

SUBMISSION FROM SCOTTISH ENTERPRISE

Introduction

Scottish Enterprise (SE) welcomes the invitation to contribute to this inquiry into the Economic Impact of the Creative Industries. In our response we have looked to address the specific sectors the Committee has identified and also comment on aspects of the wider creative industries sector, particularly where the largest growth opportunities exist for Scotland.

In the current [SE Business Plan](#), the Creative Industries is identified as one of three “emerging sectors” alongside Renewables and Life Sciences that have the potential to secure an international market position in specific areas. These are key sectors with significant economic growth potential. Our role, as set out in the Business Plan is to “accelerate the development and scale up the growth of these sectors by exploiting more effectively their asset bases and building awareness of Scotland’s strengths in these areas in international markets”.

A major factor behind the growth in the Creative Industries is the global emergence of digital platforms such as smart phones, tablets and, now emerging, connected televisions. The proliferation of these devices allows companies to reach huge international markets, create new experiences and add significant value to their products. These platforms have also created new cross sector business opportunities where creative companies work with sectors such as Food and Drink, Tourism, Health and Financial Services to help these industries exploit digital platforms.

The outcome, from a commercial perspective, is the creation of huge fast growing revenue streams. A case in point being Apple’s App Store which, in July 2104 was being [reported](#) as having paid out \$20 billion to developers since its launch in 2008, of which “nearly half” had been paid out in the last 12 months.

These technological advances present a major opportunity for Scotland’s Creative Industries, specifically in the creation, distribution and commercial exploitation of digital content. **In short; Digital Media.** It is underpinned by a combination of creative capability and digital excellence; vision and imagination linked to technical know how. This was seen to spectacular effect at the 2014 Commonwealth Games where ISO Design created the superb graphics and visual effects for the big screen used during the opening ceremony.

The Scottish Government’s [Growth Sector Statistics Database](#) provides evidence of the significant scale and growth of digital media which accounts for nearly half of the Creative Industries revenue and 40% of jobs while growing revenue at 14% and jobs at 13% over the past two years. (Digital media, in this context, means digital industries, advertising, video games and a part of publishing). This data shows that Scotland is successfully engaging in the global boom in the consumption of digital content. The other sub sectors of the overall creative industries remain broadly flat in both measures.

By way of comparison, the three sectors being considered in this inquiry account for less than 10% of the employment and revenue of the Creative Industries in Scotland.

- **Video Games**; sits firmly in the digital media space, is an area SE has had considerable levels of engagement and achieved success in investment, innovation and internationalisation. It is a sector that has been able to achieve international success, attract major investment and create significant value in Scotland. The Scottish Government data shows 1,000 people employed in this sector which aligns closely with figures from TIGA, the trade association representing the UK's games industry.
- **Television**; most of the current commercial activity and opportunity in television currently lies in television production. The sector, as noted in EKOS's [Market Assessment Report](#) published in 2013, reported significant growth in recent years driven, in large part; by increasing commissioning spend from the BBC. It also noted that future growth will come from other areas – particularly export and exploiting digital media distribution platforms. The EKOS report provided specific data on television production concluding 1,700 people were employed (of which nearly 500 were freelance) in TV production, 70% of whom were employed by the broadcasters.
- **Film**; sector data in the Growth Sector Statistics Database reflects both the consumption and production of films. Creative Scotland's [Review of the Film Sector in Scotland](#) identified employment specifically for film production as just over 700 people, of whom 62 were full time employees, the remainder being freelance. Film production turnover is £32m. The sector, like television, is primarily focussed on traditional production; making films.

While noting the differences across the three sectors, they also share a number of common features. In particular, all three sectors are made up of a large proportion of small and micro enterprises with a relatively small number of large companies; for example **BBC, STV, Rockstar North**.

1) **The role of public sector agencies and the effectiveness of the support they provide.**

As a member of the Scottish Creative Industries Partnership, SE works closely with partner agencies Creative Scotland (CS), Skills Development Scotland (SDS), Highlands and Islands Council (HIE), COSLA and the Scottish Funding Council (SFC). The Group ensures alignment of strategic priorities across the public sector agencies that address the Creative Industries and that roles and responsibilities are defined to avoid duplication and maximise the benefit that can be delivered to the industry. This also ensures that each agency plays to its core strengths.

For example, CS lead engagement with the Film and the TV sectors with SE supporting by contributing to company development, infrastructure support and two industry bodies; the Broadcast and TV Working Group and Independent Producers Scotland (IPS). SE leads the public sector effort in digital media through strategy development with the Digital Media Industry Leadership Group (DMILG). SDS, with the Skills Investment Partnerships, leads on Skills, again with SE, and others, contributing.

Focussing on SE, a critical role is supporting nearly 1,000 companies and organisations through interventions such as our Account Management programme and more widely with funded projects and services like Interactive Scotland.

- **The Account Management** delivery model is SE's core service providing companies with intensive and tailored support to help them develop all aspects of company growth including innovation, leadership and international strategies. The success of Scotland's creative industries in recent years has seen a significant increase in the number of companies from the Creative Industries in our Account Management portfolio. We currently directly support with **125 companies** in this way; **an increase of 17% in the current year and 10% on the previous year**. In relation to the sub sectors specified in this inquiry there are 22 games companies, 16 in television and 2 in the film sector.
- SE's [Interactive Scotland](#) is a key service which delivers wider industry engagement, providing expert help and support to creative companies working with digital content and technologies. To date we have worked with more than 850 organisations which include 26 film companies, 33 working in the games sector and 56 in television and video. The most recent [evaluation](#) of this project reported an estimated £9 million in total net additional GVA and an impact ratio of 6:1. More information on this initiative is provided later.

The most recent [evaluation of SE's Account Management](#) approach showed Creative Industries companies performing strongly, increasing turnover over a three year period (from 2009/10 to 2011/12) by 49.7%¹. The same survey also demonstrated a higher than average impact ratio, reporting a return for Creative Industries companies of £7.20 for every £1.00 of SE spend. By comparison, the figure for all Account Managed companies was £6.00.

Over the last three years, on average, SE has provided total funding and investment of £6.3m into the Creative Industries. Of this, £4.4m goes directly to companies in the form of grants and investments. Approximately a third of this was in games, TV and film. Furthermore, the Creative Industries benefit considerably from cross sector SE funded projects and services projects such as Co-Operative Scotland and Informatics Ventures.

¹ SE internal analysis of survey data from "Evaluation of Scottish Enterprise Engagement with Account Managed Companies", 2013

Some examples of where this investment has gone include an R&D Grant to **Rockstar North**, co-investment funding from SE's investment arm the Scottish Investment Bank (SIB) to **Outplay Entertainment**, **deltaDNA** and **Fanduel** and Regional Selective Assistance Grant awards to **YoYo Games** and **Serious Parody**.

One further example of recent project investment into the sector is the Digital and Creative Clyde Launchpad that started in the summer of 2013 and is now reaching its conclusion. It has been able to secure funding for ten companies of £1.1m of which £560,000 came from our delivery partner Innovate UK. Companies who have been able to take forward new project initiatives as a consequence of this project include **Axis Animation**, **Distrify** and **Dimensional Imaging**.

SE works with public sector partners to support their work in this sector. For example, we are providing company growth support for **Distrify** who were funded through a Creative Scotland / NESTA project to create the "**GFT Player**" with Glasgow Film Theatre. We were also pleased to work with the Glasgow 2014 Commonwealth Games Legacy team to enable IC Mobile to create a fun visitor attraction game "Catch Clyde" as part of their legacy work.

We are also working closely with **MG Alba / BBC Alba**, **BBC Scotland** and Highlands and Islands Enterprise to develop the Gaelic media broadcasting supply chain.

2) The role of private sector investment in supporting the video games and the TV and film sectors.

The nature of private sector investment varies significantly across the Creative Industries reflecting the breadth of sectors that make up the industry. This diversity is present in how private money is invested in games, TV and film companies and projects.

- **Video Games**; companies are funded in a classic "industry" fashion through, initially, angel investors then venture capital as the company grows and seeks further, larger funding. The recent investment announcements from **Fanduel** serve as a good illustration of how success can be achieved. In September 2014, Fanduel announced closure of a VC funding round that brought in \$70m to help it build on its position as the leader in "fantasy sports" in the US. This was the company's sixth funding round since the initial angel investment in 2007 that has now raised a total of \$86.2m. The Scottish Investment Bank (SIB) has been a consistent investor in this company through the Scottish Seed Fund initially then with the co-investment fund.
- **Television**; commissioning is the primary source of finance in television production. In the UK this has traditionally been driven by public sector broadcasters although the changes in terms of trade, where independent producers retain the intellectual property they develop, have created investment opportunities with overseas

broadcast partners and, increasingly, digital platform providers like Netflix. TV development and production funding, as with film, is a responsibility of Creative Scotland.

- **Film**; the most significant investment in film for both development and production is through lottery funding, which is administered and managed by Creative Scotland. The private sector also plays a significant role, usually, through Special Purpose Vehicles established specifically for each production.

There are occasions where these sectors come together in investment. For example, STV, in November 2014, were part of a funding consortium (including the SIB) that completed a second round Series A investment of \$3m in **deltaDNA**, the Edinburgh based analytics and game personalisation platform.

It is also worth noting the increasing cross over work between Creative Industries sub sectors that is seeing investment from one sector driving work in another. For example **Channel 4** recently worked with Glasgow based **Chunk Games** to create Reverse the Odds, a video where players analyse images of real cancer cells, as part of the Stand Up to Cancer campaign with Cancer Research UK.

How the issues that hinder the growth of creative industries can be overcome and how to capitalise on opportunities.

The challenges for the industry can be considered around five principal themes: investment, infrastructure, innovation, internationalisation and people.

There are two core connected challenges in investment; bringing investment, and investors, into Scotland is crucial, but prior to that is the need to create the compelling investment propositions that attract investors.

Informatics Ventures is an SE funded programme that addresses both of these areas. It has two principal objectives;

1. To increase the number of entrepreneurs and to raise their level of ambition and ability to grow globally competitive companies.
2. To attract more investors to Scotland through the Engage Invest Exploit events: in Scotland targeted at seed level finance and in London for A-round investment.

Informatics Ventures has helped in the creation of 43 companies including **Fanduel, Speech Graphics, Peekabu Studios** and **Interface 3** who are all active in the games market. To date, Informatics Ventures has helped companies raise £6.9m in equity investment.

In terms of infrastructure, the development of Pacific Quay, home to the BBC and STV, is an ongoing development that has achieved considerable successes; for example the Hub, is now a thriving home for more than 30

creative, digital organisations including **Raise the Roof Productions**, **Editworks** and **12 Yard Productions**. The ongoing work on Dundee Waterfront also has a strong Creative Industries influence with the V&A design museum at its heart and the District 10 development at Seabraes Yard where the first of nine buildings built from 37 recycled shipping containers now hosts 8 creative companies.

A major new infrastructure project currently in development is the establishment of a film and high end television studio. The extension of tax incentives for mobile production from film into TV has created a surge of interest from international (mainly US) TV productions. This, combined with ongoing growth in demand for filmed content generally, is driving demand for studio space. A report from EKOS, [Delivery Options for Production Space for Film and TV](#), concluded there is evidence of a clear and present opportunity for a studio facility in Scotland. Subsequently, on behalf of the partnership established by the Scottish Government, SE issued a Market Development Brief inviting proposals from the private sector where public sector support would enhance the financial viability to invest. SE and partners are in continuing discussion with interested parties to provide multiple user studio infrastructure appropriate for both international and indigenous clients.

Innovation, as the Digital Media Industry Leadership Group stated in their industry strategy [Digital Inspiration](#), is the lifeblood of the sector. It is a “fundamental requirement for successful engagement in fast moving global markets”. It is also one of the operational priorities set out in the current SE Business Plan. The challenge of innovation never stops, because the market continues to grow. In addition to the earlier examples of innovation support through the Scottish Edge and the Digital and Creative Launchpad, two major opportunity areas stand out that offer particular potential; cross sector activity and big data.

- **Cross Sector Opportunities**; the earlier example of a games company working with Cancer Research UK is just one example of an emerging trend where the skills and capabilities of the Creative Industries, particularly in digital media, can be used to support the digital ambitions of other sectors. We are stimulating work in this area through events like Pies and Pixels, which brings together the Food and Drink Industry with digital creative companies. We then use, as appropriate, our innovation support mechanisms like SMART, R&D and innovation support grants to help companies create and take products to market.
- **Big Data**; David Abraham, the Chief Executive of Channel 4, referred, in 2011, to data as the “new oil” of television. “Big data” was highlighted by Creative Industries companies as a priority area during Scottish Funding Council industry consultations for the creation of Innovation Centres. The recently announced Data Lab is therefore anticipated to make a significant contribution to the Creative Industries.

3) How to retain in Scotland those with the necessary creative skills.

The two most critical issues relating to talent in the industry are development and attraction. There is considerable activity in both of these areas. The single biggest positive influence though in retaining and attracting talent is the success of the industry itself. The adage “success begets success” applies.

That said there are specific skills challenges the industry faces, of which the most critical is digital skills. It is a well recognised issue that goes beyond the Creative Industries and affects Scotland, the rest of the UK and beyond. It has also prompted a series of Scottish and UK initiatives covering skills development from schools through higher education into work based continual professional development activities.

A critical initiative is the [Skills Investment Plan \(SIP\) for Scotland's ICT & Digital Technologies](#) sector published by Skills Development Scotland (SDS) in March 2014. Although the plan covers a broad range of industries it is critical for the development of the Creative Industries given the extent to which the sector's growth prospects are linked to how it exploits digital content. SE, along with several other public and private organisations, is a member of the SIP steering group that has supported SDS in creating the plan and is now supporting the implementation of the recommendations. SE is also working with SDS on a Skills Investment Plan for the Creative Industries that is considering industry needs beyond digital capabilities. This is due to be published in the first quarter of 2015.

The broader needs of the Creative Industries have also been the long term focus of work for two organisations (formerly sector skills councils); Creative and Cultural Skills and Creative Skillset. The latter of these, works across film, television, radio, fashion, animation, games, visual effects, textiles, publishing, advertising and marketing communications. SE is a member of the Creative Skillset Scotland National Advisory Board which is responsible for guiding and supporting their work in Scotland. This work includes Screen Academy Scotland: A Creative Skillset Film Academy, the Modern Apprenticeship in Creative and Digital Media and delivering the Skills Fund in film, high-end TV, animation, games and VFX.

In terms of talent attraction, SE has two main initiatives: Talent Scotland and Game in Scotland.

- **TalentScotland** covers multiple industry sectors including, specifically, a significant section on video games. It offers information about moving to and living in Scotland as well as specific advice on visas and immigration, industries and employers in Scotland as well as job opportunities. TalentScotland currently engages with 60 companies and has 2,000 individual members with a registered interest in games.
- **Game in Scotland** holds a major annual recruitment event focussed on the games industry. In 2014 more than 600 people attended the event in Dundee at which 24 companies exhibited. Game in Scotland

also takes the jobs message outside Scotland attending Develop in Brighton and Silicon Milkroundabout in London.

4) How to support those in the TV and film and video games industries to develop business skills.

In addition to the products and services already mentioned a wide range of business development services are available through SE and the other enterprise agencies. This includes leadership development skills, business mentoring through Business Mentoring Scotland, a partnership between Scottish Chambers of Commerce and SE, business development workshops and generally through the business.scotland.gov.uk.

Two business support activities are particularly relevant to the Creative Industries, beyond the business support mentioned above as they address two critical business growth factors; collaboration and cluster development.

- **Co-Operative Development Scotland (CDS)**; supports company growth in Scotland through collaborative and employee ownership business models. It is a business model that has great potential for the many small and micro businesses that operate in the Creative Industries. This has been demonstrated by success in the CDS Collaboration Prize where three of the six winners from the past two years have come from the Creative Industries; **The Wee Agency**, a new creative and digital marketing agency in Inverness and Edinburgh, **Music Co-OPERative Scotland**, a group of 45 musicians from Scottish Opera and Screen Facilities Scotland, a collaboration of Scottish-based film, television and commercials facilities firms. Other Co-operatives CDS have supported that work in the screen industries include **Bridges: the Actors Agency**, a consortium co-operative of professional actors and Independent Producers Scotland formed by 40 film production companies.
- **Interactive Scotland**; provides expert help and support for small to medium enterprises across the digital media sector in Scotland. This includes Surgeries where advisors provide direction to appropriate support resources, Connections Brokerage which puts clients in touch with appropriate companies or organisations to drive business development. For example **Beartrap Games** were connected to the Leith Agency that produced a game promoting energy saving with Home Energy Scotland. Other resources include providing market intelligence and events and workshops to connect clients to new opportunities and people such as the previously mentioned Pie and Pixels event but also Technology Solutions for Tourism in partnership with the Edinburgh Tourism Action Group (ETAG).

5) Examples of successful international strategies for growing these sectors.

Increasing exports is a core objective of our international strategy delivered by the international arm of SE and HIE, Scottish Development International

(SDI); we want to build the ambition and capacity of Scottish companies to operate in international markets and we want to increase the number of Scottish companies becoming exporters. We have had some significant international successes in the Creative Industries;

- **International Events;** The Games Development Conference in San Francisco is the largest international event SDI delivers for the Creative Industries. In 2014, the 30 companies who attended predicted £45m increased turnover from the business opportunities created at the event. For newer, emerging markets, Scottish Development International has also supported as part of a three year plan, a distinct Scottish Pavilion at China Joy, Asia's premier games event, to help Scottish businesses explore the world's fastest growing games market.

SDI has also had a long standing engagement with the screen industries at MIPCOM and MIPTV as part of a partnership with PACT, the UK trade association representing independent creative content producers. This relationship has also seen a range of dedicated screen industry trade missions to countries like Brazil, South Africa, Turkey, China and Australia. SDI worked with MG Alba and Screen Facilities Scotland supporting 11 companies at IBC 2014 in Amsterdam; an important global meeting place for those engaged in creating, managing and delivering entertainment technology and content.

- **Individual Company Support;** SDI works directly with around 100 Creative Industries companies. Of these companies 25 work in Computer Games Industry and 10 are active in the screen industries. Nine of these companies, who are engaged in intensive work with SDI through the International Projects programme, are each forecasting an increase in international revenue of more than £1m.

Two companies who have benefited from working with SDI are Edinburgh's [RunRev in China](#), who, following support from SDI, launched their Live Code product in Beijing, giving them access to some £30 million in potential revenues from the Chinese developer community, and Glasgow's [ResDiary in India](#) who attended a trade mission to help them find trade partners in Bangalore, Hyderabad and Delhi.

Internationalisation has also been a major element of the Creative Edge initiative delivered by TRC Media with funding from Channel 4, Creative Scotland and SE. TRC Media have taken 37 digital companies (7 of which are games businesses) and 11 TV and film companies on international business trips to meet industry leaders at companies like YouTube, Pixar and Discovery Networks in the San Francisco Bay Area, New York, Washington DC, Toronto, Stockholm, Copenhagen and Sydney. Creative Edge also has several other significant areas of work including industry leadership through the Impact Management Programme, Gen Up which develops emerging talent and Special Edition addressing the under-representation of women in top roles in the sector.

The attraction of Inward Investment remains a key plank of SDI's international strategy for the Creative Industries and has brought in 8 Creative Industries inward investment projects to Scotland over the past two years. The nature of companies coming through the pipeline is now quite diverse, given the impact that new "Digital Media" business models are having on the traditional Creative Industries sectors such as Film/TV/Music/Publishing etc. Recent successes include **Team Rock Ltd.**, which delivers a digital content hub for rock music, and a new investment from the French Games company **Kobojo** which came into Scotland specifically to tap into Scotland's rich seam of gaming talent.

SDI support Creative Scotland's work in attracting film and television production inward investment by providing support to companies who wish to set up a permanent base in Scotland.

Conclusion

The Creative Industries are a significant and successful industry in Scotland with the potential, particularly in the area of digital media, to achieve significant economic growth.

This growth is being driven by international sales, in both established and emerging markets, and exploiting cross sector business opportunities, as already seen in areas like tourism and health.

SE's focus is building the global competitiveness of the sector by supporting innovation needs of companies; creating collaboration opportunities within the Creative Industries and into other major industrial sectors; engaging in key international growth markets; and investment, to drive scale in companies.

We trust this submission is of interest to the committee and makes a useful contribution to the inquiry. We look forward to the evidence session where we can discuss our work and the opportunities for the sector in more detail.