

Creative Industries Policy & Evidence Centre

Led by **nesta**

Three ways to support growth in the creative industries

For the incoming Prime Minister and Cabinet

Authors: Benjamin Kulka, Eliza Easton

The Creative Industries are an economic powerhouse, delivering £115.9bn GVA, accounting for 2.2 million jobs, and exporting more than £50bn per year at the last count. A multifaceted and complex sector, it is made up of a variety of sub-sectors, from performing arts to computer games, and graphic design to advertising (definitions and key national stats are available [here](#)). While not having all of the answers to the cost of living crisis we currently face, the Creative Industries have the potential to support the UK in many of its challenges, in particular in providing a much needed productivity boost to the economy. This briefing aims to provide the incoming prime minister with a run-down of three important areas where the evidence suggests there is a need for future investment to support growth over the coming years.

This paper highlights how the Government can:

- 1. Support the Creative Industries to 'Level Up' the UK** by:
 - Expanding the Creative Industries Clusters Programme.
- 2. Support the Creative Industries' work on the international stage** by:
 - Prioritising the sector's needs in trade negotiations with its key markets;
 - Providing better advice and guidance to creative businesses wanting to export to China;
 - Ensuring key markets for the sector have trade leads with sector-specific knowledge;
 - Tailoring immigration pathways to suit highly skilled freelancers in the creative industries;
 - Introducing a soft power briefing unit.
- 3. Support the Creative Industries to innovate** by:
 - Amending the definition of R&D used for tax relief to better recognise R&D in the Arts, Humanities and Social Sciences (AHRSS), with BEIS dropping the explicit exclusion of AHSS projects;
 - Funding an AI and Creative Industries Centre.

Note: Another key area of our research is skills and education - which will be the subject of a separate paper published with DCMS support this autumn.

1. Support the Creative Industries to 'Level Up' the UK

The Creative Industries are engines of growth right across the country - from the Dundee games cluster to the Cornish craft scene. [Nesta research has identified around 47 clusters](#) throughout the UK that represent a higher concentration of creative businesses or higher levels of growth. Many of these are located in the North of England, in Wales, in Scotland and Northern Ireland. As these **creative clusters [grew at twice the rate of their regional economy between 2010-17](#)** and as **each new job in the creative industries [creates 2 additional non-tradable jobs in the local economy](#)**, this offers great opportunities for the creative industries to support levelling up. Not only that, but evidence suggests that the creative industries - and in particular the cultural sector - can [deliver boosts to wellbeing and deliver pride in place](#).

Our research has also identified [247 smaller 'microclusters' in places](#) outside the largest cities traditionally associated with the sector - **and these smaller clusters need your support. If nothing is done to support smaller clusters and microclusters, we estimate that three quarters of new employment up to 2030 would be in the top ten creative clusters**, meaning the sector's contribution to addressing the UK's low productivity outside the Greater South East would be limited.

That is why the Creative Industries Policy and Evidence Centre has recommended:

- **Continued and increased investment goes into the Creative Industries Clusters Programme** to support the ambitions of the UK Government's Levelling Up White Paper which rightly identifies the sector as a priority. The R&D mission in the [Levelling Up White Paper](#) aims to see public R&D investment outside the Greater South East area increase by at least 40% by 2030. The White Paper also highlights how UKRI will have a directive to "deliver economic, social and cultural benefits from research and innovation to all our citizens". The success of the Creative Industries Clusters Programme in achieving economic, social and cultural benefits by investing in R&D right across the UK's nations and regions makes it a useful lever for the Government in achieving these goals.

2. Support the Creative Industries work on the international stage

Exports

Many of Britain's best known exports come from the Creative Industries - from James Bond to Stella McCartney. In 2019, prior to Britain exiting the EU and to the Covid-19 pandemic, [£37.9bn of services were exported by the Creative Industries \(11.9% of UK service exports\) and £13.7bn in goods](#).

The UK's Creative Industries are now adjusting to the country's post-Brexit place in the world, and face some significant challenges, but if we can support them, the opportunity is huge. PEC research has found that a

large portion of Creative Industries businesses currently not selling abroad or who don't have current customers abroad, are either **planning to export in the next 12 months (19%) or would like to export in the future (22.3%)**.

That is why the Creative Industries Policy and Evidence Centre has recommended:

- Giving priority to the Creative Industries' needs when thinking about our future trading relationships with European countries and North America, given the critical nature of these markets to the sector. Where we are looking to promote long term cultural exchange (e.g. as we form closer relationships in the Indo-Pacific) it would also be useful to think about the benefits of ensuring cultural exchange by guaranteeing easy trade in creative and cultural services and goods. Soft power assets such as the British Council and the GREAT Campaign will also play an important role.
- As our research has found that many creative companies are looking for opportunities to export to China, UK policymakers should ensure there is clear advice and support for those wishing to do so. This is particularly important given the plethora of practical restrictions as well as other questions around national security and ethical considerations, as pointed out in the Government's [Integrated Review of Security, Defence, Development and Foreign Policy](#).
- More broadly, many key markets for the Creative Industries do not have creative leads in their Department for International Trade teams. Specific interventions to up-skill those based in-country in areas like Intellectual Property would be welcome, as well as creative leads added in those markets with the greatest opportunities. These should link into initiatives happening at the international level, for example through organisations like WIPO.

Immigration

PEC and Creative Industries Council [research has shown](#) that, unlike the rest of the economy, the most severe skills shortages within the Creative Industries are in high skilled occupations such as programmers, software developers, architects, and designers. These roles are also very likely to be dominated by the self-employed. Prior to Brexit, [we estimated 10% of employers in the creative industries had hired a freelance worker from the EU in the past 12 months](#).

[Despite evidence on the importance of EU freelancers to UK creative businesses](#), the UK's post-Brexit immigration system currently has limited entry pathways for skilled freelancers, unless they are deemed 'exceptionally talented' or have a significant amount to invest in a new business.

With the Government now looking to introduce a number of routes for skilled and entrepreneurial freelancers, there may be an opportunity to limit damage to the Creative Industries from this focus on full-time employment status.

The Creative Industries Policy and Evidence Centre recommends amendments to the:

- **High Potential Individual Visa**

The new High Potential Individual Visa route is set to offer visas to those who have graduated from academically elite universities. Because it will not be reliant on employment status, it may prove vital to groups that are poorly served by our immigration system: freelancers and entrepreneurs. But the design sector, despite being in theory the perfect fit for this policy - being a priority sector in the Innovation Strategy and with a [highly educated](#) workforce where [one in two are self-employed](#) - will not benefit from this route unless changes are made. This is because top design institutions like Parsons School of Design in New York are small and specialist, and very unlikely to feature on any generic list of top global universities. In fact, only one of the top 10 global design institutes are represented in the QS list of the top 50 global universities (MIT). Design is also one of only five subjects where none of its top 3 Higher Education Institutions appear in the overall top 50. This means that if a ranking like QS is used, without a supplementary list of specialist institutions, then the design sector is unlikely to benefit. **To include a specialist list of design institutions would not only benefit the sector but could also have positive repercussions for the cross-Whitehall UK export strategy as not only is the design sector an important service exporter itself, but investment in design also improves a company's abilities to export.**

- **The Global Talent Visa**

The 'Global Talent Visa' also offers an important opportunity to ensure that skilled freelancers are able to work in the UK - using awards to recognise exceptional talent regardless of whether that individual is self-employed or in full-time employment. Currently, the awards that are recognised relevant to the creative industries are those pertaining to writing, film, visual art, music, theatre and fashion design. Although this Visa is unlikely to be able to provide the number of people needed to address significant skills shortages, policymakers should consider opening a consultation period with the sector to ensure that relevant awards relating to areas like product design, advertising and games are also included.

Soft power

The UK's creative industries are of significant economic value and they play an outsize role in building the **UK's position as a soft power superpower** by supporting local and national economies, growth and well-being. They have the ability to attract international demand for products and services, appeal to global talent, as well as helping the UK to address global challenges, for example Blue Planet bringing an audience's attention to issues relating to ocean pollution. They also impact how others see the UK and are an important diplomatic tool. The Government's Integrated Review of Security, Defence, Development and Foreign Policy highlights the global context that the UK finds itself in: one of "*geopolitical and geoeconomic shifts*". It is within that context that we will also need to use our creative, cultural and sporting assets to identify and tackle disinformation, maintain alliances and remind those living under regimes which are antagonistic to the West of its benefits.

That is why the Creative Industries Policy and Evidence Centre has recommended:

- The Foreign, Commonwealth and Development Office (FCDO) should introduce a set of measures which would ensure the diplomatic service is able to better work with the UK's vibrant Creative Industries. A small **Creative Industries and soft power briefing unit** could work with embassies and the British Council to help forge new connections and measure the impact of such interventions. A standing item on culture and the Creative Industries should be added to the annual ambassadors conference to highlight both British heritage and cutting edge UK creativity.

3. Support the Creative Industries to innovate

Investment in innovation is often cited as a way to boost productivity, which is why all parties have called on businesses to invest more in it, specifically in research and development (R&D). But despite this, **business R&D remains low** in the UK by international comparison. The Government noted that [business investment in R&D](#) at 0.9% of GDP was low relative to the OECD average of 1.5% and very considerably lower than leading nations such as Korea, Japan, Germany and the US. But policymakers may be missing a trick when it comes to the businesses that are the focus of initiatives to encourage this. Consequently, much of the research and development that happens in the Creative Industries - based on developing cultural entertainment and experiences rather than just developing new tech machinery - is excluded.

One specific issue is that the **definition of R&D used by the HMRC for the purpose of tax relief excludes the arts, humanities and social sciences**, unlike some other OECD countries like Brazil, Czech Republic, Denmark, France, Italy and Korea. Although UK policymakers claim to follow the definition of R&D from the Frascati Manual, R&D involving the Arts, Humanities and Social Sciences (AHSS) is, unlike in the OECD definition, explicitly excluded in some areas of policy, e.g. fiscal policy, by organisations such as BEIS, HMRC, and the Treasury. For example, BEIS says in its Guidelines on the Meaning of Research and Development for Tax Purposes: "science is the systematic study of the nature and behaviour of the physical and material universe. Work in the arts, humanities and social sciences, including economics, is not science for the purpose of these Guidelines". The application and interpretation of this definition is driven by HMRC, which is explicit about excluding 'work in the arts, humanities and social sciences (including economics)'.

Consequently, **R&D in the Creative Industries** which is reliant on the arts, humanities and social sciences is not recognised and **does not qualify for targeted R&D incentives**. By acting on the evidence and targeting policies, the Government has the opportunity to rebuild the Creative Industries in a way which is more innovative and more ambitious. Research for Nesta from Professor Stephen Roper and Areti Gkypali from the Enterprise Research Centre has shown that **Creative Industries businesses report that they do almost as much R&D as the manufacturing sector**, when using a broader definition than used in tax incentives. We recommend a broader definition should be adopted for R&D tax relief, to incentivise R&D investment in the Creative Industries.

That is why the Creative Industries Policy and Evidence Centre has recommended:

- The Government **amend its definition of R&D for tax relief purposes** so that it follows the OECD's Frascati Manual in recognising R&D in the Arts, Humanities and Social Sciences (AHSS), bringing the definition into line with the large number of countries that already do so, including Germany, South Korea, Austria and Norway.
- **BEIS should drop the explicit exclusion of AHSS projects** from its guidance, and thereby acknowledge that the definition of 'science' includes the systematic study of the nature and behaviour of the physical and material universe, humankind, culture and society

By increasing the number and scope of Creative Industries specific schemes, and by ensuring cross-economy schemes are fit for purpose, UKRI should aim to ensure the sector receives an increase in investment in recognition of size, growth and future growth potential.

We also suggest that the new Government look at specific new technologies which are ripe for investment in the context of the Creative Industries. In particular, [PEC research with Nesta](#) has shown that recent breakthroughs in artificial intelligence (AI) could have a large impact on the Creative Industries. We therefore recommend that:

- The Government should focus on opportunities at the nexus of creative content and technology. We propose that the government funds an **AI and Creative Industries Centre**, a £10m, 5-year industry-led innovation centre which would allow the UK to capitalise on its strong positions in the Creative Industries and in AI research (third only behind the US and China). It would help us to secure an early lead in a technology having an impact across Creative Industries with recent breakthroughs in design, fashion, games, film, music, advertising and art. It would also reduce the risk of other countries rapidly increasing their AI activity, undermining the UK's position in the creative industries.

Conclusion

The UK's Creative Industries are rightly admired across the globe. It is a sector in which the country can genuinely be considered world-leading. The new government has the opportunity to spearhead a new era for creativity with a drive for innovation. We very much hope to work with the new team to enable you to make your mark on the UK's fastest growing sector and play a critical role in supporting the economic, cultural, social and environmental wellbeing of the nation, while affirming the UK's position on the world stage through a renewed commitment to innovation, dynamism and international collaboration.