SPRING BUDGET PRIORITIES 2023

Supercharging inclusive growth in the Creative Industries

The UK's Creative Industries are a global success story and a key driver of growth. Our creative content, products and services are world-renowned, exercise significant soft power and deliver social benefits to people and communities across the UK. The Sector Vision, expected soon, confirms the Creative Industries as a priority industrial sector, and creates an opportunity to capitalise on the sector's growth potential.

The creative sector has long outperformed the wider economy and other industries in driving economic growth and job creation. Prior to the pandemic, the Creative Industries contributed £115.9 billion in GVA and supported 2.1 million jobs in the UK (with a further 1.4 million supported via supply chains).[1] The sector was growing at four times the rate of the UK economy and creating jobs at three times the UK average. It has shown remarkable resilience - with post-pandemic growth in the Creative Industries higher than the rest of the economy.[2] And it is through creative clusters, like the video games and design industries in Dundee, and film, TV and immersive tech in Greater Manchester, that this growth has touched all parts of the country.

And the sector's future growth potential is greater still: Independent economic modelling undertaken in 2021 revealed that, by 2025, with the right investment and support, the UK's Creative Industries could contribute £132.1 billion in GVA – more than the financial services, insurance and pension industries combined.[3] The sector is also set to create 300,000 jobs by 2025 – enough to employ the working-age population of Hartlepool and Middlesbrough twice over.

The UK's Creative Industries tax reliefs are a critical enabler of this success. A recent Government evaluation of Creative Industries tax reliefs showed that these reliefs have made the UK a more attractive production location and led to more productions taking place in the UK than would happen otherwise.[4] Between 2017-2019, the audio-visual sector produced a return on investment (ROI) of £13.48 billion in GVA from UK government tax reliefs for film, TV and games production.[5] Over the same period, 219,000 new jobs were created in this sector, UK screen production increased by 74% and £1.02 billion of tax relief seeded £5.11 billion in direct production spend in 2019 (a 61% increase on 2016).

Government can unleash this significant opportunity by bolstering their commitment to existing Creative Industries tax reliefs and optimising those elements that could leverage major investment into the UK:

- **Commit to using the existing tax relief regime to strengthen our audio-visual sector - ensuring changes pose no threat or additional burden** to these thriving sectors. As part of this, government should undertake a review of the global competitiveness of our audio-visual tax reliefs regime.
- **Remove the 80% audio-visual sector cap, <u>without</u> reducing overall rates of relief, for VFX and animation.** Solutions have been modelled for these sectors alone, removing the risk of deadweight.
- **Ensure the competitiveness of Video Games Tax Relief by retaining EEA expenditure and removing the subcontracting cap.** Removing EEA expenditure would negatively impact UK games companies and losses would not be offset by gains from raising or removing the subcontracting cap alone.
- **As a matter of urgency, retain the current higher rate of tax relief for Theatre and Orchestras until at least April 2024** to provide financial security for live cultural events in the coming period.
- **Remove the Museums, Galleries and Exhibitions Tax Relief sunset clause (March 2024) - making it permanent - and retain the higher rates of relief announced in 2021**. Identified as energy and trade intensive[6], these sectors depend upon this additional support.

[1] https://www.gov.uk/government/statistics/dcms-economic-estimates-2019-gross-value-added/dcms-economic-estimates-2019-provisional-gross-value-added
[2] https://lordslibrary.parliament.uk/arts-and-creative-industries-the-case-for-a-strategy/
[3] Creative UK (2021) 'The UK Creative Industries: Unleashing the power and potential of creativity'
[4] https://www.gov.uk/government/publications/creative-industry-tax-reliefs-evaluation
[5] https://www.bfi.org.uk/news/screen-business-report
[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128021/230104_ETII_List_for_gov.uk.pdf

There is also scope to facilitate the growth of other creative sectors – in the same way that the audio-visual sectors have benefitted - by exploring the feasibility and potential return-on-investment of new reliefs. This will ensure other parts of our world-leading Creative Industries remain internationally competitive:

- **Music and Live Events tax reliefs:** While UK musical exports are growing (by 13.7% between 2020 and 2021), the UK industry's share of the global recorded music market is declining (from 17% in 2015 to 10% in 2020). Government should explore a potential new tax relief to i) incentivise inward investment in the creation of new music and ii) provide an incentive to grow the UK's share of the live events market and iii) grow skilled jobs in the nations and regions of the UK.
- **Publishing Tax Relief:** Tax relief would incentivise the production of published works and help grow global sales - ensuring the UK's leading role in publishing exports at a time of supply chain volatility.

This paper outlines other essential recommendations to enable creativity to grow and prosper everywhere:

1. Supercharge inclusive growth by **optimising Creative Industries tax reliefs** and **showcasing creative exports**.
2. Unleash creative innovation across all industries by **reforming R&D tax relief to reflect the internationally recognised Frascati definition**, aligning the UK with other high-growth economies.
3. Stimulate consumer spending by **cutting VAT from cultural experiences and creative products, including event tickets and audiobooks**.
4. Ease the pressure of rising costs by **applying Business Rate Relief to all cultural sites, venues and hubs** and **providing financial support to improve energy efficiency**.
5. Invest in our future workforce at all stages by **delivering the £270 million Arts Premium promised in the Conservative Party Manifesto** and **enabling FE and HE to upskill the next generation.**
6. Incentivise a new era of creative entrepreneurship by **establishing a new compact with freelancers, retaining the UK's Intellectual Property framework and boosting competition**.

The Creative Industries are not immune to the challenges currently facing the UK economy, including high inflation, high energy costs, rising wage pressures, workforce shortages, supply chain issues and heightened global competition for trade and investment. Those sectors reliant on audiences and footfall are still experiencing the impacts of the pandemic, with patterns of consumption and consumer behaviour still in flux. Our recommendations are designed to address these challenges – by strengthening sector resilience, stimulating growth and restoring the confidence of consumers and markets.

Local, national and devolved public investment in creativity, the arts and public service broadcasting is critical to the sector's success and must be strengthened. New research by the Creative Industries Policy and Evidence Centre (PEC) shows that, in real terms, government spending on the arts has fallen over the last decade.[7] Public funding for culture must be considered an investment, not a cost.[8] It primes the pump for the creative talent, innovation and ideas that the UK is renowned for, delivers essential health and wellbeing benefits to people and communities and opens up creative opportunities to those who would not otherwise have them. A well-funded, mixed investment ecology – built upon public subsidy and private finance – is crucial in ensuring the vitality, creativity and resilience of our Creative Industries.

About Creative UK: wearecreative.uk

Creative UK champions the Creative Industries and their ability to catalyse change, socially and economically. We fuel the creative sector by investing in people and businesses, empowering innovators and entrepreneurs by connecting them to each other, and with finance, business development, and skills training, to enable them to reach their full potential – without compromising their ideas.

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[7] https://pec.ac.uk/blog/a-new-deal-for-arts-funding-in-england

[8] See transcript of oral evidence given by Caroline Norbury OBE to the House of Lords Communication and Digital Committee (6 September 2022, p.17): https://committees.parliament.uk/oralevidence/10909/pdf/

1. Supercharge inclusive growth by optimising Creative Industries tax reliefs and showcasing creative exports.

Tax reliefs for the Creative Industries not only bolster investment in homegrown talent and ideas, they underpin the UK's position as a global creative superpower and attract inward investment – making Britain a competitive place to do business. UK Creative Industries tax reliefs have been effective in achieving this – ensuring our creative content and services to become world-renowned and highly profitable. On behalf of the whole sector, we strongly recommend that the UK Government considers the following:

Bolster and optimise existing tax reliefs:

- **Reaffirm commitments to tax reliefs for the audio-visual sectors, including film, high-end TV and children's TV**. The current consultation on audio-visual tax reliefs[9] is an opportunity to both celebrate their impact, as evidenced in the HM Treasury evaluation[10], and ensure that no harm is done, and no unnecessary additional burdens are placed upon these thriving creative businesses.
- **Remove the 80% cap on audio-visual tax reliefs for animation and VFX, <u>without</u> reducing the overall rate of relief.** Due to incentives available overseas, other countries have built significant capacity and skills for tech-enabled industries like animation and VFX. Removing the cap would put the UK on a more competitive footing for inward investment. The UK Screen Alliance has developed a business case for removing the cap for only these sectors, removing the risk of deadweight. If adopted, the UK Government could attract an estimated £225 million of inward investment annually.
- **Ensure the competitiveness of Video Games Tax Relief (VGTR) by retaining EEA expenditure and removing the subcontracting cap.** Removing EEA expenditure would negatively impact the sector and losses would not be offset by gains made from raising or removing the subcontracting cap. VGTR is vital to our international competitiveness – levelling the playing field for the UK with major markets such as the US and Canada. In 2021, Ireland announced a VGTR rate of 32%.[11] While we recognise current pressures on the public purse, global competition is increasing, and we must guard against complacency. Therefore, **government should review the competitiveness of Creative Industries tax reliefs, including VGTR, in a global context.** The UK Video Games sector is less mature than the other screen sectors, with significant workforce shortages brought about by rapid growth. There is a risk of lost investment if government does not match global rates. Research by TIGA suggests that an increase in relief, to 32%, would generate approximately 1,500 additional development jobs and £200 million in additional GDP per year.[12] With approximately 80% of game development staff working outside London[13], boosting global competitiveness will support growth everywhere.
- **As a matter of urgency, retain current rates of tax relief for Theatre and Orchestras until at least April 2024**, and until operating conditions and energy costs have stabilised for these sectors. In 2021, the Government announced an extension to these reliefs, but rates are due to taper down from April 2023.[14] The UK Theatre sector generates £2.3 billion GVA and supports 205,000 workers. Modelling by the Association of British Orchestras suggests that an extension to the 50% rate would result in an additional contribution of up to £1 million a year for some orchestras. And 70% of

[9] https://www.gov.uk/government/consultations/audio-visual-tax-reliefs-consultation
[10] https://www.gov.uk/government/publications/creative-industry-tax-reliefs-evaluation
[11] https://tiga.org/news/international-competition-to-grow-video-games-increasing-uk-needs-to-increase-rate-of-vgtr-to-stay-competitive
[12] https://tiga.org/news/tiga-welcomes-announcements-in-the-spring-statement-but-calls-on-the-government-to-enhance-video-games-tax-relief
[13] https://tiga.org/news/tiga-reveals-largest-centres-of-games-development-in-the-uk-2
[14] https://www.gov.uk/government/publications/cultural-relief-rate-rises-for-theatre-orchestra-and-museums-and-galleries-exhibition-tax-reliefs/cultural-relief-rate-rises-for-theatre-orchestra-and-museums-and-galleries-exhibition-tax-reliefs

Society of London Theatre/UK Theatre members say theatre tax relief has supported an increase in the number of productions and tours that, in turn, generate additional income for local economies.[15]

- **Remove the Museums, Galleries and Exhibitions Tax Relief (MGETR) sunset clause - making it permanent - and retain the higher rates of relief announced in 2021**. Since it was introduced in 2017, £43 million has been paid out in MGETR to support 3,990 exhibitions.[16] Unlike other reliefs, MGETR contains a sunset clause that will expire in April 2024.[17] The clause must be removed to allow museums and galleries to continue to benefit, given their crucial role in place-shaping and bringing communities together in towns and cities across the UK. And while museums qualify as energy and trade intensive industries, exhibitions in other spaces do not. MGETR is essential in mitigating increased costs and in safeguarding our cultural status - a key driver of tourism.

Explore the feasibility and potential return-on-investment of new reliefs in these high growth creative sectors:

- **Music production:** A new tax relief has the potential to incentivise the creation of new music in the UK, attract inward investment and strengthen the industry's export potential.[18] Tax incentives for music production exist in other countries such as France and Canada. For example, a tax credit in France delivered an ROI of €2.7 for every €1 invested by government.[19] While UK musical exports are growing (by 13.7% between 2020 and 2021), the UK industry's share of the global recorded music market is declining (from 17% in 2015 to 10% in 2020). Without a tax relief, the Government risks putting UK music at a disadvantage. Many UK record labels face growing competition from countries such as India and Korea and have to make a case to global counterparts for investment in UK artists. The argument for investment rests heavily upon the UK remaining competitive.
- **Live events:** Live events, including music, engage a large, skilled and diverse workforce. Live touring events are typically 'built' in one location, where there is a pre-existing cluster of businesses, before going on tour. The UK has three such live events clusters – two of which are outside London – but they operate in a highly competitive European market. Providing an incentive, based on the film and high-end TV reliefs, could ensure the UK increases its share of the market, attracting more investment to help to grow skilled jobs across the UK. A similar tax relief is in operation in the US state of Pennsylvania and has proved highly successful at attracting inward investment.[20]
- **Publishing:** Incentivising the UK production of published works would be a major benefit of a new tax relief. The UK exports more books than any other country and, in 2019, contributed £3.74 billion of GVA through magazine and multi-media publishing.[21] However, there are challenges due to global supply chain issues and the increased cost of paper and print manufacturing in the UK. An extension of Creative Industries tax reliefs to the publishing sector would bolster UK manufacturing, boost sales and mirror the financial support available for specialist and book publishers internationally.
- **Fashion:** The UK fashion sector is exploring how to use tax reliefs to onshore manufacturing and meet the rising demand for sustainable fashion. In fact, UK fashion is innovating in environmentally conscious textiles and garment production and leading the charge to net zero – reinforcing our global reputation in this growing field. The industry could be incentivised to significantly expand its UK presence through **tax reliefs for UK fashion design and manufacturing** and through the use of **sustainable design, manufacturing and service practices**.[22] This could help the UK to meet its net zero target, support manufacturers to adapt their practices and meet consumer demand.

[15] https://uktheatre.org/theatre-industry/news/autumn-spending-and-budget-review-2021/
[16] https://www.gov.uk/government/statistics/creative-industries-statistics-august-2022/creative-industries-statistics-commentary-august-2022#museums-and-galleries-exhibition-tax-relief
[17] https://www.gov.uk/government/publications/extension-to-museum-and-galleries-exhibition-tax-relief-sunset-clause/extension-to-museum-and-galleries-exhibition-tax-relief-sunset-clause
[18] https://www.ukmusic.org/wp-content/uploads/2021/06/UKM-Response-RD-Tax-Reliefs-Final-Submission.pdf
[19] https://www.ukmusic.org/wp-content/uploads/2021/06/UKM-Response-RD-Tax-Reliefs-Final-Submission.pdf
[20] https://dced.pa.gov/programs/entertainment-economic-enhancement-program-eeep/
[21] https://ppa.co.uk/article/ppa-sector-insight-report-highlights-economic-and-cultural-value-to-uk
[22] https://www.fashionroundtable.co.uk/s/FR_ESF_Cleaning-up-Fashion_Report_2021.pdf

Showcase creative exports:

The UK was the fifth largest exporter of creative services and the seventh largest exporter of creative goods in 2020[23]. The ability to trade with ease has been critical to the economic success of the Creative Industries and a key pillar of the UK's creative soft power on the international stage. However, because the full impact of Brexit has been masked by pandemic-related restrictions and macro-political and economic uncertainty, it is vital the UK Government continues to be a major champion of the Creative Industries internationally.

Government programmes, including the UK Tradeshow Programme,[24] showcase the UK Creative Industries to international markets. However, many Creative UK members feel the UK Tradeshow Programme is not fit for purpose and does not meet the needs of the creative sector – financial support is too low and the paperwork onerous. Schemes such as the Internationalisation Fund are simpler and provide higher levels of support. **Government must urgently review the Tradeshow Programme to ensure it can effectively support creative businesses.** Increased investment in export programmes, and tailored schemes, would unlock growth through new trade, and ease the pressure created by supply chain issues and rising costs.

The Creative Industries have worked closely with government to develop sector-specific export schemes, including the Music Export Growth Scheme,[25] International Showcase Fund[26] and the UK Advertising Exports Group,[27] which have provided a healthy ROI. The Music Export Growth Scheme, which helps British music SMEs and artists breakthrough on the global stage, generates £13.45 for every £1 invested.[28] And the International Showcase Fund, which provides export support for UK-based artists, songwriters and producers who have been invited to perform or create new music at international festivals or conferences, generates £15.20 for every £1 invested.[29] **Government must increase investment in these sector-specific schemes, as a way to supercharge growth in the creative economy, celebrate 'brand Britain' and generate income for the Treasury.** For that to be effective, **government must commit to longer-range funding cycles.**

Funding is also at risk for other forms of trade support. Prior to the UK's departure from the EU, the European Regional Development Fund (ERDF) provided support to innovative creative organisations. The ERDF will no longer be available from April 2023, and the UK Shared Prosperity Fund (UKSPF) has been launched as the successor programme. However, funds available via the UKSPF are not equivalent to previous levels of support. For example, the British Fashion Council previously received ERDF funds to support fashion SMEs to participate in London Fashion Weeks. Revised funding, via the UKSPF, may be half of what was previously provided, and risks stifling growth in sectors with established showcase platforms. Government must ensure UKSPF funds remain available to support creativity and grow international trade.

While the sector has emerged from pandemic restrictions, the full impact of post-Brexit changes to EU trade and touring are yet to be fully understood. Until such a time as there is a systemic solution, the **UK Government should establish a Creative Support Scheme offering financial assistance and support to i) those trading and operating in the EU**, ii) **emerging talent looking to enter new markets and iii) those sole traders, SMEs and micro-businesses unable to absorb additional costs**. **This should operate through the establishment of a Cultural Export Office** that helps British businesses to navigate and grow new markets.

[23] https://lordslibrary.parliament.uk/arts-and-creative-industries-the-case-for-a-strategy/
[24] https://www.gov.uk/guidance/uk-tradeshow-programme
[25] https://www.bpi.co.uk/news-analysis/latest-round-of-megs-funding-sees-500-000-distributed-to-28-artists/
[26] https://prsfoundation.com/funding-support/funding-music-creators/international/international-showcase-fund/
[27] https://ukaeg.com/
[28] Latest Round of Music Export Growth Scheme Funding Announced - bpi
[29] https://www.ukmusic.org/news/uk-music-meets-cabinet-minister-kemi-badenoch-for-music-trade-and-export-talks/

2. Unleash creative innovation by reforming R&D tax relief to reflect the internationally recognised Frascati definition, aligning the UK with other high-growth economies.

Creative innovation underpins the UK's ability to be competitive, remain resilient and tackle major global challenges. It also drives colossal inward investment, creating jobs and generating revenue in all parts of the UK. Government research shows that over half of Creative Industries firms introduced new or significantly improved products or services in the last three years, which is much higher than the economy at large.[30] Creative technology (CreaTech) is a crucible of innovation and a significant growth sector, with the UK's CreaTech industry third in the world for venture capital investment, just behind the US and China.[31]

Public investment has been critical in pump-priming innovation. It acts as a catalyst by helping organisations diversify business models, increase productivity and generate cutting-edge ideas that set the UK apart - all whilst responding to major global challenges, including leading the charge to net zero. However, there is more to be done to bring creative ideas and entrepreneurialism under the scope of existing R&D support.

Currently, HMRC takes a narrow view of the OECD Frascati definition of R&D, limiting activity eligible for tax relief to science and technology – at the expense of the arts, humanities and social sciences. **The definition of R&D for tax relief purposes must be expanded to include the full OECD-recognised Frascati definition, which includes "knowledge of humankind, culture and society."**[32] We would expect a revised definition to encompass all Creative Industries SIC codes. Were the Government to adopt the Frascati definition, more than three times the number of creative businesses would qualify for R&D tax relief.[33] This change would incentivise a greater number of creative organisations to prioritise R&D and enable them to undertake R&D to meet challenges and opportunities created by the intersection of complex social and technological shifts.

Since the 2008 financial crisis, R&D tax incentives have been boosted in many countries to promote international competitiveness and stimulate economic growth. If the UK Government does not expand the current R&D definition, it risks lagging behind international competitors, such as Canada and Denmark, and putting the Creative Industries at a disadvantage. By broadening the R&D definition, the UK Government can further unlock the sector's growth potential and fulfil its commitments to increasing UK investment in R&D.

The upweighting of Research and Development Expenditure Credit (RDEC), and the corresponding reduction in R&D tax relief, as announced in the Autumn Statement[34], is not helpful in supporting the Creative Industries. RDEC was designed to replace the large company scheme and is geared towards larger businesses. The Creative Industries are characterised by small and micro businesses and heavily dependent upon a freelance workforce. And while SMEs can claim RDEC, they must be "subcontracted to do R&D work by a large company".[35] Again, the design of R&D support in the UK inadvertently disadvantages one of the most innovative, creative and fast-growing sectors in the country, and must be addressed.

Investment into the sector via UK Research and Innovation (UKRI), Innovate UK and the Arts and Humanities Research Council (AHRC) has been a huge success and must be continued. The R&D Creative Industries Clusters Programme (CICP) has been key to accelerating cutting-edge ideas, drawing on the expertise of our world-renowned research institutions and the strength of creativity across the UK.

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30 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919052/4565_-_DCMS_RD_in_Creative_Industries_Survey_-_Report_-_D8_PDF.pdf
31 https://technation.io/the-createch-report-2021/#key-statistics
32 https://www.oecd.org/sti/inno/frascati-manual.htm
33 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919052/4565_-_DCMS_RD_in_Creative_Industries_Survey_-_Report_-_D8_PDF.pdf
34 https://www.gov.uk/government/publications/autumn-statement-2022-documents
35 https://www.gov.uk/guidance/corporation-tax-research-and-development-tax-relief-for-large-companies

3. Stimulate consumer spending by cutting VAT from cultural experiences and creative products, including event tickets and audiobooks.

Stimulating the UK economy depends upon market and consumer confidence and encouraging spending, which is especially challenging at a time of high inflation. Household consumption is the largest component of expenditure, representing around two-thirds of GDP, and is a critical income stream for the Creative Industries.[36] The sector depends on everything from visits to heritage sites to e-book and game downloads, tickets for live events to purchasing the latest fashion trends (as inspired by advertising and the media).

Many creative sectors were adversely impacted by the downturn in consumption and attendance during the pandemic. Many also experienced increased costs and reduced income as a result of Brexit-related changes. While music and the performing arts have been hit hard, other sub-sectors have also been affected by issues as diverse as customs fees, changes to 'rules of origin' and VAT on e-commerce. **Given the ongoing uncertainty, government must do more to boost homegrown markets and audiences for UK creativity**.

A key way to bolster consumer spending on culture is to reduce VAT – generating immediate cost-savings for consumers and audiences, whilst opening up the personal benefits these experiences deliver. VAT reductions were introduced to support the Creative Industries during the pandemic, and these have been critical in safeguarding the viability of sub-sectors in straightened times. Many of these should be reintroduced to help the Creative Industries weather further economic volatility. They include:

- **Reintroduce VAT at 5% for event ticket sales to incentivise audiences to support live events and local venues and give the sector the boost it needs to aid recovery.** During the pandemic, the live events sector saw their livelihoods disappear overnight, with a reduction in revenue of almost 80% across the industry.[37] VAT was reduced to 5% for live events and hospitality during the pandemic but returned to 20% in March 2022. This reversal, a 300% uptick, comes at a time when the sector is still stabilising sales and reassuring consumers that it is safe to return to in-person events.
- **Introduce zero-rates of VAT for audiobooks**. In May 2020, VAT rules were equalised for physical and eBooks, helping readers take advantage of zero rates for publications.[38] And yet, an anomaly remains where VAT on audiobooks, the fastest growing format in publishing remains at 20%.[39]

4. Ease the pressure of rising costs by applying Business Rate Relief to all cultural sites, venues and hubs and providing financial support to improve energy efficiency.

High inflation and rising energy prices are adding to the costs of doing business and limiting the ability of many across the Creative Industries to realise their growth potential. Business rates bear no relation to the ability of a creative business to pay, and risk taxing small businesses beyond what they can tolerate. While the recently announced increase in business rate relief for hospitality and leisure, from 50% to 75%, is welcomed, there is more to do to support other parts of the Creative Industries. **Business rate relief should be improved for <u>all</u> cultural sites (including arts and music venues, working spaces and studios, cinemas, libraries and heritage sites) and be equalised across sub-sectors to ease their financial burden.** Support must be extended to the cultural sector now that the Culture Recovery Fund has closed.

However, given that business rates are an important income stream for councils, it is essential that this loss is offset by the UK Government. The Local Government Association calculates that English Councils spend £1.1 billion a year on cultural activity[40], but council budgets have come under increasing pressure in recent

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[36] https://obr.uk/forecasts-in-depth/the-economy-forecast/expenditure/#consumption
[37] https://livemusic.biz/policy/
[38] https://www.gov.uk/guidance/zero-rate-of-vat-for-electronic-publications
[39] https://www.publishers.org.uk/our-work/#campaigns
[40] https://www.local.gov.uk/sites/default/files/documents/12.30%20Culture%20Commission%20Report%20AA.pdf

years.[41] Exacerbating this challenge is the loss of European funding that was previously invested in UK culture. This includes the Creative Europe Culture sub-programme and the £400 million European Union funding to the arts, museums and Creative Industries in England, Wales and Scotland from 2006-17 via structural funds (only partially replaced by government).

The heritage, museum and theatre sectors can be further relieved of tax burdens and supported with energy costs by **removing VAT for building repair and maintenance on historic buildings**. This would include the maintenance, repair and retrofit of buildings, structures and collection stores. Work on historic buildings is currently subject to 20% VAT, yet no VAT is charged on work on new buildings. Most heritage, including that which the Government has designated as nationally important, is looked after by private owners at their own cost, or by volunteers, and yet creates desirable places for people to live and work.

Similarly, the Society of London Theatre and UK Theatre have developed a proposal for a Theatre Energy Efficiency Grant Scheme. 86% of theatres cite finance as the major barrier to energy efficiency improvements, with 57% of theatres holding less than 3 months of reserves. Government support would allow theatres to implement high-impact energy efficiency measures in time for next winter. Grants from £50,000 to £300,000 are estimated to be able to help 472 theatres save up to £6.2 million per year.

Government has previously shown its support for energy efficiency works by reducing VAT on some energy efficiency materials. However, that scheme has not realised its potential due to its complexity. Support to improve the energy efficiency and sustainability of historic buildings should form part of a wider strategy on retrofitting existing buildings, to ensure the effects of high energy costs are mitigated and net zero ambitions met. This would benefit *all* creative organisations operating premises and venues.

5. Invest in our future workforce by delivering the £270 million Arts Premium promised in the Conservative Party Manifesto and enabling FE and HE to upskill the next generation.

There are endless commentaries that paint a picture of our future industrial economy: trends toward automation, the adoption of new technology, e-commerce and remote working mean that by 2030, up to 30-40% of all workers in developed countries may need to move into new occupations or upgrade their skills significantly.[42] 85% of jobs that will exist in 2030 haven't been invented yet, and 50% of people think that the roles and skills of the next 10-15 years are impossible to predict.[43] For this reason, many creative jobs are considered more future-proof than many others in our economy. The sector is also generating many of future-facing tech skills the UK needs, providing workforce resilience while also developing the skills base of value to the wider economy. The Creative Industries – characterised by micro businesses, freelancers and highly-skilled project-based workers – are an archetype of the fourth industrial revolution. And demand for creativity already exists: research by the PEC, of 35 million job ads, showed that 'creativity' is a key requirement in jobs likely to increase between now and 2030.[44]

The potential for job growth in the sector is strong. While UK employment overall fell by 0.6% in 2021, jobs in the Creative Industries grew by 5.1%.[45] However, workforce and skills shortages are commonplace. Creative roles make up 30% of government's Shortage Occupation List (SOL),[46] and include many of the jobs cited as being very likely to grow as a share of the workforce by 2030.[47] Addressing current and future

[41] https://pec.ac.uk/blog/a-new-deal-for-arts-funding-in-england
[42] https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/getting-practical-about-the-future-of-work
[43] https://www.delltechnologies.com/content/dam/delltechnologies/assets/perspectives/2030/pdf/Realizing-2030-A-Divided-Vision-of-the-Future-Summary.pdf
[44] https://pec.ac.uk/news/new-research-shows-creativity-will-become-even-more-important-to-the-growth-of-jobs-between-now-and-2030
[45] https://lordslibrary.parliament.uk/arts-and-creative-industries-the-case-for-a-strategy/
[46] https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-shortage-occupation-list
[47] https://pec.ac.uk/blog/creative-employers-hopes-and-fears-for-points-based-skilled-immigration-post-brexit

workforce challenges is critical to growing the economy and will enable industry to increase productivity, train staff, reduce recruitment burdens and improve diversity.

This reality must be recognised in the Government's growth plans, ensuring the UK labour market maximises our ability to build on our world-leading strengths. As a matter of priority, we urge government to:

- **Deliver on the £270 million Arts Premium promised in the Conservative Party Manifesto.** The Conservative Party's 2019 Manifesto stated: "We will invest in arts, music and sport. [..] We retain our commitment to the core subjects and also want young people to learn creative skills and widen their horizons, so we will offer an 'arts premium' to secondary schools to fund enriching activities for all pupils."[48] This commitment was broken in 2021 and met with widespread disappointment. The existing National Plan for Music Education,[49] and the forthcoming National Plan for Cultural Education Plan (for England) provide an opportunity to look again at this promise. Delivering the Arts Premium would reinforce the message that creativity is an essential workforce skill and therefore should be embedded at all stages of the learning pathway.
- **Continue to fund BTEC qualifications for Creative Industries courses in England, until T Levels are fully tested and evaluated.** While we support the introduction of T Levels, and their parity with A Levels, we do not believe funding should be removed from BTECs, which provide a mix of academic and vocational training. There are unresolved issues for the sector in the provision of creative T Levels, including how to overcome health and safety and safeguarding issues in industry placements, and therefore it is not an appropriate time to withdraw funding for equivalent BTEC courses.[50]
- **Build greater flexibility into the structure of Apprenticeships and the use of the Apprenticeship Levy in England**. The DfE has implemented a number of changes to Apprenticeships, which have improved uptake. However, the structural characteristics of the Creative Industries – typified by small and micro businesses and freelancers undertaking project-based work – mean that many in the sector are unable to engage with the scheme. DCMS and DfE are testing modular apprenticeships in TV, via Screen Skills.[51] This pilot must be robustly evaluated to provide learnings for government and industry. During the pandemic, the Government introduced an incentive of £1,000 per apprentice to help organisations cover core costs.[52] With over £3 billion in unspent levy funds being returned to Treasury in 2022,[53] there is a compelling case for reintroducing the incentive, which would help creative businesses offset the demands of a placement. Similarly, the funding bands for apprenticeship roles must be reviewed urgently, to ensure rates reflect current inflationary pressures. Without it, some placements may no longer be financially viable.
- **Ensure Higher Education providers are enabled to cultivate a strong and diverse creative workforce.** We endorse the UK Government's desire to secure high quality provision and value for the taxpayer, but the sector is strongly opposed to proposed reforms[54] – centred on Student Number Controls and Minimum Entry Requirements – that could radically limit the diversity of students on creative courses. Likewise, the Creative Industries will not endorse any proposal that limits the measurement of institution or course value to salary outcomes, as this is not reflective of graduate career journeys in the sector. Similarly, Creative UK continues to oppose cuts to the high-cost funding subsidy for creative subjects, which continue to threaten providers less able to cross-subsidise their provision. And while the Specialist Institution Fund will provide some support for world-leading specialist institutions, other vital, often regional, provision is in jeopardy.

[48] https://www.conservatives.com/our-plan/conservative-party-manifesto-2019 (p.13)
[49] https://www.gov.uk/government/publications/the-power-of-music-to-change-lives-a-national-plan-for-music-education
[50] https://www.gov.uk/government/publications/qualifications-that-overlap-with-t-levels
[51] https://www.screenskills.com/news/screenskills-apprenticeship-pilot-kicks-off-with-20-apprentices/
[52] https://www.gov.uk/guidance/incentive-payments-for-hiring-a-new-apprentice
[53] https://www.fenews.co.uk/skills/over-3-billion-in-unspent-apprenticeship-levy-lost-to-treasury-black-hole-new-data-reveals/
[54] https://www.gov.uk/government/consultations/higher-education-policy-statement-and-reform

6. Incentivise a new era of creative entrepreneurship by establishing a new compact with freelancers, retaining the UK's Intellectual Property framework and boosting competition.

Freelancers make up a significant part of the sector's workforce and drive value, ideas and entrepreneurialism across the Creative Industries and wider economy. Due to changing working patterns and the evolving nature of creative work, freelancers will become increasingly vital as the UK grows and seeks to strengthen its competitive edge. Yet, as the pandemic revealed, the UK's policy, tax and social security framework is not set up to effectively support and incentivise such work. The UK has since witnessed a decline in its freelance workforce,[55] which, for the Creative Industries, exacerbates critical skills and workforce shortages and threatens the agility and growth of our high-performing sector.

As a matter of urgency, the UK Government should **revisit the recommendations made in Matthew Taylor's *Good Work* review and commit to a review of employment status and social security**. Improvements in these areas would help remove major barriers for creative workers and entrepreneurs. **Tax deductions for training should also be extended for both freelancers and SMEs,** to enable them to acquire a much broader set of skills – including creative and digital skills for freelancers, and training to become investment ready.

Industry, devolved and local government are already driving change on behalf of creative freelancers. **Creative UK is currently leading the *Redesigning Freelancing* initiative, which will articulate a vision for fair and equitable engagement with freelancers**, as well as collate sector-wide resources and advice for freelancers. This initiative is being supported by nine combined authorities in England. The UK Government is invited to support it and consider steps to improve tax and worker status, social security and pensions and other policy measures that will unlock the flexibility and dynamism of this vital part of the workforce.

Creators, and the work they produce, are the lifeblood of the modern knowledge-based economy. Intellectual property (IP) not only provides audiences and consumers with rich content but is the principal income source for UK creators – ensuring creativity remains financially viable. For the Creative Industries to flourish, creators must be able to monetise and control their IP. Since leaving the EU, a series of consultations and trade agreements have had the potential to profoundly change the IP landscape. **Any Future Trade Agreements must protect and enhance the UK's gold-standard Intellectual Property framework**. Any watering-down of this framework would be devastating to the sector.

There are two current IP-related concerns that government should seek to address as a matter of urgency. The first relates to current proposals regarding a copyright exemption, without opt-out, for AI Text and Data Mining for any purpose. This would allow global companies to take advantage of the investments that publishers and creators make, at no cost, whilst reaping the commercial benefits.[56] **Government must urgently reconsider current AI Text and Data Mining (AI TDM) proposals to ensure a better balance is struck between the rights of creators and the ambitions of AI developers.**

The second concern relates to the Retained EU Law (REUL) Bill. At present, there are at least 3,800 separate pieces of REUL in place in the UK.[57] A sunset clause in the Bill will revoke <u>all</u> a) EU-derived subordinate legislation and b) retained direct EU legislation by the end of 2023, <u>unless</u> it is adapted or adopted into UK law by that deadline. Currently, 41 pieces of retained EU law relate to copyright. However, copyright related implications include uncertainty related to database rights and Court of Justice of the European Union (CJEU) caselaw.[58] Given the volume of REUL, the imminent deadline, the limited understanding of the implications of REUL changes and the limited capacity to interrogate it further, **we urge the Government to extend the**

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[55] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022
[56] https://www.publishers.org.uk/wp-content/uploads/2022/08/22-8-Briefing-note-for-IPO-on-TDM.pdf
[57] UK government finds extra 1,400 laws to scrap under Rees-Mogg's Brexit bill
[58] https://www.cms-lawnow.com/ealerts/2022/10/the-retained-eu-legislation-bill-part-1-what-does-this-mean-for-copyright-and-databases

December 2023 sunset clause to allow sufficient time for further consultation and scrutiny. BEIS recently declared that two-months of REUL review work cost approximately £600,000 in staffing costs.[59] The Bill cannot justify diverting limited public resources away from other priorities at a time of economic volatility.

In the Autumn Statement, government committed to bringing forward the Digital Markets, Competition and Consumer Bill in the third Parliamentary session to provide the Competition and Markets Authority with powers to address anti-competitive practice. The legislation has the potential to significantly impact the Creative Industries, and therefore government must provide further clarity on its plans.

[59] https://www.theguardian.com/politics/2023/jan/14/whitehall-spending-tens-of-millions-rees-mogg-bill-to-scrap-eu-laws