

A Design for Brexit

How the design sector can be an engine for growth

Submission to HM Treasury ahead of the 2016 Autumn Statement by the Design Business Association and the All-Party Group for Design and Innovation – October 2016

Summary

Britain's design sector is an **engine for growth** and continues to represent a real success story for the national economy.

The sector's high year-on-year growth confirms that the creative industries punch above their weight compared with the British economy as a whole. The most recent statistics available confirm that:

- The value of services exported by the UK Creative Industries in 2014 was £19.8 billion, an increase of 10.9 percent from 2013¹
- Exports of services from the Creative Industries accounted for 9 percent of total exports of services from the UK in 2014²
- Between 2014 and 2015, the number of people employed in the sector rose by 3.2 percent, and between 2011 and 2015 by 19.5 percent³

In 2015, a report by the Design Council⁴ found that – as an element within the creative industries – that:

- In 2013 the design economy generated £71.7 billion in gross value added (GVA) - equivalent to 7.2 percent of total GVA.
- In the period between 2009-2013, the design economy GVA increased by 27.9 percent, compared to 18.1 percent across the UK economy as a whole.
- Approximately 580,000 people are directly employed in the UK's design industries, while a further 1 million designers work across the economy in non-design industries.
- **This makes the design economy equivalent to the ninth biggest employer in the UK**

Taking this into account - the UK now has the second-largest design sector in the world **and the largest design industry in Europe.**

¹ Creative Industries: Key Findings, GOV.uk, 20th July, 2016:

<https://www.gov.uk/government/statistics/creative-industries-2016-focus-on>

² *Ibid*

³ *Ibid*

⁴ Design Council, The Design Economy, October, 2015:

<http://www.designcouncil.org.uk/sites/default/files/asset/document/The%20Design%20Economy%20executive%20summary.pdf>

This tremendous success has - however - not been achieved in isolation, but through;

1. Strong relationships between the creative industries and HM Treasury
2. Research and development tax credits
3. A highly-trained, well-educated, and mobile workforce

This submission by the DBA and APDIG is based around the core principles demanded by the new government:

1. A intention to 'reset' Britain's fiscal policy⁵
2. To invest in infrastructure projects as part of an immediate stimulus programme⁶
3. Developing a platform for a sustainable post-Brexit economic environment⁷

Design is also a key export industry. For every £1 that a business invests in design, they can expect over £20 in increased revenues, over £4 increase in net operating profit and over £5 in increased exports.⁸ By using design as an engine for growth and innovation, UK businesses find themselves in a position to take the lead on a global stage and also to create new value by creating new patents.

In the words of one Design Business Association member, the UK should aim to **“own the global language of innovation.”**

Government interventions within the sector should aim to increase the level of public and private sector innovation and investment in high-value, innovative practices by:

1. Securing the future and expanding the scope of R&D tax credits
2. Recognising design as a driver of future economic growth
3. Funding new infrastructure, especially ultra-fast broadband

Of these three, the one most prioritised by our members is the **retention and expansion of research and development tax credits**. R&D Tax Credits are a crucial aspect of the design industry, rewarding companies for innovative solutions and patent development – allowing them to expand domestically and overseas.

The design sector is a true British success story, and by maintaining this vital element of the tax system, it can continue to serve as a driver of the wider economy.

⁵ Chancellor may 'reset' economic policy in Autumn Statement, BBC News, 22nd July, 2016:

<http://www.bbc.co.uk/news/business-36864099>

⁶ Chancellor signals boost for roads and railways, Daily Telegraph, 8th September, 2016:

<http://www.telegraph.co.uk/business/2016/09/08/chancellor-signals-boost-for-roads-and-railways-but-warns-on-unh/>

⁷ Evidence to House of Lords Economic Affairs Committee, 8th September, 2016:

<http://parliamentlive.tv/Event/Index/e88785e3-38d1-4d97-916b-d0cc97c100c1>

⁸ Design Council: *Designing Demand*, 2012:

https://www.designcouncil.org.uk/sites/default/files/asset/document/Designing%20Demand_Executive_Summary_Final.pdf

Securing innovation within the tax system

At the centre of this submission is to draw attention to the tremendous value shown by R&D tax credits.

R&D tax credits have revolutionised the design sector, allowing for SMEs to become trail-blazers for innovation in a wide range of diverse areas, ranging from biotechnology, to software development, to fashion. With the sector being overwhelmingly dominated by SMEs – the benefits that these tax credits have provided to this vital sector of the economy could not be clearer.

We therefore call for the Chancellor and HM Treasury to guarantee the future of R&D Tax Credits, to improve how they are promoted to businesses, and to consider expanding their scope.

A March 2015 report by HM Revenue and Customs makes the case for the Government's continued support for R&D tax credits quite clear:⁹

- Since the launch of the scheme in 2000-01, more than £9.5 billion has been claimed in tax relief and payable credits
- The total amount of R&D support claimed rose to £1.4 billion in 2012-13 – an increase of £150 million from the previous year
- The cost of support under the SME scheme rose by £170 million from £430 million to £600 million, while the cost of the large company scheme reduced by £20 million from £790 million to £770 million.
- Total R&D expenditure against which claims were made amounted to £13.2 billion in 2012-13, an increase of 10 percent on the previous year

For example – one DBA member found themselves in a position where they were able to double their workforce from 10 people to 20 people and increase their turn-over from £700,000 to £1.5 million in the space of three years thanks to the tax credit system.

By allowing them to effectively write-off the costs of their investments in patent commissions and corporate development, they have become an archetypal success story for British business, creating high-wage jobs in a key sector, and opening an overseas office. For many companies - the rolling level of R&D investment as a result of these tax breaks has led to a 40% return on investment, allowing the company to invest for the future. By further promoting tax credits, and expanding the scope of the areas that they can be claimed for, R&D tax credits can continue to act as a fiscal stimulus within the sector.

Crucial to reforming R&D tax credits is an expansion in their scope to capture areas of innovation currently left behind in the system. Our members agree on the value of moving from a system of tax

⁹ HM Revenue and Customs *Evaluation of Research and Development Tax Credit*, March 2015:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413629/HMRC_WorkingPaper_17_R_D_Evaluation_Final.pdf

credits focused entirely on research and development, to one that considers the wider area of design knowledge and innovation as a whole.

The DBA therefore calls for government to consider moving the remit of the R&D Tax Credit into the realms of an Innovation and Investment Tax Credit, allowing more flexibility for what can be included under the definition of the credit to reflect all those activities which companies can use to innovate their products and services and produce the best outcomes in terms of their own business growth.

A shift in this direction would support the UK government's ability to implement an agile fiscal policy, allowing more flexibility for government around what is included under the definitions of the Innovation and Investment Tax Credit. Enabling more areas of the design industry – such as service designers, digital innovators, structural packaging designers, product and industrial designers – to fall within the remit of this tax credit, as they continue to generate the levels of return of investment for business that they have been shown to facilitate would fundamentally support UK businesses' ability to invest in industry leading processes, technology and thinking and remain world leading.

The return on investment when considering design research is huge. It is increased yet further when considering the long-term benefits to the wider economy, such as greater levels of income tax, increased productivity, and the licensing and exports of new patents. This will give further momentum to this vital sector of the economy as it aspires to not just survive, but thrive in the global marketplace, helping it become a true engine of growth in the post-Brexit economy.

As Lord Inglewood adroitly summarised in a recent review for the APDIG, **“design is the difference between a project existing either in a lab, or out in the real world.”**¹⁰

However – more can be done to allow firms specialising in design and innovation to reach their full potential.

As one member noted – the way in which R&D tax credits are promoted by HM Treasury could be improved yet further. **Despite a positive up-swing since their initial introduction, only 6% of companies that could claim tax credits did so in 2012**, and of those that did, a disproportionate number are concentrated among companies with a registered office in London, the South East or the East of England (47 per cent of all claims and 66 per cent of the total amount claimed).¹¹

This is a great opportunity to further rebalance the British economy away from London and the South East, with our upwardly mobile design industries perfectly placed to adapt to shifts in the economic geography of the country.

¹⁰ Lord Inglewood cited in *Designing the Digital Revolution*, 2014:

http://www.policyconnect.org.uk/apdig/sites/site_apdig/files/report/463/fieldreportdownload/designcommissionreport-designingthedigitaleconomy.pdf

¹¹ HM Revenue and Customs *Evaluation of Research and Development Tax Credit*, March 2015:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413629/HMRC_WorkingPaper_17_R_D_Evaluation_Final.pdf

By **increasing awareness** of how to claim R&D tax credits, especially through online portals such as GOV.uk – the benefits to the wider economy are:

1. Allowing firms to invest in future expansion
2. Promoting innovation and the adoption of new technologies across the wider economy
3. Increasing the number of people employed in high-level, well-paid jobs

The DBA and APDIG therefore call for a full review of how R&D tax credits are promoted to businesses, both on publicly available resources such as GOV.uk, as well as to accountancy firms.

In particular, DBA members noted considerable ambiguity regarding their eligibility to claim R&D tax credits, limiting the effectiveness in which they can approach key projects. By improving the clarity of this aspect of the tax system – design agencies will be in a much better position to approach new projects and bid for key contracts, allowing innovation to be rewarded and mitigating negative outcomes.

We also applaud the introduction of the Advanced Assurance scheme, which greatly lessens the regulatory burden for SMEs wishing to invest in innovative design.¹² **We call for the threshold of companies who are able to claim for the scheme to be increased from a turnover of £2 million to £3 million.**

Regarding the digitisation of tax by HM Treasury, the proposals announced in March 2015 to effectively abolish the paper tax return were welcome and are likely to do much to improve efficiency and reduce the expenditure many firms have on accountants.¹³

However, the time-table is viewed by many of our members as being overly ambitious, and we share the concerns of the Treasury Select Committee that the HMRC “Making Tax Digital” program is being pushed forward with undue haste.

In particular, the move from annual to quarterly reporting for firms with a turnover of over £10,000 is seen as being far too low, and could result in unreasonable expectations being placed on SMEs and smaller firms who previously only employed an accountant once a year.¹⁴

We call for the Chancellor and HM Treasury to reconsider the timetable for “Making Tax Digital” and to consult more widely about the threshold for quarterly tax returns being introduced.

¹² Research and Development tax relief: Advance Assurance, GOV.uk, 30th November, 2015:

<https://www.gov.uk/guidance/research-and-development-tax-relief-advance-assurance>

¹³ Making tax easier: The end of the tax return, HM Revenue and Customs, March 2015:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413975/making-tax-easier.pdf

¹⁴ Remit for HM Revenue & Customs 2016-17: Making Tax Digital (Letter from Rt Hon Andrew Tyrie to Chancellor), 15th September 2016: <https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/160915-Chair-to-Chancellor-Making-Tax-Digital.pdf>

<http://www.parliament.uk/documents/commons-committees/treasury/Correspondence/160915-Chair-to-Chancellor-Making-Tax-Digital.pdf>

Making design a driver for growth in a post-Brexit climate

On Sunday 2nd October, the Prime Minister confirmed her intention to implement Article 50 of the Lisbon Treaty by March 2017, with a view to Britain leaving the European Union by spring 2019.¹⁵

With this in mind – the DBA believes that it is vital for the Autumn Statement to set out a vision for how Britain’s economy can develop outside the EU. As previously stated – the design sector is a vital area for the UK economy, and – with the right strategy and support – it is poised to be one of the drivers of growth in the years and decades ahead.

Dezeen, one of the leading publications for the design sector, recently published their “Brexit Design Manifesto”, which sets out the key considerations that HM Government and the Chancellor should take into account when preparing for a post-Brexit future. These points are summarised below:¹⁶

Recognition: The government should take note of the sector's cultural and economic importance and pursue policies to help it thrive after Brexit. In particular, it should help the sector maintain and develop the strongest possible ties with Europe and the rest of the world.

Education: Design should be championed in schools to inspire future generations of designers. Higher education requires investment to compete with the best in the world and must continue to attract the brightest overseas minds. Student exchange programmes and research links must be retained.

Recruitment: To retain their edge, design firms need to be able to recruit talent from anywhere in the world with a minimum of bureaucracy. And after graduating in the UK, the brightest overseas students should be able to join firms here, or start their own. EU employees already working for UK design firms must be allowed to remain in the country.

Manufacturing: With policies to support both small and large manufacturers, designers can help strengthen UK industry. Government should recognise that design can lead to better, more competitive products and services.

Intellectual property: With the UK no longer part of EU rights law, designers will need reassurance that they will be able to get international protection for their ideas with a minimum of cost and bureaucracy.

These points can be considered as part of a general review of the design sector, and elements of them do reach beyond the immediate jurisdiction of the Autumn Statement. However, they nevertheless set out the ideal direction for considering design within the context of the wider economy.

¹⁵ Brexit: Theresa May to trigger Article 50 by end of March, BBC News, 2nd October, 2016:

<http://www.bbc.co.uk/news/uk-politics-37532364>

¹⁶ Brexit Design Manifesto, Dezeen, <http://downloads.dezeen.com/brexit-design-manifesto-dezeen.pdf>

A chief ambition of the DBA and the design sector is to further increase general investment in research, development and innovation. In 2014, the latest year for which official statistics are available, total R&D expenditure in the UK in 2014 represented 1.67 percent of Gross Domestic Product (GDP). This was unchanged from 2013.

Despite rises in previous years, this level is still below the European Union (EU-28) provisional estimate of 2.03 percent of GDP and the OECD average of 2.38 percent¹⁷. Public investment, meanwhile, is just 0.5 percent of GDP, below the OECD average of 0.67 percent of GDP.

A post-Brexit Britain cannot afford to be in the “intellectual slow lane.”

The DBA therefore calls on HM Treasury to work to increase public investment in R&D to at least match the OECD average by 2020. The design sector is already at the forefront of promoting innovation in research and development, and has a crucial role to play in closing the innovation gap.

By increasing government spending on innovation and R&D, more companies will be in a position to bid for government contracts, increasing our knowledge base and increasing our already record levels of Foreign Direct Investment. Government has a clear role in helping to provide leadership and reduce levels of uncertainty in funding. By doing this, investment and contracts can be better planned in the long-term, boosting competitiveness and reducing the risk of capital flight and country switching by more mobile firms.

More specifically, London’s reputation as Europe’s leading capital for digital design is already under threat from competitors such as Berlin. Singapore’s fin-tech firm WB21 recently decided to move its European head office from London to Berlin.¹⁸

Without sending a clear signal that Britain is open for business and investing in future technology, the risks of the design industry – one of the country’s economic powerhouses – leaving for other countries is quite clear.

Investing in infrastructure and giving design the resources to thrive

Finally, the DBA supports recent statements by the Chancellor for investment in infrastructure projects to help alleviate the initial economic shock and uncertainty of Brexit. With international borrowing rates at a near-record low, the DBA and APDIG feel that this is an opportune time for wide-scale investment in Britain’s infrastructure.

¹⁷ UK Gross domestic expenditure on research and development, Office for National Statistics, 18th March 2016:

<http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2014>

¹⁸ Singapore Startup WB21 to Leave London for Berlin After Brexit, Wall Street Journal, 30th September, 2016: <http://www.wsj.com/articles/singapore-startup-wb21-to-leave-london-for-berlin-after-brexit-1475251242>

Whilst we understand that the Chancellor is keen to focus on road and rail programmes¹⁹ - which we do welcome, it is also vital that HM Treasury continue to push for genuine high-speed broadband as standard and go above and beyond the targets set in the Digital Economy Bill.

The Government should set a target for the introduction of ultrafast Broadband as standard for the next step-change in Britain's digital infrastructure – with the Chancellor making funding available to see how this can best be achieved.

The success in reaching superfast speeds of 24 mbps by April 2016²⁰ was welcome – but there are still far too many areas of the country where broadband speeds lag behind international competitors.

Reliability – rather than speed – continues to be the major problem identified by many companies. The latest statistics from Broadband Genie – the leading consumer organisation for high-speed internet – reports that up to 1.5 million of businesses in the UK encounter at least one broadband issue every week.²¹

For every hour without broadband, businesses lose on average £904. In many cases, however, this figure is significantly higher – 9 percent of firms said they could lose between £1,000-5000, with another 7 percent saying that losing internet could lose least £5,000 every hour.

The DBA therefore call for further investment in the national broadband network in order to improve reliability and to strengthen consumer rights.

Further Information

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About the Design Business Association

Founded in 1986, the Design Business Association (DBA) is the trade association for all those working in the field of design, supporting them and championing the transformative power of design.

Our membership consists of 500 design consultancies and design-led businesses throughout the UK, including many of the brightest and most respected names. We work to build universal confidence in design investment and promote the power of effective design. The bridge between design and business, the DBA is committed to promoting the use of design at a strategic level to solve business and societal problems.

¹⁹ Hammond signals road and rail spending boost, Transport Network, 9th September, 2016:

<http://www.transport-network.co.uk/Hammond-signals-road-and-rail-spending-boost/13269>

²⁰ UK hits the 90% superfast broadband coverage target, ThinkBroadband, 8th April 2016:

<http://www.thinkbroadband.com/news/7391-uk-hits-the-90-superfast-broadband-coverage-target.html>

²¹ Annual business broadband report, Broadband Genie, 30th September 2016:

<https://www.broadbandgenie.co.uk/broadband/survey/business-broadband>

For more information please visit: www.dba.org.uk

About the APDIG

The All-Party Parliamentary Design and Innovation Group is a cross-party coalition of Parliamentarians and design sector organisations that work to develop new design policy ideas, critique existing government decision-making around design, communicate within Parliament the enormous potential value of design, and help the design community better engage with the policy process.

For more information please visit: www.policyconnect.org.uk/apdig