



House of Commons  
Scottish Affairs Committee

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# **Creative industries in Scotland**

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**Second Report of Session 2015–16**





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**Second Report of Session 2015–16**

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relating to the report*

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## The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

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The current staff of the Committee are Jyoti Chandola (Clerk), Phil Jones (Second Clerk), Edward Faulkner (Committee Specialist), Steven Price (Senior Committee Assistant), Annabel Russell (Committee Assistant), Jake Barker (Social Media Assistant) and George Perry (Media Officer).

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# Conclusions and recommendations

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## Work by the Scottish Parliament

1. We note the recent work of the Scottish Parliament's Economy, Energy and Tourism Committee into the economic contribution of the creative industries in Scotland, and the positive engagement that Committee has had from the Scottish Government. We hope that we will have a similarly productive response from the UK Government in relation to the findings of this report. (Paragraph 5)

## Scale of the creative industries in Scotland

2. The different definitions used by the UK and Scottish governments for the creative industries mean that there are two completely different figures for the scale of the creative industries in Scotland. There are also issues around how smaller enterprises are captured in government data. The absence of comprehensive data regarding the creative industries in Scotland, and the lack of a common definition of these industries across both the UK and Scottish governments, can only inhibit effective policy formation and joint-working by the two governments. (Paragraph 16)
3. *We recommend that the UK and Scottish governments work together to establish how a robust assessment of the creative industries in Scotland can be achieved, and then carry this work out with a view to publishing the assessment by December 2016. This will ensure that policy decisions are made on a sound, evidential basis, and mean it is clear whether policies are supporting growth of the creative industries. The work should consider the UK Minister's suggestion of working with industry to take forward a survey to better reflect the complexity and sophistication of the creative industries. (Paragraph 17)*

## Support for the creative industries in Scotland

4. Scrutiny of Scottish public bodies is a matter for the Scottish Parliament, but we note the evidence we received from Creative Scotland and Scottish Enterprise that they have taken on board criticisms about their relationship and respective roles. However, representatives of the creative industries still expressed concerns about how public agencies engage with industry, whether the current broad range of support is useful and whether a more targeted approach would be appropriate. We hope the evidence we have received on this area is of use both to the agencies involved, and also our colleagues in the Scottish Parliament should they wish to conduct any further inquiries into this subject. (Paragraph 30)

## Role of UK wide bodies

5. Although the Scottish Government and Creative Scotland lead on support for the creative industries in Scotland, both UK Trade and Investment (UKTI) and the British Film Institute (BFI) operate across the UK. The evidence we have received about UKTI and BFI's role in Scotland has been broadly positive, but it is important

that UK-wide organisations bear in mind the need to work effectively for all parts of the UK, and are able to demonstrate that they are doing so. (Paragraph 36)

6. *We have heard that a National Lottery distributor for the computer games industry, following the model of the BFI, could support the burgeoning games industry in Scotland and across the UK. We recommend that the UK Government consult with the video games industry in early 2016 and respond to this proposal, including consideration of how it would work in concert with measures such as the Video Games Prototype Fund. (Paragraph 37)*

### Public funding for the creative industries in Scotland

7. It is disappointing that neither the UK nor Scottish governments have a clear understanding of the level of public spending on support for the creative industries in Scotland. In the absence of such information, it is hard to see how either government can be sure that the level of funding is appropriate, or going to the areas where it will be most effective. We welcome the UK Minister's encouraging response that he would think about how to show the benefit to creative industries in different parts of the UK from national schemes intended to provide support to those industries. (Paragraph 41)
8. *We recommend that the UK Government work with the Scottish Government to clarify what level of public funding is provided to the creative industries in Scotland, and include this information in its response to this report. This assessment should cover the various Scottish and UK-wide funds that support these industries in Scotland. (Paragraph 42)*

### Creative tax reliefs

9. Although the current tax reliefs for the creative industries were welcomed by most of our witnesses, we have heard that, in practice, they have been of limited benefit to the creative industries in Scotland because of the smaller scale of Scottish creative enterprises and the draw of existing hubs such as London. As the limited information available on take up of these reliefs is not broken down to a Scotland level, it is impossible to determine the extent to which these reliefs are benefitting different parts of the UK. Given the creative tax reliefs are a UK-wide scheme, it is important that they benefit the creative industries in all parts of the UK, not just those in London and other urban centres. (Paragraph 53)
10. *The UK Government should, in its response to this report, set out the benefit creative enterprises in Scotland have received from the creative industries tax reliefs, compared to the other nations and regions of the UK. We also recommend that the UK Government work with representatives of the creative industries in Scotland to assess how the creative tax reliefs could be adapted so as to be of greater benefit to Scotland. Options should include variable rates of tax relief for different parts of the UK, creating a tax relief for the music industry and piloting a tax relief for SMEs working in the creative sector. (Paragraph 54)*



11. *The creative industry tax reliefs have been welcomed by the creative sector in Scotland, but there is a need to take action to ensure that these incentives are taken up by companies based across the UK, including in Scotland. We recommend that the UK Government work with the Scottish Government, Creative Scotland and Scottish Enterprise to promote the availability of these tax reliefs and enable Scottish creative enterprises to benefit from them. (Paragraph 56)*

### Intellectual property and the European Digital Single Market

12. Intellectual property underpins the economic potential of the creative industries in Scotland, and it is essential that creative enterprises are well-informed about the UK's intellectual property framework, and that the interests of the creative industries in Scotland are considered by the Intellectual Property Office (IPO) when changes to IP are being considered. (Paragraph 62)
13. *We were encouraged to hear that the IPO already engages with Scottish industry and colleagues in Scotland, but both the Scottish Government and a number of other witnesses have told us there is a need for more effective communication with creative enterprises regarding IP issues. We recommend that the IPO work with the Scottish Government and Scottish industry groups to explore how Scottish enterprises can be supported to secure and capitalise on their intellectual property. We expect the IPO to review its operations in Scotland and respond to the concerns we have received about the need for better communication between the IPO and creative enterprises in Scotland. (Paragraph 63)*
14. *We have heard concerns that some of the European Commission's proposals for a Digital Single Market could adversely affect the creative industries in Scotland, by hampering the ability of IP owners to monetise their property in different ways across Europe. The UK Government must, in its response to this report, consider and respond to the concerns we have heard. This should inform the UK's position on the European Commission's proposals. (Paragraph 68)*

### Immigration

15. We note the concerns raised by a number of witnesses, including Creative Scotland and the Scottish Government, that UK immigration rules act as a barrier to attracting and retaining talent to Scotland. We will be looking at these issues in more detail as part of our inquiry into post-study work schemes for international students. (Paragraph 71)

### Rurality and broadband

16. Access to broadband is an important issue far beyond its impact on the creative industries, but we have heard that poor internet access is a particular barrier to creative enterprises in rural Scotland. It is essential the UK and Scottish governments work together to ensure the successful rollout of broadband across Scotland. (Paragraph 74)

### Apprenticeships levy

17. It is troubling that the UK Government is taking forward a UK-wide apprenticeships levy on employers without setting out how proceeds from the levy will be distributed to Scotland, where skills policy is devolved. This has created a situation where it is known that Scottish employers will have to pay the levy, but it is not clear how Scotland will benefit. This indicates a lack of forethought about the relationship between the UK-wide policy and the devolved area of responsibility that it relates to. We note that the UK Government is now engaging with Scottish ministers about how the skills levy will operate in Scotland, and welcome the Minister for Skills' statement that Scotland will get its "fair share" of proceeds. (Paragraph 77)
18. *We recommend that, in its response to this report, the Government clearly set out how proceeds from the apprenticeships levy will be distributed to Scotland, where skills policy—including apprenticeships—is a devolved matter. (Paragraph 78)*

### Broadcasting and the BBC in Scotland

19. Although the regional quotas requiring Public Service Broadcasters to commission productions outside of London have been effective in changing the balance of spending across the UK, there remain serious concerns about the extent to which the policy is helping to support a sustainable production sector in Scotland. There is also evidence that Scottish production companies are disadvantaged by poor access to commissioners. (Paragraph 90)
20. *We recommend that Ofcom review its definition of out-of-London productions, with a view to ensuring that spending by Public Service Broadcasters on out-of-London productions goes to indigenous production companies. This should include looking at whether local on-screen talent and ownership of IP should be included in the criteria for regional productions. (Paragraph 91)*
21. *The BBC and Channel 4 should take immediate action to better engage with Scottish production companies to ensure there is no disadvantage in being located in Scotland when it comes to opportunities to win commissions. This should include locating a greater proportion of commissioners in Scotland—access to commissioners being a key issue which was highlighted to us by the Scottish production sector. (Paragraph 92)*
22. We welcome the focus there has been, during the debate about renewal of the BBC Charter, on serving the different nations and regions of the UK. It is important that the BBC takes the opportunity Charter Renewal represents to ensure it responds to concerns about the extent to which its content provides for and reflects the audience in Scotland. (Paragraph 99)
23. We note the First Minister's suggestion for a federal structure for the BBC and the possibility of a separate BBC channel for Scotland, and the comments we received both in favour and against. The BBC will no doubt take note of this debate, and in particular the principle that BBC's future services in Scotland should represent the needs and views of the people in Scotland, as it considers its future services. (Paragraph 105)

## UK Government engagement

24. The Creative Industries Council is widely regarded as a useful body for representatives of the creative industries to engage with the UK Government. It is not at all clear, given the UK-wide nature of the Council's members and the reserved nature of many of the policy areas it considers, why this body has an England-only remit. What is clear is that the creative industries in Scotland have been at a disadvantage, as a result of exclusion from the Council, in making representations to the UK Government on reserved policy matters. We welcome the Minister's openness to permanent Scottish representation on the Council. (Paragraph 111)
25. *We recommend that the membership of the Creative Industries Council be expanded to include Creative Scotland as a full member of the council, so that the interests of creative enterprises in Scotland can be represented on reserved matters such as intellectual property and creative tax reliefs. Further, given the Council's consideration of a number of reserved policy areas, we also recommend that the Government reconsider the "England-only" remit of the Council to reflect the interests of other parts of the UK in these policy areas. (Paragraph 112)*
26. We have considered a wide range of policy areas which affect the creative industries in Scotland, and made specific recommendations, intended to improve support for and representation of the creative industries in Scotland. The central theme arising from our inquiry was that the mix of devolved and reserved policy areas, and range of UK and Scottish agencies and bodies involved in supporting and representing the creative industries, means that effective engagement between the UK and Scottish governments, and both governments and industry in Scotland, is essential. The UK and Scottish governments must work together and work with Scottish industry to take forward the recommendations we have set out in this report, in order to create an environment which enables the creative industries in Scotland to achieve their enormous potential. (Paragraph 115)
27. *Given the mix of devolved and reserved policy areas affecting the creative industries, it is essential that the UK and Scottish governments coordinate effectively. We recommend that, when considering policy affecting the creative industries, the Department for Culture, Media and Sport and the Department for Business, Innovation and Skills consult with the Scottish Government on the impact on Scotland and needs of the creative industries in Scotland. We also recommend that the Scotland Office, given its responsibility for representing Scottish interests within the UK government, ensure that the Scottish Government is able to make representations to the UK Government regarding reserved policy areas which affect the creative industries in Scotland. In preparing a response to this report, the UK Government should consult with the Scottish Government on the recommendations we have made. (Paragraph 116)*



# 1 Background to our inquiry

1. Scotland's creative industries are an international success story, having produced some of the world's best creative talent and some of the world's best-selling creative content. Scotland also hosts the world's largest arts festival, the Edinburgh Festival Fringe, which brings together performers and audiences from across Scotland, the UK and the world.

## Our inquiry

2. The creative industries in Scotland have been tremendously successful, and they will no doubt continue to be so. For the potential of these industries to be maximised, however, it is essential that industry views are taken into account by both the UK and Scottish governments in order to create the right policy framework for supporting creative enterprises and benefitting the Scottish economy and Scotland's reputation as a centre of creative talent.

3. The Scottish Parliament's Economy, Energy and Tourism Committee recently held an inquiry into the economic impact of the creative industries in Scotland, looking at the film, TV and video games industries, and produced a report in March 2015.<sup>1</sup> Their work focused on devolved areas of responsibility but also considered the impact of reserved matters such as tax reliefs, immigration and broadcasting. The Scottish Government responded to the report in May 2015, accepting a number of their recommendations and committing to take action on them.<sup>2</sup>

4. We launched our inquiry into the creative industries in Scotland to focus on some of the reserved policy areas highlighted by the Scottish Parliament's Economy, Energy and Tourism Committee and to look at how the interests of the creative industries in Scotland are represented at a UK-level.<sup>3</sup> As part of our inquiry, we held evidence sessions in Dundee, one of the UK's key hubs for the computer games industry, Glasgow, the broadcasting centre of Scotland, and in Westminster. We are grateful to all those who attended our meetings in Scotland and London, and to those who submitted written evidence.<sup>4</sup>

**5. We note the recent work of the Scottish Parliament's Economy, Energy and Tourism Committee into the economic contribution of the creative industries in Scotland, and the positive engagement that Committee has had from the Scottish Government. We hope that we will have a similarly productive response from the UK Government in relation to the findings of this report.**

## Responsibility for the creative industries

6. Responsibility for the policy areas affecting the creative industries in Scotland is split between the UK and Scottish governments. Culture and heritage are the responsibilities of the Scottish Government, and it takes the lead on direct support for the creative industries. The Scottish Government also has responsibility for the related areas of skills

1 Scottish Parliament, Economy, Energy and Tourism Committee, [The economic impact of the film, TV and video games industries](#), March 2015

2 Scottish Government, [Scottish Government response to the Economy, Energy and Tourism Committee Inquiry into the Economic Impact of Scotland's Creative Industries](#), May 2015

3 The full terms of reference for this inquiry are available online: [Creative industries in Scotland terms of reference](#), Scottish Affairs Committee, July 2015

4 A full list of those who gave evidence to the Committee is available on pages 40–41.

and higher education. Broadcasting, creative tax reliefs and intellectual property are all reserved matters, and the responsibility of the UK Government. The UK Government also has overall responsibility for UK trade and industry.

## 2 Scale of the creative industries in Scotland

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7. The creative industries are hugely important to the Scottish economy, employing tens of thousands of people and contributing billions of pounds to the Scottish economy. However, there are questions about the exact size of these industries in Scotland, and whether the different figures produced by the UK and Scottish governments act as a barrier to better co-ordinated policy.

### Data on the size and economic contribution of the creative industries

8. The UK and Scottish governments each produce their own figures for the number of people employed in the creative industries in Scotland. The Scottish Government puts the figure at 71,000,<sup>5</sup> while the UK Government puts it at 102,000.<sup>6</sup> The UK Government also produces figures for the “creative economy”, which includes creative workers who are not employed by a creative enterprise. The UK Government puts the number of people employed in Scotland’s creative economy at 174,000.<sup>7</sup> These differences are largely down to the different definitions used by the UK and Scottish governments,<sup>8</sup> but there are a number of other issues with assessing the scale of the creative industries in Scotland, including:

- The small size of many creative enterprises in Scotland means they are not captured in employment and economic data.
- Creative enterprises do not always have the right industry code—which is used by the ONS and Companies House to classify the area a business works in—applied to them.
- Many datasets do not distinguish between the creative industries of the UK as a whole and those based in Scotland.<sup>9</sup>

9. The UK Government told us that, across the whole of the UK, the creative industries were worth £76.9bn in 2013, equating to 5% of the UK economy, but that it was not possible to break down this figure for the constituent parts of the UK.<sup>10</sup> The Scottish Government’s own assessment of the economic contribution of these industries in Scotland found that they had a turnover of £5.8 billion in 2014.<sup>11</sup>

10. As well as the size of the industry overall, it is also important to consider the size of individual creative enterprises. In Scotland, unlike other parts of the UK, particularly London, they are predominantly small and micro enterprises. The Scottish Government’s written evidence stated that, of the 13,825 registered enterprises operating in the sector in March 2014, 97.9% were small (0–49 employees).<sup>12</sup>

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5 Q199

6 Department for Culture, Media and Sport, [Creative Industries: Focus on Employment](#) June 2015

7 Scotland Office ([CIS0066](#)) para 8

8 Q66

9 Live Music Exchange ([CIS0015](#)) para 4, Professor Robin MacPherson ([CIS0031](#)), Design Council ([CIS0036](#)) para 12, UK Music ([CIS0041](#)) para 9, Alliance for Intellectual Property ([CIS0044](#)), Q224

10 Scotland Office ([CIS0066](#)), Q256

11 Q199

12 Scottish Government ([CIS0056](#))

11. We have been told that there is a need for better data about the creative industries in Scotland to ensure that policy is formed on the basis of sound evidence.<sup>13</sup> We have also been told that it would be helpful if the UK and Scottish governments agreed a common methodology for measuring these industries, so that there was a shared understanding between both governments.<sup>14</sup>

12. Addressing the importance of accurate data to forming policy affecting the creative industries, Jo Dipple, the Chief Executive of UK Music, told us that in order to assess whether a policy was good or bad you needed to be able to measure its impact.<sup>15</sup> Brian Baglow, from the Scottish Games Network, made a similar point with regards to the games industry, telling us: “until we understand the scope, the size and the locations of the games industry here in Scotland, it is very difficult to do anything effectively, based on actual hard data”.<sup>16</sup> Creative Skillset supported a more joined-up approach with regard to assessing the scale of the creative industries between the UK and Scottish governments and told us that: “In developing a universal understanding of employment in the sector, the two Governments should agree on a common methodology for measuring and assessing the sector.”<sup>17</sup> Fiona Hyslop MSP, the Scottish Government’s Cabinet Secretary for Culture, Europe and External Affairs, told us that data on the creative industries did present a challenge, but that the Scottish Government did not want to “create an industry out of statistics”.<sup>18</sup>

13. When we asked the UK Minister of State for Culture and the Digital Economy, Ed Vaizey MP, how the lack of clear, consistent data on the creative industries in Scotland could be addressed, he told us:

I myself have torn my hair out in frustration in terms of how you define particular sectors and how those statistics are collected.

[..]

I would certainly be up for seeing whether we could come up with a survey that perhaps better reflects the complexity and sophistication of the creative industries. [...] I do think it is worth a robust discussion and I certainly would not rule out [...] having a separate survey that was done effectively by the industry, in conjunction with the Government, better to reflect what I think is a much more interesting economy than perhaps the official statistics show.<sup>19</sup>

He also said there was scope for the UK and Scottish governments to discuss how they came up with their estimates for the size of the creative industries, and see if there was some way to “meet in the middle”.<sup>20</sup>

14. In addition to the general issues regarding data on the creative industries in Scotland outlined above, we have also been told of particular cases where research has seriously underestimated the size of a sector in Scotland. Brian Baglow, from the Scottish Games

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13 Q4 [Brian Baglow], Q226

14 Creative Skillset ([CIS0032](#)) para 2.3, Q225

15 Q226

16 Q4

17 Creative Skillset ([CIS0032](#)) para 2.3

18 Qq199-200

19 Q256

20 Q257



Network, told us that a 2012 Economic Contribution Study of the computer games industry in Scotland was “one of the most wrong-headed pieces of research ever produced” and that it had underestimated the size and value of the sector in “almost incalculable terms”.<sup>21</sup> The study stated that the computer games industry in Scotland directly employed around 200 people, and reported gross value added (GVA) of less than £10 million in 2010.<sup>22</sup> These findings were the subject of significant criticism from the industry, which argued they grossly underrepresented the scale of the computer games industry in Scotland.<sup>23</sup>

15. Brian Baglow suggested that the research “had done a great deal of damage because there are policies being made that use this as hard evidence.”<sup>24</sup> When we challenged Creative Scotland on this point, Janet Archer, Chief Executive, told us that: “when that report was produced, we did not account for the full extent of the scale and size of the games sector in Scotland” but added that this had since been addressed.<sup>25</sup> However, when we took evidence from the computer games industry we were told that there was still “no real hard and fast data out there about the size or the scope of the games industry in Scotland.”<sup>26</sup> TIGA—a trade body for the UK’s games industry—told us that they conducted an annual survey of the computer games industry, which they felt gave a reasonably accurate picture of this sector.<sup>27</sup> However, their figures on the proportion of the UK’s games industry made up of Scottish enterprises differed substantially from those produced by Ukie, another industry body representing the UK interactive entertainment industry.<sup>28</sup>

**16. The different definitions used by the UK and Scottish governments for the creative industries mean that there are two completely different figures for the scale of the creative industries in Scotland. There are also issues around how smaller enterprises are captured in government data. The absence of comprehensive data regarding the creative industries in Scotland, and the lack of a common definition of these industries across both the UK and Scottish governments, can only inhibit effective policy formation and joint-working by the two governments.**

*17. We recommend that the UK and Scottish governments work together to establish how a robust assessment of the creative industries in Scotland can be achieved, and then carry this work out with a view to publishing the assessment by December 2016. This will ensure that policy decisions are made on a sound, evidential basis, and mean it is clear whether policies are supporting growth of the creative industries. The work should consider the UK Minister’s suggestion of working with industry to take forward a survey to better reflect the complexity and sophistication of the creative industries.*

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21 Q4

22 DC Research, [Economic Contribution Study](#), June 2012

23 TIGA, [Video Games a vital part of Scotland’s creative industries](#), September 2012

24 Q4

25 Q172

26 Q4 [Brian Baglow]

27 Q3

28 Ukie ([CIS0016](#)), TIGA ([CIS0052](#)) para 1.3

## 3 Support for the creative industries in Scotland

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18. As culture is a devolved matter, the Scottish Government and a number of Scottish public agencies lead on support for the creative industries in Scotland. There are also bodies which provide support to these industries across the UK. Given our role as a Committee of the UK Parliament we have focused our consideration on the role of UK bodies and the collaboration between UK and Scottish bodies. The Scottish Parliament's Economy, Energy and Tourism Committee's inquiry into the economic impact of the creative industries in Scotland looked at the role of Scottish agencies involved with supporting the creative industries.<sup>29</sup>

### Public sector support for the creative industries in Scotland

19. The agency which leads on support for the creative industries in Scotland is Creative Scotland, which was established by the Scottish Government in July 2010, taking over the functions and resources of Scottish Screen and the Scottish Arts Council.<sup>30</sup> Creative Scotland was also given responsibility for the “creative industries” more broadly, and in particular the task of promoting and supporting commercial activity focused on the application of creative skills. Its purpose is to support the development of the arts, screen and the creative industries across all parts of Scotland. Creative Scotland coordinates Scotland's Creative Industries Partnership (SCIP), which is made up of the Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, the Convention of Scottish Local Authorities, the Scottish Funding Council and Scottish Development International.

20. While Creative Scotland leads on cultural support, Scottish Enterprise supports the economic development of a range of industries in Scotland, including the creative industries. They provide individual company and business support to companies with high growth ambitions. Scottish Enterprise's current business plan refers specifically to the “opportunities for creative industries in the creation, distribution and commercial exploitation of digital content”, and states that its own role is to “attract new companies as investors to Scotland as well as seeking out and delivering global opportunities”.<sup>31</sup>

### *The role and focus of Scottish public agencies*

21. Since Creative Scotland was established in 2010, replacing Scottish Screen and the Scottish Arts Council, there has been considerable debate about its role and the roles of other public agencies involved in supporting the creative industries. The Scottish Parliament's Economy, Energy and Tourism Committee found that the “different remits of Creative Scotland and Scottish Enterprise have led to confusion in the sector about the roles and responsibilities of each”.<sup>32</sup> They found that the cultural focus of Creative Scotland and business focus of Scottish Enterprise meant that it was not clear which agency led on

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29 Scottish Parliament, Economy, Energy and Tourism Committee, [The economic impact of the film, TV and video games industries](#), March 2015

30 Creative Scotland (CIS0050)

31 Scottish Enterprise (CIS0035)

32 Scottish Parliament, Economy, Energy and Tourism Committee, [The economic impact of the film, TV and video games industries](#), March 2015

support for sectors such as computer games and television, which have both cultural and business elements, and, as a result, no agency was championing these industries

22. In evidence to this Committee, we have heard similar concerns about the role of Creative Scotland and Scottish Enterprise, and how well they are able to support the commercial creative industries.<sup>33</sup> Although Brian Baglow, Director of the Scottish Games Network, praised the support SCDI and Scottish Enterprise had given the games industry, he also said that it was not clear exactly what the role of each organisation was, and that “many companies find it off-putting, not knowing exactly what each organisation can do to help them on a practical basis or indeed who they should be talking to on an ongoing basis.”<sup>34</sup>

23. Other witnesses argued that the separate roles of Creative Scotland—focusing on the creative side—and Scottish Enterprise—focussing on the business side—made sense.<sup>35</sup> David Smith, Director of Creative Industries at Scottish Enterprise, told us that a diverse Scottish creative sector “requires and asks for, to some extent, a diversity of organisations with particular remits to complement and support that body or the breadth and diversity of the creative industries”. He told us that in terms of who was providing support:

we are very clear that the enterprise agencies lead on business support, Creative Scotland lead in relation to the overall screen sector and overall cultural support, and Skills Development Scotland take a lead on screen, and we all work together under the chairmanship of Janet Archer in Creative Scotland to ensure that all of our activity is co-ordinated.<sup>36</sup>

24. When asked about the relationship between Scottish Enterprise and Creative Scotland and the lack of clarity about which organisation would provide support, Janet Archer, Chief Executive, Creative Scotland, accepted that “perhaps things were not working as effectively as they could have done, and there was confusion in terms of who could go where for what” but said that this had improved in recent months as Creative Scotland worked towards its creative industries strategy,<sup>37</sup> which was published in draft in October 2015.<sup>38</sup>

25. As well as concerns over the relationship between Creative Scotland and Scottish Enterprise, some witnesses suggested that the breadth of industries Creative Scotland is responsible for was itself an issue and that the current approach was well-intentioned but lacking in focus. Chris van der Kuyl, Director of 4J Studios—a games company based in Dundee—argued that “someone somewhere who has responsibility for this needs to pick the winner” and that “Right now, it is like taking a tiny sliver of butter and spreading it over everything; nobody tastes it. We need to focus.”<sup>39</sup> With regards to public support for the games industry in Scotland, he went on to say:

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33 Dr Bell Doyle ([CIS0009](#)) para 1.5, University of the West of Scotland ([CIS0013](#)), Screen Facilities Scotland ([CIS0023](#)), Professor Robin MacPherson ([CIS0031](#)), Channel 4 ([CIS0047](#)), Equity ([CIS0048](#)) para 40, STV ([CIS0051](#)), Publishers Association and Publishing Scotland ([CIS0064](#))

34 Q12

35 Q15 [Professor Gregor White], Q29 [Malath Abbas]

36 Q174

37 Q176

38 Creative Scotland, [Creative Industries Draft Strategy open for feedback](#), October 2015

39 Q26

Either we decide that this is such a focus that we are going to get a games champion and put them into a position of strength so they are able to pull in the right agencies, come up with strategies, implement them quickly and have real teeth to do that, or we just have reactive generic agencies that we will all come knocking at if we so feel like it. But to go with the bit in the middle, where we pretend to do it, is a waste of everybody's time and money.<sup>40</sup>

26. Janet Archer told us that Clive Gillman, their Director of the Creative Industries, would be “championing the games sector”, and had already met with industry representatives.<sup>41</sup> It is not clear to what extent this will respond to the criticisms we have heard about the focus given to the computer games industry, or suggestions that an approach focusing on certain industries would be more effective than the broad approach being pursued at present.

### **Scotland's Creative Industries Partnership**

27. As noted above, Creative Scotland coordinates Scotland's Creative Industries Partnership (SCIP), which brings together the various Scottish agencies involved in providing support to the creative industries. Janet Archer told us that, given the number of agencies involved, effective coordination was crucial to ensure that services were not duplicated, that agencies were able to signpost correctly and that public resources were used in the most effective way.<sup>42</sup> David Martin, Creative Industries Sector Manager at Skills Development Scotland, told us that the successful co-ordination between the various public agencies had been demonstrated in drawing up the skills development plan for the creative industries, which required engagement from across the sector as well as from public partners.<sup>43</sup>

28. We have been told that the SCIP has been successful at bringing together public support for the sector, but that there is a need for greater industry involvement.<sup>44</sup> This principle was recognised by Fiona Hyslop MSP, who told us that a key consideration was “how you make sure that the voices of industry are driving the decisions about what we do”.<sup>45</sup>

29. Janet Archer suggested that a focus on industry involvement missed the purpose of the SCIP which was to “bring together the different public sector agencies and public bodies in Scotland that are involved in the creative industries to ensure that best use of public sector resources is always in effect”.<sup>46</sup> In terms of industry engagement, Ms Archer told us that there were industry groups to inform the SCIP's work, but acknowledged that there was a question about “whether or not we should formalise that engagement through industry being part of the wider SCIP membership”. David Martin, the Creative Industries Sector Manager at Skills Development Scotland, told us that they had set up the Creative Industries Skills Forum, to provide an “industry-led public partnership”, when working on the skills development plan for the creative industries.

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40 Q29

41 Q189

42 Q175

43 Q175

44 Q12 [Professor Gregor White], Q88 [Alasdair Smith]

45 Q206

46 Q178

30. **Scrutiny of Scottish public bodies is a matter for the Scottish Parliament, but we note the evidence we received from Creative Scotland and Scottish Enterprise that they have taken on board criticisms about their relationship and respective roles. However, representatives of the creative industries still expressed concerns about how public agencies engage with industry, whether the current broad range of support is useful and whether a more targeted approach would be appropriate. We hope the evidence we have received on this area is of use both to the agencies involved, and also our colleagues in the Scottish Parliament should they wish to conduct any further inquiries into this subject.**

### *The role of UK-wide bodies*

31. For the most part, it is Scottish agencies which are responsible for supporting the creative industries in Scotland, but there are also bodies which operate on a UK-wide basis. UK Trade and Investment (UKTI)—the UK’s agency for supporting businesses to succeed in international markets—is involved in promoting exports and inward investment across the UK, and the British Film Institute (BFI) is responsible for distributing National Lottery funds to support British film on a UK-wide basis.

32. Both UKTI and Scottish Development International—Scotland’s international enterprise agency—have a role in promoting trade and investment in Scotland. The evidence we received from the UK Government stated that “UKTI works closely with the Scottish Government on specific areas of the creative industries international strategy, particularly on inward investment and Scottish Government priority areas such as screen and games.”<sup>47</sup> Several of our witnesses highlighted the importance to the creative industries of attracting inward investment,<sup>48</sup> and noted the role of UKTI in supporting the Scottish creative industries in international markets.<sup>49</sup>

33. In June 2014, UKTI’s Creative Industries Sector Advisory Group launched the Creative Industries International Strategy, the stated aims of which were to double the value of creative industries exports to £31bn, double the amount of creative businesses that UKTI helps (from 7,500 to 15,000), and double the value of inward investment in creative UK businesses by 50%.<sup>50</sup> The strategy did not set out UKTI’s plans for different parts of the UK. Ed Vaizey MP, talking about the role for UKTI in promoting video games, acknowledged that it was “important that UKTI has a comprehensive understanding of what opportunities are available in Scotland”.<sup>51</sup>

34. The BFI funds a range of film-related activities in Scotland, many of which it runs in partnership with Creative Scotland.<sup>52</sup> These include film education activities, skills development, film festivals and awards to film makers. In terms of the level of spending in Scotland, Amanda Nevill, the Chief Executive Officer of BFI, told us that “If we were to look at just the lottery investment, the per capita [...] is just slightly higher [in Scotland] than that in England”.<sup>53</sup>

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47 Scotland Office ([CIS0066](#))

48 Q6, Q8 [Dr Jo Twist], Q163 [Charlotte Wright], Q239 [Amanda Nevill]

49 Design Council ([CIS0036](#)) para 14, UK Music ([CIS0041](#)) paras 23-24, Scottish Government ([CIS0056](#)), Scotland Office ([CIS0066](#)) Annex C, Q185 [David Smith]

50 UK Trade and Investment, [UK Creative Industries – International Strategy](#), June 2014

51 Q267

52 British Film Institute ([CIS0062](#))

53 Q227

35. In light of the success of BFI as a distributor of National Lottery funds to the British film industry, we have been told that there are opportunities for new UK-wide initiatives which could benefit the creative industries in Scotland. Nesta—a charity focused on supporting innovation—told us that the UK Government should establish a National Lottery distributor for the video games industry, following the model of the BFI, stating that this would “enable burgeoning Scottish games talent and leading Scottish games companies alike to benefit from targeted funding”.<sup>54</sup> The evidence we received from TIGA suggested that the UK or Scottish governments should consider introducing a “Creative Content Fund” to provide loans to small studios to “encourage new studio formation, stimulate creativity and co-fund new content generation and IP generation.”<sup>55</sup> Along similar lines to this concept, the Government recently created a Video Games Prototype Fund, which will provide £4 million from 2015 to 2019, aimed at helping smaller companies get concepts off the drawing board and into production.<sup>56</sup>

**36. Although the Scottish Government and Creative Scotland lead on support for the creative industries in Scotland, both UK Trade and Investment (UKTI) and the British Film Institute (BFI) operate across the UK. The evidence we have received about UKTI and BFI’s role in Scotland has been broadly positive, but it is important that UK-wide organisations bear in mind the need to work effectively for all parts of the UK, and are able to demonstrate that they are doing so.**

*37. We have heard that a National Lottery distributor for the computer games industry, following the model of the BFI, could support the burgeoning games industry in Scotland and across the UK. We recommend that the UK Government consult with the video games industry in early 2016 and respond to this proposal, including consideration of how it would work in concert with measures such as the Video Games Prototype Fund.*

## Public funding for the creative industries in Scotland

38. Because of the mix of Scottish and UK-wide bodies which support the creative industries in Scotland, public funding for the creative industries is provided by both the UK and Scottish governments. We have been told by both governments that it is extremely difficult to establish the exact level of public funding which goes to supporting the creative industries in Scotland, but the main sources of public support are set out in the table below.

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54 Nesta ([CIS0013](#)) para 28

55 TIGA ([CIS0052](#)) para 4.16

56 Department for Culture, Media and Sport, [£4m fund to kick-start the next ‘Tomb Raider’](#), October 2015

Table 1: Public funding for the creative industries in Scotland<sup>57</sup>

Scotland	UK
Creative Scotland grants (£81 million for 2015/16)	BBC spend (£90 million network TV spend in Scotland, for 2013)
Production Growth Fund for film and TV (£1.75 million over 15/16 and 16/17)*	Skills Investment Fund (£4 million, across the UK, for 2015-16)
Scottish Government funding for National Performing Companies (£23 million in 2013)	Video Games Prototype Fund (£4 million, across the UK, for 2015-19)
Scottish Funding Council grants (£26 million in grants, to educational institutions focussed on the creative arts, in 2013/14)	British Film Institute support for British film (£34 million, across the UK, in 2014/15)
Business support services	Creative industry tax reliefs

\*This fund includes £1 million of existing Creative Scotland funds

39. When we asked Fiona Hyslop MSP about overall public funding for the creative industries in Scotland, she told us:

There is a challenge in identifying all the different pockets of money, because you have skills from Skills Development Scotland; you have the Scottish Funding Council. [...] I am not sure you would necessarily be able to pinpoint that.<sup>58</sup>

40. Similarly, when we asked Ed Vaizey MP whether there was comprehensive data on how UK funds benefited different parts of the UK, he told us:

I think it is a challenge to me that I should take up [...] I think it will be a very useful thing when we take away what I now regard as a work programme from the Chairman, in terms of taking a comprehensive look at the creative industries' data and speaking to each of the organisations that have a national remit, such as the HLF.

[...] I am sure the BFI will also have data on what films are made in Scotland. [...] You have given me the opportunity to think more creatively about how we publish that data to show not only how Scotland benefits, but how other parts of the United Kingdom benefit from these national schemes.<sup>59</sup>

**41. It is disappointing that neither the UK nor Scottish governments have a clear understanding of the level of public spending on support for the creative industries in Scotland. In the absence of such information, it is hard to see how either government**

<sup>57</sup> Creative Scotland [Creative Scotland Annual Plan 2015-16](#), 2015, Scottish Government, [Growing film and TV production](#), September 2015, Scottish Funding Council, [Annual Report and Accounts 2013/14](#), Scottish Government, [National Performing Companies Two Year Annual Report on Activities April 2012 to March 2014](#), January 2015, [written evidence from the BBC to the Scottish Parliament, Economy, Energy and Tourism Committee](#), HM Treasury, [Budget 2015](#), March 2015, Department for Culture, Media and Sport, [£4m fund to kick-start the next 'Tomb Raider'](#), October 2015, British Film Institute, [BFI Annual Report and Financial Statements: 2014-15](#), July 2015

<sup>58</sup> Q204

<sup>59</sup> Q261

can be sure that the level of funding is appropriate, or going to the areas where it will be most effective. We welcome the UK Minister's encouraging response that he would think about how to show the benefit to creative industries in different parts of the UK from national schemes intended to provide support to those industries.

*42. We recommend that the UK Government work with the Scottish Government to clarify what level of public funding is provided to the creative industries in Scotland, and include this information in its response to this report. This assessment should cover the various Scottish and UK-wide funds that support these industries in Scotland.*



## 4 Reserved policy areas

43. Although culture is a devolved matter there are several reserved policy areas which affect the cultural industries in Scotland. These include creative industry tax reliefs, intellectual property and broadcasting. Other UK Government policies which witnesses have raised as issues affecting the creative industries in Scotland are immigration rules, the rollout of broadband and the Apprenticeships Levy.

### Tax reliefs

44. There are a number of tax reliefs available to the creative industries for Film, Animation, High-end Television, Video Games Development and Theatre.<sup>60</sup> They allow qualifying companies to claim a deduction, or in some cases a payable tax credit, when calculating their taxable profits. To qualify for the reliefs productions must pass a ‘cultural test’—administered by the British Film Institute—certifying that the production is British.

45. Our consideration of the role of creative tax reliefs in Scotland has been hindered by the fact that there is a lack of information on how these reliefs have been taken up across the UK, and also that the information that is available is not broken down to show uptake in different parts of the UK. HMRC has produced a summary of claims for the Film Tax Relief covering 2006 to 2014,<sup>61</sup> and the BFI has produced a report looking at the economic contribution of those sectors eligible for tax reliefs, including an assessment of the benefit of these reliefs,<sup>62</sup> but neither breaks down the data to a sub-UK level.

### Benefit to Scotland?

46. A number of our witnesses told us that, despite high-profile productions such as World War Z and Skyfall benefitting from creative tax reliefs, in general these reliefs have been of limited use to the creative industries in Scotland.<sup>63</sup> Witnesses have suggested that this is partly due to the smaller scale of most creative enterprises in Scotland and partly because tax reliefs do not incentivise locating production outside existing industry hubs.<sup>64</sup>

47. Although there is no minimum spend threshold to qualify for the tax reliefs (except for the High-end TV tax relief), there is some evidence that they predominantly benefit larger scale productions—for example, HMRC’s summary of claims for the Film Tax Relief between 2006 and 2014 stated that 11% of claims were from large-budget productions (those with a budget of over £20 million) and that these claims accounted for two-thirds of tax relief awarded.<sup>65</sup>

48. The Scottish Locations Network told us that they had received more enquiries about locating productions in Scotland as a result of the existence of the tax reliefs, but in the absence of high-quality studio facilities they struggled to accommodate these productions

60 UK Trade and Investment, [Creative Sector Tax Reliefs](#), April 2014

61 HMRC, [Film Tax Relief, Summary of tax credit claims: 2006 to 2014](#), August 2014

62 British Film Institute, [Economic Contribution of the UK’s Film, High-End TV, Video Game, and Animation Programming Sectors](#), February 2015

63 Scottish Locations Network ([CIS0034](#)), Producers Alliance for Cinema and Television (PACT) ([CIS0039](#))

64 Creative Scotland ([CIS0050](#)) para 20, Producers Alliance for Cinema and Television (PACT) ([CIS0039](#)), & Creative Scotland ([CIS0020](#))

65 HMRC, [Film Tax Relief, Summary of tax credit claims: 2006 to 2014](#), August 2014

and therefore compete with other UK locations.<sup>66</sup> In the absence of definitive data about how these reliefs have been taken up in Scotland it is not possible to say with any certainty whether Scotland is losing out compared to other parts of the UK but several witnesses suggested, as Highlands and Islands Enterprise did, that it is important to avoid tax reliefs simply driving activity to London, and that positive steps were needed to encourage greater dispersal of activity.<sup>67</sup>

### **Possible reforms to the creative tax reliefs**

49. We have heard that there are a range of reforms which could be made to the system of tax reliefs so as to better support the creative industries in Scotland. These include:

- that the level of tax relief should be increased, to further incentivise production companies to choose to base productions in the UK;<sup>68</sup>
- that a differential rate be paid in Scotland, to rebalance uptake of the reliefs across the UK and encourage producers to consider locations away from London and the south east;<sup>69</sup>
- that the qualifying spending threshold be lowered, to make it more accessible for smaller enterprises;<sup>70</sup>
- that a new tax relief should be created for productions filmed in an indigenous language, to benefit Gaelic productions;<sup>71</sup>
- that an “SME Training Tax Relief” be piloted, to enable small enterprises to offset expenditure on training, Continuous Professional Development (CPD) for staff and education outreach activities against corporation tax,<sup>72</sup> and
- that the Government should introduce a tax relief for the music industry.<sup>73</sup>

50. The Scottish Government have also argued that the current system could be improved.<sup>74</sup> Fiona Hyslop MSP told us the Scottish Government had “long argued for improved tax reliefs, both for digital and animation and for film”.<sup>75</sup>

51. Though the majority of those we heard from were in favour of the principle of tax credits, even if they wished to see improvements in implementation, this was not a unanimous view. One submission argued that these reliefs were “intrinsicly bad because they favour those who can afford creative accountancy to exploit them” and that a straightforward and fair tax system would be preferable for low-income freelancers.<sup>76</sup>

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66 Screen Facilities Scotland ([CIS0034](#))

67 Highlands and Islands Enterprise ([CIS0025](#)), Producers Alliance for Cinema and Television (PACT) ([CIS0039](#)), UK Music ([CIS0041](#)) para 42, Scottish Government ([CIS0056](#)), Q6

68 TIGA ([CIS0052](#)) para 6.2

69 University of the West of Scotland ([CIS0013](#)), Independent Producers Scotland ([CIS0043](#))

70 Caledonia TV ([CIS0057](#))

71 MG ALBA ([CIS0027](#))

72 TIGA ([CIS0052](#)) para 5.2

73 UK Music ([CIS0041](#)) para 40 and BPI Ltd ([CIS0058](#)) para 56

74 Scottish Government, [Scottish Government response to the Economy, Energy and Tourism Committee Inquiry into the Economic Impact of Scotland's Creative Industries](#), May 2015

75 Q210

76 Ronald Turnbull ([CIS0008](#))

52. When we asked Ed Vaizey MP about expanding the breadth of creative tax reliefs, he told us he would be happy to look at this and suggest it to the Treasury, noting that the Chancellor of the Exchequer was “rather a fan of tax credits”.<sup>77</sup> When we asked the Minister if he would consider the merits of varying the rate of relief in different parts of the UK, he told us he would look at it but thought variable rates of relief could confuse the system:

I am certainly happy to take away that thought. What I would counsel the Committee about is that, as I said earlier, the great thing about tax credits—the reason why I think they are so effective—is that they are very simple and clear to understand. [...]

If we went down the road of trying to vary the tax credit, it could end up causing an element of confusion. I do understand the point about differential reliefs. If you were able to get an extra x% as a tax credit if you decided to make your film in Glasgow as opposed to London, I could understand why that might skew demand towards areas that may or may not be underrepresented.<sup>78</sup>

53. **Although the current tax reliefs for the creative industries were welcomed by most of our witnesses, we have heard that, in practice, they have been of limited benefit to the creative industries in Scotland because of the smaller scale of Scottish creative enterprises and the draw of existing hubs such as London. As the limited information available on take up of these reliefs is not broken down to a Scotland level, it is impossible to determine the extent to which these reliefs are benefitting different parts of the UK. Given the creative tax reliefs are a UK-wide scheme, it is important that they benefit the creative industries in all parts of the UK, not just those in London and other urban centres.**

54. *The UK Government should, in its response to this report, set out the benefit creative enterprises in Scotland have received from the creative industries tax reliefs, compared to the other nations and regions of the UK. We also recommend that the UK Government work with representatives of the creative industries in Scotland to assess how the creative tax reliefs could be adapted so as to be of greater benefit to Scotland. Options should include variable rates of tax relief for different parts of the UK, creating a tax relief for the music industry and piloting a tax relief for SMEs working in the creative sector.*

### **Encouraging take-up of creative tax reliefs**

55. The current tax reliefs were welcomed by many of our witnesses, but now they are in place it is clear that action needs to be taken to maximise their impact on the creative industries in Scotland. TIGA recommended that both the UK and Scottish governments should encourage Scottish games companies to take advantage of the tax reliefs.<sup>79</sup> The Scottish Parliament’s Economy, Energy and Tourism Committee made a similar point in its report, highlighting the importance of Scotland’s film, animation and TV industries being able to fully capitalise on the UK film and TV tax incentives, and encouraging

77 Q269

78 Q268

79 TIGA ([CIS0052](#)) para 4.7

Creative Scotland to ensure that companies were made fully aware of these tax incentives and their benefits.<sup>80</sup>

***56. The creative industry tax reliefs have been welcomed by the creative sector in Scotland, but there is a need to take action to ensure that these incentives are taken up by companies based across the UK, including in Scotland. We recommend that the UK Government work with the Scottish Government, Creative Scotland and Scottish Enterprise to promote the availability of these tax reliefs and enable Scottish creative enterprises to benefit from them.***

## Intellectual property and the European Digital Single Market

57. Intellectual property (IP) is the term for content which fulfils the requirements for copyright, a patent or a design. The vast majority of IP in the creative industries is content which comes under copyright rules, covering original literary, dramatic, musical and artistic work, including illustration and photography, original non-literary written work (eg software, web content and databases), sound and music recordings, and film and television recordings. Being able to protect and monetise IP is essential to the economic success of creative enterprises, and the framework for its protection and sale is therefore a key interest of industry groups.

58. Intellectual property is a reserved policy area, and the Intellectual Property Office (IPO) is the government body responsible for IP policy as well as educating businesses and consumers about IP rights and responsibilities, supporting IP enforcement and granting UK patents, trademarks and design rights. The IPO is an executive agency sponsored by the Department for Business, Innovation and Skills. Baroness Neville-Rolfe is the Minister for Intellectual Property, a joint role in the Department for Culture, Media and Sport and Department for Business, Innovation and Skills.

59. The UK Government's written evidence set out the role of the IPO and its engagement with agencies and businesses in Scotland:

The IPO operates and maintains a clear and accessible IP system in the UK [...]. It communicates regularly with organisations based in Scotland [...]. In addition to educating businesses and consumers on the importance of protecting and valuing IP, the IPO is also responsible for developing the framework to help rights holders and brand owners protect their IP. In Scotland the IPO works with Police Scotland and the Scottish Anti-Illicit Trade Group (SAITG) and its members, supporting their efforts to reduce the scale, impact and cost of illicit trade in Scotland.<sup>81</sup>

60. There are serious issues around enabling IP owners to protect their property and take enforcement action against those who are using IP illegally, particularly now so much content is available digitally. We have heard that the scale of online copyright infringement is "vast", with nearly 6,000 copyright owners having made over 55 million requests to Google to take down URLs linking to domains hosting material which infringes on copyright.<sup>82</sup> The risks of copyright infringement to IP owners are significant, and can

80 Scottish Parliament, Economy, Energy and Tourism Committee, [The economic impact of the film, TV and video games industries](#), March 2015

81 Scotland Office ([CIS0066](#)) Annex D

82 Alliance for IP ([CIS0044](#))

be particularly damaging if IP is stolen before the creator has been able to widely release it themselves.<sup>83</sup> The Alliance for IP told us that “it is important that rights holders and enforcement organisations have the right tools available to tackle the complex network that can enable online infringement of IP rights to thrive,”<sup>84</sup> a point which was mirrored in many of the other submissions we received.<sup>85</sup> We have also been told that there is a need for creative enterprises to be better informed about IP issues.<sup>86</sup>

61. The Scottish Government and Creative Coalition Campaign have argued that IP is an area where greater engagement between the UK and Scottish governments is necessary. The Creative Coalition Campaign told us that better engagement would enable the two governments to take a joined up approach to tackling piracy and promoting legal content.<sup>87</sup> Fiona Hyslop MSP told us that IP “is one of the areas where we need to be able to have better access” because it was a reserved matter.<sup>88</sup>

**62. Intellectual property underpins the economic potential of the creative industries in Scotland, and it is essential that creative enterprises are well-informed about the UK’s intellectual property framework, and that the interests of the creative industries in Scotland are considered by the Intellectual Property Office (IPO) when changes to IP are being considered.**

*63. We were encouraged to hear that the IPO already engages with Scottish industry and colleagues in Scotland, but both the Scottish Government and a number of other witnesses have told us there is a need for more effective communication with creative enterprises regarding IP issues. We recommend that the IPO work with the Scottish Government and Scottish industry groups to explore how Scottish enterprises can be supported to secure and capitalise on their intellectual property. We expect the IPO to review its operations in Scotland and respond to the concerns we have received about the need for better communication between the IPO and creative enterprises in Scotland.*

### **European Digital Single Market**

64. The European Commission has stated that there is a need for a European Digital Single Market to allow the free movement of goods, persons, services and capital and ensure that individuals and businesses can seamlessly access online activities under conditions of fair competition, and are covered by a high level of consumer and personal data protection, irrespective of their nationality or place of residence.<sup>89</sup> The Commission has argued that this would enable better access for consumers and businesses to digital goods and services across Europe, and maximise the growth potential of the digital economy.<sup>90</sup> Of particular relevance to the creative industries are proposals for modernising copyright to “ensure the right balance between creators’ and consumers’ interests”.<sup>91</sup>

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83 Q116

84 Alliance for IP ([CIS0044](#))

85 Nesta ([CIS0022](#)) para 9, Design and Artists Copyright Society ([CIS0029](#)), Creative Skillset ([CIS0032](#)) para 3.33, Advertising Association ([CIS0038](#)) para 33, UK Music ([CIS0041](#)) para 25, Channel 4 ([CIS0047](#)), Scottish Government ([CIS0056](#)), Alliance for IP ([CIS0044](#)), Creative Coalition Campaign ([CIS0060](#))

86 Q167 [Iain Hamilton]

87 Creative Coalition Campaign ([CIS0060](#))

88 Q219

89 European Commission, [A Digital Single Market Strategy for Europe](#), July 2014

90 European Commission, [Digital Single Market](#), accessed January 2016

91 European Commission, [Digital Single Market Strategy: European Commission agrees areas for action](#), March 2015

65. We heard from John McVay, representing the Creative Coalition Campaign, that having a single European market through which IP owners could monetise their IP would substantially limit the flexibility for the sale of rights at different levels across Europe.<sup>92</sup> Mr McVay told us that any uncertainty around the ability to monetise intellectual property would hinder investment in developing creative content.<sup>93</sup> Amanda Nevill, Chief Executive of the BFI, told us that some of the proposals were putting the audience first and rights of IP holders second.<sup>94</sup>

66. The Scottish Government’s written evidence stated that the EU’s proposals presented both opportunities and challenges, and that it was taking steps to ensure that the interests of Scotland’s creative industries were represented as the proposals developed.<sup>95</sup> The evidence further stated that the Scottish Government would work with the UK Government to ensure their consultation included Scottish stakeholders, and called on the UK Government to ensure that all administrations in the UK are able to feed into the processes that will inform the UK’s negotiating positions on this proposal. Fiona Hyslop MSP told us that “one of the areas on which I have real concern is that particularly in relation to the digital single market, we need the UK Government to appreciate the concerns of the screen sector in particular.”<sup>96</sup>

67. When we put the concerns we had heard to Ed Vaizey MP, he told us:

We do not want a top-down system of European licensing—we would resist that. We want the industry to make its own arrangements in order to get the right financing that it needs.<sup>97</sup>

***68. We have heard concerns that some of the European Commission’s proposals for a Digital Single Market could adversely affect the creative industries in Scotland, by hampering the ability of IP owners to monetise their property in different ways across Europe. The UK Government must, in its response to this report, consider and respond to the concerns we have heard. This should inform the UK’s position on the European Commission’s proposals.***

## Immigration

69. The Scottish Parliament’s Economy, Energy and Tourism Committee report on the economic contribution of the creative industries noted that “the key policy instruments for retaining talent in Scotland, like immigration, remain reserved” and called on the UK and Scottish governments to “work together on policies that would allow the Scottish video games industry to attract and retain world-class talent.”<sup>98</sup> Scottish Enterprise told us that: “there is not only a perception that the immigration rules act as a barrier” but that “the rules can be an actual barrier in attracting international talent.”<sup>99</sup> Dr Jo Twist, CEO of Ukie, told us that the “current climate around immigration debates is potentially

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92 Q106

93 Q106

94 Q240

95 Scottish Government ([CIS0056](#))

96 Q207

97 Q281

98 Scottish Parliament, Economy, Energy and Tourism Committee, [The economic impact of the film, TV and video games industries](#), March 2015

99 Scottish Enterprise ([CIS0035](#))

damaging to our ability to attract overseas talent”.<sup>100</sup> The written evidence from Creative Scotland suggested relaxing visa restrictions on those from outside the EU who would be creating new businesses, and on bringing skilled staff from outside the EU, would be beneficial to the creative industries in Scotland.<sup>101</sup>

70. When we asked the UK Minister about the impact of immigration rules on attracting international talent, he told us:

We are still part of the single market and free movement of people, so obviously UK companies can tap into a pool of talent throughout Europe. I am sure it is your experience as much as mine that, when you visit a video games company, you will have pretty international experience in terms of the range of people employed there. We certainly do try to [keep] immigration policy up to date in terms of skilled immigration, in terms of shortage occupations and in terms of tier 2 visas, and I personally want to keep doing that.<sup>102</sup>

**71. We note the concerns raised by a number of witnesses, including Creative Scotland and the Scottish Government, that UK immigration rules act as a barrier to attracting and retaining talent to Scotland. We will be looking at these issues in more detail as part of our inquiry into post-study work schemes for international students.**

## Rurality and broadband

72. Scotland’s geography and the challenges faced by creative enterprises in rural, as compared to urban, Scotland was one of the topics raised in our evidence. For example, the written evidence from the University for the Highlands and Islands stated:

Within Scotland it is necessary to make a distinction between the creative industries in urban Scotland [...] and remote and rural Scotland [...]. The situation in these two environments is very different.<sup>103</sup>

Common themes in those submissions which addressed the challenges for creative enterprises in rural areas were the higher cost of working in a rural areas and the inadequacy of digital infrastructure, particularly broadband provision.<sup>104</sup> Charlotte Wright, Director, Highlands and Islands Enterprise, told us that “Having next generation broadband, having good connectivity, is as important as having electricity or water”,<sup>105</sup> and that delivering broadband was “the most important project that Highlands and Islands Enterprise is involved in at the moment”.<sup>106</sup>

73. The evidence from the UK Government noted that £1.7 billion was being invested by it and other public bodies in better broadband and mobile coverage.<sup>107</sup> The UK Government aims to provide basic broadband (2Mbps) for all by 2016 and provide superfast broadband

<sup>100</sup> Q21

<sup>101</sup> Creative Scotland ([CIS0050](#))

<sup>102</sup> Q270

<sup>103</sup> University of the Highlands and Islands ([CIS0012](#)) para 1

<sup>104</sup> Written evidence from Ukie ([CIS0016](#)), Nesta ([CIS0022](#)) para 22, University of the Highlands and Islands ([CIS0012](#)) para 1, the University of the West of Scotland ([CIS0013](#)), &Creative ([CIS0020](#)), Highlands and Islands Enterprise ([CIS0025](#)), Edinburgh Napier University ([CIS0026](#)) para 9, Professor Robin MacPherson ([CIS0031](#)), Dumfries and Galloway Council ([CIS0037](#)) para 4.2, Scottish Locations Network ([CIS0034](#))

<sup>105</sup> Q152

<sup>106</sup> Q148

<sup>107</sup> Scotland Office ([CIS0066](#))

to 95% of the UK by 2017, and the Scottish Government plans to deliver next generation broadband to 95% of Scottish premises by 2017.<sup>108</sup> Rollout of broadband in Scotland is being delivered by the Scottish Government, and is jointly funded by the UK and Scottish governments, as well as BT, local authorities and a number of other agencies.

**74. Access to broadband is an important issue far beyond its impact on the creative industries, but we have heard that poor internet access is a particular barrier to creative enterprises in rural Scotland. It is essential the UK and Scottish governments work together to ensure the successful rollout of broadband across Scotland.**

### Apprenticeships levy

75. Although skills policy, including apprenticeships for the creative industries, is a devolved matter, the UK Government recently consulted on an apprenticeships levy, the consultation document for which stated that the levy will “apply to larger employers across the UK”.<sup>109</sup> The paper noted that skills policy was devolved to Scotland, but gave no indication of how funds gathered in Scotland through the levy would be distributed. The 2015 Autumn Statement stated that the levy would be introduced in April 2017, and would be set at a rate of 0.5% of any portion of an employer’s payroll bill which is over £3 million.<sup>110</sup> The written evidence from Creative Skillset—a body which seeks to develop skills and talent for the creative sector—stated that the Government’s proposal was “an interesting example (and test) of a UK-wide policy [that] could have a unique Scottish perspective”.<sup>111</sup>

76. When we asked Ed Vaizey MP how the proposed levy would function in Scotland, he told us that Nick Boles MP, Minister for Skills, was responsible for the policy, but that businesses were “keen that the levy that is raised from them—whether it is a country like Scotland or a large business—is spent in their area”, and he expected the Skills Minister would be receiving those kind of representations when he is considering the final shape of the levy. We subsequently wrote to the Skills Minister asking him to detail how this levy would work in Scotland. He told us that Rt Hon Greg Hands MP, Chief Secretary to the Treasury, had raised the apprenticeships levy with the Finance Ministers of the devolved administrations, to “work through the practical issues of implementing the levy and its interaction with devolved skills policies”, and that the UK Government “want to continue to work with the devolved administrations to put in place fair and transparent funding flows and as far as possible to develop a system for administering the levy which complements the skills and apprenticeship policies of each of the devolved administrations.”<sup>112</sup> He told us that the levy would raise £3 billion by 2019–20, £2.5 billion of which would go to England, with “Scotland, Wales and Northern Ireland receiving their fair share.” The response did not clarify how Scotland’s share of proceeds from the levy would be calculated.

**77. It is troubling that the UK Government is taking forward a UK-wide apprenticeships levy on employers without setting out how proceeds from the levy will be distributed to Scotland, where skills policy is devolved. This has created a situation where it is**

108 Scottish Government, [Connectivity](#), accessed January 2016

109 Department for Business, Innovation and Skills, [Apprenticeships Levy](#), August 2015

110 HM Treasury, [Spending Review and Autumn Statement 2015](#), November 2015

111 Creative Skillset ([CIS0032](#)) para 2.6

112 Department for Business, Innovation and Skills ([CIS0074](#))



known that Scottish employers will have to pay the levy, but it is not clear how Scotland will benefit. This indicates a lack of forethought about the relationship between the UK-wide policy and the devolved area of responsibility that it relates to. We note that the UK Government is now engaging with Scottish ministers about how the skills levy will operate in Scotland, and welcome the Minister for Skills's statement that Scotland will get its "fair share" of proceeds.

*78. We recommend that, in its response to this report, the Government clearly set out how proceeds from the apprenticeships levy will be distributed to Scotland, where skills policy—including apprenticeships—is a devolved matter.*

## 5 Broadcasting and the BBC in Scotland

79. The UK Government is responsible for broadcasting across the UK. This includes ultimate responsibility for the BBC and the regulation of other broadcasters through Ofcom, the independent regulator and competition authority for the UK communications industries. As part of our inquiry, we have considered the role of broadcasters in relation to the TV production sector in Scotland. We have also looked at the role of the BBC in Scotland more generally, in light of the current Charter Review and debate about the future of the BBC.

### Broadcasters and the Scottish production industry

80. It is clear that Scottish television production is highly reliant on Public Service Broadcasters (PSBs)—those broadcasters which operate for the public benefit rather than for purely commercial purposes.<sup>113</sup> Creative Scotland’s 2014 review of the Scottish film sector noted that broadcasters play an integral part in the film sector, stating that, although UK broadcasters have a limited role in terms of commissioning film productions, TV production is vital for maintaining facilities, businesses and allowing crew to make a living, all of which are required for a healthy indigenous film industry.<sup>114</sup> Similarly, Bill Matthews, the BBC Trustee for Scotland, told us: “There is no doubt that the BBC does and should play a significant role in the creative sector in Scotland”.<sup>115</sup>

81. We have been told that there are a number of barriers to the development of a sustainable indigenous production sector in Scotland. Chiefly, these are poor access to commissioners, who are largely London-based, and the failure of regional quotas, which require PSBs to commission productions from outside of London, to result in genuinely Scottish production companies receiving commissions from broadcasters.

### Access to commissioners

82. Several of our written submissions have stated that Scottish production companies are disadvantaged by a lack of access to commissioners, who are mostly London-based.<sup>116</sup> A recent report produced by PACT, a trade association for the independent television, film, digital, children’s and animation production sector in the UK, looked at building a sustainable independent production sector in Scotland, and highlighted the importance of access to commissioners, and recommended that there should be “more visibility and presence of UK commissioners across Scotland”.<sup>117</sup> Bill Matthews observed that “there has been some evidence that moving a commissioner somewhere else sometimes changes where they are likely to commission” but stated that the most important thing was to have a “robust process” for commissioning which provided content suitable across the UK.<sup>118</sup>

83. Describing the extent to which BBC commissioners are present in Scotland, Ken MacQuarrie, the Director of BBC Scotland, told us:

113 MG ALBA ([CIS0027](#)), PACT, [A new model: building a sustainable independent production sector](#), December 2015

114 Creative Scotland, [Review of the Film Sector in Scotland](#), January 2014

115 Q124

116 Matchlight Ltd ([CIS0030](#)) paras 2-4, Tern Television Productions ([CIS0045](#)), Caledonia TV ([CIS0057](#))

117 Producers Alliance for Cinema and Television (PACT), [A new model: building a sustainable independent production sector](#), December 2015

118 Q125

In Pacific Quay, we have had, for example, Jo Street, who is now the daytime commissioner. There is no doubt that it helped access for companies based in Scotland having a commissioner based in Pacific Quay. Similarly, in the areas of entertainment we had a similar arrangement there. On the production, we have the controller of factual production for the UK, Natalie Humphreys, also based in Pacific Quay. That begins to give you a critical mass, Chairman, where there is a better access without having to go to London.<sup>119</sup>

The BBC subsequently told us that there are 54 people within the BBC TV network with commissioning responsibility of whom 4 are based in Scotland.<sup>120</sup> 11 of the BBC's 54 commissioners have responsibility for the BBC's spend outside of London. This does not include those commissioning content in Scotland for BBC Scotland.

### Regional quotas

84. Under the Communication Act 2003, Ofcom has the power to determine a proportion of programmes which must be produced, and expenditure which must be committed, outside of the M25 area for channels 3, 4 and 5.<sup>121</sup> The agreement between the BBC and Department for Culture, Media and Sport provides for similar quotas in relation to BBC productions.<sup>122</sup> In order to be classified as regional (or out-of-London) productions, two of the below criteria must be met:

- the production company must have a substantive business and production base in the UK outside the M25;
- at least 70% of the production budget must be spent in the UK outside the M25;
- at least 50% of the production talent by cost must have their usual place of employment in the UK outside the M25.<sup>123</sup>

The written evidence from Ofcom states: “the legislation does not allow us to set quotas for different parts of the UK outside London, we do ask broadcasters to report where programmes are produced, in line with the criteria [detailed above]. This allows Ofcom to see the balance of out-of-London productions across the UK as productions are assigned to either Scotland, Wales, Northern Ireland or one of the English sub-regions”.<sup>124</sup>

85. These quotas have resulted in PSBs increasing their spending on productions outside of the M25,<sup>125</sup> but there are concerns that they have not supported the development of a sustainable Scottish production sector. The Scottish Parliament's Economy, Energy and Tourism Committee heard considerable concerns from the production sector about “Lift and shift”—the term applied to production companies moving existing productions (for example drama *Waterloo Road* and topical programme *Question Time*) from London to locations outside the M25 in order to count towards the out-of-London quota. The concern about “lift and shift” is that locally-based production companies are not commissioned to

119 Q45

120 BBC (CIS0073)

121 Communication Act 2003, [Sections 286-289](#)

122 Department for Culture, Media and Sport, [An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation, 2006](#), para 51

123 Ofcom, [Regional production and regional programme definitions, 2010](#)

124 Ofcom (CIS0019) para 2.4

125 Ofcom (CIS0019) para 4.2

produce content as the out-of-M25 quota is filled by essentially London-based companies who have transplanted an existing property to another location in order to count towards the quota requirement.

86. These complaints have been mirrored in the evidence we have received.<sup>126</sup> Alasdair Smith, Scotland Director from Creative Skillset, told us that “lift and shift” was “not a positive way in which to help to develop the sector.”<sup>127</sup> He said that “If this Committee has the influence to try to press for greater localised commissioning within Scotland, I think that would be a positive outcome for everybody concerned. I don’t think that is a controversial thing to say either. That is one of the things that will help and with that will come a certain momentum.”<sup>128</sup>

87. The BBC’s evidence to that Committee acknowledged that “We now need to ensure that the companies that are based in Scotland are winning entirely new business and are drawing from the local population and talent base.”<sup>129</sup> Channel 4 also responded to the criticism of “lift and shift”, stating:

criticism should be weighed against the potential benefits to an increased freelance sector that can emerge off the back of big productions landing in a location, whether that be in Scotland or elsewhere in the UK. Channel 4 would also note that any potential benefits to relocating production facilities should be weighed against the costs of relocation and the corresponding impact on budgets for programming, which could be invested in local production companies.<sup>130</sup>

Making a similar point, Alan Clements, from STV, told us that “the more production we have in Scotland, it is good for everybody”, whether this was from independent production companies producing local content, or in-house broadcasters producing UK content.<sup>131</sup> Mr Clements also told us that “the quotas [...] concentrated the minds of the commissioners”, mitigating the fact that most of them are based in London.<sup>132</sup>

88. There are also concerns that the definition for out-of-London productions excludes aspects of production such as on-screen talent and ownership of content. Equity noted that “Ofcom has a definition for ‘out of London’ production that excludes front of camera talent and activity”, meaning that local actors do not have to be engaged. They suggested that Ofcom consult with stakeholders about how on-screen talent could be included in its definition of an out-of-London production.<sup>133</sup>

89. Matchlight Ltd—an independent production company based in Scotland—argued that the criteria for regional productions did not address questions of ownership or value, as the “IP and profits generated by the ‘Scottish’ project put against the quota are often held outside of Scotland”, and that productions can be counted as Scottish productions even when as little as 10% of either the “production budget” or “production talent” need to

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126 Matchlight Ltd ([CIS0030](#)) paras 7-8 and ([CIS0070](#)), Tern Television Productions ([CIS0045](#)) para 4, Caledonia TV ([CIS0057](#))

127 Q85

128 Q86

129 Scottish Parliament, Economy, Energy and Tourism Committee, Official Report, Col 9, [21 January 2015](#)

130 Channel 4 ([CIS0047](#))

131 Q35

132 Q41

133 Equity ([CIS0048](#))

be spent or based in Scotland.<sup>134</sup> PACT has called for more rigorous application of quotas, to encourage greater transparency and oversight, and said that they could support Ofcom to play “a stronger role in monitoring and auditing how the definition is interpreted”.<sup>135</sup>

**90. Although the regional quotas requiring Public Service Broadcasters to commission productions outside of London have been effective in changing the balance of spending across the UK, there remain serious concerns about the extent to which the policy is helping to support a sustainable production sector in Scotland. There is also evidence that Scottish production companies are disadvantaged by poor access to commissioners.**

*91. We recommend that Ofcom review its definition of out-of-London productions, with a view to ensuring that spending by Public Service Broadcasters on out-of-London productions goes to indigenous production companies. This should include looking at whether local on-screen talent and ownership of IP should be included in the criteria for regional productions.*

*92. The BBC and Channel 4 should take immediate action to better engage with Scottish production companies to ensure there is no disadvantage in being located in Scotland when it comes to opportunities to win commissions. This should include locating a greater proportion of commissioners in Scotland—access to commissioners being a key issue which was highlighted to us by the Scottish production sector.*

## The BBC in Scotland

93. The BBC is the UK’s only publicly owned and funded broadcaster. BBC Scotland is the division of the BBC responsible for broadcasting in Scotland. It has 1227 full time equivalent staff and operates from 13 centres around Scotland. The written evidence from BBC Scotland sets out the services provided in Scotland:

In addition to network BBC services, television services for audiences include BBC One Scotland, BBC Two Scotland and the Gaelic language service, BBC ALBA (operated in collaboration with MG ALBA); speech and specialist music radio services are provided via BBC Radio Scotland and, in Gaelic, BBC Radio nan Gaidheal; and there is online provision at [www.bbc.co.uk/Scotland](http://www.bbc.co.uk/Scotland).

It also highlights that:

In 2014/15 BBC Scotland produced over 2500 hours of originated television, a record high, with 882 hours of local television for Scotland, 944 hours of network television and 702 hours on BBC ALBA. This represents an increase, in total, of 119 hours on 2013/14.<sup>136</sup>

94. The BBC’s Annual Report and Accounts for 2014/15 notes the disparity between how well people in England, Wales and Northern Ireland feel they are represented by news and current affairs content produced by the BBC with how people in Scotland feel. Scotland

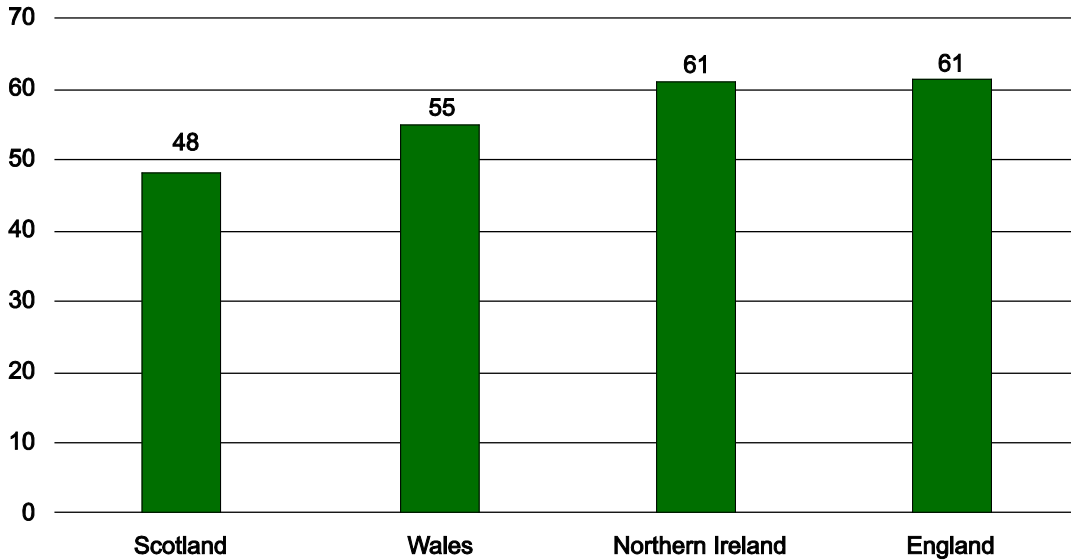
134 Matchlight Ltd ([CIS0070](#))

135 Producers Alliance for Cinema and Television (PACT), [A new model: building a sustainable independent production sector](#), December 2015

136 BBC ([CIS0055](#))

is the only nation where less than half of people feel the BBC is good at representing their lives.<sup>137</sup> This is illustrated in the table below.

**Figure 1: The % of people in each nation who think the BBC is good at representing their life in news and current affairs content**



Source: [BBC Annual Report and Accounts 2014/15](#)

There is a similar disparity in relation to how well Scottish audiences, compared to those in other parts of the UK, feel represented in BBC drama.<sup>138</sup>

95. In relation to audience satisfaction, Ken McQuarrie told us: “we are driven by serving our audience and clearly a figure that is less than the other nations is not something that we are comfortable with. We are in the process at the moment of understanding exactly what is driving that difference between ourselves and the other nations. It is a key objective for us to meet the needs of the audience with a news and current affairs service that is relevant to their lives but also appreciated by the audience. That is the work that is absolutely core and part of the charter”.<sup>139</sup>

96. As part of our consideration of how BBC services provide for Scottish viewers, we heard from Bill Matthews, BBC Trustee for Scotland and Chair of Audience Council Scotland. He told us that although the Audience Council Scotland represented “an audience that has a diversity of views” there was “a theme for some time, where there is I think a consensus among members of the Audience Council, is that portrayal is really important to audiences throughout the UK.”<sup>140</sup> Audience Council Scotland’s 2014/15 Annual Review noted that more could be done to make content produced in Scotland representative of contemporary Scotland and recommended that BBC Scotland should have greater authority and resources to commission programmes for Scottish audiences so that they may better meet audience tastes, especially in news and drama.<sup>141</sup>

<sup>137</sup> BBC, [BBC Annual Report and Accounts 2014/15](#), July 2015

<sup>138</sup> BBC Trust ([CIS0068](#)) para 41

<sup>139</sup> Q47

<sup>140</sup> Q120

<sup>141</sup> Audience Council Scotland, [Scotland Annual Review 2014-15](#), 2015

## Charter review

97. The BBC is established by Royal Charter, which sets out the public purposes of the BBC, as well as the duties of the Executive and Management Board. The BBC's Charter is due to be renewed in 2016, and in July 2015 the UK Government published a consultation paper to inform the new Charter.<sup>142</sup> In September 2015, the BBC responded to the Government's consultation paper, setting out its plans for the next 10 years, including detail on serving the nations and regions.<sup>143</sup> This stated:

we will need to adapt our services to ensure they fully reflect and report the increasingly divergent politics of the UK. [...] Our priority is to ensure we arm citizens in all four Nations of the UK with the information they need to make sense of their world and help hold those in power to account.

[...]

we will deliver a different BBC News homepage in each Nation. We will personalise our news services to reflect personal passions and interests in every part of the UK.

98. Bill Matthews told us that it was clear that through the Charter review “that there is going to be a discussion about exactly how we deal with ‘nations issues’ going forward in the BBC”. He also told us that the Audience Councils responded formally to some of the review documents, to represent the views of Scottish viewers.<sup>144</sup> Equity's written evidence stated that charter renewal offered an opportunity to considering BBC's role in Scotland, stating:

there is an imbalance in what the BBC raises in Scotland and what it spends. The Charter renewal process is bringing focus on this issue as the BBC itself is debating its role in Scotland.<sup>145</sup>

**99. We welcome the focus there has been, during the debate about renewal of the BBC Charter, on serving the different nations and regions of the UK. It is important that the BBC takes the opportunity Charter Renewal represents to ensure it responds to concerns about the extent to which its content provides for and reflects the audience in Scotland.**

## Proposals for changes to the structure of the BBC

100. In a speech at the 2015 Edinburgh International Television Festival, Scottish First Minister Rt Hon Nicola Sturgeon MSP stated that “a distinct BBC Scotland TV channel should be created—empowering BBC Scotland as never before.” She stated that this would:

- help to secure the sustainability of the independent production sector in Scotland;
- see more of the Licence Fee spent in Scotland, and

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<sup>142</sup> Department for Culture, Media and Sport, [BBC Charter Review Public Consultation](#), July 2015

<sup>143</sup> BBC, [The BBC's programmes and services in the next Charter](#), September 2015

<sup>144</sup> Q127

<sup>145</sup> Equity ([CIS0048](#)) para 32

- be the best way of making a wider and richer range of content available to Scottish viewers.<sup>146</sup>

101. A number of written submissions saw the potential for a positive impact should the First Minister’s proposal be adopted.<sup>147</sup> A strong theme in these comments was that money raised from the licence fee in Scotland being spent in Scotland would be a positive development for indigenous production, and that a dedicated channel for Scotland would improve the range of content for Scottish audiences. Other witnesses challenged the benefits of establishing a new channel for Scotland. Alan Clements, of STV, told us that the costs of setting up a new channel could instead be invested in Scottish productions, to a much more beneficial effect.<sup>148</sup>

102. Bill Matthews told us that the proposal had not been discussed by the Audience Council, and that “in the end, frankly, it will be up to the BBC executive to design a solution”.<sup>149</sup> Addressing the BBC’s accountability, rather than the First Minister’s proposal directly, the evidence we received from the BBC Trust stated that it “agrees that the BBC will need to be more accountable to Scotland, Wales and Northern Ireland.”<sup>150</sup> When we asked BBC Scotland Director Ken MacQuarrie about the First Minister’s proposals, he told us:

On behalf of the audience in Scotland—and it is my job to serve the audience in Scotland as best I can within the BBC family—I would welcome the maximum resource to do that but so would every other divisional director across the BBC. In terms of the structures and, if you like, the governance of the BBC, I think that is a matter for the bodies who are involved in discussing the charter to take on board rather than for the executive to comment on, Chairman.<sup>151</sup>

103. When we asked the Fiona Hyslop MSP about the First Minister’s proposals, she told us:

The key here is how you can ensure that public service broadcasting helps support a sustainable creative industry sector, particularly in screen and production in Scotland. That is where the real anomaly currently lies. You have licence fee income of over £320 million [in Scotland] and you have a BBC Scotland budget of less than £200 million. The production spend—and I am quite clear here—in Scotland by Scottish companies that are based here is down at £35 million. The issue is that if you want to have a thriving creative industry sector, you have to make sure you have recurring production of programmes. [...]

We have to get more produced in Scotland. Our suggestions for that are to have a more federal BBC and to have more opportunities for production. [...] The channel is less important than the platform for production. [...] Currently, we are really losing out. The opportunity to have more spend in Scotland is what is needed.<sup>152</sup>

146 Scottish Government, [Alternative MacTaggart Lecture](#), August 2015

147 Dr Belle Doyle ([CIS0009](#)) para 3.3, MG ALBA ([CIS0027](#)), Caledonia TV ([CIS0057](#))

148 Q62

149 Q129

150 BBC Trust ([CIS0068](#)) para 18

151 Q60

152 Q216



104. When we asked Ed Vaizey what consideration the UK Government had given the Scottish Government's proposals, he told us:

We obviously want to consult closely with the Scottish Government. We have a memorandum of understanding that requires us to consult, and also for the draft charter to be laid beforehand debated by the Scottish Parliament, but it is not our intention to devolve the BBC. We want to keep the BBC as a national broadcaster and as a reserved matter.

[...]

I agree [that] the BBC, like other broadcasters, needs to look very carefully at whether its programmes, programme makers and commissioners reflect the UK population. [...] I think a perfectly fair point to challenge broadcasters on is whether or not the different voices in the United Kingdom are being heard in programmes or, indeed, are commissioned as programmes.<sup>153</sup>

**105. We note the First Minister's suggestion for a federal structure for the BBC and the possibility of a separate BBC channel for Scotland, and the comments we received both in favour and against. The BBC will no doubt take note of this debate, and in particular the principle that BBC's future services in Scotland should represent the needs and views of the people in Scotland, as it considers its future services.**

## 6 UK Government engagement

106. As many of the policy tools affecting the creative industries in Scotland are reserved—which we have looked at in the previous chapters—effective engagement between the UK Government and Scottish Government, and the UK Government and creative enterprises based in Scotland, is essential. We consider both of these issues below.

### The Creative Industries Council

107. One serious gap we have identified in how the UK Government considers the needs of the creative industries in Scotland is the exclusion of Scotland from the Creative Industries Council (CIC), despite it being the main means by which UK Government “engages with industry at a strategic level.” The evidence we received from the Department for Culture, Media and Sport stated that the Council has an England-only remit because “most of the issues it discusses are devolved”.<sup>154</sup> The CIC does, however, cover a number of reserved or partially reserved issues such as intellectual property and export markets.

108. Despite the CIC’s England-only remit, Ed Vaizey MP told us that “there is a standing invitation to all the devolved Administrations to attend to feed in policy views”.<sup>155</sup> Janet Archer, Chief Executive of Creative Scotland, told us she had attended two meetings of the CIC as an observer, and that “some of the issues that are discussed in that meeting are of relevance to Scotland”. She supported the proposition that there should be a place on the CIC for a member to represent Scotland’s creative sector.<sup>156</sup>

109. A number of submissions to the Committee have highlighted the importance of the CIC as a means of engaging with the UK Government, and suggested that the creative industries in Scotland would benefit either from having a full place on the CIC or from a similar body being set up for Scotland.<sup>157</sup> Fiona Hyslop MSP told us that there should be a permanent Scottish representative on the Council,<sup>158</sup> and also said that she had instructed officials to look at the development of a creative industries advisory group, and that she would “would like it to be able to co-ordinate with the Creative Industries Council”.<sup>159</sup>

110. When we asked Ed Vaizey MP about Scottish representation on the CIC, he told us:

We have invited the devolved Administrations to come as observers and we obviously asked Janet Archer to come as an observer. I am prepared to countenance formal representation.<sup>160</sup>

**111. The Creative Industries Council is widely regarded as a useful body for representatives of the creative industries to engage with the UK Government. It is not at all clear, given the UK-wide nature of the Council’s members and the reserved nature of many of the policy areas it considers, why this body has an England-only remit. What is clear is that the creative industries in Scotland have been at a disadvantage, as a result of exclusion from the Council, in making representations to the UK Government on**

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<sup>154</sup> Scotland Office ([CIS0066](#))

<sup>155</sup> Q258

<sup>156</sup> Qq179-81

<sup>157</sup> Highlands and Islands Enterprise ([CIS0025](#)), Creative Skillset ([CIS0032](#)) para 2.8

<sup>158</sup> Q209

<sup>159</sup> Q208

<sup>160</sup> Q288

reserved policy matters. We welcome the Minister's openness to permanent Scottish representation on the Council.

*112. We recommend that the membership of the Creative Industries Council be expanded to include Creative Scotland as a full member of the council, so that the interests of creative enterprises in Scotland can be represented on reserved matters such as intellectual property and creative tax reliefs. Further, given the Council's consideration of a number of reserved policy areas, we also recommend that the Government reconsider the "England-only" remit of the Council to reflect the interests of other parts of the UK in these policy areas.*

## Coordination between the UK and Scottish governments

113. When asked about his relationship with his counterparts in the Scottish Government, Ed Vaizey MP said:

I think I have a pretty good relationship with the Scottish Government Culture Minister, Fiona Hyslop. We regularly exchange correspondence and we meet relatively regularly. [...] As you know, we have the Creative Industries Council, where there is a standing invitation to all the devolved Administrations to attend to feed in policy views, and Janet Archer from Creative Scotland also attends that on a regular basis. I think there is a pretty porous relationship.<sup>161</sup>

114. The Scottish Government acknowledged that there was some engagement from the UK government but told us that they would like to see greater engagement on issues such as immigration, intellectual property and tax reliefs, where the interests of Scotland might differ to those of other parts of the UK. Their evidence stated:

as Culture is devolved, we would wish to see much greater engagement between the UK Government and Scottish Government in terms of reserved areas which, when driven by the needs of the wider UK and implemented, may be detrimental to the interests of Scotland.<sup>162</sup>

Expanding on this point, Fiona Hyslop MSP told us: "tax credits, the digital single market and intellectual property are three areas that are reserved where we could benefit from the co-ordination and the responsiveness. I would encourage working with the UK on this aspect."<sup>163</sup>

**115. We have considered a wide range of policy areas which affect the creative industries in Scotland, and made specific recommendations, intended to improve support for and representation of the creative industries in Scotland. The central theme arising from our inquiry was that the mix of devolved and reserved policy areas, and range of UK and Scottish agencies and bodies involved in supporting and representing the creative industries, means that effective engagement between the UK and Scottish governments, and both governments and industry in Scotland, is essential. The UK and Scottish governments must work together and work with Scottish industry to take forward the recommendations we have set out in this report, in order to create**

161 Q258

162 Scottish Government ([CIS0056](#))

163 Q207

**an environment which enables the creative industries in Scotland to achieve their enormous potential.**

*116. Given the mix of devolved and reserved policy areas affecting the creative industries, it is essential that the UK and Scottish governments coordinate effectively. We recommend that, when considering policy affecting the creative industries, the Department for Culture, Media and Sport and the Department for Business, Innovation and Skills consult with the Scottish Government on the impact on Scotland and needs of the creative industries in Scotland. We also recommend that the Scotland Office, given its responsibility for representing Scottish interests within the UK government, ensure that the Scottish Government is able to make representations to the UK Government regarding reserved policy areas which affect the creative industries in Scotland. In preparing a response to this report, the UK Government should consult with the Scottish Government on the recommendations we have made.*

# Formal minutes

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**Wednesday 6 January 2016**

Members present:

Pete Wishart, in the Chair

Mr David Anderson

Mr Jim Cunningham

Kirsty Blackman

Margaret Ferrier

Mr Christopher Chope

Draft Report (*Creative industries in Scotland*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 116 read and agreed to.

*Resolved*, That the Report be the Second Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Wednesday 13 January at 2.00 pm]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [Committee's inquiry web page](#).

### Monday 19 October 2015

*Question number*

**Brian Baglow**, Director, Scottish Games Network, **Jeff Meek**, Finance Director, TIGA, **Dr Jo Twist**, CEO, UK Interactive Entertainment (Ukie), and **Professor Gregor White**, Head of School of Arts, Media and Computer Games, Abertay University [Q1–22](#)

**Chris van der Kuyl**, Director, 4J Studios, **Kenny Mitchell**, Senior Research Scientist, Disney Research, **Malath Abbas**, independent game designer, and **Grant Alexander**, Commercial Director, Beartrap Games [Q23–32](#)

**Ken MacQuarrie**, Director, BBC Scotland, **Ian MacKenzie**, Nations and Regions Manager, Channel 4, **Bobby Hain**, Director of Channels, STV, and **Alan Clements**, Director of Content, STV [Q33–62](#)

### Wednesday 28 October 2015

**Lorne Boswell**, Scottish Secretary, Equity, **Louise McMullan**, Head of the General Secretary's Department, Equity, **Dan Simmons**, Head of Partnerships, Creative Skillset, and **Alasdair Smith**, Scotland Director, Creative Skillset [Q63–99](#)

**John McVay**, Member, Creative Coalition Campaign, and **Ian Moss**, Vice Chair, Alliance for Intellectual Property [Q100–117](#)

### Monday 2 November 2015, Morning Session

**Bill Matthews**, Chair, Audience Council Scotland [Q118–141](#)

**Peter Honeyman**, Subject Network Leader, Creative and Cultural Industries, University of the Highlands and Islands, **Charlotte Wright**, Director of Business and Sector Development, Highlands and Islands Enterprise, and **Iain Hamilton**, Head of Creative Industries, Highlands and Islands Enterprise [Q142–169](#)

### Monday 2 November 2015, Afternoon Session

**David Martin**, Key Sector Manager for Creative Industries, Skills Development Scotland, **Janet Archer**, Chief Executive, Creative Scotland, and **David Smith**, Director of Creative Industries, Scottish Enterprise [Q170–198](#)

**Fiona Hyslop MSP**, Cabinet Secretary for Culture, Europe and External Affairs, Scottish Government [Q199–222](#)

### Wednesday 18 November 2015

**Jo Dipple**, Chief Executive, UK Music, **Brian Coane**, Chair, IPA Scotland, **Amanda Nevill**, Chief Executive Officer, British Film Institute [Q223–254](#)

**Mr Edward Vaizey MP**, Minister of State for Culture and the Digital Economy, Department for Culture, Media and Sport and Department for Business, Innovation and Skills, and **Baroness Neville-Rolfe DBE CMG**, Parliamentary Under-Secretary of State and Minister for Intellectual Property, Department for Culture, Media and Sport and Department for Business, Innovation and Skills.

[Q255–288](#)

## Published written evidence

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The following written evidence was received and can be viewed on the Committee's [inquiry webpage](#). CIS numbers are generated by the evidence processing system and so may not be complete.

- 1 &Creative ([CIS0020](#))
- 2 Alliance for Intellectual Property ([CIS0044](#))
- 3 Alliance for Intellectual Property ([CIS0072](#))
- 4 BBC ([CIS0055](#))
- 5 BBC ([CIS0073](#))
- 6 BBC Trust ([CIS0068](#))
- 7 Belladrum Tartan Heart Festival ([CIS0010](#))
- 8 BPI (British Recorded Music Industry) Ltd ([CIS0058](#))
- 9 British Entertainment Industry Radio Group ([CIS0018](#))
- 10 British Film Institute ([CIS0062](#))
- 11 Broadcasting Entertainment Cinematograph and Theatre Union (BECTU) ([CIS0059](#))
- 12 Business Gateway National Unit, COSLA ([CIS0063](#))
- 13 Caledonia TV ([CIS0057](#))
- 14 Centre for Cultural Policy Research, University of Glasgow ([CIS0006](#))
- 15 Channel 4 ([CIS0047](#))
- 16 Craft Scotland ([CIS0004](#))
- 17 Creative Coalition Campaign ([CIS0060](#))
- 18 Creative Scotland ([CIS0050](#))
- 19 Creative Skillset ([CIS0032](#))
- 20 Department for Business, Innovation and Skills ([CIS0074](#))
- 21 Design and Artists Copyright Society (DACS) ([CIS0029](#))
- 22 Design Council ([CIS0036](#))
- 23 Design in Action ([CIS0054](#))
- 24 Dr Belle Doyle ([CIS0009](#))
- 25 Dumfries and Galloway Council ([CIS0037](#))
- 26 Edinburgh Napier University ([CIS0026](#))
- 27 Equity ([CIS0048](#))
- 28 Festivals Edinburgh ([CIS0065](#))
- 29 Highlands and Islands Enterprise ([CIS0025](#))
- 30 Independent Producers Scotland (IPS) ([CIS0043](#))
- 31 Institute of Practitioners in Advertising ([CIS0042](#))
- 32 Live Music Exchange ([CIS0015](#))
- 33 Matchlight Limited ([CIS0030](#))
- 34 Matchlight Limited ([CIS0070](#))



- 35 MG ALBA ([CIS0027](#))
- 36 Mr Ronald Turnbull ([CIS0008](#))
- 37 Musicians' Union ([CIS0028](#))
- 38 Nesta ([CIS0022](#))
- 39 Ofcom ([CIS0019](#))
- 40 Ofcom's Advisory Committee for Scotland ([CIS0021](#))
- 41 Producers Alliance for Cinema and TV ([CIS0039](#))
- 42 Producers Alliance for Cinema and TV ([CIS0069](#))
- 43 Professor Charlotte Waelde and Dr Abbe Brown ([CIS0007](#))
- 44 Professor Robin MacPherson ([CIS0031](#))
- 45 Publishing Association and Publishing Scotland ([CIS0064](#))
- 46 Royal Incorporation of Architects in Scotland ([CIS0024](#))
- 47 School of Arts, Media and Computer Games, Abertay University ([CIS0053](#))
- 48 Scotland Office ([CIS0066](#))
- 49 Scottish Enterprise ([CIS0035](#))
- 50 Scottish Games Network ([CIS0067](#))
- 51 Scottish Government ([CIS0056](#))
- 52 Scottish Locations Network ([CIS0034](#))
- 53 Screen Facilities Scotland ([CIS0023](#))
- 54 STV Group plc ([CIS0071](#))
- 55 STV Group plc ([CIS0051](#))
- 56 Tern Television Productions Ltd ([CIS0045](#))
- 57 The Advertising Association ([CIS0038](#))
- 58 The Saltire Society ([CIS0017](#))
- 59 TIGA ([CIS0052](#))
- 60 TRC Media ([CIS0011](#))
- 61 UK Interactive Entertainment (Ukie) ([CIS0016](#))
- 62 UK Music ([CIS0041](#))
- 63 University of the Highlands and Islands ([CIS0012](#))
- 64 University of the West of Scotland ([CIS0013](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the Committee's website at [www.parliament.uk/scotaffcom](http://www.parliament.uk/scotaffcom).

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2015–16

First Report	Work of the Scottish Affairs Committee	HC 331
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