**Written submission from Creative UK to His Majesty's Treasury for the Fiscal Statement, October 2024**

***About Creative UK***

Creative UK is an investor, connector, supporter and champion of creative businesses working to generate the right conditions for a thriving creative economy. We are connected to hundreds of Cultural and Creative Industries (CCI) organisations, with members including freelancers, small and medium-sized enterprises (SMEs), providers of further and higher education, trade and representative bodies, arts and cultural organisations, heritage sites, international industry powerhouses and local authorities. We provide expert resources, financial opportunities growth mentoring, policy development and industry insights.

Creative UK has actively invested more than £50m in small, private-sector creative companies in the UK for the last decade, leveraging substantial additional private capital into these businesses' promising creative ideas and combating market failures in the sector. Our creative financing partnership with the sustainability bank Triodos re-capitalised in 2023, resulting in an additional £35m in both debt and equity investment for the CCI.

**INTRODUCTION AND CONTEXT**

1. This submission sets out key positions and rationale for a range of interventions to drive inclusive growth across the cultural and creative industries, including:

    - Strengthening the investment framework to better leverage public and private investment;
    - Research and development;
    - Fiscal policy such as tax credits;
    - Labour market including skills, apprenticeships and freelancers; and
    - Regional development and local investment.

2. The CCI are a cornerstone of the UK's economy and cultural landscape, driving significant economic growth, regional development and social cohesion. Within this critical phase of HM Treasury considerations in shaping the UK Government's forthcoming decisions, it is essential for HM Treasury to recognise the unique value and potential of this vibrant sector by developing and implementing fiscal policy which truly drives inclusive, sustainable growth. The CCI contribute £125 billion to the economy annually and support over 2 million jobs, many of which are in high-value, skilled roles. Furthermore, the creative sector plays a pivotal role in fostering innovation, attracting international investment, and enhancing the UK's global cultural presence and soft power.

3. **To fully leverage opportunity and benefit, it is imperative that the CCI thrive as a priority growth area within the new Industrial Strategy and are enabled accordingly.** Addressing the needs and opportunities of this sector will enhance its growth trajectory and contribute to broader national economic resilience and regional equity.

**A FIT FOR PURPOSE INVESTMENT FRAMEWORK TO DRIVE INCLUSIVE GROWTH**

4. The creative sector has produced above-average growth in the UK for the past two decades and can drive further prosperity more evenly across the country. To do this, strengthened support is required to further address some of the deep-rooted, systemic challenges that inhibit inclusive growth. Despite their scale of ambition, creative businesses and organisations struggle to access the finance they need to grow – a missed opportunity to address the asymmetry that exists between those seeking investment and the finance community.

5. Overall, policy interventions and funding which target inhibitors to creative growth have individually achieved great results; however, there are structural, thematic and regional overlap, and gaps. Creative UK's advocates fora more sophisticated ecosystem approach, with further action to directly tackle the market failure resulting in not enough UK-based creative organisations of not having the right money, the right support, in the right place at the right time. This would include conscious design to driving growth which recognises that currently, objectives and outcomes aren't necessarily aligned across the portfolio of public-sector initiatives, leading to inefficiencies and conflicting objectives as well as inconsistencies in support available from region to region. Taking an integrated approach which synthesises good practice, and aggregates data and impact measurement too, would build greater sustainability whilst further leveraging larger scale and longer-term private-sector investment into the creative sector, too.

6. Ideally, the next iteration of creative sector capacity building needs policy, funding and programme design that actively merges **regionally distinctive commercial capacity building and growth support with a diverse portfolio of commercially structured capital investment instruments**, creating an evergreen approach and support apparatus which enables what UK Government funds – such as business support programmes - to better deliver strong, resilient, regionally distinct creative ecosystem growth. This ought to build on the networks of mentors, support models, regional pipelines of creative businesses, investor engagement and networks, regional routes to finance and Combined Authority partnerships that are already in place – whilst scaling the impact, ambition and capacity of these programmes to provide the engine to the Nation's creative growth.

7. Based on learning to date, drawn from existing activity and evidenced impact from successful historical public/private investment, options as to how this might be done have been modelled and shared the Department for Culture, Media & Sport. Whilst direct comparative data is not available, at the last UK Government Budget (March 2023), the Department of Work and Pension's Back to Work plan committed to creating 110,000 jobs at a cost of nearly £70k per job (Institute of Fiscal Studies, 2023). The options Creative UK has modelled include an indicative cost range of £9,874.15 to £4,409.82; the indicative GVA generated offers a multiple between 15.6 and 26.3, suggesting exceptional value to the public purse to enable additional investment across other UK Government initiatives in future years.

8. Key to better policy is **HM Treasury building a complete data picture of the entire investment landscape to better target public investment**, which should include commissioning research that consolidates public, private and philanthropic spend to be able to assess in full the levels and flows of funding into and across the creative sector. In doing this, clear opportunities for further investment – including better using public spend to catalyse private investment through strengthened policy – as well as examples of best practice to learn from – can be identified.

9. There are sector-specific interventions working well elsewhere which can be used as a guide to further drive growth in the creative sector. Better Society Capital, for example, was established with an initial one-off £400m investment from the UK Government, (via the Dormant Accounts Fund) leveraging in an additional £200m from four UK high street banks. In the ten years of its operation has deployed £883m into social enterprises and leveraged another £2bn to sit alongside its own investment. Since 2011, Better Society Capital has catalysed the social impact market to grow eleven-fold to over £9bn. Another example is Advanced Research & Invention Agency (ARIA), established by the UK Government in attempt to position the UK as a science superpower, in the image of the USA's Defense Advanced Research Projects Agency (DARPA), with an initial investment of £100m. To date, the creative sector has seen no such substantive investment to systematically drive growth.

10. The creation of the National Wealth Fund (with legislation identified in the 17 July 2024 King's Speech) is an attempt to drive growth and innovation across the UK and should make specific effort to strengthen support for companies and organisations in the CCI, as an integral part of this approach.

11. Creative UK advocates for **a 'Bank of Creativity' for CCI's long-term growth, which ought to recognise the inter-relationship between investing in culture, project funding, adventurous artistic R&D and huge, global commercial success.** Organisations grow when they have capital to innovate and work within global markets; yet despite the huge gross value added (GVA) generated by the

creative sector, the creative economy remains undercapitalised when compared to other industries. Getting the finance mix right is critical, for startups, small to medium-sized enterprises (SMEs) and scale-ups – as well as identifying new ways to drive investment into the cultural sector.

12. A "joined up" ecosystem approach to policy must recognise the interplay between investment into the "subsidised arts" and long-tail commercial exploitation of the new intellectual property (IP), products and services that are produced by cultural and creative practitioners. **Key to this is "re-labelling" arts funding: recognising that it is not a "cost" but an investment that creates future IP, develops skills deployed across all parts of the economy and contributes to placemaking and improved wellbeing**.

13. All existing UK Government financial levers, incentives and classifications (such as capital allowances currently not afforded to the CCI, business rate relief and IR-35, among others) should be reworked to empower creative ecosystems, building on and retaining tax credits including looking at how these can help drive innovation and scale-up so that they are truly competitive, globally. Cutting VAT for cultural experiences would derive more than financial benefits for our population.

**CAPACITY BUILDING FOR GROWTH IN THE CREATIVE SECTOR**

14. Prioritising capacity building for growth in the creative sector, through the provision of capital and the expansion of business support, is critical for leveraging much-needed private investment into the creative sector.

15. In terms of the types of support provided to organisations seeking to grow, through interventions from UK Government, it is the case that while efforts to tackle some elements of market failure inhibiting creative sector growth have been addressed, others remain persistent and insufficiently explored. Key learning from the last few years, which should be considered by HM Treasury when determining what action to take to further enable inclusive growth through UK Government supported capacity building of the creative sector include:

16. **Developing creative industries-specific (rather than generic) mentors, workshops, access to finance and signposting** to improve knowledge and understanding of investment, which is patchy from region to region and could be better aggregated.

17. De-risking the sector to investors has remained stubbornly difficult to overcome and can be counteracted by **targeting nationally connected investors with specific crossover interest either based on region, revenue model or creative intellectual property (IP) application**, where development of networks is based on regionally distinctive characteristics and would improve leverage opportunities.

18. **Better structured investment instruments and aligning the right investor with the right business at the right stage of growth** would address the need to support transitioning organisations away from a solely project/slate funding model, to improve investment in attracting talent, experimentation and innovation, for sustainable growth.

19. Creative business models are invariably based on creating new IP, but most investors too often see opportunity through the prism of technology-needs and fixed tangible assets, whereas creating scalable IP involves investing in content and ideas as well as technology and other types of "hard" infrastructure. National public investment interventions have historically fetishised technology – **a more nuanced investment approach via specialist creative industry intermediaries which understands the interplay between content, creativity and technology** would mitigate this.

20. Nationally mandated grant competitions and regionally mandated business support programmes are often not aligned, with many businesses accessing grants but not support, and vice versa. An **integrated approach which ensures that any investment available through programmes is linked to business support provided for capacity building, and vice versa,** would deliver improved outcomes for target regions.

21. Emphasis on innovation grants is a limited standalone intervention which doesn't always suit many investable, IP-rich businesses. An **investment model that is flexible and meets the differing needs for sector-wide creative growth, with investment into business growth rather than project funding on its own** would address this.

22. This means that in strengthening existing approaches to capacity building within the creative sector, supporting businesses to understand how to leverage funding to enable sustainable structured growth is key, including understanding and responding with interventions at each critical stage of an organisation's journey. Innovation grants are a critical component, but not the only necessary intervention. Building on this means providing growing organisations support for moving into more sophisticated finance and funding at the right moment through a broader package of commercially structured investment instruments (as is the case with other sectors and industries).

23. Further responding to the devolution agenda, (in England) combined authorities are at a variety of stages of complexity and sophistication in developing local growth plans, which data, insights and learning from existing UK Government driven creative sector capacity building programmes are well placed to plug into. Taking a unified, structured approach, synthesising the best of the differentiated regional approaches and building a national, but regionally sympathetic package

of support would bring learning into a more sophisticated, evidence-based approach to policy and funding, to increase impact.

24. Ensuring “join up” between approaches supported by HM Treasury, including through the DCMS Create Growth Programme, UK Research and Innovation’s “Creative Clusters” programme and strengthening the “bridge” between research-led innovation within higher education institutions and business-building intermediaries would maximise existing public investment into creative sector development.

**TAX RELIEF**

25. Creative UK believes that tax reliefs can unlock massive, transformative growth across the CCI sub-sectors generally and continue to advocate for specific measures where they do not yet exist, as well as to strengthen those that do. We welcomed the introduction of support for independent film in the shape of a new UK Independent Film Tax Credit for films with budgets up to £15m. We also praised the scrapping of the 80% VFX cap as a mechanism for incentivising UK production (the increase in the rate of tax credit by 5% was also a positive step forward). We were also pleased to see that tax relief for Orchestras, Theatre, Museums and Galleries was made permanent, alongside confirmation that touring theatre productions and exhibitions – and all orchestra productions – are to benefit from a permanent relief rate of 45%.

26. HM Treasury should consider implementing additional changes to existing tax mechanisms in the CCI to stimulate similar levels of capital:

- **Redefining R&D tax relief to reflect the internationally recognised OECD Frascati definition,** thereby ensuring Arts, Culture, Humanities and Social Sciences research is eligible for tax reliefs, facilitating the UK’s ambition of being a world leader in research and innovation.
- **Reintroducing 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 further recovery.
- **Applying Business Rate Relief** to all cultural sites, venues, concert halls, hubs and creative spaces.
- Committing to using the existing tax relief regime to strengthen our audio-visual sector - ensuring upcoming legislative changes pose no threat or additional burden. As part of this, **HMT, the Department for Culture, Media & Sport (DCMS) and the Department for Business & Trade (DBT) should commit to undertaking a regular review of the global competitiveness of our audio-visual tax relief regime.**
- Creative UK supports the recommendation to increase the rate of Video Games Expenditure Credit (VGEC) from 34 to 39 per cent. VGEC, which is replacing Video Games Tax Relief (VGTR), effectively reduces the cost of games development. **A 39**

**per cent rate of VGEC will help keep the UK a leading location for game development globally and incentivise inward investment into the sector**. Increasing the rate of VGEC from 34 to 39 per cent would also match the rate for the new Audio-Visual Expenditure Credit for animation and children's television production.

- **Creative UK welcomed the support for independent film announced at the 2024 Spring Budget, in the shape of the new UK Independent Film Tax Credit** for films with budgets up to £15m - offering them the opportunity to write off 53% of production spend from future tax bills. It was an important adjustment to include in this a 40% reduction to gross business rates for studios valued by the Valuation Office Agency as such and reforms to Audio Visual Expenditure Credit (AVEC) via the removal of the 80% expenditure limit for VFX tax relief, alongside a further 5% uplift in the tax relief rate for VFX spend (up to 39%).
- Given the fundamental interdependence of CCI **organisations across the creative sector, HM Treasury should prioritise evaluating and strengthening existing fiscal measures, while also exploring the introduction of stimulus and investment, especially for those sectors that do not benefit under existing tax incentive structures, such as crafts, among others.**

27. **HM Treasury should also explore the feasibility and potential return on investment of new reliefs in high-growth creative sub-sectors, including:**

- **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. Many UK record labels face growing competition from countries such as India and Korea and have to make a case to their global counterparts for investment in UK artists. The argument for investment rests heavily on the UK remaining competitive.

- **Live events**: The UK has three significant 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 grow skilled jobs across the UK.

- **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.

- **Fashion**: The UK fashion sector is exploring how to use tax reliefs to onshore manufacturing and meet the rising demand for sustainable fashion. The industry could be incentivised to significantly expand its UK presence through tax reliefs for UK fashion design and manufacturing and the use of sustainable design, manufacturing and service practices.

## ADDITIONAL FISCAL MEASURES

28. Some Creative UK members advocate for the introduction of the Smart Fund, a mechanism to pay creators when copies of their work are made by people in a private setting, which would work like any standard licensing arrangement, where the entity providing access to the content pays a license to the creator such as in music or publishing, with a portion of the fund ringfenced for cultural projects.

29. Some Creative UK members also advocate for the reinstatement of the VAT Retail Export Scheme, to strengthen the UK's competitiveness in the global luxury market.

## RESEARCH AND DEVELOPMENT (R&D)

30. The last UK Government's commitment to review public expenditure in R&D at last year's Autumn Statement is a significant future opportunity and a direct response to what our members have been calling for. Leveraged in the right way, this could enable more private sector investment to flow into the creative economy; boosting innovation by ensuring that arts, culture, humanities, and social sciences research are eligible for new simplified R&D tax relief. Creative UK supports the policy recommendations made by the Creative Industries Policy and Evidence Centre (PEC) in this area, which also align with those made by the recent Council for Science and Technology Review led by Professor Julia Black. Specifically, these are:

- **Increasing the proportion of public investment in CCI R&D;**
- **Adapting the definitions of R&D for the purposes of R&D tax relief to recognise the distinctive features of CCI R&D; and**
- **Improving the data collected and published relating to CCI R&D and innovation.**

31. The CCI drives R&D-led innovation as much as others, such as Life Sciences and Aerospace. However, although **the CCI represents 6% of GVA, it only receives around 1% of the public research cake**. Independent economic modelling suggests that, by 2025, with the right investment and support, the UK's CCI could contribute £132.1 billion in GVA – more than the financial services, insurance and pension industries combined – and are set to create 300,000 more jobs, enough to employ the working-age population of Hartlepool and Middlesbrough twice over.[1]

32. The £50 million of funding earmarked for at least six new Creative Clusters in the Creative Industries Sector Vision is welcome, but **much more is needed to make the proportion of R&D funding relating to the CCI commensurate with the sector's economic performance**. As investment in R&D and innovation is the

[1] Creative UK (2021) 'The UK Creative Industries: Unleashing the power and potential of creativity'

driver of growth, the new UK Government should commit to increasing the share of R&D investment focused on the CCI, as befits a sector that now creates more value for the economy than the aerospace, life sciences and the car industries combined.

## SKILLS AND APPRENTICESHIPS

33. We welcome the new UK Government's commitment to reforming the Apprenticeship Levy. Creative UK has consistently called for this to be significantly reformed in England as a priority so that it is more accessible and affordable to work better for industry, education, employees and for freelancers. The dominance of micro-businesses and the breadth of freelancers in the CCI necessitate a total overhaul of the apprenticeship levy in England. This should include **expanding the number of approved training schemes, allowing funding to be used for industry-run courses and qualifications, and expanding flexibility in support of a highly mobile workforce**.

34. According to statistics from the UK Government's Department for Culture, Media & Sport (DCMS), 33% of vacancies in the CCI and 30% of vacancies in the cultural sector are attributed to skills shortages. The Skills England Bill in the King's Speech presents an opportunity to invest in the creative workforce of tomorrow and strengthen creative representation in schools, further education and higher education.

35. The potential for job growth in the sector is also strong. While UK employment overall fell by 0.6% in 2021, jobs in the CCI grew by 5.1%[2], and include many of the jobs cited as being very likely to grow as a share of the workforce by 2030. **Addressing current and future workforce challenges is critical to growing the economy and will enable the industry to increase productivity, train staff, reduce recruitment burdens and improve diversity.**

## FREELANCERS

36. At the heart of the CCIs' success is a dynamic, talented freelance workforce, responsible for delivering high-impact, project-based work that fuels the sector's creative engine. By fostering an environment that supports growth, policymakers and industry can better harness the potential of this critical sector. Alongside the proposed revisions to the Apprenticeship Levy, the UK Government has proposed a *New Deal for Working People*. It will be critical that this policy delivers on its promise to improve the working conditions of freelancers by affording them the right to request a written contract and by extending health and safety and blacklisting protections, along with whistleblower safeguards.

37. **We believe there is a strong case for the establishment of a Freelancer Commissioner to recognise and support the significant contributions of the freelancing workforce.** Whilst the *New Deal for Working People* has the potential to improve this critical cohort's working conditions, a Freelancer Commissioner

[2] https://lordslibrary.parliament.uk/arts-and-creative-industries-the-case-for-a-strategy/

would play a wholesale role in addressing perennial issues, such as late payments and the need to support freelancers to secure their financial future without undue complexity or burden.

**REGIONAL DEVELOPMENT AND LOCAL INVESTMENT**

38. Protecting cultural life in towns and cities across the UK means proper investment for local authority settlements. Investment in culture at local level is directly related to our success as a world power in the theatre. It is directly related to a West End which generates more VAT every year than regional Arts Council of England (ACE) and local authority investment in England in culture combined**. We call on HM Treasury to acknowledge and protect the enormous impact of that ecosystem in its spending decisions.**

39. At Creative UK we continue to advocate for structural changes (such as regional investment funds and further tax reliefs) which allow for a more secure landscape for culture at locally and regionally, as well as strategic interventions to deal with fundamental barriers such as lack of development capital, in addition to further measures which affect other subsectors and the CCI.

40. Infrastructure investment is pivotal for the growth and sustainability of the CCIs. It encompasses not only physical infrastructure—such as studios, production facilities, and technological hubs—but also essential support systems, including digital networks and transportation links. Strategic investment in this area can significantly bolster the sector's contribution to local and regional development, fostering economic growth, job creation, and cultural enrichment across the UK.

41. Targeted infrastructure investments can help balance economic growth across regions. Upgrading digital infrastructure is crucial for the CCIs, which increasingly rely on high-speed internet and advanced digital tools. Investments in broadband connectivity and data centres enhance the ability of creative professionals to collaborate, distribute content, and access global markets.

**10 September 2024**