The creative industries are becoming ever more vital to the UK’s economic growth. The Gross Value Added was estimated to be over £87.4bn in 2015, an upward trend that saw an increase of 34% between 2010 and 2015 – placing the creative industries as one of the fastest growing sectors in the UK economy. Nationally, 1 in 11 jobs are categorised within the creative economy, meaning that many of us are personally connected to, and invested in, the success of this sector.

Of course, the value of creative arts and technologies cannot simply be reduced to statistics, pounds and pence, and nor should it be. Creativity stimulates benefits in all aspects of our lives: enriching education, enhancing our health and wellbeing, and generating a strong and varied sense of place across the country.

After having served for six years as the Minister for Culture and the Digital Economy, I have seen the benefits of strong Creative, Digital and IT (CDIT) industries first hand, and know what this vibrant community of skilled professionals has to offer. By way of example, the development of virtual and augmented reality software has already opened up exciting new possibilities in the gaming world, but it is now set to revolutionise other industries as diverse as social care, retail and tourism. I find myself continually enthused by the ideas and outputs of our creative community, and the potential that these ideas hold for our future society. I am delighted to continue my involvement in the sector through my role as Chair to this project.

Creative Fuse North East has come into being at an opportune time, for both the CDIT sector and the region. The project coincides with a period where investors and policymakers are looking ever more to the North as a cultural, creative and innovative hub. In 2016, the UK Government announced its Northern Powerhouse strategy; in 2017, Hull embraced the title of UK City of Culture; and in 2018, NewcastleGateshead will host the Great Exhibition of the North. There has never been a better time to engage with creativity, arts and technology in the region.

Through the upcoming phases of Creative Fuse, we have the opportunity to explore possibilities, connect creativity, and propel the North East CDIT sector into a period of sustainable growth. As this project continues to build upon the work of its predecessors, Brighton Fuse and London Fusion, Creative Fuse promises to deliver both tangible benefits for the region and a blueprint for success across the country.

Rt Hon Ed Vaizey MP, Chair
In January 2017, the UK Government produced its green paper Building our Industrial Strategy, which highlighted the creative industries as a sector where the UK has developed a global reputation. Within this context, the Creative Fuse Initial Report is very timely in underlining the importance of the CDIT sector to the North East economy, identifying some of the challenges it faces and opportunities it offers, and sparking national and regional debate as to how these might be addressed.

Our findings identify a range of opportunities for growth and fusion in the CDIT sector, including raising the profile of the sector, supporting skills development, facilitating fusion, and collaboration with other sectors. These issues will be explored in the second phase of Creative Fuse. From its initiation, Creative Fuse has facilitated and curated space for serendipitous collaborations, including through its monthly CAKE (Collaboration and Knowledge Exchange) events which bring together a diverse range of individuals from different backgrounds and sectors on a regular basis around a selected theme. The second phase of Creative Fuse focuses on building these collaborations through a series of “innovation pilots,” combining insight, know-how and capacity from different creative and technical disciplines in the CDIT sector and connecting them with unexpected markets and sectors.

Transformative digital technologies are identified in the green paper as one of eight potential challenge areas for the Industrial Strategy Challenge Fund, and the findings in this initial report reinforce the suggestion that the creative industries should also be included as a challenge area.

There are several characteristics relating to the CDIT sector in the North East that make it distinctive. In a region that has transformed itself in the last decades by using culture as a driver for economic regeneration, the sector has contributed strongly to an enhanced sense of a place and a reputation as a tourist destination. The CDIT sector is a complex sector, spanning very varied rural and urban geographies, with a rich mix of the public, private and third sector, and multi-million pound and micro-businesses. It is especially important to the region, demonstrating more rapid growth than traditional industries, whose presence, alongside five universities and a large public sector, offers opportunities for spill-over from the CDIT sector into other areas, for example healthcare, to address challenges such as the region’s rapidly ageing demographic.

Based on our research, including a survey with a sample of over 500 CDIT firms and freelancers, we show several key findings:

- Levels of fusion, the interdisciplinary combination of ideas from creative design and technology, are high in the North East CDIT sector. For businesses, levels of fusion slightly exceed the findings of Brighton Fuse (67% fused and 35% superfused in the North East), although for freelancers the position on fusion is less pronounced.
- Quality of life is clearly a major asset for the North East of England, with 84% of businesses and 77% of freelancers stating this as an advantage. The theme of young creative and digital individuals returning home to the North East featured strongly in our research and the region supports a higher standard of living than that available in many other areas of the UK, particularly London. Despite a high quality of life being recognised by those living in the region, attraction of talent is a challenge, with 38% of businesses reporting that being based in the North East is a disadvantage for attracting employees.
- Compared to other UK regions, the North East has the second highest proportion of charities in the CDIT sector, including three of the top 12 organisations turning over more than £10m and 11 of the 28 companies with 50 or more employees.
- There are mixed signals on skills. While only 18% of businesses report gaps in the skills of their existing workforce as a substantial hindrance to growth, with 70% of businesses providing staff training in the last year, 30% of businesses consider access to skilled labour as a disadvantage in the North East. More than half of freelancers note a lack of time and the excessive costs of training as hindrances to their development of new skills.
- Distance from London is perceived as a disadvantage for 51% of businesses and 54% of freelancers in our sample. While Brighton businesses found proximity to London an advantage, both in terms of ease of rail travel and attractiveness as a destination for London based clients, many of those we interviewed condemned the high cost of travel to London and the challenges of attracting clients and financiers to visit the North East. Connectivity across the UK’s creative economy is difficult, meaning that there are missed opportunities for business and market development.
- 67% of North East CDIT businesses are fused

These innovation pilots aim to drive new methods and approaches for industry–university relationships, bringing together small companies and freelancers to work with larger organisations and academics to address industrial and social challenges, thereby supporting economic growth and addressing pressing social needs in the region.
Creative Fuse North East is exploring the ‘fusion’ of creativity, culture and technology in North East England. It is delivered by the five North East universities – Durham, Newcastle, Northumbria, Sunderland and Teesside – working with a range of businesses, stakeholders and practitioners across the Creative, Digital and IT (CDIT) sector.

Creative Fuse is led by Newcastle University and funded by the Arts and Humanities Research Council (AHRC), the five North East universities, the European Regional Development Fund and Arts Council England’s Local Growth Fund within its overall £4.5m budget. Under the auspices of the North East Culture Partnership and with support from the National Centre for Universities and Business, Creative Fuse will run for 30 months from May 2016 to October 2018. Creative Fuse, on the face of it, serves as a contrast to Brighton Fuse, its AHRC-funded predecessor: it investigates a region rather than one city – a region encompassing extensive rural areas as well as the cities of Newcastle, Sunderland and Middlesbrough and other smaller towns: the north rather than the south of England; a strong advanced manufacturing sector with a large number of people employed in science and technology jobs, but with economic and social challenges; and one distant from rather than close to London. The North East CDIT sector is quite different from Brighton and other cities such as Manchester in terms of size, its geography and economy, its people and the specifics of its opportunities and challenges.

Creative Fuse’s purpose is to identify how the CDIT sector in the North East can grow and contribute more impactfully to the regional economy. It is investigating how knowledge and skills ‘spill-over’ from the CDIT sector to other sectors so it can support growth. Creative Fuse will assess and develop new ways of collaborative working between universities and the CDIT sector, addressing the need for the right knowledge, skills and aptitudes for sustainable industries into the future. Creative Fuse seeks to be regionally significant and nationally relevant.

Policy makers have refined definitions to include work on expressive value, the creative workforce and ‘creative intensity’. Creative Fuse uses the current definition of the creative industries adopted by the Department for Culture, Media and Sport (DCMS) in 2014.¹ The principal change arising from this revised UK government definition was the inclusion of a wider sector of software or digital based industries. For this reason, we follow the terminology used in the Brighton Fuse project and refer to the creative industries as the Creative, Digital and IT (CDIT) sector.

To develop an initial comprehension of the North East CDIT sector we analysed various business and employment databases.² Then, through a survey modelled on the Brighton Fuse questionnaires, we sought to address such questions as how North East businesses and freelancers in the CDIT sector innovate, what their common challenges are, and what changes they would like to see to remove barriers to growth. The survey closed on the 24 April 2017 with over 600 responses, the largest and most extensive exercise of its kind in the North East to date, with 407 survey responses from the North East Local Enterprise Partnership area and 103 from the Tees Valley Local Enterprise Partnership area (see Figure 1).

We included both businesses and freelancers in our survey, asking both groups different although relatively questions, adopting the ONS Labour Force Survey definition to identify freelancers: people who run businesses that do not employ people other than themselves.

Our qualitative research involved a total of 32 interviews with intermediaries who support the region’s CDIT sector, and businesses and freelancers in different CDIT sub-sectors. These interviews provided a more in-depth perspective to complement our database and survey data.

Questions around which parts of the economy should be considered part of the ‘creative industries’ have been debated for decades.

3 In this definition the creative industries are divided into nine groups using Standard Industrial Classifications (SIC 2007) as follows: Advertising and marketing, Architecture, Craft, Design, Product, graphic and fashion design, Film, TV, video, radio and photography, IT, software and computer services, Publishing, Museums and galleries and Libraries, Music, performing and visual arts.
5 Inter-Departmental Business Register (IDBR), Bureau Van Dijk’s Financial Analysis Made Easy (FAME), the Office of National Statistics (ONS) Labour Force Survey (LFS) and the Destinations of Leavers from Higher Education (DLHE) survey.

Figure 1: Map of All Survey Responses by LEP Area
A Distinctive Sector: The Size and Composition of the CDIT Sector in the North East

According to the FAME (Financial Analysis Made Easy)\(^6\) database there are 4,641 organisations in the North East whose primary SIC code is within the CDIT definition, placing it 11th out of 12 UK regions. This represents 1.5% of the UK’s CDIT sector and 5.5% of all businesses in the North East.

Not surprisingly, London and the South East have the highest concentrations of CDIT businesses relative to the total number of businesses, with both regions having 9.5% of all businesses in the CDIT sector. In line with every other region, IT, software and computer services dominate the North East’s CDIT sector, accounting for 43.7% (2030) of all CDIT companies.

The Brighton Fuse project (2,030) of all CDIT companies. The Brighton Fuse project coincided with, and contributed to, the debate within the sector having 9.5% of all businesses in the North East. This represents 1.5% of the UK’s CDIT sector and 5.5% of all businesses in the North East.

FAME reports 12 CDIT businesses in the region with an annual turnover above £10m, with half of these in the IT, software and computer services sector. These include Sage plc, the largest technology firm listed in the FTSE 100, founded in Newcastle in 1981; Technology Services Group, founded in 2003 by one of the co-founders of Sage; and Ubisoft, a global games development and publishing agency. 13% of business respondents in our survey reported a turnover of over £1m.

Compared to other UK regions, the North East has the second highest proportion of charities in the CDIT sector, including three of the top 12 organisations turning over more than £1m and 11 of the 28 companies with 50 or more employees. The largest include venues for exhibition and performance such as Sage Gateshead (North Music Trust), Newcastle Theatre Royal, BALTIC Centre for Contemporary Art, Northern Stage and Stockton Arts Centre. This reflects investment over the past two decades in cultural-led regeneration and a policy focus on creative and cultural industries not just for economic impact and growth, but also to cultivate a sense of civic well-being, aspiration raising and promotion of the region as a good place to work, live and visit.

A Growing Sector: The Economic Performance of the CDIT Sector in the North East

There is an encouraging story with respect to business growth. Of all business respondents, 52% reported an increase in turnover between financial years 2015–16, 20% reported no change and 16% reported a decrease (12% declined to comment).

Our survey data highlights growth in the region for 2015–16, especially in IT, software and computer services, design, crafts, and architecture (see Figure 2). In terms of ‘high growth’ businesses, defined as those experiencing growth rates of 20% or more, we find that 35% of film, TV, radio and photography, 32% of advertising and marketing, 31% of IT, software and computer services and 20% of architecture respondents reported growth of 20% or more.

The picture in relation to freelancers is much more complex. 49% of our freelancer respondents reported earnings of less than £20,000 from their self-employed activity compared to the national living wage of £17,576 outside London\(^8\) although less than 10% would choose to be employed given the option. 26% of freelancers saw an increase in income, 32% stayed the same and 24% saw a decrease (15% did not know or preferred not to say).

In terms of employment, we can look at creative economy employment which covers those employed in the CDIT sector as defined above, but also those employed in creative occupations embedded in other industries. A 2015 report by Nesta, found that the creative economy accounted for 4.9% of all employment in the North East, compared to 8.3% for the UK.\(^9\) However, creative economy employment in the North East has been growing steadily\(^10\) its increase from an estimated 51,000 in 2011 to 68,000 in 2015 equates to a growth of 29.4%, much higher than the growth for the UK as a whole during the same period (19.5%). Creative industry employment also grew more in the North East (22.6%) than in the UK as a whole (19.5%) from 2011 to 2015.

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Creative Digital Fusion

Brighton Fuse defined fused businesses as ‘those that combine creative art and design skills with technology expertise’. Those who agreed strongly that a combination of ideas from creative design and technology were embedded in their work were considered ‘superfused’ businesses, those who agreed, ‘fused’, and the remaining deemed ‘unfused’.

Two thirds (67%) of North East CDIT businesses are currently fused by this definition, with 35% being superfused. This slightly exceeds the findings of Brighton Fuse (65% fused, 33% superfused).

Examining fusion by sector (see Figure 3) highlights architecture, advertising and marketing and design as those with the biggest proportion of ‘superfused’ businesses. Nevertheless, IT, software and computer services and film, TV, video, radio and photography also fare well when considering both the fused and superfused categories.

Fused businesses in our sample report a richer mix of employees educated in science and engineering (including computer science) and arts and design subjects and were more likely to report business growth in 2015–16 (see Figure 4). 64.7% of fused/superfused businesses reported growth. Our findings therefore echo the Brighton Fuse findings, further building the evidence base that investing in stimulating fusion will result in faster growth.

Interdisciplinary working was considered as a matter of importance for many of the businesses and freelancers we interviewed, particularly with respect to producing quality outcomes and alleviating stagnation. However, a considerably smaller proportion of our freelancer respondents (58%) said that they combined ideas from creative design and technology, with only 20% falling into the superfused category. This is less than the Brighton Fuse freelancer study figures, which reported 40.7% superfused. Over half of North East freelancers (61%) did however note a lack of time and the excessive costs of training as hindrances to new skills development. 48% also said the most important aspect of their skills development is self-learning (e.g. online tutorials), closely followed by learning on the job at 47%. Both were deemed more important than higher education degrees.

64.7% of fused businesses reported growth.

Innovation in the North East CDIT sector

Our sample of North East CDIT businesses indicates high levels of innovative activity. Almost all (93%) of businesses reported they empower their staff to try new things and 70% provided training for staff in the last year. 71% launched new or improved services, 62% have launched new or improved products and 52% have produced materials eligible for copyright.

Spill-over between sectors which might initially be thought incompatible has been a catalyst for innovation in this region. Reminiscence, a specialist VR company based in VRTGO Labs in Gateshead, recognised that with many VR companies focusing on games, there was an opportunity to bring virtual reality into care homes to deliver reminiscence-based experiences. Similarly, ZeroLight has applied its skills in rendering cars in racing games to provide multiplatform 3D interactive digital car configurators for automotive dealerships.

Figure 3: Proportion of Fusion by Sector

Figure 4: Fused/Superfused Businesses Reporting Growth
Our survey data indicates that 40% of all respondents have always lived in the region. This is very different from the findings from Brighton, where only 8.5% of business respondents had always lived in the city and 92% of freelancers had moved to Brighton from elsewhere.12

The reason cited most frequently as the most important reason for being or remaining in the North East was personal or family, followed by lifestyle, finding a job, and having been to university or college in the region (see Figures 5 and 6).

Stories of creative and digital entrepreneurs ‘coming back’ to the North East, typically from London, was also a feature of our qualitative research. Returning to the North East in this sense was influenced by both economic and social factors, including the support of family, the availability of affordable housing and the ability to maintain a good standard of living.

Our survey data highlights an average business age of approximately 14 years and an average freelancer career of approximately 13 years. The average age of freelancers in our sample is 49 (males 50, females 48) whereas the average age of freelancers reported by Brighton Fuse was 41 years. For business respondents the average age was 47 (males 48, females 46), compared with 41.7 years for Brighton. There is a much greater proportion of male than female respondents in our sample with an overall split of 68%–32% for freelancers and 74%–26% for business representatives. Females are strongly represented in the music, performing and visual arts category, while males are most prevalent in IT, software and computer services.

In terms of disadvantages, distance from London dominated and this is a theme that was reflected in our interviews, both in terms of labour supply (both retention and attraction) and in terms of the high cost of travelling to London.

Only 15% of female freelancers reported earnings above £30k compared with 35% of male freelancers. Female freelancers also reported an average of 2 hours more unpaid labour per week than their male counterparts (the average for all freelancers was 13 hours unpaid labour per week).

Both our business and freelancer respondents highlight the quality of life and the cultural life in the region as major advantages, with affordable office space, the artist community and the North East’s reputation for creativity also featuring strongly (see Figures 7 and 8).

Figure 7: The Advantages and Disadvantages of the North East of England for Businesses

Figure 8: The Advantages and Disadvantages of the North East of England for Freelancers

"We can’t reconcile how a train journey to London is more expensive than a flight to Dubai"
Sarah Pedreira, co-founder of hedgehog lab.
70% of businesses and 71% of freelancers highlight the local market as very or extremely important.

Given that distance from London is reported as a disadvantage, it is not surprising that the rest of the UK is more significant than London as a source of revenue, with 30% of businesses and 15% of freelancers report London as a very or extremely important source of revenue, whereas the rest of the UK is very or extremely important for 39% of businesses and 27% of freelancers.

It is noteworthy that international markets are very or extremely important for 27% of businesses and 17% of freelancers, making international markets more important for freelancers than London (see Figure 9 and 10). For businesses with a turnover of £1m or more the figures for London rise to 38%, but that is exceeded by the importance of international markets at 47%.

30% of North East CDIT businesses report London as a very or extremely important source of revenue.

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**Figure 9: Geographic Sources of Revenue for Businesses in the North East of England**

**Figure 10: Geographic Sources of Revenue for Freelancers in the North East of England**
Barriers to Growth

Our research highlights three interconnected barriers specific to the North East region’s CDIT sector that may affect connectivity and innovation, and hamper potential growth and development.

A Challenging and Complex Geography

Despite the high quality of life reported by those living in the region, relative isolation from London presents challenges. London and the South East dominate the UK’s CDIT sector in terms of numbers of firms and decision making power, and many of our interviewees confirmed that the lure of London entices financiers to visit the North East. For those who remain, distance was cited as a particular challenge for rural individuals and small enterprises hindering access to skilled labour, and market development.

While web technologies allow global communication, building relationships and fostering trust still require face-to-face interaction. For 70% of our business respondents face-to-face interaction was cited as an extremely or very important way of doing business. This is a particular challenge for rural businesses – an important feature of the North East’s complex geography with its mix of cities, towns, coastal and rural – who face additional issues in terms of access to broadband connectivity and mobile telephone reception.

Despite being the smallest of the English regions in population terms, the North East has a complex local authority structure with 12 local authorities across two Local Enterprise Partnerships. This means that, since the demise of the regional development agency, there is no single voice to promote the region and its CDIT sector. This disjointed scenario is a particular challenge for a region that could be promoted as a destination for CDIT professionals wanting to enjoy a high quality of life.

Transport links across the Pennines to the CDIT Hubs of Manchester, Salford and Liverpool are woeful and overall our findings recognise that connectivity across the UK’s creative economy is difficult, meaning that there are missed opportunities for business and market development. While web technologies allow global communication, building relationships and fostering trust still require face-to-face interaction. For 70% of our business respondents face-to-face interaction was cited as an extremely or very important way of doing business. This is a particular challenge for rural businesses – an important feature of the North East’s complex geography with its mix of cities, towns, coastal and rural – who face additional issues in terms of access to broadband connectivity and mobile telephone reception.

Economic Climate and Financial Austerity

When asked to choose from a range of factors that were a substantial hindrance to growth (see Figure 11), a third of businesses cited lack of revenue to invest in the business, 31% mentioned the current economic climate and 24% cited lack of visibility and profile. These are similar factors to those that Brighton businesses identified as barriers to growth, but the context of the North East presents specific challenges. The North East, as noted above, has a small population and is therefore a relatively small market. It is also characterised by a higher than average percentage of unemployment in the public sector (20.2% compared with a UK average of 17%) the region has therefore been particularly badly hit by austerity, with the end of the regional development agency, cuts to the budgets of local authorities and reduced cultural/arts funding. This has led to a reduction in the amount of public sector work available and fewer funding streams, resulting in a more competitive environment where organisations bid to the same pots of public money, sometimes pitting individuals and small enterprises against larger organisations. The potential uncertainty and loss of EU funding post-Brexit was also a worry among our respondents.

Just over 20% of businesses cited access to external finance as a substantial hindrance in the North East, suggesting that while there has been a long history of publicly supported funding initiatives, such as the North East Investment Fund managed by the North East Local Enterprise Partnership, there remains a mismatch between businesses seeking finance and the availability of private finance.

Talent and Skills

As noted above, our research highlighted concerns of a loss of talented individuals, especially to London, and attraction of new talent to the region is a challenge, with 38% of businesses reporting that being based in the North East is a disadvantage for attracting employees. While 70% of firms reported that they had provided training in the past year, there are mixed signals on skills. Although only 18% of businesses report gaps in the skills of their existing workforce as a substantial hindrance to growth, 30% of businesses noted a lack of time and the excessive costs of training as hindrances to their development of new skills, the biggest issue being lack of affordable relevant training available locally.

These concerns suggest that the further and higher education institutions in the region are not fulfilling their potential to support the CDIT sector. According to Higher Education Statistics Agency (HESA) data, just over 40% of graduates from the five regional universities qualified in subjects directly related to CDIT industries are employed in the North East six months after completion, but there appears to be a disjoint with businesses recognising the value of skilled graduates, finding that they were either difficult to recruit or did not possess the right skillsets. This was not the only criticism of universities, who were often portrayed as inaccessible. While respondents saw the potential for cooperation with universities, collaboration with higher education was seen as challenging due to different priorities and criteria for what success looks like and universities being ‘not very light on their feet’.

Figure 11: Issues Hindering Business Growth in the North East of England

IP infringement: 35.0%; Distribution channels: 20.1%; Technology constraints: 20.1%; Government regulation: 19.4%; Management skills gap: 19.7%; External finance: 17.9%; Bargaining power: 14.6%; Lack of employees: 14.2%; Unpaid work expected: 14.2%; Workforce skills gap: 13.7%; Excessive competition: 12.1%; Excessive workload: 10.8%; Revenue to return: 10.8%; Visibility and profile: 10.8%; Economic Climate: 10.8%
Through Creative Fuse the five North East universities working with a range of businesses, stakeholders and practitioners across the Creative, Digital and IT (CDIT) sector can make a significant difference during the second phase of Creative Fuse North East and beyond.

**Spill-over**

A related opportunity is to connect CDIT businesses, freelancers, students and academics with other established and emerging sectors in the region, so that the benefits of fusion can spill over to support growth and innovation in other sectors. This is particularly relevant for a region in which there is a rich mix of the urban and rural as well as private, public and third sector businesses, as well as substantial economic and social challenges. It is particularly timely as the new Industrial Strategy seeks to improve living standards and economic growth by increasing productivity and driving growth across the whole country.

**Second Phase of Creative Fuse**

From its initiation, Creative Fuse has embraced multidisciplinary working and facilitated and curated space for serendipitous collaborations, including through its monthly CAKE (Collaboration and Knowledge Exchange) events which use the universities’ networks to bring together a diverse range of individuals from different backgrounds and sectors on a regular basis around a selected theme. These issues will be explored in the second phase of Creative Fuse, which focuses on building interdisciplinary collaborations through a series of ‘innovation pilots’, combining insight, know-how and capacity from different creative and technical disciplines in the CDIT sector and connecting them with unexpected markets and sectors. These innovation pilots aim to drive new methods and approaches for industry-university relationships, bringing together small companies and freelancers to work with larger organisations and academics to address industrial and social challenges, thereby supporting economic growth and addressing pressing social needs in the region.

Opportunities for an enhanced lifestyle, affordability, family life and the space and time for more inspired creative practice were all features that were frequently highlighted by our respondents. Our research shows that there is real potential to promote the North East as a place to live and work for those in the CDIT sector and to attract those from outside the region to relocate: key issues to be explored in the remaining 18 months of Creative Fuse North East.