

response

Ukie response to
Economy, Energy
and Tourism
Committee Inquiry
into economic
impact of the
creative industries
in Scotland

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About Ukie

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.

The Games Industry in Scotland

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 of 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 ([found here](#)) sets out the size and shape of the games industry today.

It found that the UK now has twelve 'clusters' of games companies working closely together. 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.

Overall, Nesta found 96 games companies currently operating in Scotland, which is 5% of the UK's total of 1,902. This precisely matches the 5% share of the UK's creative companies more generally that Scotland contains.

Just as important is the trend of growth in the number of companies that is made apparent in the Nesta research.

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, 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 in recent years has had a major impact on the global industry, lowering barriers to entry and spurring entrepreneurs everywhere. This, amongst other factors, has caused the games industry to spread more evenly 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 games companies.

However, whilst there has been growth in the number of games companies in Scotland, this does not wholly equate to substantial and sustainable economic growth for the sector. Most of the 96 games companies in Scotland are small businesses that constantly struggle to survive and scale their businesses.

The global opportunities are huge. Games are now a vital part of modern culture, played by 1.6 billion people around the world¹. Games as a global market 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

The ambition has to be to build on the introduction of production tax relief to develop an environment that will see these small businesses scale become market leaders and take advantage of the opportunities being offered by the fast growing global market for games.

In summary, the games industry in Scotland is in a good position, and has the potential to grow significantly and sustainably in the coming years but must have the right support to do so.

¹ Newzoo, 2014 Global Games Market Report

² Ibid.

Ukie Manifesto Proposals

In August 2014, Ukie published its Games Industry Manifesto for the Next Parliament ([found here](#) and attached with this submission), setting out the steps the next UK government should take to further increase the strength of the games industry.

We called for action on three areas: supporting growth at home; promoting the UK games industry abroad; and building a strong and diverse talent pipeline. These were proposals for the UK as a whole, and they apply just as strongly in Scotland.

Broadly our manifesto called for the following:

- Maintain the current very productive regulatory environment, particularly in copyright law, internet regulation, consumer protection and certain other areas
- Use public funding to support innovative businesses and build business resilience, easing access to finance, and supporting clusters of games businesses as they develop organically
- Central government funding should be used to create a new, national version of the Prototype Fund and games content should be eligible for National Lottery funding
- Secure a strong talent pipeline through improvements to education systems and provide more funding for training through an extension of the Skills Investment Fund
- Provide more support for a coordinated programme of activity that will promote the UK overseas as a world leading destination for making and selling games

Committee Questions

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

In general, the public sector agencies operating in Scotland are seen as effective at their individual tasks. Creative Scotland, Scottish Enterprise and Scottish Development International are all seen as helpful by games companies that have interacted with them, according to our conversations with companies.

However, there are a number of ways that the support offered by these organisations could deliver more value to Scottish games businesses.

Some companies have said that a greater impact could be seen if the agencies worked together more closely to develop a coordinated approach to support the Scottish games sector. For example, several companies said that the focus of Scottish Enterprise on business support and of Creative Scotland on artistic and cultural creation, whilst understandable in each case, has caused conflicting demands on companies looking for support.

Equally a lack of any dedicated internal games industry expertise within public agencies hampers their ability to deliver the best possible support to the games sector.

Finally, the Scottish games sector is one of the few major screen/creative industries not to have received a full sector review in 2012/13. Only through a strategic review of games industry needs and how all the agencies can support Scottish games businesses will a coordinated approach be possible, greatly improving the support that these agencies can offer.

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

Private sector investment is of course fundamental to the games industry. The majority of our member companies work on a business model based around commercial financing and revenue, rather than looking to public funding sources.

Our manifesto highlighted several ways in which the flow of this investment could be increased.

Improving the process of collection and communication of investment-friendly data on games companies is an important first step. Increasing the visibility of Scottish games companies to potential investors, and the understanding amongst investors of how the games market functions, are vital. This is why Ukie collaborated with Nesta on the 'Map of the UK Games Industry' discussed above, 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 Impact Survey' of the Scottish games sector was undertaken in 2012 but this mistakenly valued the industry as having 'zero value' to the economy. The Scottish government acknowledged this error but there has yet to be a follow up.

We have also called for any UK government finance schemes, such as the British Business Bank, to be designed and administered in a way that ensures they are accessible to modern digital creative businesses, like games companies, that are an integral part of future economic growth.

The Enterprise Investment Scheme and Seed Enterprise Investment Scheme, operated by the UK Treasury, have been important interventions. We have been told by members that the SEIS in particular however 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 similar support.

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

The recent introduction of Video Games Tax Relief has already made a difference, putting us on a more level playing field with our chief international competitors.

Our focus now, as set out in the Ukie Manifesto, should be on capitalising on this opportunity: providing early help to companies to get their ideas prototyped so that they can get funding and access the tax relief; strengthening the talent pipeline so there are enough creative and skilled people to meet this increased demand; and getting out there to tell the rest of the world what a great opportunity there is in Scotland and the rest of the UK.

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

A steady supply of jobs in studios, and a fertile environment in which to start their own studio, are the two factors that will determine whether people with creative skills choose to stay in Scotland, or indeed in the UK as a whole.

The long-term solution is to ensure a healthy business environment in which companies can flourish, as set out in our manifesto proposals as discussed above.

As noted above, Scotland already has two clusters in Edinburgh and Dundee that are categorised by Nesta as 'balanced', constituting a mix of both large, established companies and smaller, younger ones. This means that they are potentially attractive locations to attract inward investment from overseas into the games sector. A coordinated UK-wide trade and investment programme for the games sector should be developed in partnership with public agencies, activating the production tax credits to help attract this investment to Scotland.

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

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, which is why it is essential that this scheme is extended beyond the end of this current tax year.

6. Examples of successful international strategies for growing these sectors.

The success of Canada in building one of the world's most globally-competitive games sector in less than a decade (and increasing local employment fourfold as a result) is worthy of consideration. To a large extent this was built on the offering of very generous tax subsidies. Although UK Video Games Tax Relief is not as generous as most of the Canadian State schemes, it is competitive. Keeping this in place long-term, and continuing to raise global awareness of it, is an important lesson we can learn from Canada.

Canada has also put in place the Canada Media Fund, which offers C\$360 million annual funding and support for the television and digital media industries. This encourages the creation of innovative new digital media products, including games, as well as 'convergent' products that build new experiences out of and alongside existing TV programmes.

Over four years from 2010, the Canada Media Fund provided C\$37.2 million – £20.8 million – to enable the creation of 171 games.

These measures have resulted in Canada having one of the most successful games industries in the world, employing 16,500 people across 329 games companies, that contribute \$2.3 billion to Canadian GDP.³

Screen Australia plays a similar role, supporting a wide range of media productions, including through the distribution of money from the 2013-14 Australian Interactive Games Fund. Their stated objectives are to:

- promote industry growth and sustainability;
- support the development of new intellectual property;
- encourage skills retention and renewal; and
- maximise the creative opportunities of fast broadband.

The Fund was established in 2013 with a budget of AUS\$20 million (£11 million), and in its first round of funding in September 2013 distributed AUS\$2.6 million (£1.5 million) between 21 games. However in May this year the newly-elected government, as part of a wide range of budget cuts, cancelled the scheme.⁴

Another good example of public support contributing to a successful games industry can be seen in the Nordic countries. Their success in capitalising on the new opportunities in mobile games is particularly impressive.

The Nordic Games Fund has been giving support to games companies from Denmark, Norway, Sweden, Iceland and Finland since 2006. In the last three years 107 projects have received funding of 11 million Danish Krone between them, equivalent to around £1.2 million⁵. This helped the companies at various stages of project development, including games that have gone on to receive international acclaim such as Limbo and Brothers: Tale of Two Sons.

This approach has fostered a culture of small, innovative companies taking risks (often supported with public funding), which has led to several breakout hits and created some of the world's most successful games companies such as Super Cell which sold a 51% stake in the their company for \$1.53 billion in 2013.⁶

South Korea's development of a major economy in online games must also be highlighted, due in large part to their development and spread of superfast broadband well in advance of western countries.

³ Entertainment Software Association Of Canada https://www.youtube.com/watch?v=3_HSzDgDdpk

⁴ Games Industry.biz, "Australian Interactive Games Fund Killed", 13th May 2014

⁵ Statistics from nordicgameprogram.org

⁶ <http://www.forbes.com/sites/karstenstrauss/2013/10/15/mobile-gaming-mega-deal-supercell/>