



Northern Ireland
Assembly

Committee for Culture, Arts and Leisure

OFFICIAL REPORT (Hansard)

Inquiry into Maximising the Potential of the
Creative Industries in Northern Ireland:
Digital Derry

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we call it, that lends itself towards what we call the cultural technologies. We are looking at how digital technologies and software lend themselves to the creation, promotion, and distribution of traditional artistic and cultural output.

The evidence that we provided in December said that there were roughly 100 digital content companies in the city. At this point, it is about 127. So, in the past two years, we have seen 47 new commercial organisations come into being. Some of them are fully fledged companies that are staffed, trading and making a lot of money, and some of them are very early doors. The one thing that they all have in common, realistically, is that they are, almost to a man, chronically underfunded, which is one of the areas that we are looking at in detail. It would be worth predicating all my evidence based on the fact that we work almost exclusively with start-up companies. We work with people who are in the first, second or, sometimes, third year of business. Therefore, the kind of issues that we see are consistently around funding, access to staff and creative talent.

Thankfully, we are able to take a very hands-on approach. Realistically, the day-to-day operations of Digital Derry fall into two camps. First, we work directly with the companies. Somebody will approach us with an idea or a company that they have started, and we will work directly to help them raise initial finance, find premises, hire new staff, or whatever it might be. Secondly, we work to promote the sector in general through marketing initiatives, whether that be online or through events. A case in point is that we are hosting what will be Northern Ireland's largest digital event this year, which takes place in Derry during the last week in August. We are expecting 500 to 600 industry delegates alongside 8,000 to 10,000 members of the public for four days of digital festivities, which I will happily explain if anybody is interested.

With regard to the proposals that we see as beneficial to the industry, we are very much focused on early-stage companies. The size of the Northern Ireland economy and the simple population point points to the fact that we will be able to support smaller companies more effectively. In our mind, that means that, realistically, we have to grow those companies from scratch. In the past 18 months to two years, we have seen a real shift from a position where there were very few people coming forward looking to start new things to the point where we would meet regularly with five or six potential new companies every week. That has been a real change in emphasis. Some of that is directly related to the economic downturn in that the jobs that people used to apply for simply do not exist any more. If they cannot apply for the jobs, many of the graduates that we produce are quite interested in starting new projects, and it has never been easier to do so as the barriers to entry for a least starting something and having a go are incredibly low. There are, obviously, stumbling blocks in turning those 47 new projects that we have seen come across our door into actual viable companies that employ people. However, we do not see those companies taking on large numbers of staff, and that comes back to finance.

A specific point at the top of our agenda is an absolute focus on intellectual property (IP) creation, as opposed to service provision. It is incredibly straightforward for someone to set up as a web designer, a graphic designer or whatever it may be. They need very little more than a business card and a website. In fact, business cards would be fairly optional. That side of it is quite easy. In general, however, those companies are not very scalable and they depend on a local market that is contracting. We would like to see a much greater emphasis being placed on the creation of intellectual property which, by its very nature, will be an export product from day 1.

It goes almost without saying that — it has become redundant at this point — we simply do not have the technical software development staff in Northern Ireland. They are simply not there. A back-of-an-envelope calculation will tell you that there are currently 1,500 students in the north-west, between the university, the North West Regional College and Letterkenny Institute of Technology (LYIT) immediately across the border, who are studying some sort of creative industry or software development course. That is a very rough number, but if you consider that those are the full-time students, you have to assume that 500 graduates are coming out every year in some sort of related discipline. At the same time, there are jobs that are unfilled right now and have been unfilled for months, and, in some cases, years. There is a disconnect between what is being taught and learned in our education system and the types of qualifications and experience needed by the companies that we are producing.

Realistically, we are fairly poor at showcasing the work that we produce. Obviously, geographically, we are not based in the middle of a media cluster of the kind that you might find in London or New York, so we have to do a bit more work to give the products and companies that we produce an international profile. One of the simplest ways in which to do that is to capitalise on big events that are already happening, such as the Titanic centenary or the UK City of Culture, which automatically give

us an international spotlight. We should be looking to put our creative and digital industries at the very heart of that. That may involve using innovative public procurement to do interesting things in that space, but we really need to take advantage of those showcasing opportunities.

Similarly, we need to jump on a plane a little more often and go to the places where the business is being done. We have had a great effect working with the likes of Belfast City Council, DCAL and Invest NI, running showcase events at major conferences such as South-By-Southwest in Austin, Texas, to which we took 13 companies this year. Those kinds of events give us an opportunity to showcase alongside companies from all over the planet.

All that said, the elephant in the room is finance. The companies simply do not have enough money. The digital end of the creative industries in particular has the potential to grow exceptionally quickly. From concept to marketplace, earning money can happen in a matter of months. However, although it is very simple to start something and develop prototypes or build a website, it is very difficult to take the next step, which means staffing up, going after the market aggressively and, hopefully, generating revenues.

We have come to identify three stages in that process. The first is to find ways to allow our creative people a little bit of space in which to build something interesting, such as prototype, a new app, website or piece of software. I cannot applaud highly enough funding mechanisms such as the creative industries innovation fund. It is fantastic; it is exactly the kind of thing that we should be doing. However, it is very difficult, through those sorts of mechanisms, to allow, shall we say, "founder managers" to take advantage of that. Generally speaking, it is very difficult to include founder salary costs in any sort of public funding, which means that they are locked into doing client work and have to outsource the creative work that they could be doing themselves. That initial seed prototyping money, typically well under £20,000 to £25,000, is small beer, but there is a high failure rate.

The next phase — something that is completely absent in the Northern Ireland economy — is where angel investors step in, as they do in other cities and economies. In our experience, that investment is typically around the £50,000 to £100,000 mark. It is where a company makes the transition from a nice idea, a good prototype and lots of interest, to hiring staff, generating revenues and selling its product abroad. That is the gaping chasm that most of our companies are not crossing. If they do not cross it, we cannot get to a situation where they are able to sell, compete, generate revenues and, obviously, employ more staff. Typically, that would be fuelled by private equity investments or perhaps debt investment, but that is simply not the case. We need to look at that in great detail.

I will finish with three points, the first of which is that the creative industries have enormous potential. It suffers from the fact that digital is almost omnipresent at this point. It crosses so many industries and so many sectors that a typical company might fall under the remit, structurally, of an organisation such as Digital Circle, NI Screen, the Arts Council, Invest NI, or, in many cases, all of the above, and so it is very difficult to put concerted effort from the public sector into supporting those companies. There is huge potential, and we should invest more heavily. We are no longer core-funded, and we are making our way through Digital Derry with a mixture of some public support, but primarily corporate sponsorship that we raise from companies in the region.

The second point is that there should be a focus on entrepreneurship. The creative industries innovation fund is exactly the kind of thing that we should be looking at, but we should also be much more interested in working with the private sector for private investment. We have set out our stall to help create 100 new companies in Derry by 2015. It is a back-of-an-envelope calculation, but 100 companies with £50,000 of seed money each is £5 million. I guess that the public sector in Northern Ireland will not write us a cheque for £5 million, although I would appreciate it, in which case we need to figure out where that money will come from. The answer, for us, is probably the private sector. We need to find ways in which we can work with the private sector and encourage private investment at a very early stage.

The final point is that we should market exceptionally aggressively. We have a good story that we can talk about. We have high-profile events that we can leverage to our advantage, and the public sector can absolutely play a vital role in allowing and creating those showcases for our creative industries in some of the bigger campaigns and bigger high-profile events. The three points are that we need to treat this seriously, focus on entrepreneurship and private investment, and market what we have and what we create as aggressively as we can. Are there any questions?

The Deputy Chairperson: Thank you very much. The paper suggests that the main need for the digital sector is support for early-stage ventures. Who should lead in starting discussions about that?

Mr Nagurski: It is not an easy question to answer. As I said, literally dozens of organisations are involved in some way, shape or form. It is maybe best to illustrate it through an example. We have started working with a company that has just come out of the university and was a final-year university project. That company allows people to automatically generate music videos using software. Basically, you put your music in, and it spits the music video out. The question is: does that fall under NI Screen's remit? Will it fall under a new music industry strategy remit? Is it for the Arts Council or for Invest NI? The answer is that, at the moment, there is no clarity there.

Digital crosses all those sectors, and, being hugely pragmatic, I do not think that any of the organisations will step out of the way and let somebody else take the lead. Fundamentally, it will come down to collaboration and co-operation across them. However, from a departmental point of view, whether it is DCAL or the Department of Enterprise, Trade and Investment (DETI), if the funding is there, the organisations will happily work together to make sure that it gets to the right companies. With the creative industries innovation fund, the Arts Council and NI Screen took the lead but also had Digital Circle on the panel. We participated in the panel, and those organisations were very happy to work together because the money was there and they knew the companies that they needed to get to.

The Deputy Chairperson: Would the Scottish model of having a single body promoting the creative industries work here?

Mr Nagurski: I honestly do not know. With a purely pragmatic hat on, I do not know if we can take the genie and put it back in the bottle. We already have all these organisations, and nobody will put their hand up and say, "I would like you to put me out of a job." I do not know if it is viable. I am also a strong believer that a general creative industries body, while a good thing for the overall agenda and remit, will not be able to get its hands dirty with the companies.

It would have to take a high-level view. Given the absence of private investment in the sector, somebody has to get their hands dirty, work with the companies and know the people who are coming through. Organisations such as Digital Circle, NI Screen and Digital Derry are well placed to do that, so I would be hesitant to remove that layer. Even if there were an overarching creative industries body per se, it would still need delivery agents on the ground working directly with companies and entrepreneurs.

Mr Ó hOisín: Recently, the expansion of digital companies in the Derry area — some 40-plus — has been phenomenal. How critical to that development would be the delivery of Project Kelvin or a proposed extension of the Science Park to the Fort George and Letterkenny sites?

Mr Nagurski: Project Kelvin is a tremendous positive. Will it have a direct impact on the number of start-up companies? Probably not. My position is that it is a fantastic potential attractor for larger foreign direct investment (FDI) projects, and some local companies may grow into it. However, I do not think that it is fundamental to the number of start-up companies. People have not looked at Project Kelvin and said that they must now start a business. It is similar with the Science Park, where there will be tremendous opportunities. The expansion of the R&D base is a fundamental issue not only with the extension of the Science Park but with the growth of the university in the city. If more smart people are working in Derry, it will naturally lead to more projects.

Mr Ó hOisín: Many digital companies operate in the Science Park in Belfast. Do you agree that that is a natural extension to the Derry site, if Fort George gets approval?

Mr Nagurski: Absolutely. I am a big supporter of the Fort George programme. On the Ebrington site, we have earmarked a couple of buildings for a creative industries hub; that is in the Programme for Government. We have to play both cards: the R&D hard technology software development side and the more creative end of the spectrum. We need both elements to be able to create the type of cultural technology companies that we feel are most likely to come from us.

On a more general point, we are often asked why things should be done in Derry. Northern Ireland is not a big place, and beyond here, nobody really sees any difference, and it is a long commute between the two cities. I will give an example. One or two Derry organisations were successful in the first iteration of the creative industries innovation fund. For this year's round of funding, we ran workshops in the city. We brought the Arts Council up to Derry to meet some companies, and we ended up with about one third of the total funding allocation. That tells me that, even if something is happening that is based in Belfast, we need local representation. That can easily be done through

events and visits, and the Northern Ireland Science Park could be a linchpin. That would allow the hub-and-spoke model to operate effectively. Given the size of the population, it makes perfect sense that the majority of programmes, events, and so on, take place in the Belfast area; I have no issue with that. However, we need a way to tie that in and knit it together. It is incumbent on organisations based in Belfast to find a way to reach out and work with Derry-based organisations for delivery. The Northern Ireland Science Park could be one way to deliver that.

Mr Ó hOisín: Of course you know, Deputy Chair, that things are done in Derry because of the talent there.

Mr Swann: Mark, you spoke about creativity and intellectual property. Is there enough support in Northern Ireland to protect patents, and so on, and to go to a worldwide market?

Mr Nagurski: "Support" is probably not the right focus. Awareness is more of an issue. Most young companies are simply not aware of the steps that they should take, so education has a role. However, it is not the sexiest of topics. For a young start-up company making video games, protection, licensing, and so on, are not top of the agenda. They just want to make great video games. So there is an educational role. I think it would be a smart move for us to get in and start talking about those kind of issues sooner. There is probably also a gap that Invest NI can fill to a degree, which would allow people to take the first steps down that path at no substantive cost. Obviously, when you really get into intellectual property protection, it is an expensive game to be in, so we could possibly figure out a way that the first couple of rungs on that ladder could be taken quite easily, whether through advice clinics or seminars. That is already in place. We need to examine how we can take that a step further just to move them along that path so they take it seriously.

Mr Swann: You mentioned Invest NI and you talked about angel investor funders in almost a 'Dragon's Den' scenario, when they ask whether somebody will lend £50,000. What sort of outreach or approaches have been made to funds or international money-men to come in and set up a bank like that?

Mr Nagurski: Not a lot. I can speak only from my experience. Invest NI has a co-investment fund and works with organisations such as E-Synergy and Crescent Capital, which can and have invested heavily in Northern Ireland businesses. However, we are essentially now at the stage of saying that we have a proposition and we want to take it to the international market, and if we want to start 100 companies that need £50,000 each, the question is whether it is easier for us to go out and look for £5 million, or for those 100 companies to go out individually. Patently, it will be easier for us to go out and raise £5 million than for 100 people to raise £50,000 each. Scale that up to Northern Ireland scale, and I think there is an argument there.

The problem is that there is no specific reason why those investors should come and look here. We have world-class talent, but you will also find that in New York, London, Dublin and San Francisco, and they will look in their back yard first, before they make the effort to come here. We have to be exceptionally proactive. We have to go out and meet these companies and investors; we have to go out and make our case and do more than the next city, region or company is willing to do. I think we can do that on a Northern Ireland basis if there are the mechanisms and willingness to work with private money in that way.

When companies come to take investment from the likes of E-Synergy or a co-investment fund in Northern Ireland, the crux of that is that it is co-investment, so there has to be private money being brought along with it. If there is not enough private money being brought along with it, they cannot take advantage of the co-investment that is available. Once you cross that chasm, the mechanisms we have in place are absolutely fantastic. You will not find very many places in the world where you can bring in an investor for maybe half the amount that you need and the public sector will step in and match that. It does not happen in very many other places, and when we talk about those models to people in New York or San Francisco, they are absolutely blown away by it. What we are not doing is selling that. We need to go out and aggressively doorstep and get into meetings, pitch this and sell it.

The Deputy Chairperson: I note that the University of Abertay in Scotland has recruited an intellectual property specialist. Is that something that would be useful in our universities?

Mr Nagurski: The University of Abertay is a very interesting case. What it has done with gaming has not come overnight, but it is phenomenal, and it is held up as one of the examples that other regions, cities and universities should be following. The short answer to the question is yes — the long answer

is that I am not sure whether we are quite there yet. We have a good throughput of companies, but the more pressing concern is that you will never have to worry about an IP battle until someone is selling something. We need to get our companies selling something and employing staff first. For me, that means investment at an early stage, typically of £50,000 to £100,000. It takes them from "I have a great idea" to "I have a company that is selling a product that is based on a great idea." That is the gap that we cannot cross consistently enough. There are plenty of fantastic examples of companies that are doing exactly that, but they are the exception rather than the rule. If we want to do this on any kind of scale, we need to figure out how we cross that chasm first. Once we do that, then the point is well made.

The Deputy Chairperson: Thank you very much for your presentation and for coming.