



House of Commons  
Scottish Affairs Committee

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**Creative industries in  
Scotland: Government  
Response to the  
Committee's Second  
Report of Session  
2015–16**

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**First Special Report of Session 2016–17**

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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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Committee reports are published on the [Committee's website](#) and in print by Order of the House. Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Jyoti Chandola (Clerk), Peter Stam (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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# First Special Report

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The Scottish Affairs Committee published its Second Report of Session 2015–16, *Creative industries in Scotland*, HC 332, on 18 January 2016. The Government response to the Report was received on 7 June 2016, and is published as an appendix to this Report.

## Appendix: Government response

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### Introduction

The Government welcomes the Report and its recognition of the success of the Scottish creative industries. The UK Government and its agencies are committed to working with the Scottish Government to help the sector continue to grow in Scotland, including through the provision of broadband and mobile infrastructure, fiscal incentives, export promotion, advocacy and facilitation and the provision of official statistics.

The Government's response to the Report's recommendations is given below. In view of the time that has lapsed since the Scottish Affairs Committee published its Report, however, it is worthwhile noting further initiatives which the Government has announced in the interim, and forthcoming events, that are relevant to the creative industries sector in Scotland.

The Government, via Broadband Delivery UK (BDUK), continues to oversee the superfast broadband delivery programme in Scotland. The Government has invested over £120 million in infrastructure funding for the Scotland projects. The roll-out is now 67% complete and to date this means 450,000 additional premises can now access superfast broadband across Scotland.

In the Budget the Chancellor of the Exchequer announced a range of measures which will benefit the creative industries in Scotland, including the commitment of £5 million towards the V&A in Dundee. Once completed the V&A Dundee will be an international centre of design for Scotland, the first ever design museum to be built in the UK outside London.

In addition the Chancellor announced that the Government is to make £659,000 available from LIBOR fines towards the establishment in Helensburgh of the Museum of the Submarine Service in Scotland, which will offer visitors the opportunity to discover the history of the Submarine Service, how submarines work and the great sacrifices made by the 5,300 submariners who have perished in service since 1904.

The Chancellor also announced that the existing Government VAT refund system is to be extended to enable more museums and galleries in Scotland and the rest of the UK to offer free admission to the public. Separately a new tax relief measure is to be made available to museums and galleries across the UK, and the 249 museums and galleries in Scotland that are officially accredited by the Arts Council could claim the relief if they develop temporary or touring exhibitions. This measure will also encourage other museums across the country to tour their successful exhibitions to Scotland.

As noted elsewhere in this response, the Government recently published a White Paper on the BBC Charter Review, which sets out the future for the BBC. The White Paper includes proposals for specific provision for the Nations, and reflects the BBC's commitment to improve commissioning in the regions and increase nation-specific content. These proposals, alongside others in the White Paper to require the BBC to open up more commissioning to competition, and to maintain the commitment to the 'Out of London' production quota, all have the potential to provide a real boost to producers and the wider creative industries sector in Scotland.

On 31 May Orkney will host the UK Government's official centenary commemoration for the Battle of Jutland, the largest and most decisive naval battle of the First World War. Britain's creative industries' contribution will be central to the commemorative service at St Magnus Cathedral in Kirkwall, where the sculpture *Poppies: Weeping Window* has been installed on the Cathedral's west end. St Magnus Cathedral is the first venue in Scotland to host the installation, which previously formed part of a larger installation at the Tower of London in 2014. Following the installation in Orkney, the sculpture will go on show at the Black Watch Museum in Perth from June to September 2016.

The UK's global reputation for high arts and culture is made possible by the creative endeavours of all parts of the UK, and wherever possible Government ministers are keen to show their support for the creative industries in Scotland. As in previous years ministers from Scotland Office, the Department for Culture, Media and Sport and other government departments will endeavour to participate in key events in Scotland, such as the Edinburgh International Festival and associated festivals and Fringe, including this year's biennial Edinburgh International Culture Summit.

## Scale of the Creative Industries in Scotland

***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)***

DCMS welcomes the recommendation to improve the comparability of UK and Scotland estimates for the Creative Industries and is committed to working towards this.

DCMS will work with Scottish Government as well as the other Devolved Administrations through the mechanism of the British Irish Council to consider how it may be possible to align the estimates of economic activity while still ensuring the estimates are appropriate to support policy delivery in different contexts. We will also work with Scottish Government to see what areas of measurement require further development. Initial discussions are underway with a view to publishing an assessment alongside the December 2016 Creative Industries Economic Estimates publication.

### **Role of UK-wide Bodies**

***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)***

We are fully committed to accelerating the growth of the UK's video games sector, including in Scotland which has such a rich history in games development and is home to a number of iconic, world-leading titles. We are keen to see Scotland-based games businesses flourish, including in the growing clusters around Dundee and Edinburgh for example.

We do not envisage the creation of a new National Lottery Distributor specifically for the video games sector. Lottery funding supports projects within the four good causes - arts; sport; heritage; voluntary and community. The arts good cause covers a broad range of arts and media forms. Decisions on which individual projects to fund in relation to these themes are made by the twelve Lottery distribution bodies which, as the report notes, include the BFI. Government is discussing how the BFI both represents the interests of the wider screen industries covered by its Royal Charter, including video games, and recognises the importance of the increasing skills and talent convergence across screen media. The BFI is due to publish its strategy for the 2017–2022 period in the Autumn, with a formal consultation in the Summer 2016. It is already engaging with a range of screen businesses and sectoral bodies to help develop its proposals.

The BFI already works with the video games sector. It administers the cultural test element of the UK video games tax relief and oversees the UK portal for Creative Europe's popular Video Games Development Fund which has already awarded over €500,000 to UK companies. The BFI has also held two annual Video Games Days in London and Nottingham to better engage with the developer community. In summer 2015 the BFI launched a UK-wide Creative Cluster Challenge Fund using Lottery funding to encourage and support emerging screen industry clusters which specifically encompassed video games alongside other screen industries. The winning applicant—Yorkshire Screen Industries Hub—includes games network Game Republic as a partner, and plans activities to improve connectivity and co-working spaces in the region.

The BFI will open applications to the Creative Clusters Fund, for a second round of awards, in May 2016 with a renewed focus on ensuring applications offer ideas and activity across the screen industries, including video games. The BFI recognises the international reputation of the Scottish video games industry and would welcome applications from Scottish consortia which include them as partners.

The video games sector also benefits from Lottery funding via Arts Council England. Examples include support for the “Now Play This” event during the London Games Festival in April and the “Gaming and the Cultural Sector” conference planned for the National Videogames Arcade in Nottingham in May.

The video games prototype fund—branded the UK Games Fund—will explore the potential for joint initiatives with a range of organisations including the BFI, Arts

Council, Creative Scotland and Creative England. In February we announced the first twenty-four projects awarded grants from the Fund with successful applicants including Scotland-based companies, Tag Games and Ruffian Games. A further initiative as part of our UK Games Fund investment in the sector is the talent support programme, branded Tranzfuser. Jointly reviewing the impact potential from the combined approach of talent development and prototype funding could form a particularly important element of discussions the video games prototype fund will have with the BFI and others.

## Public funding for the creative industries in Scotland

***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)***

It has not been possible to provide comprehensive information on the level of UK and Scottish Governments' funding for the creative industries in Scotland in time for this response, but we are willing to work with the Scottish Government to explore what data can be collated in this area, to give a clearer picture on the extent of public funding going to Scottish creative businesses. It should be noted, however, that it will be extremely challenging to assemble a fully comprehensive figure, given the wide range of funding sources available, and the difficulty in disaggregating many UK-wide and non-sector specific funding sources specifically for Scottish creative businesses.

## Creative sector tax reliefs

***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)***

The creative sector tax reliefs play an important role in stimulating investment in an industry that employs 1.8 million people across the United Kingdom. HMRC released figures in December 2015 that showed that film relief supported a record £1bn worth of UK expenditure in the sector in 2014–15, while the high-end television relief has supported almost £600m of UK investment since its introduction in 2013–14.

The government is confident that the creative sector reliefs are providing great support to the whole economy, including that of Scotland. Following the first season of *Outlander*, for example, it was announced that a record £45.8m was spent on filming in Scotland in 2014, up by £12m from 2013. Doune Castle, which starred as the fictional Castle Leoch in *Outlander*, also saw a 44% increase in visitor numbers. It should be noted, however, that as the distributional statistics are based on where each tax claim is filed from, rather than where the film/television show was shot, it is difficult to quantify exactly how much investment is supported by the relief in each part of the UK, including Scotland.

While tax policies are always kept under review, at present the government believes the rate of relief should be consistent across all firms and all regions of the United Kingdom to provide a level playing field. The reliefs have been extremely successful in attracting investment to the UK and stakeholders have made it clear that simplicity is a key reason for this success; adding additional rates would add a level of complexity to the claiming process and could even cause confusion, for instance if a production was shot in both Scotland and England.

***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)***

We are keen to see businesses take full advantage of the creative sector tax reliefs that are available, and many Scottish film businesses have done so, such as Moon Dogs and Whisky Galore. The British Film Commission (BFC) works to attract inward investment to all parts of the UK, including Scotland, and the results of this can be seen in productions like Outlander and WWZ choosing to shoot north of the border.

Creative Scotland works closely with the British Film Commission to promote Scotland as a key part of the wider UK offer to the producers of major feature film and television projects. Creative Scotland feeds into all of the BFC's initiatives to maximise and support inward investment through film and television, including US inbound and outbound business development missions to promote the UK's Creative Sector Tax Reliefs, production incentives, talent, crew, studios, facilities and locations. Scotland is featured in all BFC print and digital marketing materials which are distributed to clients globally and at key industry events, festivals and markets, and the BFC works closely with Creative Scotland on bespoke initiatives to promote Scotland such as co-sponsorship of last year's US Gamechangers' stand at the Edinburgh International Television Festival, which included an exclusive networking reception for senior executives from key US companies including HBO, Universal and Showtime, co-hosted by Minister for Culture and the Digital Economy, Ed Vaizey MP.

## **Intellectual property and the European Digital Single Market**

***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)***

The IPO has been working with Scottish Enterprise for a number of years. The partnership was created through an ongoing relationship with the Intellectual Assets Centre. This was based on a joint objective of ensuring that businesses had access to IP advice at the right

time in their development from a trusted source. The partnership has provided the IPO with an opportunity to support businesses in Scotland. In recent years the relationship has been formalised through a memorandum of understanding (MOU). This is still in force. Through the MOU there is a commitment to work together through a number of routes. This includes using each other's resources, promotion and communication channels to support businesses within Scotland. The review of the MOU in October will give us the opportunity to see what further work could be done.

Since 2012 the IPO has trained 24 Scottish Enterprise advisors through our IP master Class. The IP Master Class will be offered to advisors again in the coming year. Scottish Enterprise is one of the IPO's long standing partners in their IP Audits Plus programme aimed at businesses with growth potential. The programme has provided access to dedicated IP advice for more than 270 Scottish businesses since its introduction in 2012. We will continue to offer the IP Audit Plus programme in Scotland during 2016–17.

In partnership with CIPA IPO are developing an IP Triage tool to help business advisors deal with IP enquires. Glasgow Patlib will pilot the tool until end March 15. The goal is to make the tool available for the whole of the UK Patlib Network including Aberdeen from May 16.

Over the last year (2015–16) we have produced several case studies including a film on the Scotch Whisky Association. We will work with Scottish Enterprise to identify further case studies highlighting how Scottish businesses have utilised their IP.

IPO Business Outreach teams will be attending “Venturefest Scotland”, “Get it Right First Time” and “New Start Scotland” during 2016 to promote the importance of IP to SMEs.

***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)***

We are working to make sure that Scottish voices inform our approach. Developing the DSM is a priority for the Government and offers huge potential for driving jobs and growth across the country including Scotland. We are always interested to hear views from the Scottish Creative Industries. The IPO recently held a call for views on the EU Commission's draft legislation for enabling the cross-border portability of digital content. In doing so, we sought views from a wide range of interested parties, including various representatives of the Scottish creative industries. Also, IPO copyright and enforcement colleagues have arranged a roundtable stakeholder meeting in conjunction with Scottish Government and Creative Scotland which took place earlier this year.

## **Apprenticeships levy**

***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)***

For too long UK employers have under-invested in skills. This is bad for the economy and for businesses. It means that individuals do not have the skills needed to access good quality jobs. The levy is an important part of our approach to fund a step change in apprenticeship numbers and quality, delivering on our commitment of reaching 3 million new apprenticeship starts by 2020.

The levy will apply to the whole of the UK, but will only be paid by the largest 2% of employers, and will create opportunities for both young people and adults across the UK. We are doubling the annual level of spend on apprenticeships in England between 2010–11 and 2019–20 in cash terms to £2.5bn. The levy will raise £3bn across the UK by 2019–20; and the Government is working to ensure that Scotland, Wales and Northern Ireland receive their fair share. Devolved Administrations, including the Scottish Government, will continue to have complete flexibility over how to support businesses through training and apprenticeships.

We are committed to doing all we can to make the levy system work for employers wherever they are in the UK and we are working closely with Ministers and officials in the Scottish Government and other Devolved Administrations to achieve that.

## Broadcasting and the BBC in Scotland

*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)*

Ofcom will respond to this recommendation separately. Additionally, Ofcom recently reported on the regulations surrounding the television production sector, including the terms of trade for primary and secondary IP rights, and the Secretary of State is considering his response.

*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)*

The Government has addressed questions regarding BBC's provision for the nations (and regions) in its White Paper, 'A BBC for the future: a broadcaster of distinction', which was published on 12 May.

'A BBC for the future: a broadcaster of distinction' is the result of months of consultation with the public, interested stakeholders and the Scottish Government. We have commissioned two independent reviews, a public opinion study, a number of roundtable events with industry stakeholders and ran a public consultation which received over 190,000 responses, the second highest number of responses ever to a government consultation. Under plans confirmed by the UK's Secretary of State for Culture, Media and Sport John

Whittingdale, the BBC will make sure that programming making continues to be made outside of London including in Scotland, which will help encourage healthy independent production sector in Scotland and across the UK.

Further to the above, the BBC made a number of initial commitments aiming to improve commissioning and production in Scotland and the UK's other nations. These include:

- A commissioning editor responsible for television drama in each Nation, and a comedy commissioner in Scotland.
- Setting 'portrayal' objectives for commissioners so that all areas of network content reflect the lives of audiences across the whole of the UK.
- Agreeing new partnerships with the lead creative sector agencies in the nations, which will help support the creative industries in each nation.
- A commitment to spending more on English-language television programming in all three nations.
- Strengthening Scotland as a Centre for Excellence for factual production.

In addition, the Scottish Government will get additional powers to hold the BBC to account, which will be enshrined in law:

- The Scottish Government will have a formal, consultative, role in any Charter Review including providing them with copies of the draft Charter to lay before their Parliament.
- The BBC will lay their annual reports and accounts before Scotland's Parliament.
- The BBC will be required to submit reports to, and appear before, Committees within the Scottish Parliament on the same basis as the UK Parliament.

Channel 4 must meet regional production quotas that require 3% of hours and spend on the main channel to be on productions out of England (but within the UK) and these are rising to 9% from 2020. More broadly, the Government is considering a range of options regarding the future of Channel 4 to ensure it has a strong and secure future, and that it continues to support the creative industries across the UK.

## UK Government engagement

*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)*

We have considered this carefully but believe there are good reasons not to extend the Creative Industries Council's remit so as to make it UK-wide. This is primarily because many of the issues it raises are devolved, such as education policy and business support,

and if it were formally to become a UK-wide body, its resulting increase in membership and governance structures would make it unmanageable. Nevertheless, we recognise that a number of other issues it discusses, such as IP and export promotion are reserved matters, and Devolved Administrations have a legitimate interest in being involved in discussions. Whilst the Scottish Government formally has observer status it, along with Creative Scotland, has participated in CIC discussions, and we welcome its continuing positive involvement in the Council.

We note that the Scottish Government, along with the other Devolved Administrations, is considering the best framework for engaging directly with industry, and has had discussions with the CIC Industry Chair on this issue, and we look forward to the Council continuing to work with them on this matter.

***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)***

The UK Government and Scottish Government work together to deliver valuable cross-government work through formal structures such as the Joint Ministerial Committee and the British-Irish Council. Furthermore, we believe there are areas where we should be working together to deliver joint programmes of work between the UK Government and the Devolved Administrations. We can all benefit from sharing our expertise and aligning our activities and resources where our interests coincide.

There are strong bilateral relationships between the Scotland Office and Scottish Government across a wide range of policy areas. DCMS officials engage with their counterparts in the Scottish Government regularly on a range of issues, both bilaterally and through the mechanism of the British Irish Council, and consulted with them on this response to the Report.

The devolution of further powers to the Scottish Parliament in the Scotland Act represents the biggest transfer of powers since devolution and will require the Civil Service to review how it supports the devolution settlement. Policy making, for example, will increasingly take place in a more collaborative space. Where mutual interests combine more joint working and joint projects across the Civil Service should be taking place. This is particularly important where issues affecting a policy area cover a mixture of devolved and reserved responsibilities, such as with support for the creative industries.

To support this, in June 2015 the Civil Service Board agreed a programme of work to strengthen devolution capability in the Civil Service and support intergovernmental working. The elements include the Devolution and You campaign which is a cross department and cross administration campaign to improve devolution capability in the

Civil Service, and introduction of The One Civil Service Interchange Scheme between UK Government and Scottish and Welsh Governments to support officials to build networks and careers across administrations. This will play an important role in strengthening intergovernmental working, through improving levels of knowledge, sharing expertise and building stronger relationships and networks. We are committed to strengthening relationships between DCMS and the Scottish Government in the area of creative industries in this Context.