

Creative Industries Policy and Evidence Centre

Led by



with



Government Submission

Representation for the 2023 Autumn Statement

December, 2023

About Creative PEC

The Creative Industries Policy and Evidence Centre (Creative PEC) works to support the inclusive and sustainable growth of the UK's Creative Industries through the production of independent and authoritative evidence and policy advice. Led by Newcastle University with the Royal Society of Arts and funded by the Arts and Humanities Research Council, the Centre comprises a core consortium of: Newcastle University, Work Advance, Sussex University and the University of Sheffield.

The Creative PEC works with a diverse range of industry partners.

For more details visit <http://www.pec.ac.uk> and @CreativePEC.

Introduction

The creative industries are a vital part of the UK economy. They generated £109 billion in Gross Value Added in 2021 and accounted for nearly 2.5 million jobs between April 2022 to March 2023. They are also a significant contributor to international trade and British soft power: for example, in 2020 the UK ranked as the fifth-largest exporter of creative services worldwide, accounting for £41.1 billion in service exports and £8.9 billion in creative goods. Since the COVID-19 pandemic, growth in the creative industries has resumed its trend of outstripping growth in the UK as a whole. For these reasons, the UK government rightly identified the creative industries as one of five priority sectors in the 2023 Spring Budget to deliver future growth, and published a Creative Industries Sector Vision in the summer.

The Autumn Statement presents an opportunity for the government to supercharge its plans laid out in the Creative Industries Sector Vision to grow the creative industries by £50 billion and support 1 million more UK jobs by 2030. The Creative PEC's submission focuses on one area where further policy intervention could support growth in the sector: unlocking the R&D potential of the UK's creative industries.

In this representation, we present a package of policy recommendations to: increase the proportion of public investment in creative industries R&D; adapt the definitions of R&D for the purposes of R&D tax relief to recognise the distinctive features of creative industries R&D, and improve the data collected and published relating to creative industries R&D and innovation. All three of these recommendations align with those made by the recent Council for Science and Technology Review led by Professor Julia Black (forthcoming).

1. Investing in growing the creative industries

R&D is important for boosting innovation, growth and productivity, a fact that is reflected in the government's commitment to its largest ever R&D budget for 2022-25—totalling £39.8 billion—and the recent announcement of a £60 million Regional Innovation Fund. The creative industries spend the equivalent of 3.2% (or roughly £3.3 billion) of their total GVA on R&D and the Creative Industries Sector Vision sets out the strategic intent to go much further, including through innovations in digital technologies and getting the most out of the UK's world-leading createch sector.

However, despite the priority attached by the government to the creative industries in the UK's growth strategy, the sector remains significantly underrepresented in terms of public investment. The Creative Research and Innovation Centre (CRAIC) at Loughborough University estimates that the creative industries are currently the focus of only around 1% of UKRI's total

spending. The £50 million of funding earmarked for at least six new Creative Clusters in the Sector Vision is welcome, but much more is needed to make the proportion of R&D funding relating to the creative industries commensurate with the sector's economic performance. As investment in R&D and innovation is the driver of growth, the government should commit to increasing the share of R&D investment focused on the creative industries, as befits a sector which now creates more value for the economy than aerospace, life sciences and the car industries combined.

The economic opportunity is especially great where the creative industries are either developing or adapting new technologies, such as Artificial Intelligence. The UK is a global hub for creattech—that is tech-intensive creative businesses—and Creative PEC research shows that these businesses face many of the same barriers to R&D financing that other technology firms face. It also shows that they are less likely to rely on specialised in-house R&D departments, instead relying on contracting R&D freelancers or employing individuals undertaking R&D activities in non-specialist R&D roles distributed across the business. They are also more likely to draw on both STEM and arts, humanities and social sciences (AHSS) fields in their R&D. It is thus important that the government pursues a strategy of investment that is responsive to the deep interconnectedness that exists between the creative industries and new technologies. If the government wants to make good on its ambitions to make the UK a global powerhouse in AI, then investing in the creative industries is not a distraction, but a fundamental part of a joined-up industrial strategy – in the same way that the needs of the creative industries should be integral to the UK's AI regulatory policy.

Policy recommendations

1. Increase the proportion of public investment in R&D focused on creative industries.

1.1. In order to match the ambitions laid out in the Creative Industries Sector Vision, the government should commit to directing a greater proportion of public R&D investment towards the creative industries.

1.2. There needs to be greater coordination across public R&D investment to ensure that R&D programmes are allocated a greater proportion of spending and are fit for purpose for the creative industries. This could take the form of regional initiatives to grow innovation capability like Innovation Accelerators, national programmes to support business experimentation with cutting-edge technologies like Generative AI or dedicated R&D programmes to encourage cross-sectoral collaborations with creative industries businesses to combat carbon emissions.

2. Incentivising R&D and innovation in the UK's creative industries

Key to fully leveraging the benefits of R&D investment is broadening the current R&D definition used by HMRC for R&D tax reliefs to recognise R&D in the arts, humanities and social sciences (AHSS). Researchers have argued that this would incentivise investment in innovation in sectors like the creative industries where AHSS R&D is especially important. It would also bring the UK in line with the OECD's Frascati Manual and the 23 other countries that recognise AHSS R&D, like France, Italy and South Korea.

The Creative PEC's The Art of R&D report reviews the ways in which business investment in AHSS R&D gives rise to market failures which mean that creative industries firms may under-

invest in R&D relative to what is optimal. One case study from the report documents how a global architectural firm did not invest in developing a novel 'post-occupancy evaluation' method for assessing the client suitability of interior spaces because they could not capture all the returns from making that investment (positive externalities). Another case study discusses a brand experience agency that had to halt the development of its new smart wayfinding system that would have helped users navigate complex environments using real-time data tracking because of difficulties in accessing finance (imperfect capital markets).

The evidence suggests that adapting the R&D definitions to recognise R&D investment in AHSS disciplines could provide a major boost to creative industries investment in R&D. Combining the findings from a survey of 361 R&D active businesses in the creative and high-tech sectors who had received funding from UK Research and Innovation research councils or from Innovate UK with ONS data on Business Enterprise Research and Development (BERD), the Creative PEC estimates that in 2020, creative industries firms may have invested in as much as £321 million in AHSS R&D, or around 9.7% of total creative industries BERD. They would invest considerably more if they benefited from the same tax reliefs that are enjoyed by STEM R&D.

Policy recommendations

2. Adapt the R&D definition used for R&D tax reliefs to recognise R&D in AHSS disciplines.

2.1. HMRC's current specific exclusion of AHSS R&D activities from the scope of its R&D tax reliefs should be dropped to bring the UK's definition more fully in line with the definition as laid out in the OECD's Frascati Manual.

2.2. This should be accompanied by clear HMRC advice and guidelines on what does and does not constitute qualifying expenditure for creative industries R&D involving AHSS disciplines.

2.3. HMRC tax inspectors should receive training to help them understand what constitutes qualifying expenditure for AHSS disciplines.

2.4 To address concerns regarding the potential for fraudulent claims for AHSS R&D tax relief, the government should work closely with the ONS to improve BERD data collection on AHSS and creative industries R&D more generally.

3. Improving data and insights

The DCMS statistics for the creative industries are based on sub-sectors identified by the finely grained level of the 4-digit codes in the Standard Industrial Classification (SIC), which is used by the ONS to classify businesses by their activity type. However, the sectoral statistical releases published by the ONS and government departments outside the DCMS – including BERD – typically use lower resolution two- or three-digit SIC codes that aggregate creative sub-sectors with non-creative industries.

This approach has the side effect of excluding estimates for the creative industries. As a result, even where data is coded at the 4-digit SIC level and therefore available in principle, like BERD, the contributions of the creative industries remain hidden, unless one-off data requests are made to the ONS for a fee. HMRC sectoral statistics on R&D tax relief are another case in point, where the data are currently published without figures for the creative industries, even though the sector is easily large enough for figures to be released without disclosing sensitive commercial information.

Policy recommendations

3. Improve data collection and systemisation for the creative industries.

3.3. The ONS should as a matter of course produce regular statistics on creative industries BERD based on the DCMS definition of the creative industries.

3.4. HMRC should as a matter of course publish figures for R&D tax relief enjoyed by the creative industries according to the DCMS definition.

3.5. In the ONS's ongoing review of the BERD survey it should set out how it will ensure full and representative coverage of the creative industries. It should further pilot new questions aimed at collecting data on business expenditure on R&D by discipline – including arts, humanities and social sciences – building on the OECD's Fields of R&D (FORD) classification.

Contacts

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