Ukie response to Scottish Affairs Committee inquiry into the Creative Industries in Scotland

Executive Summary

- With 96 companies and two of the leading clusters, Scotland is a vital part of the UK games industry.
- There has been significant growth in recent years, and with the right support this could grow even further. The games industry offers at least as much potential for growth and jobs as any other creative industry in Scotland.
- Access to finance and access to talent are the priority issues that the UK and Scottish governments should focus on.

About Ukie

Games are now a vital part of modern culture, played by 1.6 billion people around the world[1]. The global market for games will be worth $102.9 billion by 2017, at a compound annual growth rate of 8%, making it the fastest-growing entertainment market in the world.[2]

UK Interactive Entertainment (Ukie) is the trade body that represents over 250 businesses and organisations involved in the games and interactive entertainment industry in the UK.

Ukie exists to make the UK the best place in the world to develop and publish games and interactive entertainment. Ukie's membership includes games publishers, developers, console manufacturers and the academic institutions that support the industry.

[1] Newzoo, 2014 Global Games Market Report
[2] Ibid.

1. What is the footprint and economic value of the creative industries in Scotland? (a) How does this compare to the UK as a whole?

Scotland has long been a crucial part of the UK games industry. From the founding of DMA Design in 1988 and their early breakout success with *Lemmings*, to Digital Bridges' pioneering of mobile gaming in 2000, through to the establishing of the Grand Theft Auto franchise – responsible for the fastest-selling entertainment product in the world in *Grand Theft Auto V* – Scotland has been the home of some of the most important developments in games anywhere in the world.

Scotland also leads the way in providing the highly skilled workforce that is required in the games industry. Institutions like the University of the West Scotland and Abertay University are acknowledged as being first-rate providers of the next generation of game makers. Abertay also runs the internationally recognised "Dare to be Digital" Competition, further showcasing the excellence of Scottish-educated games talent.

The most recent data shows that Scotland has a sizable games industry. "A Map of the UK Games Industry", published in September 2014 by Nesta and Ukie sets out the size and shape of the games industry today[i]. The UK now has twelve clusters of games companies. Two of these are in Scotland, in Edinburgh and Dundee. Both of these clusters are categorised by Nesta as 'balanced', constituting a mix of both large, established companies and smaller, younger ones.

Nesta found 96 games companies currently operating in Scotland, which is 5% of the UK's total of 1,902.

The Edinburgh cluster of games companies is one of five across the UK that has experienced the fastest rates of company formation in recent years, driven almost entirely by smartphone and tablet developers, particularly for the iOS platform. Across Scotland, games companies have been forming at an increasing rate in recent years, fuelled by the decline in large studios recruiting, staff turnover and the growing number of games specific graduates. The Nesta data shows that this peaked at 22 company formations in 2012 (as shown in the graph below), although companies that formed in 2013 or 2014 may not yet have a sufficient web or registered presence to have appeared in the data.

The opening of the mobile games market globally in recent years has had a major impact by lowering barriers to entry and spurring entrepreneurs everywhere. This, amongst other factors, has caused the games industry to spread across the UK as new companies have formed in all regions. This growth in the number of companies looks likely to continue, giving Scotland an opportunity to provide a home for an increasing number of firms. While there has been growth, most of the 96 games companies in Scotland are newer, smaller businesses which, as in others sectors, face challenges to scale and thrive.

2. How do the creative industries in Scotland differ to the creative industries in the UK as a whole?

The two leading Scottish games clusters, in Edinburgh and Dundee, contain all types and sizes of games companies. In Rockstar North, developers of the world's fastest-selling entertainment product in the Grand Theft Auto series, Edinburgh has one of the most important, large-scale development studios in the world. Yet Edinburgh and Dundee between them also host a wave of new, young companies that have grown up in the wake of the mobile and iOS boom.

Unlike many of the other creative industries, which are concentrated heavily in London (and to some extent Manchester thanks to the BBC investment there), games are a genuinely nationwide industry, in which Scotland has two of the leading clusters with some of the greatest potential for expansion.

3. How effectively do the UK, Scottish and local governments work together to promote the creative industries of Scotland at home and abroad?

Greater investment is needed in trade and investment support for the games industry at all levels of UK government. In their 2014 strategy for the creative industries, UKTI set an aim to double the number of companies exporting, double the total number of exports, and increase the UK share of global FDI by 50%, all by 2020.

As we set out in a letter to the Chancellor in advance of this July's Summer Budget, achieving these goals for the games industry, and in so doing giving the necessary support to fully activate the Video Games Tax Relief, will require a more coordinated approach. We proposed that additional funding be given in order to undertake a coordinated and strategic programme of trade and investment activity targeting priority markets for exports and inward investment.

The Scottish Development International's (SDI) work in Scotland has shown how this could be undertaken. SDI's approach to overseas tradeshow attendance, for example, giving extensive support to companies, has allowed for a significant Scottish presence at the industry-leading Games Development Conference (GDC) in San Francisco for the last few years. This contrasts to UKTI's approach of reducing the availability and size of Tradeshow Access Programme (TAP) grants, meaning that Ukie, as the partner organisation, has had to take a loss in order to keep up the number of UK games companies able to attend GDC and similar events.

In this instance, there has been little cooperation between the UK and Scottish levels of governments – GDC again being the strongest example, where there has been a stand for Scottish games companies, funded by SDI, and a separate UK stand which Ukie has operated with partial UKTI funding.

Working together more closely would provide mutual benefits. As we proposed in our submission to the Economy, Energy and Tourism Committee in the Scottish Parliament earlier this year, a coordinated UK-wide trade and investment programme for the games sector should be developed in partnership with public agencies, fully activating the Video Games Tax Relief to help attract more investment to Scotland.

4. What are the barriers to the growth of the creative industries in Scotland, and how can these be overcome?
(a) What, if any, changes need to be made to enable the creative industries to capitalise on their Intellectual Property?

The barriers faced by the Scottish games industry are much the same as those faced by the UK industry as a whole. The priority for the UK games industry now is to secure maximum impact from Video Games Tax Relief, through additional industry support and broader improvements to education and infrastructure.

Important areas where barriers to growth exist include:

Access to talent

Games companies create artistic works built on cutting-edge software. As such, they require a challenging mixture of highly talented creative individuals and highly skilled technical professionals – and often people who cover both those worlds. A major focus in recent years, spurred by the Nesta 2011 Next Gen report, has been the need to improve computing education to ensure that the games industry, and the wider digital economy, will have the skilled programmes it needs to compete globally in future.

Although this education reform has now taken place, in different forms, in both England and Scotland, this reform needs to be seen through, and needs to be married with creative education to provide the polymaths the digital economy will need. We need to marry Arts with the STEM (Science, Technology, Engineering and Maths) agenda to create a system of STEAM education.

This is an absolute priority for the games industry, and we believe should be (and is) for the Scottish and UK governments.

It will be at least ten years, however, before we start to see these reforms bearing fruit, when children now starting their GCSEs have entered the workforce and gained sufficient experience in the industry.

In the interim, it is vital that the industry continue to have access to the best talent in order to remain globally competitive. The visa system for skilled migrants is already difficult and slow, and current UK government proposals to tighten it further, being undertaken through a Migration Advisory Committee consultation, are a direct threat to the reputation of Scotland and the UK as being open for business.

Access to finance

Securing the funding to keep a business going and undertake new projects is always one of the greatest challenges facing games companies. This is particularly true for the wave of new companies that were formed to target the mobile games market in recent years, including in Scotland.

There are steps that government can take to assist. Visibility for private investors is a crucial issue which targeted funding can improve. This was why Ukie and Nesta collaborated on “A

Map of the UK Games Industry” in 2014, and why we are looking to make that project a living, regularly updated, map.

Our research with Nesta is a foundation that must be built on; the Scottish industry needs more detailed data on the games being made and the economic impact of the sector. An ‘Economic Contribution Survey’ of the Scottish games sector commissioned by Creative Scotland in partnership with Scottish Enterprise was undertaken in 2012 but this mistakenly valued the industry as having ‘zero value’ to the economy. It also identified the total direct employment in the industry at only 200, at a time when Rockstar North alone employed more people. The Scottish government acknowledged these errors but there has yet to be a follow up.

As well as helping investors to understand the games industry, we also need to help games start-ups understand how best to find investment and present themselves to investors. As stated above, most of the 96 games businesses in Scotland are SMEs. Most of these smaller businesses are focused on the core aim of actually making games and many lack the business skills required to attract further funding, sell games in crowded marketplaces, and build a sustainable business.

This stops the companies making use of the excellent initial support that is there, for example from Scottish Enterprise/Biz gateway, and means there are very few investments in games companies in Scotland.

What is required is an industry education programme to help make companies investor ready, introduce to them to different routes to finance and build up necessary business skills. The UK’s Skills Investment Fund could part fund this programme.

Early stage funding can also be crucial in giving new companies a chance to establish themselves. The Prototype Fund run out of Abertay University from 2010 to 2014, using UK and European regional growth funding, had a very strong impact in giving a large number of games companies the opportunity to create a prototype, helping many of them to secure longer-term funding. The UK government has rightly recognised the success of this scheme by reintroducing it with a further £4 million over the next four years. This fund will look to support companies across the UK, and it is important that this includes Scotland.

It is also important that schemes with a wider focus, such as the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), are operated in a way that is accessible to the games industry. We have been told by our members that the SEIS in particular is restricted in its impact by low thresholds: companies can raise up to £150,000 under the SEIS rules, which is no longer enough to make anything but a relatively small-scale game. These limits should be increased, and there may be a role for the Scottish Government to offer alternative similar support.

Intellectual Property

As we will discuss in response to question five, regulatory stability is a crucial strength of the UK’s offer to business. Intellectual Property is an excellent example of this: the current Intellectual Property framework has played an important role in allowing the games industry to flourish in the UK, giving creators certainty that they will be able to profit from their hard work. We do not believe there are significant gains to be made from amending these laws.

However, stronger enforcement of these rights at both UK and EU level would be a welcome intervention by government which we believe would have a positive effect.

5. What can the UK Government do to create an environment which encourages growth in the creative industries in Scotland?

The introduction of Video Games Tax Relief, and the reforms to introduce computing onto the school curriculum, have given a clear signal around the world that the UK is determined to take a leading role in the global games industry. We have the opportunity to drive significant growth in our industry over the coming years, including in Scotland's two important games clusters.

Work to improve access to talent and access to finance will be crucial in seizing this opportunity. Providing more assistance for games companies to do business overseas, and to attract inward investment into Scotland and the UK, is also vital.

More widely, the UK's general business environment is a positive that should be maintained. There is a long track record of regulatory stability that covers intellectual property law, as mentioned above as well as other areas including internet, consumer protection, and advertising law and regulation.

The UK's digital infrastructure is also absolutely crucial, not only for the games industry but for the digital economy as a whole. Finalising the universal availability of superfast broadband is, of course, the necessary first step.

6. How could the system of tax reliefs for the creative industries better encourage growth of these industries in Scotland?
(a) What, if any, tailored support is needed for the creative industries in Scotland?

The introduction of Video Games Tax Relief, which has now been in place since April 2014, was a definitive moment for the UK games industry. Now we are beginning to see statistics from the first year of operation, it is clear that the relief is gaining significant momentum.

Recent statistics from the BFI showed that, in the first half of 2015, a total of 89 games received tax relief certification - 40 final certification and 49 interim certification, meaning the games have not yet been completed. Between them, these 89 games have a total budget of £346.8 million, of which £290 million is being spent in the UK or EEA.

It is also clear that the range of games and companies able to benefit from the relief is increasing. Those 49 games which received interim certification in the first half of this year had a median budget of £900,000, compared to £200,000 for the previous period, suggesting that a greater range of projects is now being supported.

However, it is important that all levels of government, and Ukie as industry representatives, continue to work together to raise awareness and understanding of the tax relief. This is equally true in Scotland – Ukie have worked in both Dundee and Edinburgh to help local companies understand the tax relief, but this must be an ongoing process.

In the longer term, we must remain aware that re-notification with the European Commission will be required in 2017. Ukie have begun to gather evidence showing the benefits of the relief and the value in it continuing long-term, and also on potential improvements that could be made to the system. We will be looking to all levels of government to support this aim when the conversation begins in earnest.

---

[i] NESTA, A Map of the UK Games Industry (September 2014) http://www.nesta.org.uk/publications/map-uk-games-industry