Creative Industries
Policy and
Evidence Centre

Led by Newcastle University Business School with RSA

Government Submission

Representation for the 2024 Autumn Budget

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Introduction

The creative industries are a significant part of the UK economy. Spanning sub-sectors from advertising and music, to design, film TV, and publishing, they generated an estimated £124.6bn in GVA in 2022 and accounted for 2.4 million jobs in the same year. They are also a major UK export, accounting for 14% of all service exports in 2021, with PEC research showing the UK's comparative advantage in creative services compared to many other countries, including the USA, Australia, France and Germany.

Achieving the fastest economic growth in the G7 has been set as a mission by the UK Government, with the creative industries rightly identified as a priority sector for the government's forthcoming industrial strategy. The creative industries will also be a critical sector in relation to the mission-driven approach being implemented by the Government more generally, including the 'breaking down barriers to opportunity' and 'green energy' missions, as we indicate in this representation.

This Autumn Budget is a time for the Government to begin to harness the wide-ranging opportunities the creative industries have to drive economic growth across the UK. In this Representation, we focus on three key areas where growth could be better supported for the creative industries: increasing R&D investment; growing regional creative economies; and boosting creative exports.

Increasing public investment in creative industries R&D

Research and development (R&D) plays a vital role in boosting innovation, growth and productivity and government support for R&D is equally important for encouraging subsequent private investment in R&D. However, despite being a priority growth sector, creative industries R&D remains under-supported by the government. In particular, we recommend, first, that the UK Government broaden the definition of R&D available for tax relief purposes to include Arts, Humanities and Social Sciences (AHSS) research, which will benefit sectors like the creative industries, and further improve data collection on R&D as recommended by the Council for Science and Technology's review on R&D in the creative industries. Second, we recommend that the government commits to increasing the share of UKRI investment going into the creative industries.

Ensuring R&D tax reliefs work for the whole of the creative industries

Creative PEC research shows that creative industries firms make an outsized contribution to R&D in the UK economy, accounting for 11.5% of Business Expenditure on Research and Development (BERD) in the economy. This is higher than the creative industries share in GVA (5.8%) calculated on the same basis using ONS data, meaning that they make a significant contribution to R&D overall. Despite this, there is evidence that some parts of the creative industries are under-served by R&D tax relief, suggesting that these creative industries firms could be incentivised to invest in more R&D.

Adopting the more inclusive definition of R&D set out in the OECD's Frascati Manual for R&D definitions which recognises AHSS R&D, thereby incentivising more R&D investment in the creative industries, could supercharge creative industries innovation and help the Government make good on its mission to generate further economic growth.

The creative industries are R&D intensive and rely extensively on the Arts, Humanities and Social Science disciplines for their innovation. A DCMS survey of R&D in the creative industries from 2020 found that over half of firms reported carrying out R&D according to the OECD Frascati Manual definition, but this dropped to only 14 per cent when using the UK government R&D definition for tax relief. A large part of this disparity is that HMRC's current definition for R&D tax reliefs does not recognise R&D in the AHSS, which contrasts with the best practice outlined in the OECD's Frascati Manual and 23 other peer countries (including France, Italy and South Korea) that include these disciplines within their own definitions for R&D reliefs.

Creative PEC researchers have combined the findings from a 2021 survey of 361 R&D active businesses in the creative and high-tech sectors who had received funding from UK Research and Innovation (UKRI) research councils or from Innovate UK with ONS data on Business Enterprise Research and Development (BERD), to estimate 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.

Unpublished HMRC data shared in confidence with DCMS also shows that R&D tax relief currently enjoyed by the creative industries is disproportionately directed to the IT, Software and Computer services sub-sector. Creative content sub-sectors – Music, Publishing and especially the Film, TV, Video, Radio and Photography sub-sectors – which invest in AHSS R&D are underrepresented.

Increasing UKRI funding for the creative industries

As another route to support increased investment in creative industries R&D, the Creative PEC also recommends that the Government commits to a higher UKRI funding allocation for the creative industries. Previous work, such as the Council for Science and Technology's Harnessing Research and Development in the UK Creative Industries report, have recommended that "public investment into R&D in the creative industries should be reflective of the size, economic contribution, and future growth potential of the sector."

Forthcoming research from the Creative PEC shows that, within UKRI R&D investments, the creative industries are under-represented when compared with other sectors - with a share of only around 1.3% in UKRI R&D investments on average over the 2013-2023 period, despite being recognised as a priority sector for growth. The report highlights the importance of strategic UKRI investments into the creative industries, including Arts and Humanities Research Council (AHRC) investments such as the Creative Industries Clusters programme.

Not only would this increased investment unlock wider innovation across the creative industries, but it would help to support the broader missions laid out by the new Government. Successful interventions such as the AHRC Creative Industries Cluster Programme highlight the ways in which investment into R&D can also help to develop wide ranging socioeconomic benefits in local economies, and increase access to finance for creative firms.. More creative-led R&D means more opportunities to encourage cross-sector innovation opportunities, which could give leverage to emerging social and political trends such as AI, CreaTech and the climate crisis. Research published by DCMS and Creative PEC in 2023 shows that the creative industries make other sectors more innovative too through supply chain linkages.

For example, the creative industries will play a key role in supporting the Government's climate-focused missions and should be considered to be a core sector within the upcoming Green Prosperity Plan, Building on Creative PEC and Julie's Bicycle's previous overview of the role of the creative industries in achieving net zero, further reviews and industry-led action on this topic are needed. Creative PEC will be undertaking a further in-depth enquiry on the topic of the creative industries and the climate crisis alongside wider partners. In addition, within the R&D landscape, there is an important emphasis that could be placed on innovation strategies which foster cooperation between universities and creative industries businesses to achieve net zero targets and encourage behaviour change.

Policy recommendations

1. Adapt the R&D definition used for R&D tax relief to recognise R&D in AHSS disciplines:

1.1. The Creative PEC continues to call for the expansion of R&D tax relief definitions to recognise arts, humanities, and social sciences (AHSS) R&D, and bring the UK's definition more fully in line with the definition as laid out in the OECD's Frascati Manual. This would further incentivise creative industries R&D, thereby boosting innovation and growth.

1.2. Creative PEC recommends that the Government reviews the under-representation of creative content sub-sectors in R&D tax relief data, particularly Film, TV, Video, Radio and Photography subsectors.

1.3. 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, with HMRC tax inspectors receiving training to help them understand what constitutes qualifying expenditure.

2. Increase the proportion of UKRI R&D funding focused on the creative industries:

2.1. Creative PEC recommends that there is a higher UKRI funding allocation for the creative industries. to unlock wider innovation across the creative industries, but it would help to support the broader missions laid out by the new Government.

3. Improve data collection for creative industries R&D:

3.1. The ONS should as a matter of course publish regular statistics on creative industries BERD based on the DCMS definition of the creative industries and more generally include creative industries data in their sectoral releases when the underlying data are coded to the 4-digit level making it possible to create estimates for the creative industries.

3.2. The ONS should as a matter of course produce regular statistics on creative industries BERD based on the DCMS definition of the creative industries and more generally publish data coded to the 4-digit level when available in principle.

3.3. HMRC should as a matter of course publish regular figures for R&D tax relief enjoyed by the creative industries and their constituent sub-sectors according to the DCMS definition.

3.4. The ONS's recent review of the BERD survey was a missed opportunity to ensure full and representative coverage of business investment in R&D. 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.

Continue to target policy intervention at creative clusters and micro-clusters to support regional creative industries growth.

Over the last twenty years, policymakers across the UK have sought to exploit a prominent feature of the creative industries to drive regional growth: the fact that creative firms tend to cluster. In other words, they tend to locate near other creative firms to collaborate and compete. The DCMS has identified 55 creative clusters in the UK at the Travel-To-Work-Area level, and Creative PEC has mapped a further 700 microclusters at the neighbourhood or street level. Significantly a third of these microclusters are found outside of the UK's major cities, meaning that targeted interventions at these microclusters could play a key role in growing creative economies in towns, villages, and for rural and coastal communities.

There is an established academic literature on the role creative clusters play in boosting innovation, productivity and economic growth in the places of which they are a part. More recent analysis by the Creative PEC has further identified seven potential 'creative corridors': neighbouring creative clusters that cover a large geographic area which may benefit from coordinated policies in areas including R&D investment, access to finance, skills and cultural provision. One such corridor – the 'One Creative North' initiative spanning the North of England – was recently launched at the Northern Mayor's Summit this month. A forthcoming report (available on request), co-authored by the Creative PEC with the Royal Society of the Arts and funded by Arts Council England, provides a policy framework for national and local government focused on supporting the growth of creative corridors in the UK.

In the development of its forthcoming Industrial Strategy and Creative Industries Sector Plan, the Government should continue to prioritise policy development at creative clusters at a range of geographic scales – from micro-clusters at the neighbourhood level which can support rural and coastal communities, to the big cities and emerging 'pan-regional' corridors.

Policy recommendations

4. Continue to target policy interventions at creative clusters and microclusters - and emerging creative corridors - to drive creative industries growth across the UK.

4.1. Maintain the UK government's commitment to support the AHRC Creative Industries Clusters Programme with a £50 million investment in a Phase 2, with a view to further increasing this investment in the forthcoming 3-year Spending Review.

4.2. Building on the launch of the One Creative North creative corridor in the North of England, work with sector bodies and Combined Authorities in the North and across the country to support pilot corridor initiatives through coordinating on policy design and ensuring national policy interventions do not dis-incentivise pan-regional collaboration.

Support to boost creative services exports and the growing area of digital creative services trade.

The creative industries are a significant UK export, accounting for £45.6bn in services exports, and £9.1bn in creative goods in 2021. These rates make the country the fifth and seventh-largest exporter globally in these creative areas respectively. Analysis from the Creative PEC highlights that creative industries services exports have grown at three times the rate of UK service exports as a whole over the period 2010 to 2021 (150%). They now account for 14% of all UK service exports.

At the same time, the UK's strength in creative exports can't be taken for granted. For example, Europe remains the largest export destination for our creative services, but this has dropped from 60% of all exports in 2016 to 45% in 2021. We also see some evidence that fewer UK creative industries firms are trading overseas over time, although those that continue to trade are doing so more. Indeed, research from the Creative PEC has highlighted regions and nations in the UK with particularly low shares of exporting creative firms – such as the North East, Wales and Scotland – and that a large number of firms (likely predominantly SMEs) recently stopped exporting post-pandemic and EU exit due to increased trade barriers.

One area of opportunity is in digital trade in creative services. Whilst measuring digital trade remains an under-developed area, analysis from the Creative PEC using an experimental data set on digital trade suggests that UK digital exports have more than tripled from just of 9% of all trade in 2016 to 28% in 2021. Significantly, creative digital exports in areas such as video games) represented around 67% of all digital trade in 2021. The Creative PEC recommends the following policy options for consideration to boost UK creative industries exports:

Policy recommendations

5. Support the growth of creative industries exports, including a focus on creative services and digital trade, through a targeted regional approach.

5.1. Provide additional and targeted support for creative firms to export through continued investment and development of programmes, including building on programmes such as the DCMS-Innovate UK Create Growth and DBT Export Support services through a targeted regional approach.

5.2. Include the creative industries as a priority sector in forthcoming trade negotiations and ensure sector needs are considered – including strong IP provisions, mutual recognition of qualifications and mobility agreements.

5.3. ONS, HMT, DCMS, and DBT establish an Independent Commission on Measuring Digital Trade to develop a consistent approach to measuring digital trade data to support the Government's forthcoming industrial and trade strategies.

About Creative PEC

The Creative Industries Policy and Evidence Centre (Creative PEC) supports the growth of the creative industries in the UK and internationally through the provision of authoritative research and policy advice. Funded by the Arts and Humanities Research Council, and hosted by Newcastle University with the Royal Society of Arts, Creative PEC works with policymakers and industry to enable a thriving sector that plays a central role in generating growth and innovation. Our research is led by consortium partners at Newcastle University, the University of Sheffield, the University of Sussex, and Work Advance.
For more details visit www.pec.ac.uk or our social channels on Bluesky and LinkedIn.

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