

# APPENDIX B1 - UNITED KINGDOM

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# 1 OVERVIEW

## The country

The United Kingdom is a medium-sized country with a population of 60 million, good standards of living, and a better economic growth rate than many other European countries (2.2 per cent).

## The industry

The industry is characterised by a strong public broadcasting system, a strong television production sector and healthy and growing film industry after a decline in production in the 1970s and 80s.

## Government support structures

Public support for the industry is diverse, with direct funding through national and regional agencies and indirect support through taxation incentives designed to stimulate private investment in production.

Approximately 60 per cent of direct funding for the film industry is delivered by the national film agency, the UK Film Council, with the remainder delivered through regional and community funding bodies such as the Gaelic Television Fund and Scottish Screen.

The UK Film Council funds project and professional development, and production of feature films and shorts. The Council's other functions include the development of screen culture, research activities, assisting the promotion and distribution of British films, and training through the funding of Skillset.<sup>1</sup> It also funds the British Film Institute (BFI), which includes the national audiovisual archive.

A large part of direct public support for the film industry is derived from the proceeds of the National Lottery, with a fixed proportion of lottery revenue distributed directly to the UK Film Council. Government appropriations and contributions from UK broadcasters add to the funds made available to the UK Film Council and regional and community funding bodies.

The nature of direct support offered by the UK Film Council includes equity investments in commercially promising feature films, interest free loans for film development and non-reimbursable advances for further training for UK film practitioners.

In March 2006 the UK Government confirmed the introduction of the new tax relief system which they had proposed in December 2005. The new relief is for films which commenced principal photography on or after 1 April 2006 and for films which commenced before that date but which are not completed by 1 January 2007.

<b>UK – Value of public support</b>		<b>A\$ million</b>	<b>A\$ per capita</b>
Value of direct support (2002)	€133 m	233	3.9
Value of indirect support <i>Tax revenue forgone – range estimates 2003</i>	£140 – 170 m	340 - 440	5.7 – 7.4
<b>Total value of public support (range estimate)</b>			<b>9.6 – 11.3</b>

<sup>1</sup> The UK Film Council has delegated £6.5 million of its Lottery grant to Skillset, the Sector Skills Council for broadcast, film, video, interactive media and photo imaging. Consequently, the UK Film Council no longer administers a training fund. <http://www.ukfilmcouncil.org.uk/filmmaking/funding/trainingfund/>

## Levels of production

The value of feature production in the UK totalled £569 million in 2005, including 37 domestic UK films worth £166 million.

	No of Productions 2004	Value (£m) 2004	No of Productions 2005	Value (£m) 2005
Inward feature films (single country) <sup>1</sup>	17	476.9	19	240.8
Inward feature films (co-productions) <sup>2</sup>	3	71.6	6	71.2
<b>Total inward investment</b>	<b>20</b>	<b>548.5</b>	<b>25</b>	<b>312.0</b>
Domestic UK feature films <sup>3</sup>	27	117.8	37	166.3
UK co-productions (other than inward) <sup>4</sup>	86	145.6	62	90.5
<b>Total production investment</b>	<b>133</b>	<b>811.9</b>	<b>124</b>	<b>568.8</b>

Source: UK Film Council International

1. An inward feature is defined as a feature film more than 50% financed from outside the UK where the production is location non-specific or is attracted to the UK because of its infrastructure

2. An inward feature co-production is an official co-production that originates from outside the co-production treaty countries (usually from the USA) and which is attracted to the UK because of its infrastructure.

3. A domestic UK feature is a feature made by a UK production company that is shot wholly or partly in the UK.

4. A UK co-production is a co-production (other than an inward co-production) involving the UK and other country partners under the terms of a bilateral co-production agreement or the European Co-production Convention.

In terms of TV production, the major UK channels spent £2.6bn on original programming in 2004, made by a television production sector with over 800 firms around the UK. The amount of original television production has grown at an average rate of 4 per cent per year over the past five years, with production companies also benefiting from new opportunities overseas and on alternative distribution platforms.

56 per cent of the market for UK-originated TV production, representing £1.5bn, is accounted for by in-house production, while 44 per cent or £1.1bn comprises external production.<sup>2</sup>

The UK has bi-lateral co-production treaties with Australia, Canada and New Zealand. Co-productions with European countries are subject to the European Convention on Cinematographic Co-production.

## Role of the broadcasters in financing features

There are no obligations on public broadcasters to invest in features. However, historically the broadcasters have played a significant role in production through investing in and acquiring British films.

In 2002, the BBC invested £10m in feature film development and production of which about £2m went into development.<sup>3</sup> FilmFour, the film arm of Channel 4 was 'scaled down'

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<sup>2</sup> Ofcom Review of the television production sector, 2006, p11

<sup>3</sup> David M. Thompson, *The role of the broadcaster in feature film*. Skillset Inside Pictures [www.inside-pictures.com](http://www.inside-pictures.com)

in 2002, with investment in film dropping from £30m to around £9–10m per year. ITV's Granada Films closed down in autumn 2002.<sup>4</sup>

Private broadcasters have neither legal nor voluntary obligations to invest in films. Sky Pictures was established in 1998 but closed in 2001.<sup>5</sup>

### **Audiences**

UK and Ireland box office revenue hit £840.35 million in 2005, a 1 per cent rise on 2004's figure of £833 million. Home-grown films accounted for 34 per cent of the UK box office share - up from 23 per cent in 2004, the highest figure in 10 years - and made up 8 of the top 20 highest grossing films at the box office. The top British earners were *Harry Potter and the Goblet of Fire*, *Charlie and the Chocolate Factory* and *Wallace and Gromit: The Curse of the Were-Rabbit* followed by *Batman Begins*, *Nanny McPhee*, *Pride and Prejudice*, *The Hitchhiker's Guide to the Galaxy* and *Valiant*.

### **New media**

Digital content creation in the UK is a key growth area of online activity, with major national public sector programs and initiatives for content digitisation in the area of e-learning (nof-digitise.org, peoplenetworks.gov.uk), e-culture (cultureonline.gov.uk), and access to information and health resources on line.

The UK Film Council and Department of Trade and Industry (DTI) both play key roles in support for new media and digital content in the UK.

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<sup>4</sup> UK Film Council quoted in European Audiovisual Observatory, *Broadcasters' Obligations to Invest in Cinematographic Production*, 2006; p 68–69.

<sup>5</sup> *ibid.*

## 2 KEY STATISTICS

Demographics	Source	Units	2002	2003	2004
Population	BMI	in million	59.3	59.6	59.8
GDP per capita	BMI	in US\$	26,420	30,175	35,200
GDP growth	BMI	%	1.8	2.2	3.3
Unemployment	BMI	%	3.1	3	2.7
<b>Audiovisual</b>					
TV households	TBI	in million	n.a.	24.6	n.a.
Television sets	WFB	in million	30.5 (1997)		
Digital TV homes	TBI	in million	n.a.	12.3	n.a.
Pay TV subscribers (cable)	TBI	in million		3.25	
TV advertising	TBI	in US\$ million		7,153	
<b>Film</b>					
Cinema screens	SD		3,402	3,433	3,475
Cinema screens per million population	SD		56.6	57	57.7
Cinema admissions	SD	in million	176	167.2	171.28
Box office revenues	SD	in US\$ million	1,134	1,212	1,410.7
Film production investment	SD	in US\$ million	851.6	1,895.6	1,479.2
Average budget per film	SD	in US\$ million	7.16	10.83	11.2
Films produced nationally	SD		119	175	132
Total co-productions	SD		66	102	108
Feature films produced per million head of population	SD		1.41	2.91	2.19
Total films first-run released	SD		369	478	450
Number and share of domestic films in local releases	SD		77 21%	77 16%	60 13.3%
Number and share of US films in local released	SD		122 33%	192 40%	188 41.7%
Domestic films' share of local market	SD				22%
<b>New media</b>					
Internet users	BMI	in million	28.5	32	34.5
Broadband Internet subscribers	BMI	in million	1.4	2.8	4.5
Mobile phone subscribers	BMI	in million	49.3	51.9	52.5
Personal computers	BMI	In million	23.2	24	24.8
Internet hosts	WFB	In million			3.4
Internet service providers (ISP)	WFB	no	400+ (2000)		

BMI = Business Monitor international accessed December 2004, TBI = TBI Yearbook 2005, SD = Screen Digest June 2004, WFB = World Fact Book, n.a. = non available

## STRUCTURE OF PUBLIC SUPPORT

In the UK, more than two-thirds of direct public support is allocated by the national agency (the UK Film Council) and most of the remainder by community and regional agencies.

A process of decentralisation was implemented at the same time the support system was restructured in the UK in 2000–2001. A national network of regional organisations was set up to help implement national objectives at local levels. This reflects increased interest in the audiovisual industry - and cultural industries more broadly - as a potential instrument to stimulate local economic development.

Agency (year created)	No. programs	Budget (€m)		
		2002	2003	2004
<b>National agencies</b>				
UK Film Council (UKFC) (2000)	15	98.14	89.31	79.87
Children's Film and Television Foundation Enterprises Fund (2003)	1	-	-	0.42
<b>Regional (community) agencies</b>				
Arts Council of Wales (1994)	2	1.83	1.56	1.16
Gaelic Media Service (former Gaelic Broadcasting Committee) (1990)	4	14.67	13.34	13.65
Scottish Screen (1997)	10	3.81	3.12	3.21
Sgrin Cymru Wales (1997-2006); will become Ffilm Wales	5	1.7	2.8	2.6
Northern Ireland Television and Film Commission - NITFC (1997)	4	2.11	2.66	2.68
<b>Regional (local) agencies</b>				
Isle of Man Fund	1	6.7 (2001)	-	-
Cornwall Film Fund (2001)	3	-	-	-
Film London (2003)	3	1.6	1.73	2.18
EM Media (2002)	2	1.04	-	-
North West Vision (2002)	2	0.68	-	-
Northern Film & Media (2002)	4	1.05	3.11	2.34
Screen East (2001)	4	1.29	1.82	1.18
Screen South (2001)	2	0.86	0.44	0.36
Screen West Midlands (2001)	4	0.92	-	-
Screen Yorkshire (2003)	3	-	-	4.12
South West Screen (2001)	2	0.77	2.16	2.38

List of agencies from European Audiovisual Observatory, *Public Funding for film and audiovisual works in Europe – A comparative approach*, p 50; no. programs and budgets updated using Korda database as at August 2006

### 3.1 National agencies

The main national agency, the **UK Film Council**, was established in 2000. It accounts for the majority of public support to the industry, including distributing a proportion of funding to regional and local agencies.

From April 2000, the UKFC became responsible for all direct government funding for film from the Department for Culture, Media and Sport (DCMS) with the exception of the National Film and Television School (NFTS). The UKFC also has responsibility for the National Lottery funding which previously rested with the Arts Council of England (ACE).

#### **Objectives**

The UKFC objectives are:

- to develop a sustainable British film industry - by developing a pool of creative skills and talents, entrepreneurial acumen and business clusters and an industrial infrastructure
- to develop film culture by enhancing access to and education about cinema

#### **Status, aims and tasks**

The UKFC has the status of a company limited by guarantee, although there is an intention that it become a statutory authority at a later stage.<sup>6</sup> Besides aid management, it is in charge of improving industry structures, stimulating co-productions, organising activities for the general public, and carrying out research.

<b>UKFC - agency aims and tasks</b>	
General tasks	Improve the quality of national cinema, national film culture and the promotion of creativity
Economic role	Improve industry structures
Aid management	Aid for production Ensure promotion and distribution of films in the country Aid for cinemas Aid for experimental and non-commercial films
International tasks	Stimulate co-production or foreign investments
Research and training	Carry out research and study and / or producing statistics
Cultural activities	Organise activities for the general public

Note that the UKFC does not include its support for the British Film Institute (BFI) among its funding programs in the Korda database, although the BFI receives a grant in aid from the UKFC (A\$39.7m or £16m in 2004/05; see table page 12).

### 3.2 Regional agencies

The main non-national agencies are the regional 'community' agencies, the **Gaelic Media Service** and **Scottish Screen**.

The **Gaelic Media Service** administers the Gaelic Television Fund, which was set up in 1990 to support the production of TV and programs in Gaelic language by Scottish broadcasters and independent producers. It receives funds from the finance ministry.

**Scottish Screen** invests money, including National Lottery funds, in a number of different areas including production company growth; short and feature film development and

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<sup>6</sup> <http://www.ukfilmcouncil.org.uk/information/aboutus/board/>

production; freelancer and company skills development; experimental, alternative and interactive digital screen content, formats and platforms; the development and production of television drama pilot; audience and market development and distribution initiatives.

**Ffilm Wales**, a new film agency for Wales, was established to focus on supporting production, exhibition and education. This replaced the previous agency **Sgrin Cymru Wales**, which closed 31 March 2006. The change followed a review undertaken by the Arts Council of Wales in collaboration with the Welsh Development Agency to shape new arrangements that will complement the new creative industries hub established by the Assembly Government.<sup>7</sup> The agency will provide exhibition support, promote film education, fund film festivals and work with young filmmakers trying to break into the industry. Ffilm Wales is expected to distribute the Lottery funds for filmmaking in Wales, currently distributed by the ACW. The Wales Screen Commission, which promotes Wales as a shooting location, will be initially funded by the new agency and eventually become a separate branch of the Creative Industries Support Agency.<sup>8</sup>

Sgrin Cymru Wales has been one of the major funders of animation production in the UK. Its program *Animate it!* was allocated over €500,000 in 2002.

The **Northern Ireland Television and Film Commission** is another regional community agency, which is funded by the Department of Trade, Enterprise and Investment. It exists to promote the interests of the film and television industries in Northern Ireland, and to develop a wider appreciation of, and access to, film and television culture in the community, with a strong emphasis on furthering media education.

The NIFTC has eight primary areas of activity: Film development and production funding; production logistics support. Marketing to promote Northern Ireland as a base for production. Company development support initiatives for local production companies. Skills development/ training for the industry. Information services for producers and others. Moving image education policy development. Developing access to the audiovisual heritage of Northern Ireland. Specialised film exhibition development.

The **network of smaller regional agencies** focused on particular local areas have budgets of around €1–3 million each, with the aim of implementing national objectives at a local level. A similar system has been in place in Sweden since 1992. France has announced a project to implement a similar mechanism through the participation of the national agency – CNC – in regional funding.

### 3.3 Sources of agency funding

Since the early 1990s, a significant proportion of UK film support has been derived from proceeds of the National Lottery.<sup>9</sup>

Lottery funding to film totalled €43.5m in 2004, accounting for 34 per cent of all direct funding to the sector, and 51 per cent (€34.4m) of the budget of the UKFC.

The second biggest source of funding is the UK Budget, which provided a total of €61.2m in 2004, including €34.4m through the Department of Culture, Media and Sport to the UKFC (43 per cent of its budget).

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<sup>7</sup> Source: Arts Council of Wales [www.artwales.org](http://www.artwales.org)

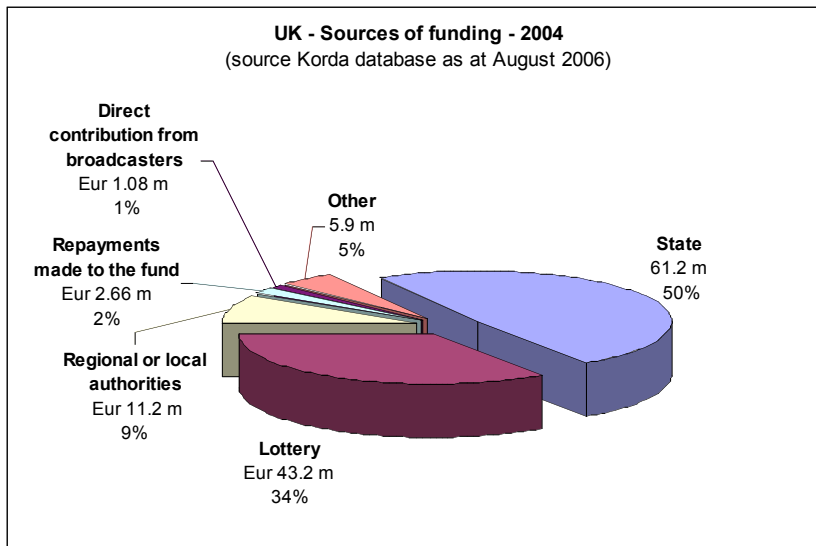
<sup>8</sup> Source: UKFC <http://ukfilm.org/news/new-welsh-agency-ffilm-established>

<sup>9</sup> National Lottery Act 1993

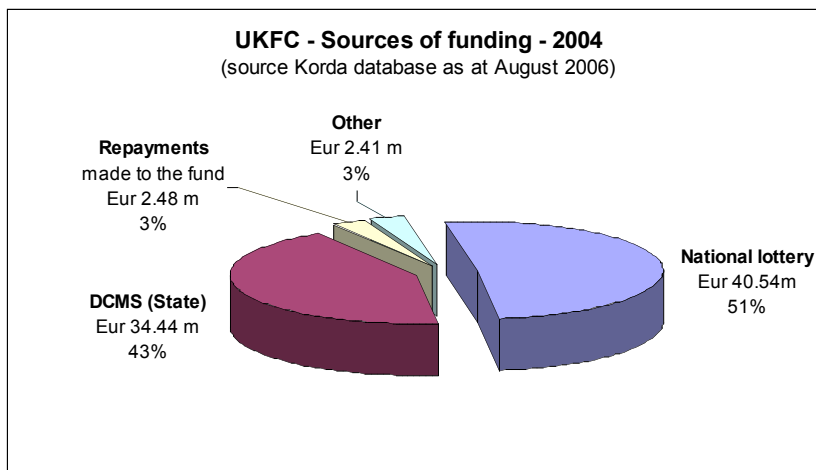
**Broadcasters** contributed 1 per cent of public funding for film across all agencies in 2004.

The Scottish Media Group was the most significant contributor (€567,100 in 2004), providing most of the funding for the program New Found Land operated by Scottish Screen to support television drama.

<b>UK – Main broadcasters contributions (2004)</b>		
<i>Broadcaster</i>	<i>Contribution to funding bodies</i>	<i>€ 000s</i>
Scottish Media Group	Scottish screen	567.1
BBC	Children Film and Television Foundation Entreprises Fund	142.8
HTV	Sgrin (Film Wales)	114.2
BBC Wales	Sgrin (Film Wales)	87.1
BBC Scotland	Scottish screen	71.2
S4C	Sgrin (Film Wales)	43.5
HTV	South West Screen	42.8
UTV	Northern Ireland Television and Film Commission	28.5



Based on origin of funding detailed in Korda database for 2004 as at August 2006; except for EM Media, North West Vision, Screen West Midlands (based on 2002 figures); Isle of Man (based on 2001 figures); and Cornwall Film Fund (no figures available). 'Other' includes Other income (€5.4m), International organisations (€ 0.37m) and cultural foundations (€ 0.14 m).



Based on origin of funding for UK Film Council detailed in Korda database for 2004 as at August 2006.

## 3.4

### Regulation

The **Department of Culture, Media and Sports** (DCMS) is responsible for Government policy on the arts, sport, the National Lottery, tourism, libraries, museums and galleries, broadcasting, creative industries including film and the music industry, press freedom and regulation, licensing, gambling and the historic environment.

**OFCOM** is the UK's industry regulator with wide-ranging responsibilities across the UK's communications markets. It inherited the duties of the five regulators it replaced: the Broadcasting Standards Commission, the Independent Television Commission, OfTel and the Radio Authority and the Radio Communications agency. One of its key roles is to monitor new rules which redress the balance between broadcasters and independent program suppliers (UK broadcasters can no longer bundle rights for international and ancillary rights with the award of a commission).

Quotas apply to terrestrial channels, with a focus on independent and regional production activity (see table). There are no specific requirements to invest in feature production, although the broadcasters have been strong contributors to this sector in the past (see page 3).

#### Production quotas per calendar year for main UK terrestrial channels

Quotas (% of hours)	BBC One	BBC Two	Channel 3	Channel 4	Channel 5
Independent production <sup>10</sup>	25% <sup>11</sup>	25%	25%	25%	25%
Original production <sup>12</sup>	70%	70%	65%	60%	53%
Original production broadcast in peak	90%	80%	85%	70%	42%
Regional production <sup>13</sup> (% of hours)	25% across all BBC channels	See BBC1	50%	30%	10%
Regional production (% of spend)	30% across all BBC channels	See BBC1	50%	30%	10%
Regional programmes made in and for the region	95% BBC1 & 2 together	See BBC1	90%		
European original production <sup>14</sup>	50%	50%	50%	50%	50%
European independent production <sup>15</sup>	10%	10%	10%	10%	10%

Source : OFCOM, Review of television production sector, January 2006, p 43

10 DTT channels are also required to fulfil an independent production quota of 10%. The definition of 'independent production' excludes repeats, news and acquired programmes.

11 BBC One, BBC Two and BBC Three each have to achieve 25% independent production separately, and all BBC channels need to achieve the 25% quota collectively.

12 Original production, by this definition, includes repeats.

13 Regional production consists of network programs made outside the M25, including repeats.

14 The Television Without Frontiers Directive excludes news, sport and game shows from the quota for European programs.

15 The same quota applies to all digital channels, where practicable.

## 4 DIRECT PUBLIC FUNDING

### 4.1 Value of direct support - summary

Government support for the audiovisual sector in the UK totalled €133m in 2002 (A\$3.9 per capita), and an estimated €115m in 2004. By comparison, Australia spent A\$4.3 per capita in 2002.

UK – Value of direct public support	€ m	A\$m	A\$ per capita
<b>2002</b>			
UKFC	98.1	172	2.9
Other	40*	70	1.2
<b>Total 2002</b>	<b>133</b>	<b>233</b>	<b>3.9</b>
<b>2004</b>			
UKFC	79.9		
Other (est)	40* est.		
<b>Total 2004 (est)</b>	<b>115 est.</b>		

Source: Korda database; latest complete figures available are for 2002; see page 6 for details. Conversions in A\$ are rounded and calculations used exchange rate for 2002: A\$1 = €0.57; population for UK = 59.3 million in 2002.

\* Includes around €5m provided by some UK film agencies to other UK film agencies; subtracted from total to avoid double-counting.

### 4.2 Breakdown of support

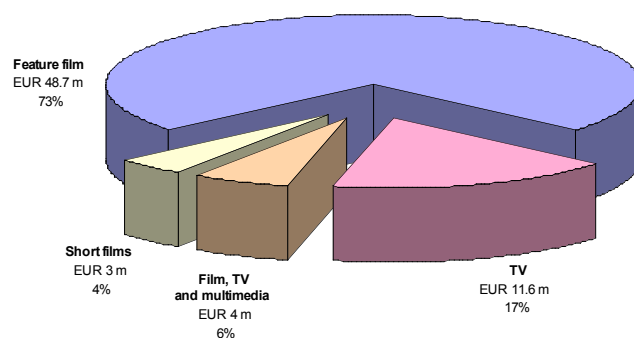
#### *By type of production*

Feature films account for the largest share of public funding (73 per cent in 2002). This data covers all agencies, not just the UKFC.

UK– Support for production Products supported (2002)	Value of support € million	% of production support*
Feature films	48.7	73%
TV	11.6	17%
Unspecified film, TV or multimedia	4	6%
Short films	3	4%

Source: European Audiovisual Observatory, *Public funding for film and audiovisual works in Europe – a comparative approach* (2004, p 120) \* % calculated out of a total of €67.3 for production in 2002.

UK - Allocation of production funding per genre (2002)



## By activities

The main programs of the UKFC are summarised in the following table:

UKFC – Funding priorities (2004/05)	£ million	€ million	A\$ m
<b>Development –</b> Development Fund	4	6.7	9.9
<b>Production –</b> Premiere Fund (for British and European feature films)	8	13.5	19.9
New Cinema Fund (for innovation, creativity, new talent, cutting edge filmmaking)	5	8.4	12.4
First Light (for children and young people)	1	1.6	2.5
Regional Investment Fund for England – RIFE	7.5	12.6	18.6
<b>Distribution &amp; Exhibition –</b> Distribution and Exhibition Fund (to offer a diverse range of films to a broader UK audience)	8	13.5	19.9
<b>Promotion –</b> International Festivals sales Support Fund	0.4	0.67	1
<b>Cultural activities –</b> Films Publications Fund	0.1	0.16	0.25
<b>Training –</b> New Skills Fund (to support adequate supply of skilled and talented professionals)	6.5	10.9	16.1
<b>Other –</b> Lottery Franchises (UKFC cash investment for the creation of 3 UK film companies )	5.566	9.4	13.8
Nations (for the coordination of film policy and strategy UK wide)	0.4	0.67	1.2
British Film Institute (to champion moving image culture across the UK)	16	27	39.7

Source: UKFC Annual report 2004/05 – p9  
Exchange rates used for conversion for 2004 : £1 = €1.45 ; £1 = A\$2.487

## Development

The UK Film Council's **Development Fund** (€6.7m; A\$9.9m in 2004/05) supports:<sup>10</sup>

- Single development projects - divided into Seed Funding, Partnered Development Funding and Pre-pre-production Funding.
- 25 Words or Less – which offers up to 12 writers each year a fixed sum of £10,000 to develop a first draft script in a specific genre.

The fund also offers slate funding deals with companies which have successfully responded to open tenders for business and creative proposals. Slate funding aims to build more sustainable businesses in the production sector through:

- providing a stable environment for production companies to focus on the development of commercially viable projects
- providing adequate training within companies to improve the skills base
- offering production companies greater flexibility in sourcing financing and production partners

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<sup>10</sup> UK Film Council, [www.ukfilmcouncil.org.uk/filmmaking/funding/features/development/](http://www.ukfilmcouncil.org.uk/filmmaking/funding/features/development/)

- strengthening the infrastructure within production companies<sup>11</sup>

### **Production**

In funding feature production, the UKFC makes a distinction between films with good prospects of commercial success and those supported because they have strong artistic or cultural content:

The **Premiere Fund** (€13.5m; A\$19.9m in 2004/05) aims to invest in commercially viable feature films. It usually contributes up to 35 per cent of a feature film production budget, by way of an equity investment in the film.

The **New Cinema Fund** (€8.4m; A\$12.4m in 2004/05) aims to support creativity, innovation, new talent and 'cutting edge' filmmaking, including work from UK regions and from ethnic minorities; new media; and pilots. Maximum level of funding is 10–15 per cent of budget, but this can be more in the case of low-budget digitally produced works. Applications are open to producers and directors with no experience – but the use of an experienced executive producer might be requested. Special programs include:

- *Digital Shorts* – a scheme managed across the nations and regions of the UK.
- *Cinema Extreme* – a scheme jointly funded by the New Cinema Fund and FilmFour with the aim to push the boundaries of cinematic storytelling.
- *Completion Fund* – which provides completion finance for films that show outstanding potential.

**First Light** (€1.6m; A\$2.5m in 2004/05) is dedicated to fostering film culture for young people (aged 7-18) from all social backgrounds. Its objective is to create opportunities for children and young people of school age to make short films. Two kinds of grants are awarded: Pilot Awards for a single film made over a period of four months; Studio Awards for six films made over a period of 10 months.

The UKFC's **Regional Investment Fund for England (RIFE)** channels funding through nine regional agencies. Grants are mostly restricted to companies or individuals resident in the relevant area of England. Support is given to activities ranging from scriptwriting through to completion. Worth €12.6m; A\$18.6m in 2004/05.

<b>UK – Regional funding (2002) awarded via the UKFC</b>	<b>Region</b>	<b>Value (£)</b>	<b>€ million</b>
Screen East	East England	750,000	1.09
East Midland Media	East Midlands	600,000	0.87
Northern Film and Media	Northern England	603,530	0.88
Screen South	South-East England	521,500	0.76
SW Screen	South-West England	700,000	1.02
Screen West Midlands	West Midlands	526,000	0.76
Screen Yorkshire	Yorkshire	790,000	1.15
Film London	London	680,004	0.99
NW Vision	North West England	375,000	0.54

<sup>11</sup> Korda database; July 2006

### ***Distribution and exhibition***

Since late 2002, support for distribution and exhibition has been under one department within the UKFC (€13.5m; A\$19.9m in 2004/05), with the key aim of supporting the distribution and exhibition of specialised film in the UK.

This includes a **P&A Fund** which replaces two earlier funds: the Specialised P and A Fund (£1 million per year) designed to widen and support the distribution and marketing strategy of what were described as 'specialised' films; and the UK Film Distribution Programme (£1 million per year) designed to support the release of more commercially focused 'British' films.

It also includes funding for:

- **Digital Screen Network** (launched Aug 2004) – a 'virtual network' of 240 screens, located in approximately 200 cinemas, which aims to offer exhibitors the opportunity to grow their audiences for specialised films with increased programming flexibility and access to a greater range of product. The UKFC funding meets the capital cost (net of VAT) of the equipment required by the cinema. In return, network cinemas devote a set percentage of playing time to specialised programming. The UKFC also contracts with each cinema for a certain number of programming slots to be booked centrally by the UKFC. These slots include educational content, archive material, and short films.
- **Small Capital Fund for Cinemas** to assist cinema operators to undertake and/or complete capital projects
- **Digital Fund for Non-theatrical Exhibition** launched March 2004 to help expand activities e.g. by film societies, in order to bring viewing opportunities to small, rural areas across the whole UK that may not be able to support a full-time cinema
- **Cinema Access Programme** launched September 2003, dedicated to improving access to cinema for people with disabilities, specifically the deaf and the blind.

### ***Support to training***

The UK Film Council no longer administers a Training Fund. It has now delegated A\$16.1m (£6.5m) of its Lottery grant to Skillset, the Sector Skills Council for broadcast, film, video, interactive media and photo imaging.

**Skill Investment Fund levy:** In order to meet the skills, talent and company development needs of UK film industry, the UKFC has set a skill investment fund levy which consists of a contribution of 0.5 per cent of the production budget up to a maximum of €60,000. The fund is administered by **Skillset** – the national training organisation for the industry. PACT (Producers Alliance for Cinema and Television), the MPAA, and the major broadcasters have pledged support to this scheme.

## **4.3 Types of funding**

The UK has no automatic support measures in place. Support is selective and granted mainly in the form of equity investments.

Production funding (Premiere Fund and New Cinema Fund) is granted in the form of a production **investment**. Investment is recouped on a pro rata basis with other equity

investors. The UKFC takes a share of copyright in the film commensurate with its participation in the production funding.<sup>12</sup>

Other programs are granted in the form of **subsidies** (First Light, RIFE), **interest-free loans** (Development Fund).

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## 5 INDIRECT FORMS OF PUBLIC SUPPORT

The UK has been successful in attracting foreign investment in the film industry through tax incentives, and has recently revised these schemes.

### 5.1. Tax incentives

Until recently, tax relief in the form of accelerated tax deductions on eligible production or acquisition expenditure was available to investors investing in the production and/or acquisition of British films under sections 42 and 48 of the Finance (No.2) Act 1997. Section 42 allowed investors to write off their investments in large-budget qualifying British films over a three-year period and section 48 allowed investors to write off their investment immediately upon the completion of production or acquisition of British films with budgets of less than £15 million.

The section 42 and 48 tax incentives were generally accessed via a 'sale and leaseback' mechanism. Under the model, a producer or production company could reduce their borrowings by selling the rights to the film concerned to a UK purchaser, who could go on to claim tax relief on the purchase price while leasing the rights back to the seller.

However, the UK Government recently made significant changes to the UK's film tax incentive system, replacing the Section 42 and 48 measures and the associated sale and leaseback scheme with a new tax credit system beginning in 2006.

To qualify for the new tax relief, a film must:

- be made to be shown commercially in cinemas;
- be certified as a British film either because it is an official co-production<sup>13</sup> or because it satisfies a cultural test administered by the Department for Culture, Media and Sport<sup>14</sup>;
- and incur at least 25 per cent of its total production expenditure on filmmaking activities in the UK.

The relief is only available to film production companies that pay corporations tax in the UK, and is not available to individuals or partnerships. Unlike the previous Section 42 and 48 provisions where deductions could be claimed with respect to the whole budget of the film, the new relief can only be claimed on up to 80 per cent of 'Qualifying Expenditure' (defined as the production company's 'Core Expenditure' on services performed and/or

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<sup>12</sup> For more detail refer to recoupment and copyright ownerships sections under conditions of funding: Premiere Fund <http://www.ukfilmcouncil.org.uk/filmmaking/funding/features/premierfund/premconditsfund>  
New Cinema Fund <http://www.ukfilmcouncil.org.uk/filmmaking/funding/features/ncf/ncfcondits/>

<sup>13</sup> Films can qualify as co-productions by way of bilateral treaties with Germany, Australia, Norway, New Zealand, France, and Canada. Films can also qualify as co-productions under the European Convention on Cinematographic Co-production.

<sup>14</sup> The cultural test guidelines are available at:  
[http://www.culture.gov.uk/global/publications/archive\\_2006/culturaltestguidance.htm](http://www.culture.gov.uk/global/publications/archive_2006/culturaltestguidance.htm)

goods used and consumed in the UK; Core Expenditure means expenditure on pre-production, principal photography and post-production but does not include development and distribution expenditure).<sup>15</sup>

Under the new tax relief, the production company is entitled to an enhanced tax deduction equal to:

- 100 per cent of the Qualifying Expenditure for films with expenditure of £20m or less
- 80 per cent of Qualifying Expenditure for films with expenditure of more than £20m.

These enhanced deductions or losses are in addition to the ordinary losses (such as development costs) normally available to production companies under the rules for film expenditure. Together these enhanced losses and ordinary losses are 'Total Losses'.<sup>16</sup>

Total Losses can be used in two ways. They can be offset against the income of the production company, or alternatively, a portion of the Total Losses (up to an amount equal to the Qualifying Expenditure) can be surrendered for a payable tax credit. In this case, the non-surrendered Total Losses can still be offset against the production company's income.

The tax credit is:

- 25 per cent of the Total Losses surrendered, for films with budgets of £20m or less
- 20 per cent of the Total Losses surrendered for films with budgets of more than £20m,

If the maximum Total Losses are surrendered for the tax credit, the benefit for smaller-budget films (budgets of £20 million or less) is roughly 25 per cent of their Qualifying Expenditure. For larger-budget films the benefit is roughly 20 per cent of Qualifying Expenditure.<sup>17</sup>

## **5.2 Outcomes of the UK model: investments and revenue forgone**

### ***Investments in the industry***

The previous tax structure in the UK generated investments in the UK film industry. For example, section 48 is considered to have enabled the production of films such as *The Full Monty*, *Bend it like Beckham*, *Calendar Girls*, *28 Days After*. Section 42 – for large scale productions shooting in the UK – helped attract *Batman Begins* and *Harry Potter and the Goblet of Fire*.

### ***Revenue forgone***

Several estimates are available for the previous tax incentive schemes.

The UK House of Commons Culture, Media, Sport Committee estimated the tax revenue forgone for film tax schemes at £860 million (A\$2.2 billion) between 1998 and 2003, representing an average A\$440 million per year.

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<sup>15</sup> OLSWANG, *Summary of the new UK film tax relief and the new cultural test*, July 2006 at 3-4.

<sup>16</sup> *Ibid* at 4.

<sup>17</sup> *Ibid*.

The UK Treasury estimates revenue forgone at £240 million for 2001/02, £300 million in 2002/03 and £140 million in 2003/04.<sup>18</sup>

<b>UK – Value of indirect support to film</b>	<b>£m</b>	<b>A\$million</b>	<b>A\$ per capita</b>
Tax revenue forgone – House of Commons <i>Average per year for the period 1998-2003</i>	172	440	7.4
Tax revenue forgone – UK Treasury <i>Estimate for 2003/04</i>	140	342	5.7
<b>Value of indirect support (estimate)</b>			<b>6.5</b>

Exchange rate £1 = A\$2.44 in 2004 (BMI). Population for UK = 59.6 in 2003 and 59.8m in 2004

## 5.3

### Other incentives

#### ***Enterprise investment scheme (EIS)***

The UK also operates an **Enterprise Investment Scheme (EIS)** which gives individuals a tax deduction for investing in small, high-risk companies such as those set up for film production. Introduced in 1994, this scheme allows investors to claim relief on both income (20 per cent of the amount subscribed for shares up to £150,000 per year) and exemption from capital gains on profit from sales of the shares.<sup>19</sup>

#### ***Tax relief for corporate venturing***

In 2000, the UK introduced a 20 per cent tax relief on equity investments in small higher-risk trading companies. The objective is to increase the supply of venture capital and encourage the establishment of broader relationships between investors and small companies.

#### ***Fiscal incentives for distribution***

There are some discussions going in the UK regarding the use of fiscal incentives to support the **distribution of UK films** as well as their production.<sup>20</sup>

<sup>18</sup> [www.inlandrevenue.gov.uk/stats/taxexpenditure/table15.pdf](http://www.inlandrevenue.gov.uk/stats/taxexpenditure/table15.pdf)

<sup>19</sup> Soft money, the UK, December 2002, Screen daily

<sup>20</sup> see the Chancellor of the Exchequer's statement in the March 2004 budget.

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## 6 SUPPORT TO NEW MEDIA

The digital content sector is a varied and wide-reaching sector which includes publishing, software, web development, graphic design, computer games and broadcasting. It is estimated digital production contributes around £57 billion to the UK economy each year.<sup>21</sup>

Digital content creation activity in the UK is a key growth area of online activity with major national public sector programs and initiatives for content digitisation in the area of e-learning (nof-digitise.org, peoplenetworks.gov.uk), e-culture (cultureonline.gov.uk), and access to information and health resources on line.

### 6.1 UKFC initiatives

The UKFC has responsibility for promoting and encouraging the use of digital technologies.<sup>22</sup>

It has supported new media through a range of initiatives, including:

- the development of the **Digital Screen Network** aiming to create some 250 digital screens throughout the UK (see page 14)
- the program **First Light** has enabled 4,000 young people to make over 250 projects (see page 13)
- some of the activity of the **New Cinema Fund** (see page 13) – for example, the simultaneous premiere of the film *This Is Not a Love Song* both digitally and on the web.

### 6.2 Other public sources of support to new media

The Department of Trade and Industry (DTI) has played a significant role in stimulating the digital content and publishing industry and market in the UK. Its Digital Content and Publishing Unit works closely with industry players and the Digital Content Forum (DCF), to exchange views and provide input into policy-making.

The DTI also encourages and helps companies to exploit the opportunities for funding streams delivered by the DTI's four-year **cross-sector Technology Program** (£320 million), for developing and exploiting innovation in the digital content sector.<sup>23</sup> This program is part of the UK Government's Science and Innovation Investment Framework; it represents an average of A\$195 million per year over the period 2005-2008 available to businesses in the form of grants to support research and development in the technology areas identified by the Technology Strategy Board.

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<sup>21</sup> e-content in the UK, May 30, 2003,

<sup>22</sup> UKFC, Digital futures Seminar, January 2004

<sup>23</sup> [http://www.dti.gov.uk/industries/digital\\_content/broadband.html](http://www.dti.gov.uk/industries/digital_content/broadband.html), <http://www.dti.gov.uk/technologyprogram/about.html>