BUDGET REPRESENTATION

28 September 2018

Creative. Industries. Federation.

SUMMARY

The creative industries are the UK's fastest growing sector, with a greater GVA than automotive, life sciences, oil and gas and aerospace industries combined.[1] From 2010 to 2016, the creative industries experienced impressive growth in every region of the UK - with the North East and Scotland growing by 47% in GVA. One in nine UK businesses are in the creative industries and 95% of these are micro-businesses (employ less than 10 people).

The sector employs more than 2 million people with the rate of job growth far outstripping the wider UK economy.[2] Released earlier this year, the Federation and Nesta's labour market forecasts for creative occupations outlined that 120,000 new creative jobs will be created by 2024, double the projected job growth across the UK economy.[3] Creative jobs are also future-proof jobs: 87% of creative jobs are at low or no risk of automation.[4]

UK creative exports in goods and services are worth £40.2bn.[5] Creative businesses export £21bn in digital service exports[6] and there are significant opportunities for further growth which was recognised by government in the Creative Industries Sector Deal.[7]

Yet this growth and innovation is at risk. The creative industries face challenges accessing financial, innovation and business support and hiring talent with the vital skills they need to succeed. Brexit will only amplify these difficulties and create new barriers. This Autumn Budget is therefore a significant opportunity for government to put forward ambitious, forward-looking proposals which will address these challenges and unlock the growth potential of the sector.

This budget representation is based on the Federation's forthcoming research report, to be released this Autumn, which examines how the creative industries have experienced growth to date and the barriers to growing more.[8] This research was conducted with significant consultation with industry, including a survey of over 1,000 creative enterprises and freelancers, focus groups across the UK and a series of interviews with intermediary support bodies. It is additionally based on the Federation's existing policy positions, which are determined by our members.

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[1] An analysis by PwC showed that in 2015 the automotive sector was worth £19.6bn GVA, life sciences £14.5bn, oil and gas £13.7bn and aerospace £8.8bn. Creative Industries GVA of £87.4bn is given in "DCMS Sectors Economic Estimates." DCMS, August 2016. Some GVA may be counted in multiple sectors, as ONS does not recognise these as discrete industrial sectors.

[2] Department for Digital, Culture, Media and Sport. :Sectors Economic Estimates 2017: Employment" July 2018.

[3] Bakhshi and Yang. "Creativity and the future of work". Creative Industries Federation and Nesta, March 2018.

[4] Bakhshi, Frey and Osborne. "Creativity vs robots". Nesta, April 2015.

[5] Department for Digital, Culture, Media and Sport. "DCMS Sectors Economic Estimates 2016: Trade" August 2018.

[6] Young and Cauldwell-French. "The true value of creative industries digital exports." Creative Industries Federation and Cebr. March 2018.

[7] Department for Business, Energy and Industrial Strategy. "Creative Industries: Sector Deal" March 2018.

[8] The Federation's definition of the creative industries encompasses the 9 subsectors as adopted by DCMS in 2014 from Nesta's *A Dynamic Mapping of the UK's Creative Industries* and 3 additional subsectors (video games, animation and VFX, and heritage) that are not explicitly mentioned in the government's definition.

We call on government for the following near term recommendations:

1. WORKFORCE

1.1. International talent

- Scrap the immigration skills charge.

1.2. Domestic skills pipeline

- Pilot an increase in the percentage of apprenticeship levy funds that organisations can transfer from 10% to at least 50%, and ensure the apprenticeship programme is tailored to micro-businesses.
- Ensure the value of post-18 creative education is recognised beyond government's narrow focus on graduate salary outcomes, which does not reflect the realities and future contributions of graduates from creative subjects.

1.3. Creative freelancers

- Any extension to the self-funded training tax-relief must form part of a wider government narrative that recognises the importance of lifelong learning, and ensure in particular that those in more challenging positions can access it, including the self-employed and freelancers.

2. GROWTH

2.1. Finance and investment

- Maintain public investment in the creative industries in line with inflation, and review where additional investment can be made to unlock further innovation and growth.
- Review how European Structural and Investment Funds have benefited the growth of the creative industries, and ensure that the UK Shared Prosperity Fund that will replace them does not create a shortfall in support.
- Prioritise continued participation in the EU's Creative Europe, Horizon 2020 and Erasmus+ programmes and their successors. If participation in these programmes is not possible, government must review and adequately replace them.
- Maintain government's commitment to guarantee funding for successful bids for EU funding programmes up until 2020 and for the full duration of the projects, in the event of a 'No Deal Brexit'.
- Maintain the successful creative industries tax reliefs, and review where additional fiscal incentives could be introduced to unlock growth across the sector and attract inward investment.

2.2. Local growth and business support

- Empower and resource local and combined authorities, Local Enterprise Partnerships, and industry to introduce fiscal incentives and leverage private investment to unlock the growth potential of the creative industries in their given area.

- Invite local and combined authorities, Local Enterprise Partnerships, and industry to pitch for 'devolved sector deals', much like the city deals, that cater to the growth needs of the creative industries in each area.

2.3. Innovation and R&D

- Ensure Research and Development (R&D) definitions do not neglect the areas where the UK has international strengths, such as the creative industries.

The **Creative Industries Federation** is the membership body which represents, champions and supports the UK's creative industries. Our membership network comprises more than 10,000 individuals from creative organisations, businesses and educational institutions throughout the UK.

For further details regarding any aspect of this representation, please contact **Caroline Julian, Head of Policy and Public Affairs**, at caroline@creativeindustriesfederation.com or on 020 3771 0350.

1. WORKFORCE

Our future economy will be built on creativity and technology. With artificial intelligence taking over routine tasks, there will be immense opportunities for those who combine creative, technical and social skills - skills that are resilient to future automation.

UK labour market projections show that the rate of growth for both creative and STEM (science, technology, engineering and mathematics) occupations will be more than double the average job growth across the whole UK economy.

For those graduating from secondary school in 2024, based on workforce projections used by Government in its industrial strategy, forecasts suggest that creative occupations will grow by 5.3% over the next six years. That is double the projected job growth across the UK economy and an additional 119,495 creative jobs by 2024.

But that is not all. Nesta's analysis suggests that with proper investment, the UK could create as many as 1 million new creative jobs by 2030.

However, a number of key challenges prevent this from becoming a reality:

- There are acute skills shortages across the creative industries. There are currently 17 creative industries job titles on the Shortage Occupation List.[9] 80% of respondents to a Federation survey also believe that skills shortages will increase over the next 3-5 years.
- Current entry rates to creative subjects at Key Stage 4 have fallen to their lowest in a decade. In 2017, entries for GCSEs in creative subjects fell by 47,000.[10] Government has de-prioritised creative subjects by excluding them from the EBacc.
- An end to freedom of movement and uplifts to immigration charges on businesses and employees will restrict access to global talent.

We need an **immigration system** that permits access to global talent. Significant barriers currently stand in the way of creative businesses, and the Migration Advisory Committee's recommendations do not go far enough.[11] We also call on government to ensure that the UK's **education and skills system** that is properly tailored to the creative industries and champions the mix of technical and creative skills needed for 21st century jobs. Government must also provide greater support for **creative freelancers**, who make up a significant proportion of the creative workforce.

1.1. International talent

RECOMMENDATION:

- Scrap the immigration skills charge

[9] Powell, Cauldwell-French and Easton. "Global Talent Report: Why the UK's world-leading creative industries need international workers and how to attract them". Creative Industries Federation October 2017.

[10] Accessed here www.jcq.org.uk/examination-results/gcses

[11] Creative industries federation. "Federation's response to the Migration Advisory Committee's report on EEA migration in the UK." September 2018; Creative Industries Federation. "Federation's response to the Migration Advisory Committee's report on international students in the UK. January 2018.

The continued success of the creative industries will not be possible if creative businesses are unable to bring in the international talent they need. If freedom of movement ends and the UK does not make the current non-EU immigration system more flexible, creative businesses will face considerable challenges and domestic skills shortages will be exacerbated.[12] In a Federation survey of 250 creative enterprises, 74% said restricting immigration will limit their capacity to do business.[13]

The immigration skills charge is a significant financial burden for creative businesses and it should be scrapped. Creative employers (the majority of which are micro-businesses) may end up paying an additional £12,000 per international worker. This covers the charge itself of £5,000, potentially rising to £10,000 if government doubles the charge, and the immigration health surcharge of £200 per year which employers often cover for their international hires.[14] In addition, creative businesses face costs such as underlying visa application fees, ancillary charges, costs of holding a sponsorship licence, and staff overheads.

Whilst the immigration skills charge is designed to discourage international hires, the charge unfairly penalises companies that are hiring internationally for roles where government has already recognised a lack of adequately trained domestic workers. Moreover, the charge fails to recognise that allowing British companies to hire the brightest and best from around the world brings domestic workers into contact with people at the forefront of their industry. This increases the number and quality of skills and practices to which they are exposed. Discouraging international recruitment in order to develop skills at home is paradoxical.

The charge is poorly designed for the stated objective of delivering additional training to the domestic workforce. There is no evidence of how the money has been invested. Moreover, industry is best placed both to identify where domestic skills training is needed and to deliver it. Levying money out of the sector in order to train the workforce is fundamentally inefficient.

Extending the charge to cover EU countries would also be untenable for many creative businesses, which would not be able to meet the increased costs associated with bringing in vital talent. Should government wish to build a “truly global Britain” with access to the brightest and best from around the world, it is nonsensical to impose a charge that discriminates against those wishing to hire from particular countries.

1.2. Domestic skills pipeline

1.2.1. Apprenticeship levy

RECOMMENDATION:

- Pilot an increase in the percentage of apprenticeship levy funds that organisations can transfer from 10% to at least 50%, and ensure the apprenticeship programme is tailored to micro-businesses.

[12] See footnote 9

[13] Creative Industries Federation. ‘New Federation Survey: UK creative industries employ high numbers of EU workers Brits cannot replace’. August 2018.

[14] See footnote 9

The apprenticeship levy will raise in the region of £15bn over the course of this Parliament, a huge sum which is designed to support 3m apprentices. So far, the number of apprentice starts since the introduction of the levy have been disappointing, but some relatively minor adjustments to the system could significantly increase those numbers in the creative industries.

A recent survey of creative businesses undertaken by Creative Skillset and Creative & Cultural Skills reveals that of the levy-paying respondents, 42% are expecting to use less than 11% of their levy funds in 2019/20. That figure rises to 65% who expect to use less than 21%. Those figures are supported by analysis from the Department for Education's (DfE) apprenticeship statistical releases of current spend on apprenticeships by employers across the creative industries. Those figures show that, at steady state even once the levy is bedded in, levy-paying creative industries businesses are unlikely to spend more than 27% of their annual £75m levy contribution.

Some of the £55m a year leftover will be used to subsidise training costs for non-levy-paying companies which recruit apprentices, but the current low take up by such non-levy-paying companies indicates that in the region £35m a year could be lost from the skills system altogether.

The reasons for the relatively low take-up cited by creative businesses - big and small - include:

- The minimum 12-month apprenticeship contract which does not work in an environment of often short-term project-based work (e.g. shooting a TV show or music video).
- The 20% off-the-job rule is too restrictive for employers, particularly small organisations where having workers away from doing productive work for a fifth of the time is not feasible.
- The whole system is too complicated to navigate, particularly for smaller employers who do not have the time to engage with its complexities and the accompanying bureaucracy. This is a significant proportion of the sector - 95% of businesses in the creative industries employ less than 10 people.
- Non-levy-paying organisations have to pay 10% towards the cost of the training (on top of wages and on-costs), which disincentivises the recruitment of apprentices, particularly for small businesses.

Employers across the creative industries are committed to supporting skills development - for example, in 2017/18, film production companies made a record £900,000 voluntary contribution to the Skills Investment Fund which, amongst other things, funded 177 production placements and 1,434 weeks of 'on-set' training. Yet those same companies are struggling to make similarly positive use of the apprenticeship levy. Changes are needed to address these issues and to ensure the levy can indeed support businesses tackle acute skills shortages and open up opportunities for individuals from all backgrounds.

Creative Skillset and Creative & Cultural Skills are drafting a paper on behalf of the creative industries which will include proposals that are designed to ensure as much levy money as possible remains in the skills system. In summary, the headline recommendation will be for a pilot that would increase in the percentage of levy funds that organisations can transfer from 10% to at least 50% to an Apprentice Training Agency. The paper, which will include detailed cost-modelling to show how the proposal can work in practice, will be presented to DfE later this year.

The Federation endorses this headline recommendation and will be feeding into the development of the detailed proposal.

1.2.2. Post-18 funding review

RECOMMENDATION:

- Ensure the value of post-18 creative education is recognised beyond government's narrow focus on graduate salary outcomes, which does not reflect the realities and future contributions of graduates from creative subjects.

The combination of creative and technical skills are essential not only to the success of the sector, but also to unlock growth and innovation across all UK industries and prepare young people for the future of work. It is vital that the post-18 funding review recognises the economic contribution of the creative industries and of those in creative roles elsewhere and does not risk disrupting the skills pipeline for the fastest growing part of the UK economy.

There is a significant concern from across the Federation's membership that government's focus on "value for money" does not reflect the realities and future contributions of graduates from creative subjects. Fundamentally, the Federation disagrees with salary data being the sole indicator of "value for money". In particular, Destination of leavers from higher education (DLHE) and longitudinal educations outcome (LEO) (the methods currently used for graduate outcomes) are not appropriate for numerous reasons. They fail to consider the value of part-time work,to reflect regional differences in income or living costs, to capture the contribution and potential of self-employment or portfolio career, and they reflect the existing biases towards salaried data.

A funding system that is predicated on graduate salary outcomes runs the risk of disincentivising creative higher education institutions (HEIs) from tailoring their existing education provision and introducing new courses to prepare graduates for the future of work. This is because the long term salary outcomes of courses that equip young people with creative skills are difficult to predict. Overall, this will undermine the drive from government to encourage more university-business collaborations and for HEIs to become more entrepreneurial.

The potential introduction of variable fees for courses based on "economic value" is a further example of how the current "value for money" definition might negatively affect creative subjects. Many creative subjects cost more to provide than the current tuition fee allows as they require dedicated technicians, up-to-date equipment and spaces. Neglecting to fund these courses at post-18 institutions will risk making many creative subjects unaffordable and inaccessible for young people from lower socio-economic backgrounds and exacerbate the creative industries' existing skills shortages.

This Federation's consultation response to the post-18 funding review can be accessed here, and is appended to this budget representation.

1.3. Creative freelancers

RECOMMENDATION:

- Any extension to the self-funded training tax-relief must form part of a wider government narrative that recognises the importance of lifelong learning, and ensure in particular that those in more challenging positions can access it, including the self-employed and freelancers.

Of the creative workers in the sector, 35% are self-employed, compared with 15% across the workforce as a whole. Freelancers make up a significant portion of self-employed workers in the creative industries. The success of many creative businesses and organisations relies on large pools of specialised individuals who operate on a freelance or project basis.

The Federation's sector-wide survey of 700 creative freelancers last year revealed that access to training and skills development was a major priority for freelancers working in the creative industries.[15] Currently, many government interventions on skills, such as the apprenticeship levy, target larger businesses and full-time employees. In order to help upskill freelancers - a vital part of the creative industries' workforce - government should invest in accrediting online courses for freelancers and focus on lifelong learning that is tailored to their needs.

In this context, the Federation responded to HM Treasury's 'Taxation of self-funded work-related training' consultation earlier this year, which argued that tax relief should be accessible for self-employed creatives looking to upskill or develop new skills. This consultation response can be accessed here, and is appended to this budget representation.

2. GROWTH

While government recognises the economic value and potential of this world-leading sector - as evident from the creative industries sector deal published in March 2018 - it continues to focus growth within a high growth context, a continuation of the scale-up agenda adopted and promoted by government in recent years. This agenda is based on the OECD definition for high growth firms - firms with 10 or more employees with an annual average growth in employment or turnover of 20% or more in the last three years.

Although this focus on high growth firms is understandable, it does not reflect the diversity of how growth is experienced in the creative industries: from a freelance graphic designer or a three-person video games studio to an advertising agency that employs over 1,000 staff to a theatre that commissions 3,000 freelancers per year.

As set out in our forthcoming growth report, survey responses demonstrate that while 20% of creative businesses reported a turnover of high-growth, the majority of creative businesses experienced sustainable turnover growth (45%) over the past three years. Similarly, creative businesses are most likely to expect their turnover to remain or grow at a sustainable level (45%), as opposed to high growth (30%).

The narrow focus on high growth risks leaving large swathes of creative professionals and enterprises outside of this important agenda - including any finance or support that is created as a part of it. We therefore call on government to **recognise the complex growth patterns** of creative enterprises and entrepreneurs by properly matching support to need. If this is not realised, it will be a massive missed opportunity for future economic growth. We recommend government **safeguard and strengthen public investment and fiscal incentives**, and **empower local government, Local Enterprise Partnerships (LEPs) and industry to co-design and tailor finance and business support** for creative SMEs and freelancers.

[15] Easton and Cauldwell-French. "Creative Freelancers". Creative Industries Federation, July 2017.

2.1. Finance and investment

2.1.1. Public investment

RECOMMENDATION:

- Safeguard and strengthen public investment to pump prime innovation in the creative industries. Government should maintain public investment in the creative industries in line with inflation, and review where additional investment can be made to unlock further innovation and growth.

Targeted and consistent public investment in the arts and culture plays a crucial role in strengthening the UK's creative industries, ensuring businesses across the sector can continue to innovate and grow. In 2015, the arts and culture industry contributed £8.5bn to the UK economy and paid £5 of tax for every £1 of public funding.[16]

Cultural organisations often become anchor institutions for a place, defining the narrative of an area, attracting inward investment and ensuring the best and the brightest want to remain living and working in their region. A strong creative identity contributes to local job growth. It attracts outstanding young talent and leading firms wishing to recruit them.

Public funding also contributes to innovation in science, technology and the arts, driving the production of new solutions to global problems. Investment in cultural organisations encourages the development of alternative models of finance which work alongside public funding in a blended model to optimise creative industries growth.

In light of the upcoming Comprehensive Spending Review, it is important to ensure that this level of funding is maintained and seek additional investment opportunities to unlock innovation and growth across the sector. Further details will be set out in a forthcoming Federation publication.

2.1.2. European Structural and Investment Funds

RECOMMENDATION:

- Review how European Structural and Investment Funds have benefited the growth of the creative industries, and ensure that the UK Shared Prosperity Fund that will replace them does not create a shortfall in support.

European Structural and Investment Funds have been hugely instrumental in the success of the UK's creative industries - funding is a direct cash injection for devolved nations and Local Enterprise Partnerships (LEPs). This funding contributes significantly to their ability to offer specialist and generic business support and skills training. European funds give LEPs the flexibility to deliver programmes outside of the national policy context, which prioritises generic business support, instead enabling them to respond to local and sectoral needs.

Creative businesses and freelancers within the Cornwall and Isles of Scilly LEP region have benefited from

[16] Accessed here: https://www.artscouncil.org.uk/economic-contribution#section-1

European funds which provide sectoral support. The Cultivator programme[17] for the creative industries responds to the specific needs of a micro and freelance economy, which would not fit into generic Growth Hub programmes. The success of such tailored support means it has overachieved project targets on the number of supported micro and SMEs. The programme is funded by ERDF (£2.6m) and ESF (£1.25m) with match funding from Arts Council England and Cornwall Council.

Given that there is considerable impact when funds fit the needs of the creative industries, government's forthcoming UK Shared Prosperity Fund must be designed in consultation with industry, local and combined authorities, and Local Enterprise Partnerships, to maximise opportunities.

2.1.3. Other European funds

RECOMMENDATIONS:

- Prioritise continued participation in the EU's Creative Europe, Horizon 2020 and Erasmus+ programmes and their successors. If participation in these programmes is not possible, government must review and adequately replace them. However, this will be extremely difficult - if not impossible - given the important role of these EU programmes in promoting cross-border networks and collaboration.
- Maintain government's commitment to guarantee funding for successful bids for EU funding programmes up until 2020 and for the full duration of the projects, in the event of a 'No Deal Brexit'.

EU cultural and educational funding provides the creative industries with the backing they need to deliver jobs, growth, innovation and cultural regeneration across the country. It is essential that the UK continues to participate in programmes such as Creative Europe, Horizon 2020 and Erasmus+ and their successors, after we leave the European Union.

The UK has a very high success rate in EU programmes. The British Film Institute has demonstrated that the UK screen sector received £298.4m over the last decade, supporting 1,766 projects.[18] Arts Council England published figures showing that 1 in 7 from the arts and culture sector have directly received EU funding, whilst 3 in 10 have benefitted indirectly by being part of a consortium or a user of an EU funded project.[19] Reports by EUCLID, Historic England and Historic Environment Scotland highlight that heritage received a minimum of £450m from EU funds between 2007 and 2016,[20] with a further £36.8m spent in Scotland.[21]

These programmes have helped UK creative businesses to establish international networks which have fostered access to key export markets and cross-border opportunities. They provide essential business support and have developed physical and digital infrastructure which creative businesses depend on. As demonstrated above, they are also an important source of direct financial support which recipients have used to leverage further private and public funding.

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[17] Accessed here https://cultivatorcornwall.org.uk/

[18] British Film Institute."Mapping Study of EU Funding of the UK Screen Sectors 2007-2017" March 2018.

[19] ICM Unlimited on behalf of Arts Council England. "Impact of Brexit on the Arts and Culture Sector."

[20] See Historic England research compiled by Euclid: 'Assessing the European Union's contribution to England's historic environment' Project No: 7541.

[21] Historic Environment Scotland "The European Union's Contribution to Scotland's Historic Environment." June 2017.

2.1.4. Tax reliefs

RECOMMENDATION:

- Maintain the successful creative industries tax reliefs, and review where additional fiscal incentives could be introduced to unlock growth across the sector and attract inward investment.

Creative industries tax reliefs (film, high-end television, animation, video games, children's television, theatre and orchestra tax reliefs) are instrumental to the creative industries success and global competitiveness. They are vital to attracting inward investment for many world leading creative businesses. Given the current economic and Brexit uncertainties, it is essential that these tax reliefs are maintained to ensure the sector continues to innovate and grow.

The UK film, high-end television, animation and children's television programmes tax reliefs have been essential to the creation of a world leading independent production sector and successful audiovisual ecosystem in the UK. In 2017-2018, 270 films or programmes claimed tax reliefs, which account for almost £1.6 billion of UK expenditure.[22]

The video games tax relief has also been working well for the sector, despite being recently introduced in April 2014. Since then, 480 video game productions have claimed the tax relief, which account for over £1 billion of UK expenditure.[23] The sector will have a fundamental role to play in encouraging use of this tax relief.

Given the success of the creative industries tax reliefs, government should review where additional fiscal incentives could be introduced to unlock growth across the creative industries sub-sectors. Government should also in parallel ensure these tax relief schemes work alongside other important schemes including the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS). Government should also continue and expand the UK Games Fund.

2.2. Local growth and business support

RECOMMENDATIONS:

- Empower and resource local and combined authorities, Local Enterprise Partnerships, and industry to introduce fiscal incentives and leverage private investment to unlock the growth potential of the creative industries in their given area.
- Local and combined authorities, Local Enterprise Partnerships, and industry should be invited to pitch for 'devolved sector deals', much like the city deals, that cater to the growth needs of the creative industries in each area.

In a recent Federation survey, creative enterprises cited a lack of access to or availability of business support as a major barrier to their further growth. Access to finance, intellectual property, branding and marketing, and exports were highlighted in particular as areas where greater support, advice and signposting is needed. Very few - less than 10% - of creative enterprises had accessed support from their Local Enterprise Partnership (LEP)

[22] HM Revenue & Customs. "Official Statistics on Film, High-End Television, Animation, Video Games, Children's Television, Theatre and Orchestra Tax Relief" July 2018.
[23] *Ibid.*

or Growth Hub, citing that the services on offer were too generic, tricky to navigate, and/or inaccessible in terms of language. The same feedback was evident from those who had accessed this support. Further consultation with industry revealed that there is high demand instead for local business support and incentives that are tailored to the needs of creative enterprises in their area.

For many LEPs, the provision of sectoral support outside of generic Growth Hub schemes is made possible through partnerships with universities and industry that deliver business support programmes which fit the needs of creative businesses. It is also made possible through vital investment such as European Structural Funds, which directly funds specialist support (see above). By working more closely with leaders from industry, LEPs are able to provide more relevant support for micros and freelancers within the value chain. A LEP can also utilise the networks of their partners, who are often more trusted sources of information than the LEP itself.

This way of working should be incentivised across the country. The Arts and Humanities Research Council's Creative Clusters programme - an £80m fund which will invest in nine new creative research and development partnerships across the UK - is a step in the right direction. Local and combined authorities, LEPs and industry should now be empowered to introduce fiscal incentives and tailored business support that caters to the needs of creative enterprises in their area. This could take the form "devolved sector deals" which, much like the city deals, would see LEPs, local and combined authorities and industry come together to pitch for devolved powers and fiscal incentives that would demonstrably unlock growth across the creative industries.

3. INNOVATION AND R&D

RECOMMENDATION:

- Adopt the proposed amended definition of R&D, to rebalance the emphasis on science and technology alone and open up the HMRC tax relief for R&D to the arts, humanities and social sciences. We welcome the fact that UK Research and Innovation (UKRI) has gone some way to recognise the importance of creative R&D in its Creative Industries Clusters and Audience of the Future Programmes.

Alongside science and tech, the creative industries are key to British innovation, delivering innovation to every area of the UK economy.[24]

The very definition of research and development (R&D) in the UK is a barrier to encouraging innovation through, and for, the creative industries as the sector is excluded from current definitions. The official definition of R&D used by the Organisation for Economic Cooperation and Development is the Frascati definition. The Federation supports the innovation charity Nesta, the AHRC and University College London in proposing that an amended version of this definition should be adopted. The amended version recognises the role of the creative sector in innovation and acknowledges that individuals, micro-businesses and SMEs can deliver this innovation as well as large companies and R&D labs. The full proposal is available to read here.

[24] Bakhshi and Lomas. "Defining R&D for the Creative Industries." AHRC, Nesta and UCL, March 2017.