I am writing in relation to your open call for written evidence to the above inquiry, in particular the subject of studios and of ‘Infrastructure, Intelligence and Maximising Benefit to Scotland’.

In this document, I will initially summarise UK studio development trends, and in context of this analysis, evidence why state aid has become a perceived, rather than actual, barrier to state or local authority investment in screen infrastructure in Scotland.

I will subsequently discuss how we can take advantage of present and forthcoming opportunities in the screen and creative industries sector, and propose a viable model for the development of the type of physical space the industry requires.

1. UK studio development trends

Studio facility development for the creation of film and television content broadly falls into two categories - new build, or the refurbishment or repurposing of vacant industrial space.

1.1. New build

From a new build perspective, UK studio development seems (which I will disprove later in this document) to be private sector driven. Typically, the developer may be an existing studio provider looking to expand their offer using debt or equity financing, or indeed their own resources. Alternatively, it may be a new entrant to the sector speculatively building facilities, and presenting a business proposal that will interest investors on the promise of an attractive yield.

The obvious UK industry leader, Pinewood Group Ltd, has an existing global reputation and critical mass in Buckinghamshire on which to build upon, and as an investable entity is very strong, hence the ongoing new build expansion of their site.

The oft cited development of new build studio space in Northern Ireland has been funded by the private sector, or operators with a fully commercial imperative. Of course, many in the industry recognize the soft power of the public-sector screen agency, NI Screen, for their role in attracting screen business to Northern Ireland, but ultimately, both Titanic Studios (Titanic Quarter Ltd, private company) and the new Belfast Harbour Studios (Belfast Harbour, a commercial trust) have developed these new facilities.

Other live and speculative proposals driven by the private sector, such as Pentland Studios, near Edinburgh, embellish stand-alone studio projects with peripheral facilities.

1. www.pinewoodgroup.com/pinewoodexpansion
2. www.titanicquarter.com/about/whoweare
3. www.belfast-harbour.co.uk/corporate/our-status
assets and further development opportunities to enhance the investment proposition – typically with non-screen industry related assets such as offices, retail, and leisure.

The Northern Ireland and Pentland examples above are of course different propositions, but raise an important question - why does one (Pentland Studios) require additional assets for the numbers to stack up, but in Northern Ireland, the studio projects seem to be stand alone?

In the case of Titanic Studios, I would argue that having the legacy asset in the form of the Paint Hall, a 64,000 sq. ft. Harland & Wolff paint shed5 (now ad hoc studio) which sits immediately adjacent to the new build studios, together with a post Good Friday agreement economic ‘bounce’ driving development on the vacant port area in Belfast, were the key factors that made this studio project happen (alongside NI Screen’s strong advocacy of course).

It is also significant that Titanic Quarter Ltd has just borrowed £75m (Mar 2017) from Danske Bank to further develop the area with “Grade A offices, media, hotels, residential, leisure and tourism”6, which encapsulates not only the organisation’s spending power, but how a marquee development such as a film studio can powerfully articulate prosperity and placemaking – which is ultimately to the longer-term benefit of the developers and their wider strategy for the docks area in Belfast.

A total of £820m7 will be spent on mixed use development at Titanic Quarter by 2020. The £8.3m spent on Titanic Studios8, approximately 1% of this overall spend, appears to be a very prudent investment in context of the longer-term aspirations of the developer.

In terms of Belfast Harbour Studios, one can only speculate on the return on investment (ROI) on a £20m studio development9 for such a niche proposition and real estate offer, at 120,000 sq. ft. of offices, workshops and studios, with income predicated on occupation by single, short to medium term occupants.

My personal assessment is that the ROI on the studio itself will be below market average, but like Titanic Quarter Ltd, is part of a wider development strategy for the 340-acre site North Foreshore site10 – one which could be crudely described as a ‘loss leader’. I say below market average, as I would be very surprised if the studio, at current market rental levels and compared to other sectors such as industrial and retail warehousing, offered a comparatively prime yield for a private investor, hence my consideration of other, contributory reasons for its construction.

Therefore, it would be reasonable to state that without specific factors such as legacy assets, political will, or strategic placemaking initiatives, new build stand-alone studio developments are challenging and typically rely on other non-screen industry related income streams to stack up. Pentland Studios themselves have been very open to this fact when presenting their proposal, hence the inclusion of other assets such as an energy centre, offices, leisure, and educational facilities.

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5 www.northernirelandscreen.co.uk/filming/studios
6 www.bbc.co.uk/news/uk-northern-ireland-39057836
7 www.belfasttelegraph.co.uk/business/news/titanic-quarter-75m-loan-move-will-progress-plans-for-more-developments-35473924.html
8 www.futurebelfast.com/property/titanic-studios-5-6
9 www.belfast-harbour.co.uk/real-estate/developments/belfast-harbour-studios
1.2 Vacant industrial property

In the case of repurposing industrial space for studio purposes, without guaranteed, long term, lease backed occupation, the private investment proposition is weak (which is distinct from a broadcaster/network taking over a site long-term for a returning series e.g. *Outlander*). The inherent paradox of course is that most film and television production is anything but guaranteed or long term, with often cyclical demand.

There are anomalies of course, with two examples in Wales of note – Pinewood Wales\(^{11}\), near Cardiff, and the forthcoming Wolf Studios Wales\(^{12}\), Cardiff Bay. In both cases, the Welsh Government has acquired industrial sites for screen production use, in full knowledge of them having, from day one, guaranteed, long term, lease backed tenants for the two sites i.e. Pinewood, and Bad Wolf Productions, respectively (I’m not clear on whether the Welsh Government has provided additional capital costs for the development of each site).

This neatly brings us to the question of state or public sector intervention. Indeed, provision of screen production infrastructure and the issue of state aid has been widely discussed in Scotland, and previously presented to parliament committees on various occasions by public sector representatives as a barrier to intervention, including the current Cabinet Secretary for Culture, Tourism and External Affairs\(^{13}\).

So, having just considered the example of the Welsh Government’s intervention, could the Scottish Government do the same – acquire property and become a studio landlord? In essence, yes, but who would be the guaranteed, long term entity willing to take over such a lease?

Bad Wolf Productions are a company with a large slate of projects that will be shot in the country over the next 10 years (the minimum I would say one could classify as ‘long term’ in terms of a lease), and are an emerging global production powerhouse, unparalleled (currently) in Scotland. Pinewood are in Wales for a multitude of reasons, including of course their administration of a £30m Welsh Media Investment Fund\(^{14}\). Such contributing factors have made both propositions attractive for all parties, but are factors and market conditions that do not currently exist in Scotland.

Perhaps with the increase in budget available to Creative Scotland’s Screen Unit we may be in a position in the near future to create the environment for such transactions to occur, through increased Production Growth funding, or by creating companies on the scale of Bad Wolf. However, Creative Scotland do not have direct access to capital funds, so in terms of hard cash for property acquisitions, there is no apparatus for them to intervene.

Where does that leave Scotland then, in 2017 - and further to the Screen Sector Leadership Group’s (SSSLG) report, how do we make that concerted effort to deliver enhanced studio infrastructure in Scotland, and as the committee has asked, “how might these kinds of facilities be funded?”.

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\(^{11}\) [www.pinewoodgroup.com/our-studios/uk/pinewood-studio-wales](http://www.pinewoodgroup.com/our-studios/uk/pinewood-studio-wales)


\(^{13}\) [www.parliament.scot/S4_EconomyEnergyandTourismCommittee/Inquiries/20160307_Cabinet_Secretary_to_Cttee_pre-evidence.pdf](http://www.parliament.scot/S4_EconomyEnergyandTourismCommittee/Inquiries/20160307_Cabinet_Secretary_to_Cttee_pre-evidence.pdf)

2. Funding screen and creative production facilities

The term “concerted effort” implies the screen industry, private, and public sectors working together – but in terms of the specific question at hand (the funding of screen infrastructure), state aid has been, quite legitimately, used as a barrier to the state building or developing ‘film’ studios.

However, I would argue that this is a very one dimensional take on the opportunity we now have in Scotland, and I would strongly urge the committee to consider the rapid development of **Space Studios Manchester** and the wider provision of screen production infrastructure in Manchester, since circa 2009.

In this section I will discuss their development of screen production facilities, how it relates to our own national conversation on state aid, and present an aspirational but viable option for Scotland.

### 2.1 The Manchester offer

**Space Studios Manchester**\(^{15}\) is one of three assets owned by Manchester Creative Digital Assets Ltd (MCDA Ltd), an arms-length external organization or ‘ALEO’ which is 100% owned by Manchester City Council. The other assets in the portfolio are the **Sharp Project**\(^{16}\), a 200,000 sq. ft. refurbished warehouse previously occupied by electronics company Sharp offering flexible office, screen production and event space, and **One Central Park**\(^{17}\), which is 83,000 sq. ft. of lettable office space aimed at digital and creative businesses. Since 2010, Manchester City Council has invested over £40m, both in acquiring and developing these sites, which offer a ladder of accommodation and facilities for screen and creative industries companies.

The most important and relevant statistic in terms of screen production is that across these assets there is now **more than 135,000 sq. ft. of studio or build space** – which for the avoidance of doubt is **exclusive** of the ancillary space they provide for production use, such as workshops, offices, green screen etc.

Whilst many in the industry would argue that the Sharp Project is suitable only for television drama production, Space Studios Manchester have recently (2017) constructed\(^{18}\) a 29,626 sq. ft., 12m high, state-of-the-art, new build studio space, which is undoubtedly for screen content of any description – film, television, VFX etc.

Indeed, both sites are marketed online as multi-purpose, both film and television:

**The Sharp Project** “The building has approximately 50,000 sq. ft. of space dedicated to TV and film production”.

**Space Studios Manchester** “Space Studios Manchester is a purpose-built facility for large scale TV & film production with 6 acoustically treated stages, prop storage / workshops and production facilities. The site has more than 85,000 sq. ft. of high spec stages plus purpose designed dressing & make up facilities, laundry, prop stores/workshops, catering and extensive secure parking”.

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\(^{15}\) [www.spacestudiosmanchester.co.uk](http://www.spacestudiosmanchester.co.uk)

\(^{16}\) [www.thesharpproject.co.uk](http://www.thesharpproject.co.uk)


\(^{18}\) [www.spacestudiosmanchester.co.uk/production-stages/stage-6](http://www.spacestudiosmanchester.co.uk/production-stages/stage-6)
The ALEO, Manchester Creative Digital Assets Ltd (MCDA Ltd), has one shareholder, The Council of The City of Manchester, and a board which includes Sir Richard Leese, Leader of Manchester City Council, and various local authority officers, including the city’s treasurer.\(^{19}\)

Clearly,

- MCDA Ltd is unequivocally owned and operated via the local authority, Manchester City Council.

- The local authority has acquired/purchased existing private sector sites for the provision of film and television production use.

- The local authority has provided capital costs for developing these sites for the end use of film and television production.

- Ergo, the UK has film and television studios consisting of both new build and extensively refurbished industrial space that are owned and operated through state means, which is contrary to current thinking in Scotland.

2.2 State aid in Scotland

The Scottish Parliament's Economy, Energy and Tourism Committee was previously advised on several occasions that building or developing studios for screen production use was likely to be in breach of state aid regulations. A precedent, the ruling on the Ciudad de la Luz studio complex in Valencia, has been repeatedly used. In this case, the European Commission concluded that €265m of public funding granted by the Valencia Regional Government to the Ciudad de la Luz film studio complex was not provided on market conditions and had to be paid back by the beneficiary\(^{20}\) (and it appears that two other studio operators within the eurozone made complaints as to the level of state intervention).

Interestingly, the actual studio floor plate in Valencia was approximately\(^{21}\) 120,000 sq. ft., but Manchester City Council now provides over 135,000 sq. ft. of studio production space, delivered in phases commencing 2009, 2013, and 2016, respectively. The studio in Valencia was of course hundreds of millions, with the cost of the Manchester developments relatively modest by comparison.

Was scale therefore a factor in triggering a state aid investigation? Perhaps - two European studio operators obviously felt so. However, perhaps not - the Scottish Government’s position was made clear\(^{22}\) in a letter to the Economy, Energy and Tourism Committee from the Cabinet Secretary, stating that “Scale is not the issue, so even though our ambitions are more modest than the Ciudad de la Luz, we are still constrained by the judgement”.

\(^{19}\) https://suite.endole.co.uk/insight/company/10300159-manchester-creative-digital-assets-limited
\(^{21}\) www.ciudaddelaluz.com/EN/about_us/facilities
\(^{22}\) www.parliament.scot/S4_EconomyEnergyandTourismCommittee/Inquiries/20160307_Cabinet_Secre tary_to_Cttee_pre-evidence.pdf
However, if the direction of travel in Manchester continues, they will have an enviable portfolio of studio space, from basic to high end, and are now a highly competitive player in the UK market. The largest sound stage at Ciudad de la Luz was approximately 25,000 sq. ft., but as of this year Space Studios Manchester will have a 29,626 sq. ft. facility on offer. And what if they expand further – will scale then become an issue?

The EU ruling on Ciudad de La Luz, Valencia was made in 2012. Have Manchester City Council therefore circumvented state aid guidance, at either initial, intermediary, or all stages of their development journey through their three assets, over the eight years between 2009 and 2016 - a period before, during, and after such rulings on film studios and state aid by the EU?

Rather than suggesting any impropriety, I would argue that the wider digital and creative industries strategy adopted by the local authority has allowed them to be agile and respond to, rather than be dictated by, ‘market conditions’.

2.3 Long term strategy

To date, one of the key narratives used by the council has been the ambition of making Manchester one of the world’s leading digital cities by 2020, whereby “these three projects (Sharp, Space Studios etc) will make a very visible and meaningful economic contribution to the attraction of new entrepreneurs, new business start-ups, capital and talent to Manchester, helping to deliver on our ambitions to be a global digital city”23. In summary, a city ready and enabled for a future where “85% of jobs that will exist in 2030 haven’t been invented yet”24.

Strategically, this focus on the impact of digital, entrepreneurship, and screen production, and ultimately the convergence thereof, place Manchester in an enviable position. The emergence of technology giants such as Apple and Facebook as creators of original screen content25 (and arguably now ‘entertainment' brands rather than solely film, television, music, or technology companies), presents an exciting opportunity for such ‘convergence ready’ screen clusters.

Indeed, on discussing the ongoing high-end TV drama boom, Philippe Maigret, president, ITV Studios America, recently commented “It’s only just the beginning…when you live in a world where Apple and Facebook will start commissioning TV drama then I don’t think we’re anywhere close to ‘peak TV”26.

In many ways, having considered Manchester and their future ambitions, proposing the development of stand-alone film or television studios is a tired concept for us in Scotland. There is a much more exciting and aspirational path ahead, where a convergence of people, ideas, creativity, and technology exists, and in parallel we should give thought to the type of space where such transactions (formal or informal) would take place.

23 www.manchester.gov.uk/.../item_17_-the-development-of-the-city-council-s-digi
24 www.huffingtonpost.ca/2017/07/14/85-of-jobs-that-will-exist-in-2030-haven-t-been-invented-yet-d_a_23030098
25 www.wired.com/story/facebook-apple-and-google-will-hasten-the-next-era-of-tv
Let’s not forget that convergence is precisely what the market and the screen content providers new to the sector are adopting, and building on this we could provide opportunities not only for our indigenous screen talent, but for our crews, post, VFX, and facilities companies to become globally competitive service providers.

2.4 How can we make this happen?

This ambition, on the surface, may seem very aspirational and woolly, so let’s consider how it would physically manifest itself i.e. the physical space required and “the convergence of people, ideas, creativity, and technology”.

At its heart, is a simple exercise in the economies of scale, and I would suggest five key tenets of a successful screen and creative industries development:

Firstly, the bread and butter of the business - renting space to medium to long term screen, creative, digital and technology companies on one site. There are over 84,000 individuals27 employed in the screen and creative industries in Scotland, occupying hundreds of thousands of office or production space. A new, affordable, ‘entertainment campus’ or ‘creative production’ centre would undoubtedly spark interest and attract cross discipline early adopters and occupiers. Even a modest migration of 3% to 5% of companies already active in the sector would be significant.

In addition, across the central belt in Scotland there are a multitude of creative office ‘hubs’28, probably experiencing poor economies of scale, where an aggregated campus environment would offer tenants a much more competitive arrangement based on scale, resource sharing, and co-location. Typically, office developments become more competitively priced the larger the floorplate, with lower pro rata service charges29 passed onto tenants.

The state may argue that aggregating the existing supply of creative office space is displacement30, however there is an equally strong counter policy argument that the public sector should only intervene in the economy when markets are not efficient and when the intervention would improve efficiency. Aggregating the spending power and income generation of a sector, for the cost benefit of tenants, the viability of the project, and the sector overall, seems to be a fair and efficient use of public funds and negate any displacement argument. Equally, the ROI on creative industries workspace is viewed as high risk and low yield, with companies typically of low covenant, which itself demonstrates the need for intervention.

It is also worth highlighting that this, and the following property proposals in this document, could generate considerable non-domestic rates returns for the eligible

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28 There is a clearer demarcation of the differences between hubs, clusters, creative space etc in the excellent British Council report https://creativeeconomy.britishcouncil.org/media/uploads/files/HubsReport.pdf
29 As a very simple example, a receptionist servicing a 30,000 sq. ft. property costs the same as one servicing 50,000 sq ft., but the cost passed on to the tenant is greater in the smaller space. Extrapolating this simple example across many, higher operational costs presents a clear saving, and for both parties (tenant and landlord) contributes to long term business viability.
30 Where public sector intervention may crowd out or displace future activity by the private sector with no net benefit or improvement to the economy – or more specifically in our case, undercutting private sector landlords and therefore making them less compelled to develop in the future.
local authority, based on a ‘campus’ model – over £0.75 million per annum at full capacity\(^{31}\).

Second, if Creative Scotland has now essentially double the budget to work with (admittedly spread across a wide range of screen industry activity), it would be reasonable to assume an increased production throughput for Scotland, ergo the need for physical space for this to happen (and would it be thinking too much out of the box to have the Creative Scotland Screen Unit based here, no matter how modest their office requirement?). Also, a new BBC channel, one would presume, presents an opportunity for Scottish based companies to win additional commissions and expand their back-office requirement.

What about NFTS Scotland\(^ {32}\), would they outgrow their planned occupation of the BBC in Pacific Quay within 5 years? With 450 students as their initial yearly intake, if there is an ambition to build upon those numbers, then we should be asking the question how many sq. ft. do they need and how could it tie in with a Scottish ‘entertainment campus’? This conversation could also encompass the existing FE institutions providing screen, creative, digital and technology courses.

Third, and similarly to Manchester, a portfolio of screen production spaces and stages. The term 'ladder of accommodation' perfectly describes this, from affordable repurposed warehouse space, to new build facilities for a higher end requirement. With of course, the ancillary space (workshops etc) to service such productions.

Fourth, space for emerging talent, with access to some of the wider campus facilities on a preferential basis – edits, screening facilities, event space, build spaces – when they’re not in use commercially. Collaborative workspaces and a sense of community are key at grassroots level, and we need to connect the next generation of entrepreneurs, innovators, and artists with industry resources, events, mentorship, and educational opportunities. If the numbers stack up, perhaps make membership free for 12 months, and subsidized thereafter, with an ever-evolving churn rate.

Fifth, the facilities companies servicing such activity (post houses, equipment hire etc.) would naturally gravitate towards this critical mass of activity, if the location was right. As would the VFX and tech companies with an emerging interest in screen production and newer immersive formats, who would also make use of facilities such as build spaces, green screen, and mocap.

The five opportunities above are the building blocks to creating a truly world class entertainment campus in Scotland, across many sectors and skill levels. In every case above, it would be remiss of us to let the status quo exist – that is, poor economies of scale, thousands of property square footage and companies fragmented across many sites across the country without any long-term continuity or guarantee the space will be available in the future, and crucially all the revenue, probably in the millions, flowing outwards.

\(^{31}\) Based on a mixed-use development of offices and warehouse space of around 200,000 sq. ft. using a rate poundage of 0.466 and valuations of £120 (office p/m\(^2\)) and £50 (warehouse p/m\(^2\))

Alternatively, we could start the conversation about how we retain that income\textsuperscript{33} and opportunity and create long term assets and infrastructure for our sector in Scotland.

Surely there is not enough demand for this type of space? Let's consider Glasgow - in the last ten years, the city's creative workspace offer has increased\textsuperscript{34} by over 250,000 sq. ft., if one aggregates such developments as South Block, Whisky Bond, and The Hub at Pacific Quay (there are many more). If we then consider that the creative industries are the fastest growing part of the UK economy\textsuperscript{35}, one would presume that within the next ten years a further, significant expansion of this type of space will take place in the city. Whether it be ‘entertainment’ or ‘creative production’ campus, there is clearly an opportunity for us to aggregate such expansion and develop a sustainable project – or will we look back in 2027 with a similar disparate property portfolio?

I fully acknowledge the financial pressures faced at both governmental and local authority levels in 2017, and that investment in screen or creative production facilities may be judged not to be a priority (I would of course suggest a strong economic impact case otherwise). However, I would urge the committee to now use Manchester as an exemplar of how we can move on from the perceived complexities of state aid and studio provision, and as the SSLG report recommends, undertake a concerted effort to deliver enhanced screen production infrastructure.

Which takes us back to my original statement – from a new build perspective, UK studio development seems to be exclusively private sector driven, but in this case, Manchester City Council have demonstrated a viable alternative exists.

3. A viable model?

If there is an appetite and apparatus for state or local authority intervention, then the funds must be spent carefully and with risk mitigation in mind. The business case must be robust and with full cognisance of market trends and how the industry works, but we must build/develop/refurbish a facility that’s viable and right for our own commercial conditions in Scotland.

Of course, J.J. Abrams, for example, doesn’t care if a Scottish studio is 30 mins east or west of Harthill and closer to Glasgow or Edinburgh. But, irrefutably, the screen industry is fickle and cyclical and the use of large scale studios in one particular country ebbs and flows, so if we do build something, we need to make sure it has alternative income streams to ride out such uncertain demand.

Make it an entertainment or creative production campus with lots of indigenous and hopefully inward investing international screen, creative, technology, and digital industries companies, and close to a city. Let’s not forget Pinewood has over 150 companies on the lot alongside their day to day studio throughput, providing a stable revenue for the business.

\textsuperscript{33} Conservatively, at full capacity a 200,000 sq. ft. campus could generate a rental income of circa £2.1 million, based on £12 psqft per annum for office space and £5 per annum for warehouse space.

\textsuperscript{34} The three named projects have a floorplate of 220,000 sq. ft. alone.

\textsuperscript{35} www.creativeindustriesfederation.com/policy-and-research/industrial-strategy
In Scotland 2017, empirically, the only place where you’ll make that happen is Glasgow. Most production activity takes place there; the Glasgow Film Office’s production spend figures far outweigh any other region in Scotland; the forthcoming NFTS Scotland will HQ there, alongside the BBC, STV, Axis Animation, Glasgow Film City, Blazing Griffin, and most of the country’s leading post production houses. If this model proves a success, then we can start thinking about the next stage and stand-alone studio sites, backlots, and scale.

But initially, it’s a simple equation: $Mass = Volume \times Density$, which Glasgow has.

4. **Summary**

- Generally, new build studio developments in the UK have been private sector led.

- A stand-alone new build studio is commercially a weak proposition without an existing or established asset base, or requires other non-screen industry assets with development opportunities thrown in.

- Some regions have taken advantage of other serendipitous factors to develop space, but are typically unique and specific to that region. Maybe we could find ours.

- There’s a strong and compelling studio offer in Manchester delivered entirely by public sector means, and this is an exciting opportunity for us to consider.

- Our definition of state aid therefore needs a re-think

- Develop, or don’t develop, and spend the money on grassroots, skills, training, a bigger inward investment fund – but don’t use state aid as the reason for the impasse on studio space.

- Apple, Facebook, Netflix are spending big and redefining how content is made and where its broadcast and distributed – is Scotland open for business?

- If we do build something via the public sector, the best way to mitigate against any risk is to ensure it is viable, can generate stable revenues, with lots of companies and people working in close proximity and sharing ideas and technology and assets, and be as close as possible to a critical mass of screen and creative production companies and activity (currently and obviously, Glasgow, which isn’t likely to change anytime soon).