intervention in the sector could still be passed over if there are doubts about its successful delivery. For example, the Laban Centre and Ocean in Hackney are instances of large capital investments in London’s cultural sector, while the Laban Centre has been a signal success, Ocean has recently closed – ‘wrong place, wrong product, great building’ as one of our consultees observed.

Project-specific factors must be considered, and careful planning, hard-headed assessment and rigorous analysis are therefore critical.

Suggested criteria by which individual interventions and investments should be assessed include sector support, management competence, leverage, synergies, innovation, sustainability, value for money and of course the 'wow factor'.

5. Suggested areas for discussion

This is intended as a list of potential actions arising from the paper, for consideration at the meeting on the 15 February.

- **Policy** : consider producing a brief statement that establishes its position on culture in relation to the objectives set out in the EDS and in the Mayor's Culture Strategy. Identify who needs to be involved in producing this statement and who needs to have it internally and externally. Though the consultation undertaken has been limited, there are inevitable expectations that something will emerge.
- **Planning** : look at what structures need to be developed in order to provide the LDA with a more proactive and long term, strategic role.
- **Evidence** : consider the need to establish a framework for measurement that reflects the policy objectives as well as the overarching requirements of the existing monitoring and evaluation systems.
- **Partnership** : consider who needs to be engaged in the planning process (including developing the evidence framework) and how this will be negotiated and put in place.
- **Leadership** : look at how the LDA can improve internal organisation and ensure there is a clear and agreed means of sharing information and agreeing appropriate action; it is suggested that the leadership role is best placed in Creative Sectors (does this require some name-change recognition?)
- **Capacity** : the current level of demand is considerable and increasing and does not allow for any of the suggested actions above. There is already a concern that the human resources and levels of skills and knowledge are inadequate.

END

6. Appendix A: Test Cases for Market Failure

One of the key principles guiding public intervention is market failure - where the free market fails to allocate resources efficiently and results in a measure of aggregate welfare loss (including opportunity cost). Market failure provides a case for different kinds of public sector intervention (e.g. provision, regulation, prohibition, tax duties, subsidies etc) or at least collective action (e.g. through an industry association, trade body, networks)

Below is brief outline of the causes of market failure and how these might apply to culture. It is important to note that market failure is usually evaluated relative to the benchmark of perfect competition which, in practice, might not be attainable. The list below is not meant as a substitute for comparative institutional analysis in which market outcomes and government intervention are considered and then compared objectively.

- **Externalities**

The term externality refers to the consequences or side-effects of economic activities external to the economic agents themselves which can be positive or negative, and arise when the full cost or benefit of an activity is not captured in the pricing mechanism of the market.

Certain cultural products and services have positive externalities and thus count as *merit goods*. While the market will always produce culture, there are positive benefits (such as educational, social capital, civic awareness) which are not reflected in certain transactions between individual cultural producers and consumers with the result that there will be an under-supply of some types of culture desired by society. The justification for public provision of culture on this basis depends on assessing how many people are consuming it; the positive impact it is having (often difficult to demonstrate); the costs of provision; and the public's level of support for products or services which they may not personally use.

- **Insufficient provision of public goods**

A public good are characterised by two features:

- Non-excludability: non-payers cannot be excluded from consuming it
- Non-rival: one persons consumption of the good or service does not diminish anyone else's consumption of it

It remains difficult to the point of unfeasible for certain cultural products such as public art, street festivals to be made either excludable or non-rivalry.

- **Imperfectly competitive markets**

The nature of certain sectors (high barriers to entry, increasing returns to scale etc) mean monopolies or oligopolies will tend to arise, along with associated problems (price fixing, stifling of innovation etc).

Certain cultural sectors have characteristics of imperfect competition, particularly the broadcast and media and entertainment industries, and the public sector intervenes through a combination of direct provision and regulation. In addition, certain national monuments and artistic treasures (such as the National Gallery or the Tower of London) are unique cultural products and their markets could be regarded as inherently monopolistic. Thus if not directly provided through the public sector, they tend to be managed on a non-commercial basis e.g. through a trust or charity.

- **Imperfect Information**

If economic agents have imperfect or asymmetrical information it can lead to sub-optimal decision making such as in specialist, knowledge-intensive industries (e.g. health care) where expertise is exclusively concentrated among professionals and consumers are unlikely to be sufficiently informed to make the best procurement decisions.

It is rarely argued that lack of information is a serious failure in the cultural sector. People know best which kinds of cultural product will most satisfy and there are numerous intermediaries (critics, listings guides, etc.) that provide information thus it could be said that the welfare loss resulting from a poor decision is slight. However, there are opportunities to improve information flows higher up the value chain such as showcasing small and new cultural/creative businesses to audiences, commissioners and clients in order to expand opportunity.

- **Market barriers**

In certain circumstances, labour and capital cannot enter and operate effectively in the market and interventions are therefore made to remove barriers and enhance mobility. Within culture (as in other sectors) barriers include social exclusion, economic or educational disadvantage, and geographic/transport difficulties. In particular, those from BME and disadvantaged communities tend to be strikingly under represented, both as consumers and producers, in the major, publicly funded cultural institutions as well as in the creative industries which suggests a role for investment.

7. Appendix B: References

Consultees

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