SUBMISSION FROM TIGA

Economic Impact of the Creative Industries

How Scotland can grow sustainable TV and film, and video games industries

Dear Sir,

TIGA welcomes the Economy, Energy and Tourism Committee’s inquiry into the creative industries. TIGA represents games developers, digital publishers, service companies and education providers and is the trade association for the UK video games industry. Our core purpose is to strengthen the games development and digital publishing sector.

1. Background

Scotland has produced some of the world’s most successful video games including the Grand Theft Auto, Lemmings and Crackdown series. The Scottish games sector is diverse, with companies working in games for mobile, online, educational and console markets.

The presence of a strong Scottish games industry strengthens the appeal of Scottish universities, providing direct employment and business start-up opportunities for graduates in suitable disciplines. The video games industry sustains a ‘digitally literate’ workforce whose skills are valued in other sectors including health, financial services, education, film, TV and music.

TIGA’s research from 2013 indicated that Scotland had 964 permanent and full-time equivalent creative staff (up from 766 in 2012) working on games development. The same research showed that Scotland had 94 games companies, including Rockstar North, Black Company Studios, Firebrand Games, Ruffian Games, Chunk Games, Denki, Beartrap Games, Blazing Griffin and Ninja Kiwi. This is in addition to many related service providers and world-class technology businesses, such as Codeplay. The Scottish video games industry represents 11.4 per cent of the UK's total games companies and 9.7 per cent of the UK’s developer headcount. Scotland’s games development sector supports an additional 1,762 indirect jobs.

Annually, Scottish games development companies are estimated to invest £45 million in salaries and overheads, contribute £41 million in direct and indirect tax revenues to HM Treasury, and make a direct and indirect contribution of £99 million to the UK’s Gross Domestic Product (GDP).

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

In principle, Scotland’s developers have the option of support from a relatively wide range of initiatives and government bodies, including Creative Scotland, Scottish...
Enterprise, Interactive Scotland, Skills Development Scotland and Scottish Development International. This support can be important for smaller, independent and start-up studios to gain a foothold in the market and fulfil their potential as sustainable games businesses. Outplay, started in 2011 and now Scotland’s second largest games studio, won £2.25m in support from Scottish Enterprise, making it the largest publicly-backed games company in the UK in the last decade.

Having said this, some games businesses believe that public sector agencies need to engage with the games industry more effectively and publicise the support that they can offer to a greater extent than is currently the case.

Some developers have also informed TIGA that they believe that the Scottish Government and its agencies should collect and record better quality data and information on the state of the Scottish games industry. This is important in order to benchmark the industry’s progress and performance.

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

The Scottish and UK video games development sectors consist overwhelmingly of private sector independent games businesses. These businesses in turn typically look to look to third parties for sources of finance. Historically, the principal source of finance for most independent games developers has been work-for-hire projects commissioned by global publishers, advertising companies or creative agencies. In 2014, 58 per cent of games developers in a UK wide TIGA survey drew upon this source of finance. Developers’ access to publisher finance should improve with the advent of Games Tax Relief (a measure which effectively reduces the cost of games development) in 2014.2

In recent years, equity investment from individual investors has become a popular source of finance, with 34% of developers in a UK wide TIGA survey accessing this source of finance in 2014. Equity investment from individual investors has increased for two reasons: Firstly, there has been a surge in start-ups in recent years and this has increased the demand for seed finance. Secondly, investment incentive schemes such as the Enterprise Investment Scheme (EIS) and in particular the start-up oriented Seed Enterprise Investment Scheme (SEIS) have provided attractive frameworks for investment by individual investors.

The development and marketing budgets required to make internationally competitive games are on the rise as game devices such as mobile phones and tablets become increasingly technically advanced, rivalling game console quality, and consumer expectations of a mobile game experience get higher. Increasing the SEIS cap from £150,000 to £200,000 would help ensure that new studios can continue to gain from the SEIS scheme (and get access to early stage funding which simply is not readily available elsewhere), whilst ensuring the projects they create are good enough to compete in a challenging marketplace.

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2 In broad terms, the UK’s Games Tax Relief should boost start-up rates, make Scotland and the UK generally a more attractive place in which to invest for global publishers, lower company mortality rates, encourage the production of culturally British video games, increase investment and employment and enable the UK games industry to compete on a more level playing field with our overseas rivals.
Access to venture capital, corporate venture capital funds and bank finance remains very difficult and is unlikely to become significantly easier in the near future.

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

The UK and Scottish games industries face three key challenges:

1. Too many studios in the UK fail: 30 per cent of UK games companies closed down in the period 2008 – 2013.

2. Access to finance remains a challenge. According to TIGA’s research, 43 per cent of games businesses are held back by a lack of capital. Access to finance can be hard because of uncertainty about consumer demand, a lack of collateral, a lack of a track record, and the intangible nature of IP.

3. The industry suffers from skill shortages. There are shortages of senior analysts, artists, designers, producers and programmers and above all there are gaps in business and commercial skills.

These difficulties can be ameliorated by improving access to finance, enhancing commercial skills, exploiting export opportunities and building regional games clusters.

Finance

The Government should consider introducing:

- a Prototype Fund – similar to the old Abertay scheme - to enable start-up studios to access finance and to develop new playable prototypes; and

- a Creative Content Fund to provide loans to small studios, on a pound for pound matched funding basis.

The Government should also encourage Scottish games businesses to take advantage of Games Tax Relief, the sector specific tax break which TIGA campaigned for and which came into effect in 2014.

Commercial skills:

69 per cent of independent developers in the UK now self-publish. This requires new commercial skill sets (pricing and payment, distribution and discoverability, marketing and customer relationship management). The Government should:

- consider providing commercial advice and investor readiness programmes to all recipients of public sector support to maximise their prospects of commercial success;

- ensure that the Growth Accelerator service connects participating developers to industry professionals who can provide commercial expertise/prepare them for investment; and
promote links between games developers and the UK’s 38 business angel networks and 500 VCTs.

Exports

According to DFC Intelligence, the global market for video games could be worth $96 billion dollars by 2018. The Government needs to:

- ensure that more SMEs are aware of public sector export services and access them; and
- aggressively market the games industry in order to attract inward investment to Scotland.

Build strong regional games clusters

TIGA has previously suggested that Games Development Incubators should be established (through a competitive process) at a university or consortium of universities in each of the English regions/nations within the UK. Similarly, establishing dedicated games development incubators in Scotland could help to promote high technology video games clusters. The incubators would be good for start-ups. They would provide new firms with space and equipment, manpower and mentors, and industry and investment expertise.

The incubators would be good for universities. Participating universities would strengthen relationships with industry, which in turn would enhance their appeal to students.

Incubators would be good for regional growth. They would build on the clusters of games studios that already exist in Scotland, in Dundee, Edinburgh and Glasgow.

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

The best way to retain highly skilled games developers in Scotland is to ensure that the industry continues to grow. An expanding industry providing a range of projects will ensure that games developers have a wide range of rewarding career opportunities.

6. How to develop business skills for those in the TV and film and video games industries

Developers need to be given the tools and knowledge for commercial success. In particular, developers need business and commercial advice about how to get their prototype fully funded and released into the market. In the absence of this advice, the prototype funding could be wasted. ³ The AppCampus Award Scheme provides an interesting model of prototype funding. In addition to strict milestone funding, recipients benefit from teaching, formal classes and introductions to key industry

³ Recipients of prototype funding could be required to provide some evidence of how they would ensure that their game gets funding beyond the prototype phase and out into the market as part of the application process for prototype funding.
figures including investors. The Scottish Government could look to introduce a version of the AppCampus Award Scheme in Scotland.

The Scottish Government could also examine the potential for developing the Growth Accelerator service to enhance the business skills of games developers and digital publishers. The Growth Accelerator service is a partnership between leading private sector business growth experts, Grant Thornton, Pera, Oxford Innovation and Winning Pitch and backed by the current Government. Growth Accelerator focuses on businesses that are aiming for high growth (defined as increasing turnover by 20 per cent per annum). Participants in the scheme can access up to £2,000 match funding for senior managers to hone their leadership and management skills, network with like-minded businesses and benefit from the support of a Growth Manager and Growth Coach. The Growth Accelerator Service could be tailored to support games development and digital publishers by providing participants with access to additional advice. Mentors from the games industry with experience of business and commercial expertise could advise participants about the market opportunities (e.g. the suitability of the project to the target platform, audience demographics), competitive challenges (e.g. the project’s USP), commercial models (e.g. pricing, integration into gameplay), routes to market (e.g. funding, publishing and distribution) and overall viability of their game project.

7. Examples of international strategies for growing these sectors

A number of countries around the world have taken deliberate action to grow their video games sectors. Three examples are given below.

Canada

In 1997, revenue generated by Canadian made video games were well below those of the USA, Japan, UK, France, South Korea and Scandinavia. By 2006, Canada had secured 3rd place in the global sales rankings, partly because of significant tax breaks for games production.

Canada’s provinces and territories have also offered a range of additional measures to support the video games industry. Quebec has offered income tax holidays for foreign experts of 75 per cent for 5 years. Ontario has provided grants and prototype funds.

Quebec is estimated to have spent the equivalent of over £500 million in tax credits and grants between 2004 and 2008 on Ubisoft, Electronic Arts and Eidos, generating £1billion in net investment. Canada’s studio staff overall grew 43 per cent between 2006 and 2008. Montreal’s development community has grown by 960 per cent from 500 to 5,300 in ten years. Games businesses have an incentive to invest and locate where there is access to talented staff and generous tax breaks.

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4 https://www.appcampus.fi/
5 See http://www.growthaccelerator.com/
6 Mateos-Garcia, J., (ed.), Raise the Game (NESTA, 2008), p.18
Although Quebec has recently reduced its tax relief, overall Canada continues to provide generous levels of tax relief, particularly in Ontario.\(^8\) Significantly, in 2011 studios in receipt of public support in Canada were receiving support equivalent to 23 per cent of their turnover, giving them a significant benefit.\(^9\)

**Finland**

A number of overseas governments operate games production funds of some description. There is no such fund yet in the UK. The absence of a production fund of any sort is a missed opportunity to accelerate the growth of the Scottish and UK games development sector. A good example of the efficacy of such direct government funding of games production is found in Finland. Finland’s Tekes government-backed funding agency has provided nearly $70m in funding to Finnish games developers since the late 1990s providing financial assistance to many of the country’s studios at the crucial high risk early stages of their existence. This includes providing early stage finance to Supercell and Rovio, two companies that have gone on to become global gaming giants. The success of this program and the knock-on effect of an increase in inward investment and value realisation from subsequent fund raising and M&A activity has prompted the Finnish government to dramatically increase its direct games funding via the launch of Skene, a €70m dedicated games fund.\(^10\)

**USA**

Many states in the USA provide tax credits for games production, including Louisiana (20 per cent). Many other states, including Florida and Texas offer a range of incentives and grants to film, TV and games companies.\(^11\) In total 21 states in the USA provide either tax credits or other schemes to support their video games industries.

8. National Digital Network for Scotland

In addition to the proposals suggested in section 4 above, the Committee might also want to consider a proposal made by TIGA member Colin Anderson from Denki (Scottish Broadcasting Conference in late 2010). Mr Anderson has suggested the creation of a National Digital Network for Scotland to develop a strategy for Digital Media and to drive the Digital Media industry forward. The National Digital Network for Scotland would have a strong public-service focus ("bring the best of everything (interactive) into the greatest number of homes") and could be an important step in ensuring as many people as possible benefit to the fullest extent that interactive

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media has to offer. TIGA believes that this proposal merits further analysis and investigation.

I hope that this submission assists the Committee in its inquiry into the creative industries.

Yours sincerely,

Dr Richard Wilson
TIGA CEO
January 8th 2014