

The State of the UK Independent Film Sector

A Study for Pact by Olsberg • SPI



28th April, 2017

OLSBERG • SPI

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FOREWORD BY OLSBERG•SPI

Film production is of huge value to the UK across a number of areas. In 2016, expenditure on making films in the UK reached the highest level since records began in 1994, at £1.6 billion. Beyond the clear economic impact, many of the films made over this time have also been hugely important in exploring and projecting the UK's culture, values, and unique appeal – a key consideration for the coming years as the UK exits the European Union.

While record levels of spend highlight the UK's global competitiveness as a destination to produce film, not all areas of the UK's film production ecology have experienced the same level of growth and success. Indeed, although the UK's strength as a hub for inward investment has grown since 2007, the UK's independent sector has operated in an increasingly challenging landscape.

This independent report was commissioned by UK producers body Pact to provide a detailed evidence base in relation to the changes that have occurred in the independent film landscape. This includes a consideration of structural shifts, such as a decline in rights value, and those which are cyclical, such as uncertainty around digital models.

The impacts of these changes on the UK independent sector are explored, including on the sector's potential to continue delivering a number of important benefits. These include the celebrated ability of UK independent productions to act as a proving ground for new acting and film-making talent – the very same writers, directors, and actors who sharpen the UK's competitive edge and help make it so attractive to major international films.

This report collates a broad range of qualitative and quantitative evidence in relation to changing conditions in the UK independent film sector between 2007 and 2015. We are very grateful indeed to the BFI and its Research and Statistics Unit for providing data and handling numerous queries from us throughout this project, as well as to BBC Films and Film4 for their assistance.

Leon Forde, Associate Director, Olsberg•SPI

GLOSSARY

This document uses a number of words and phrases that may need further explanation.

UK Independent Film: As defined by the BFI, this refers to UK films produced without creative or financial input from the major US Studio companies: Fox Entertainment Group; NBC Universal; Paramount Motion Pictures Group; Sony Pictures Entertainment; Walt Disney Motion Pictures Group; and Warner Bros Entertainment. It also utilises the BFI's definition of UK film. This refers to "A film which is certified as such by the UK Secretary of State for Culture, Media and Sport under Schedule 1 of the Films Act 1985, via the Cultural Test, under one of the UK's bilateral co-production agreements or the European Convention on Cinematographic Co-production; or a film which has not applied for certification but which is obviously British on the basis of its content, producers, finance, and talent; or (in the case of a re-release) a film which met the official definition of a British film prevailing at the time it was made or was generally considered to be British at that time".¹

In its data on UK independent film production, the BFI applies three further definitions:

- **Co-production:** "A film made by companies from more than one country, often under the terms of a bilateral co-production treaty or the European Convention on Cinematographic Co-production"
- **Domestic** – "A film made by a UK production company that is produced wholly or partly in the UK"
- **Inward investment** – "A film substantially financed and controlled from outside the UK and which is attracted to the UK by script requirements (e.g. locations) and/or the UK's filmmaking infrastructure and/or UK film tax relief".

Ancillary Market: Non-theatrical markets for film productions, including television, DVD and Blu-ray (also known as physical video), and digital markets such as Video on Demand.

Enterprise Investment Scheme ("EIS"): This UK Government scheme is designed to assist smaller, high-risk, companies in raising finance by offering tax relief to investors who buy shares in the company.² Such relief for the individual is 30% of the cost of the shares, set against tax liability in the tax year the investment is made. Investment can also be made through dedicated EIS funds, with a number in operation in the UK film sector. Meanwhile, the Seed Enterprise Investment Scheme ("SEIS") complements EIS and assists early-stage small companies raise equity finance by offering tax relief to individual investors in the company.³

Film Tax Relief ("FTR"): Introduced in 2007, this UK incentive mechanism offers tax relief on qualifying production expenditure for theatrical films that qualify as British through a cultural test, or as an official co-production. The incentive is worth 25% of qualifying expenditure and has no budget limit, with relief capped at 80% of core expenditure.⁴ Similar incentives are available for high-end television and animation.

High-End Television ("HETV"): As defined by the UK HETV Tax Relief incentive, introduced in 2013, these are scripted television projects with a minimum core expenditure of £1 million per broadcast hour.⁵ Generally, they are high-budget dramas with quality production values and talent.

¹ BFI 2016 Statistical Yearbook. BFI, 2016.

² Enterprise Investment Scheme Guidance. HMRC, 7th October, 2013.

³ Seed Enterprise Investment Scheme Guidance. HMRC. 22nd October, 2013.

⁴ UK Film Tax Relief. British Film Commission webpage.

⁵ UK High-end TV Tax Relief. British Film Commission webpage.

KEY FINDINGS

- The UK is a world-renowned film hub, and the introduction of the current FTR incentive in 2007 has underpinned robust expenditure growth. However, this significant success has obscured worsening conditions in the UK independent film landscape.
- Since 2007, the independent film business has been buffeted by unprecedented difficulties. Some are permanent structural changes, such as digital disruption and increasing competition for audiences. Other difficulties are cyclical, such as the global financial crisis and uncertainty around digital models.
- The net effect has been the reduction of international market value for UK independent films. This is estimated to be a decline of around 50% since 2007, with the scale of reduction related to project type and commercial appeal. This has created a gulf in finance plans at a time when other types of financing have become more difficult to secure. There has also been pressure from rising costs.
- The reduction in value is due to a confluence of factors, including the fact that many international buyers no longer have the safety net of strong local physical video and television markets, so are more focused on projects with recognisable commercial elements.
- As a result, there has been pressure on budgets for many projects budgeted at under £10 million. Projects budgeted above £10 million have been less affected, reflecting a clear level of demand for commercial independent projects with international appeal.
- Despite this, only 90 films were produced above £10 million between 2007 and 2015, representing just 3.4% of total production. Production is bottom heavy, with micro-budget projects under £0.5 million dominating output. In total, 1,612 films were produced at this level between 2007 and 2015.
- These trends have exacerbated existing issues around production company sustainability. Production companies face pressure to defer fees, there are difficulties in retaining downstream revenues and producer remuneration can be limited. This is linked to increased complexity in closing finance, with the intricacy of many models requiring a similar volume of expensive legal work as higher-budget projects.
- The sector is being impacted in different ways. Commercial independent films are in demand in the international market, while there has also been a rise in single-source financing as some distributors and sales companies move closer to production to secure the best projects. However, for lower-budget projects with new talent, international sales have become much more difficult to secure.
- The lack of production company sustainability has potential limitations for the future economic and cultural impacts of the sector – which can be highly significant. The situation contrasts sharply with the UK television sector, which has seen the development and sale of production companies in recent years.
- The lack of stability in the independent UK film sector is underlined by the number of film producers opting to expand (either in part or in full) into television drama.
- The UK independent sector has a proven ability to develop new talent that can reach global prominence, helping underpin the UK's attractiveness to global producers. Polarisation between commercial and low-budget projects has led to difficulties at the mid-range, which could serve to limit the UK independent sector's ability to continue developing major talent and films.

PART ONE

EXECUTIVE SUMMARY

1. EXECUTIVE SUMMARY

1.1. About the Study

The UK is a world-leading film hub. Projects like *I, Daniel Blake*, *A United Kingdom*, *Paddington*, *Amy*, and *The King's Speech* tell stories about the UK, its values, people, and locations that engage audiences around the world, while major Hollywood Studio projects filmed in the UK, like *Rogue One: A Star Wars Story*, *Doctor Strange*, and *Alice Through the Looking Glass* showcase the cutting-edge talent and globally competitive abilities of the UK's production sector.

Since the introduction of its attractive and competitive FTR incentive in 2007, the UK has seen unprecedented levels of expenditure on feature film production. In 2016, spend on film production in the UK reached its highest figure since measurement began in 1994, with a total of £1.596 billion – a 13% increase from £1.416 billion in 2015.⁶

Film is of vital economic and cultural importance to the UK. However, the excellent health implied by current levels of production expenditure does not extend to all areas of UK film production. The bulk of the UK's production growth has come from inward investment productions, attracted to the UK by its renowned film-making capabilities, infrastructure, and FTR: in 2015, 75% of total expenditure was contributed by US Studio films, with just 25% from independent films.⁷

Independent production has also not experienced as strong a growth trajectory as US Studio production in the UK. While the UK's independent producers operate in an increasingly straitened landscape, the extent of these challenges, and their impacts on the sector, are obscured to a degree by the huge success being attained by other areas of the UK's production landscape.

Against this backdrop, the UK creative sector consultancy Olsberg•SPI was commissioned by the Producers Alliance for Cinema and Television ("**Pact**") to undertake an independent analysis ("**the Study**") of the health of the UK independent film sector. The project outlines the evidence base relating to conditions in the UK independent sphere, which can be subject to very different challenges, pressures and market forces than the Hollywood Studio business.

The Study focuses on the period from 2007 to 2015. The beginning of this timeframe saw the introduction of FTR, but it was also a cataclysmic period for the UK independent sector, with the onset of the global financial crisis and digital disruption that continues to impact the value chain. Since the UK's decision to exit the European Union occurred after this timeframe, the impacts of Brexit on conditions in the UK independent film sector are not explored in this Study.

In order to assess this complex landscape, findings are presented in relation to the typical lifecycle of an independent film production – from financing to exploitation. However, some of the changes identified in the Study have impacts right across the life of a film.

1.2. Key Findings

1.2.1. Overview

Total UK production expenditure reached record levels over the timeframe, which was mainly due to growth in US Studio productions.

⁶ *Film, high-end television and animation programmes production in the UK: full-year 2016*. BFI Research and Statistics Unit, 26th January 2017.

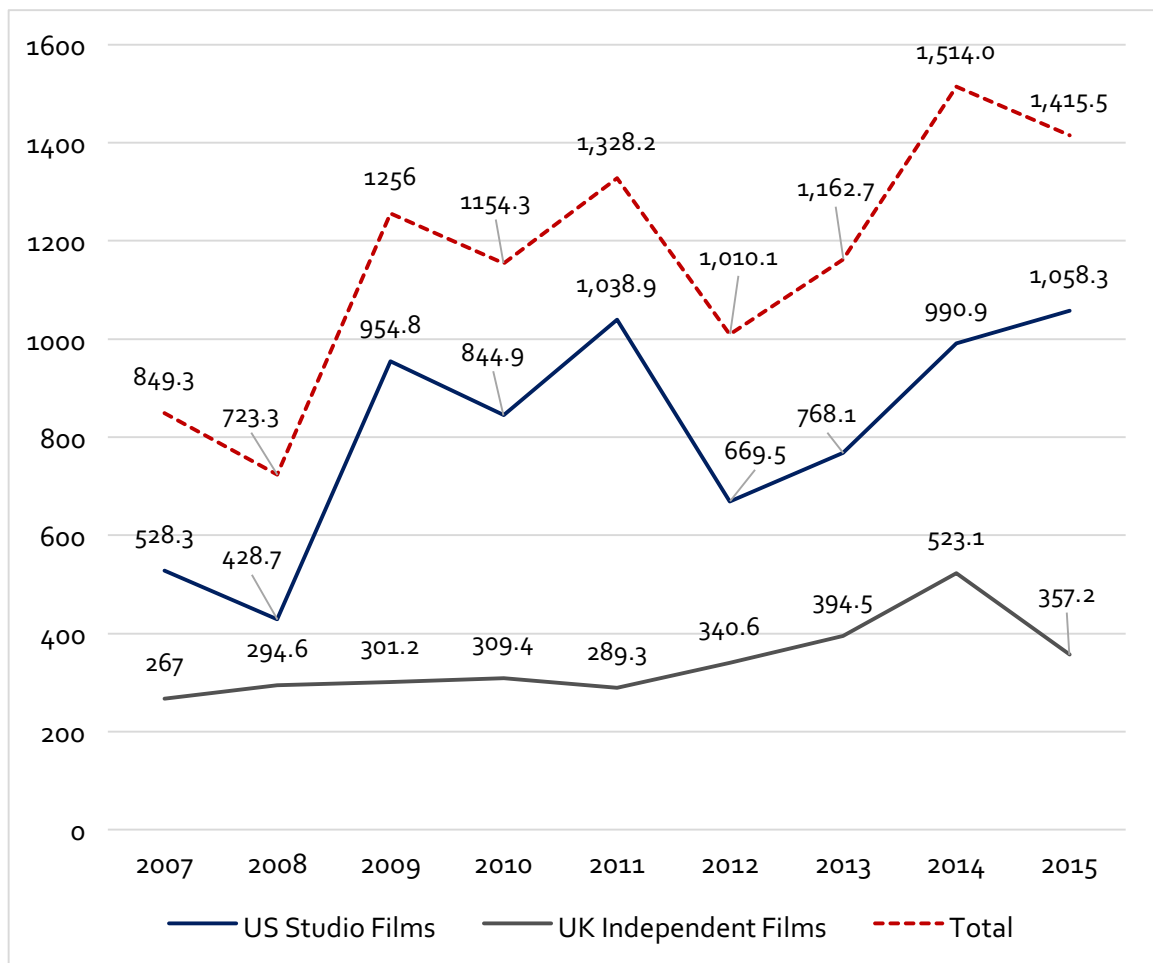
⁷ *Ibid.*

Overall production expenditure increased by 67% between 2007 and 2015, with the growth of US Studio expenditure increasing by 100% (Figure 1). There is annual fluctuation evident, which relates to individual projects annually.⁸

The strong growth rate of US Studio expenditure is not matched over the timeframe by the UK independent sector. Expenditure growth has been much slower than US Studio production, with an increase of 34% over the timeframe.

Further analysis of the expenditure that contributes to the independent total (Figure 2) shows that growth between 2012 and 2014 was driven by a significant upturn in spend from independent inward investment films. In comparison, domestic and co-production independent production expenditure was relatively static. Domestic independent expenditure increased by 32% between 2007 and 2015, while co-production expenditure declined by 43%.

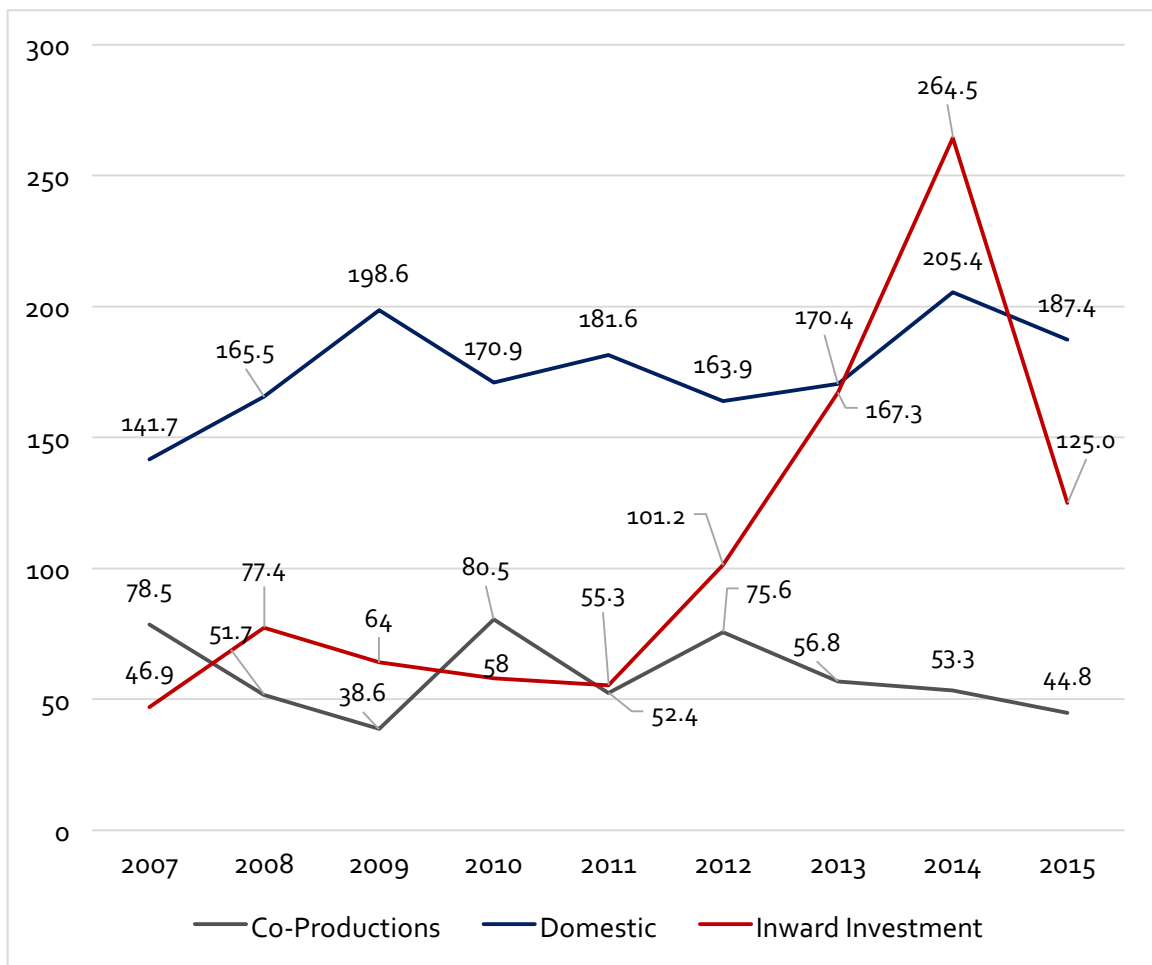
Figure 1: Value of UK Spend of US Studio and UK Independent Films, 2007-2015 (£m)



Source: BFI. Films with budgets under £0.5 million included after 2008.

⁸ A note on data: independent production analysis in this Study is based on a BFI dataset of UK independent films produced between 2007 and 2015. BFI data on independent expenditure includes these UK independent films, but may also include a small number of non-UK independent films – i.e. foreign independent films produced in the UK.

Figure 2: Value of UK Spend of UK Independent Production Types, 2007-2015 (£m)



Source: BFI. Films with budgets under £0.5 million included after 2008.

The fact that independent production in the UK has not grown as rapidly as the inward investment sector relates to the fact that the film industry has been buffeted by a number of highly disruptive cyclical and structural changes since 2008. The UK independent business is particularly exposed to the impacts of these. Generally, there have been two major areas of disruption:

Global recession has had a major impact on the independent film business. In many cases, sources of finance have weakened – for example, the UK banking sector almost completely withdrew from independent film financing in the wake of the global financial crisis. The independent distribution business has also been negatively affected with buyers becoming more conservative. Unlike the vertically-integrated Hollywood Studios, independent production is very exposed to changing conditions in international distribution as the preselling of rights to international distributors is a key source of production finance. Over the timeframe, the international market value of UK independent films has markedly diminished, with a retrenchment estimated at being around 50% overall. The precise decline relates closely to the type of project and its commercial appeal, with financiers and distributors operating in a straitened international environment looking at mitigating risk by investing in projects that come with elements that have audience pre-recognition, such as major talent. There has also been a shift away from presales over this time. Reflecting this, 87% of respondents to an industry survey undertaken for this Study pointed to international presales as a

source of financing for UK independent films having decreased, or decreased significantly, since 2007.⁹

Digital disruption has also been a major complicating factor for the independent business. The previously valuable DVD market has declined as audiences shift to streaming services – which has also affected the buying power of international distributors. In the UK, for example, gross film revenues from physical video rental and retail were £2.029 billion in 2007. By 2015, this had declined 62% to £774 million. Gross film revenues from digital video increased 467% over the same period, from £88 million in 2007 to £499 million in 2015, but this clear growth does not compensate for the decline seen in physical product revenues.¹⁰ The market has been further eroded by piracy, which diminishes the tight margins of the independent business model.

DVD, along with strong broadcaster interest in films, previously provided something of a safety net for international buyers of UK independent films. However, with DVD value markedly falling and film less of a subscription driver than other types of content such as HETV and sports, distributors have seen this market safety net disappear. As a result, many have become more risk averse in their approach to projects and possibly focusing on feature films made in their domestic market in a bid to draw local audiences.

While recessionary impacts have been felt almost throughout the timeframe, the effects of digital disruption appear to have increased in intensity throughout the Study timeframe.

Against this backdrop, other negative trends have also added further pressure. The rise of inward production in the UK has led to some capacity limitations and an upturn in costs – a trend exacerbated by the rapid growth of HETV production.

Indeed, the rise of HETV since 2007 has seen high-quality drama series become a competitor for audiences worldwide. Moreover, barriers that previously existed between film and television from a talent perspective are now porous and many major actors and film-makers are working on HETV projects. This has created competition in attracting talent to independent film projects at a time when buyers of independent films are particularly focused on the talent attached.¹¹

Together, these trends have made the UK independent film landscape less stable since 2007. Producers now operate in a much more difficult and uncertain climate, both in terms of access to finance and talent, and the commercial exploitation of their work in the international market.

The impact of these changes is being manifested differently across the independent business. For example, while it can be very much more difficult to attract sales for independent films budgeted at under £5 million that do not have major stars or a high-profile film-maker, producers working at higher budgets with commercial packages that feature A-list talent can find their projects very much in demand from financiers and buyers.

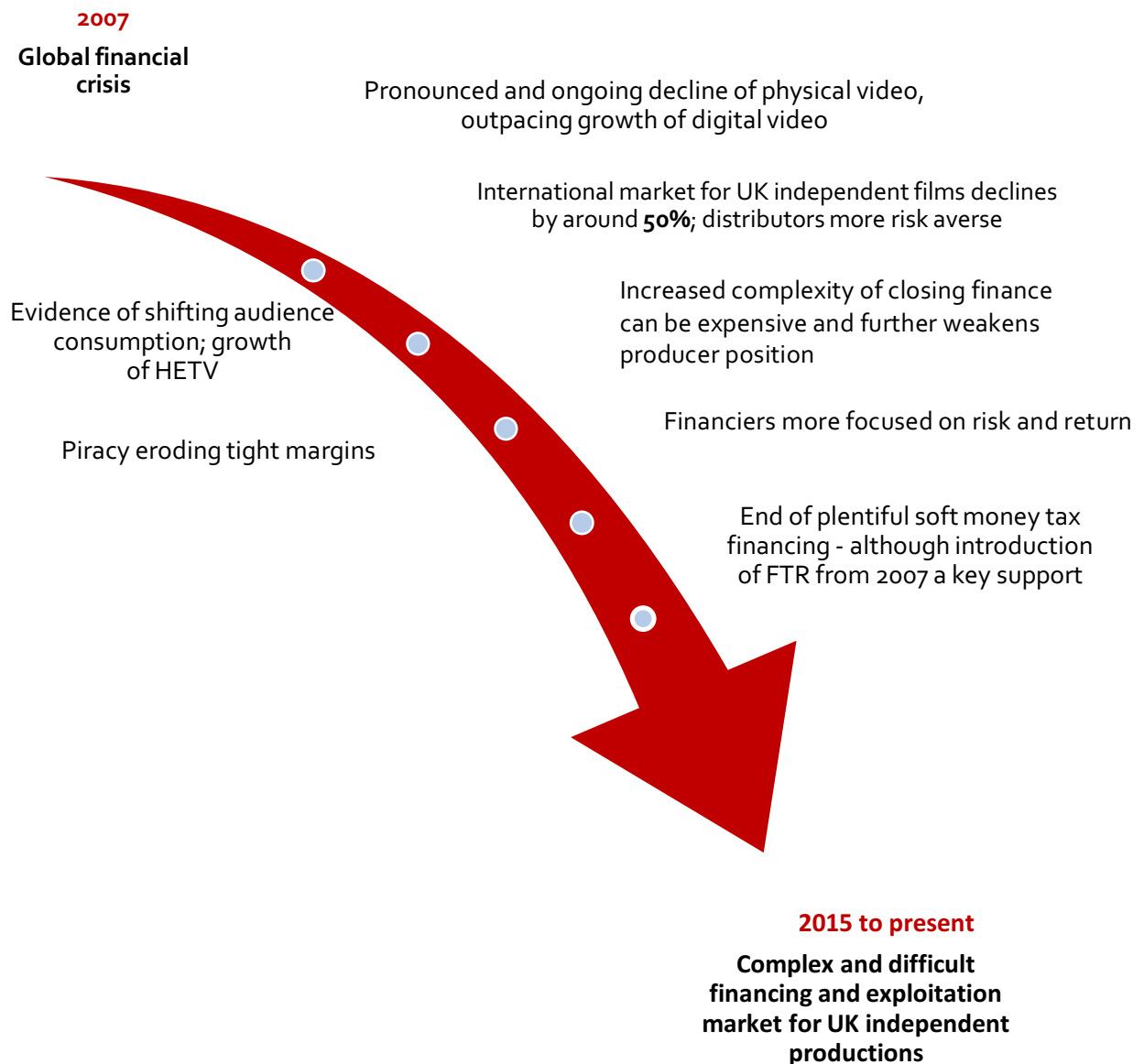
⁹ The industry survey was undertaken in 2016 in order to gather data on industry perception of conditions, particularly in areas where data were lacking – such as individual financing sources. The survey was sent to a selective recipient list of individuals active and knowledgeable about the UK independent sector, spanning producers, public and private sector finance, distribution, international sales, legal and other. There were 128 respondents, with 74 completed surveys. Results were based on these answers. Just over half were producers. See Appendix Four for more details.

¹⁰ *The UK Film Market as a Whole*. BFI Research and Statistics Unit. August, 2016. Revenue figures have been adjusted for inflation.

¹¹ The fact that HETV is competing for film talent was noted by Working Title Films' Co-Chairman Tim Bevan in 2017: "They're telling similar stories, but also it has become competitive, particularly for acting talent; these films have been squeezed by the availability of acting talent and where acting talent goes. They've been squeezed by the Netflix/Amazon 10-hour show which takes an actor six months to do." *Working Title boss: Netflix and Amazon series pose challenge to film business*. ScreenDaily.com, 20th March 2017.

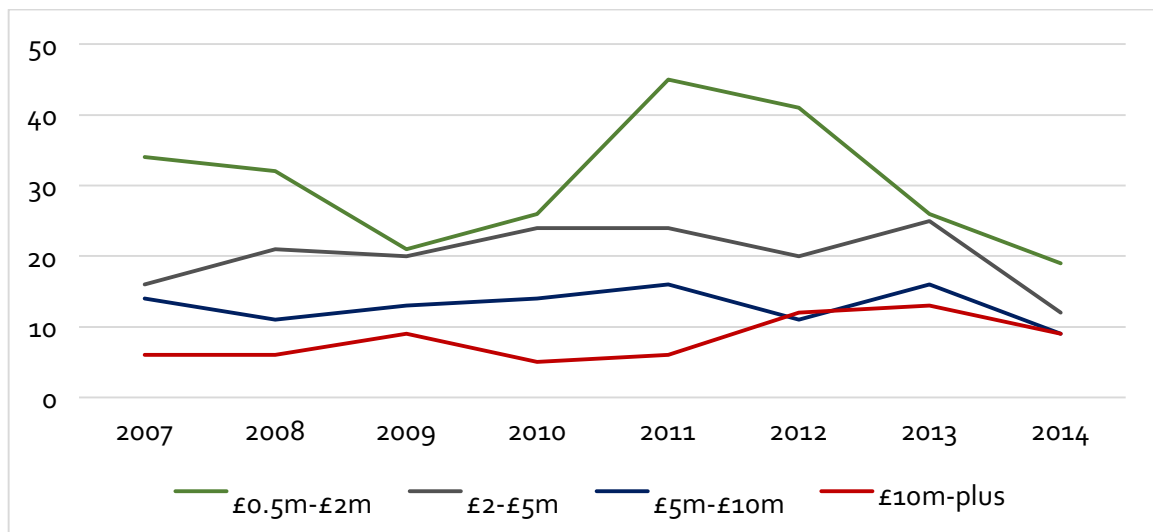
Figure 3 outlines the key factors that have combined to reduce the international demand for, and value of, UK independent films.

Figure 3: Factors Disrupting the UK Independent Film Sector Over the Study Timeframe



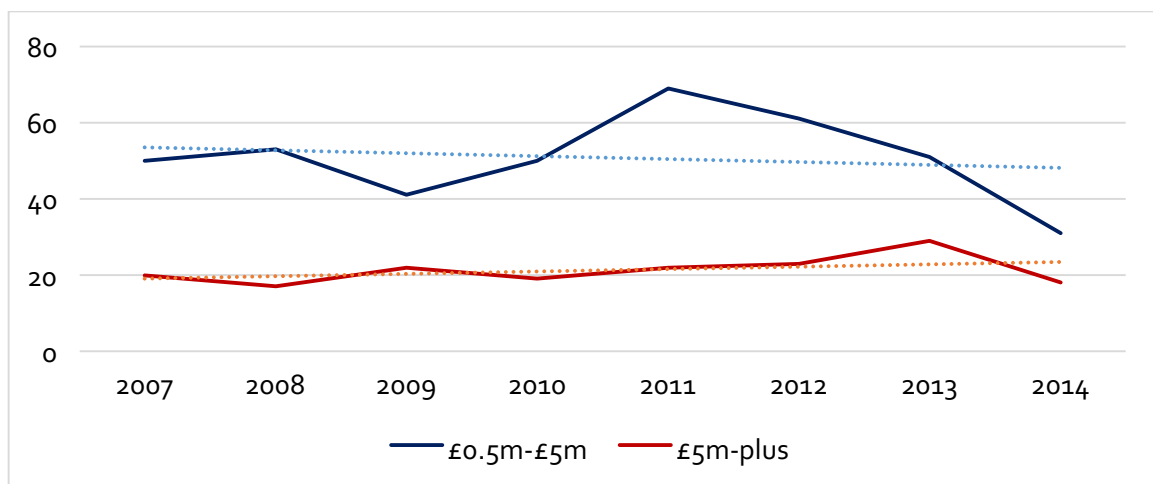
Changes in the international market are evident in the volume of UK independent films receiving a theatrical release in six key markets – the UK and Ireland, North America, Germany, France, Australia, and Japan – between 2007 and 2015. As outlined in Figures 4 and 5, slight growth is evident for films budgeted at above £5 million, which reflects the market’s increased focused on commercial releases with strong talent, which are more likely to feature at higher budgets. Conversely, there is a clear decline in the number of releases budgeted at between £0.5 million and £5 million. This is particularly pronounced since 2011, pointing to the ongoing effects of digital disruption on the value of international markets.

Figure 4: Number of UK Independent Films Released in Six Key Markets by Budget Band, 2007-2015



Source: comScore / SPI analysis. Due to the delay that can exist between production and release data relates to films produced between 2007 and 2014 and released by 21st December 2015.

Figure 5: Number of UK Independent Films Released in Six Key Markets Budgeted at £0.5 million to £5 million and Above £5m, 2007-2015

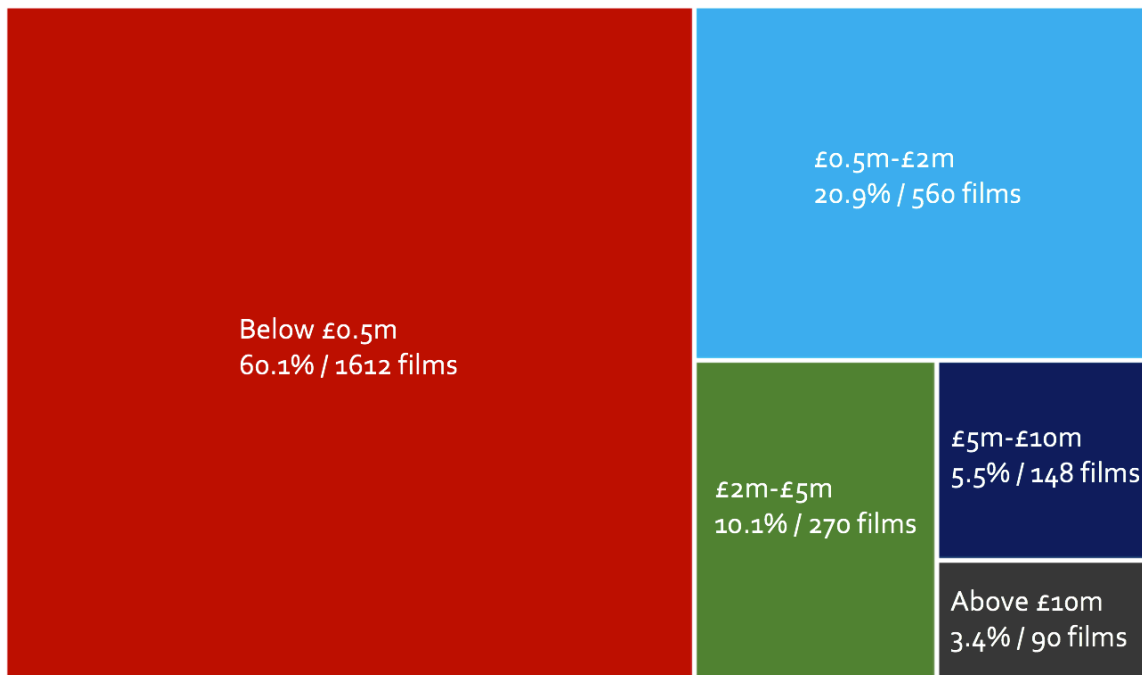


Source: comScore / SPI analysis. Due to the delay that can exist between production and release data relates to films produced between 2007 and 2014 and released by 21st December 2015.

1.2.2. Production

Most production in the UK independent film sector is undertaken at lower-budget levels. Of the 2,680 UK independent films produced between 2007 and 2015 there were almost 18 times as many films made in the lowest budget band (below £0.5 million) as there were in the highest (above £10 million) – i.e. 1,612 films compared with 90.

Figure 6: Number of UK Independent Films Produced at Each Budget Band, 2007-2015

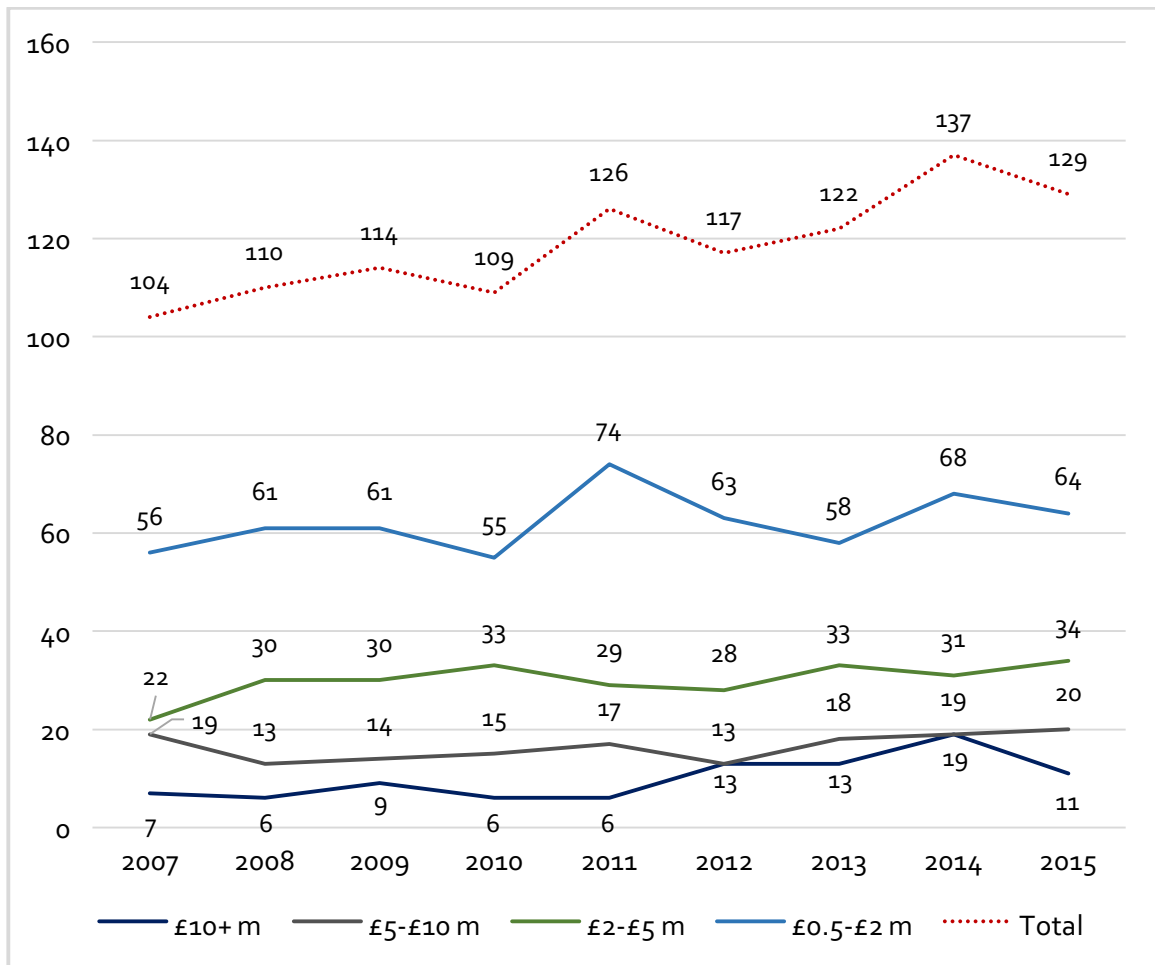


Source: BFI / SPI analysis

To understand how market changes have impacted different types of UK independent productions, the sector was analysed by budget band. Films budgeted at under £0.5 million were not included in the analysis because of the differences between films made at this micro budget level and at other bands. While some micro budget projects are financed using industry models and released commercially, others may be made as calling cards for talent, or as part of an industry development scheme. As such, this band is not considered to be directly comparable with the other budget bands.

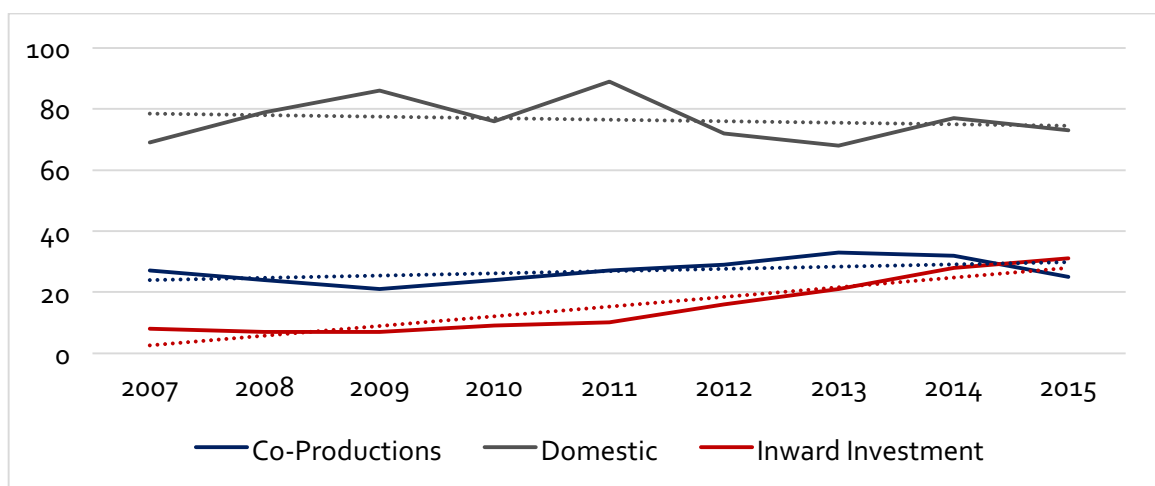
In the four studied bands – £0.5 million to £2 million, £2 million to £5 million, £5 million to £10 million, and above £10 million – there was a gradual rise in the total number of films produced over the timeframe and a peak in 2014 (Figure 7). As with the expenditure growth outlined in Figure 2, growth has largely been driven by an upturn in inward investment projects, particularly those budgeted at above £10 million. As outlined in Figure 8, the number of inward investment productions increased significantly over the timeframe, from eight films in 2007 to 31 in 2015. In comparison, the number of domestic films has remained relatively flat, with the trend line in Figure 8 pointing to a slight decline over the timeframe.

Figure 7: Total Volume of UK Independent Films Produced Above £0.5 million by Budget Band, 2007-2015



Source: BFI / SPI analysis

Figure 8: Total Volume of UK Independent Films Produced by Type of Production, 2007-2015



Source: BFI / SPI analysis

While production in mid-range budgets – i.e. around £5 million – appears relatively stable over the timeframe, they have been particularly affected by the reduction in international value and

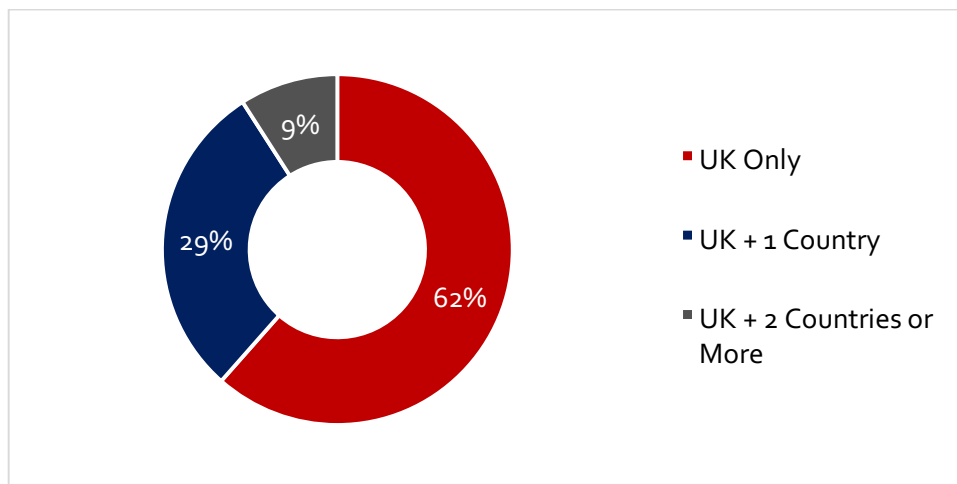
challenges in the finance market. This is because films at this range are not low-budget propositions, yet it may be difficult to secure the kind of major talent that can drive financing and international sales. As outlined in Figure 5, there has been a reduction in the release of films at the under £5 million budget level in key international markets, and it is likely that such a reduction will continue as challenges in the financing and international distribution market continue.

Decline in this production band could have significant negative impacts for UK film and its ability to develop talent, as outlined in Section 1.3.

In contrast, the experiences of UK independent producers working at higher-budget bands can be markedly different. A lack of commercial independent films with strong theatrical potential in the marketplace has increased demand for the most attractive projects, and producers able to package projects at this level are likely to have experienced an increase in demand from financiers and UK and overseas buyers – unlike producers working at lower budgets. This is a key reason for the growth in the number of films produced in the above £10 million band between 2011 and 2014. Indeed, the competition for the most attractive independent projects has led to a notable shift closer to production among certain distributors and sales companies, who are now investing earlier in the production process in order to secure the most commercial projects.

The BFI data analysed for this Study also detailed the countries of origin for each film. Overall, the majority of UK independent films made over the timeframe were produced by the UK alone – with 62% of films made without a foreign partner. As outlined in the following section, this underlines the sector’s exposure to any difficulties or negative shifts in the UK film finance landscape, as well as limiting its access to the benefits of foreign partners. Only 29% of films were produced with one foreign partner over the timeframe, and just 9% were produced with two or more. The most frequent partners for UK producers are the US, France, India, Germany, and Ireland.

Figure 9: Countries of Origin of UK Independent Films Budgeted at Over £0.5 million and Produced Between 2007-2015



Source: BFI / SPI analysis

Reflecting the need to source finance internationally on bigger budgets, the presence of foreign partners increases across the budget bands. In the over £10 million budget range, 86% of projects involve a foreign partner.

Drama is the most commonly produced genre in the UK independent film sector over the timeframe, followed by comedies and thrillers. There is also a significant number of feature documentaries produced, pointing to the expertise in the UK, as well as the market for this genre. At lower-budget levels, production of genres such as thrillers and horror are strong, reflecting the

potential marketability of genre in the absence of major cast. Thrillers and horrors represent 24% of production in the £0.5 million to £2 million budget range, and just 11% of production in the above £10 million budget range.

Genres that are likely to require high production budgets, such as action/adventure and fantasy, occur less at lower-budget levels and increase at higher-budget levels. In total, 24% of productions in the above £10 million range were action/adventure, compared with 4% in the £0.5 million to £2 million range.

1.2.3. 2016 Perspective

While this Study focuses on 2007 to 2015, the current market landscape suggests that there has been no major improvement in conditions related to the production of UK independent film. As previously outlined, 2016 saw record expenditure on film production in the UK – with the majority of that total (67%) contributed by US Studio films.

UK expenditure from independent films did increase year-on-year to reach £523.2 million in 2016, up from £357.2 million in 2015. This was driven by inward investment projects, with expenditure on domestic independent films falling from £187.4 million in 2015 to £185.8 million in 2016. Co-production spend declined to £33.3 million, the lowest in the BFI's six-year dataset and down from £44.8 million in 2015. Including projects at all budget levels, the number of independent productions also fell to 182 in 2016 – the lowest number in the BFI's six-year dataset, although the BFI does note that the total is likely to be revised upwards as more information becomes available.¹²

1.2.4. Finance Sources and Models

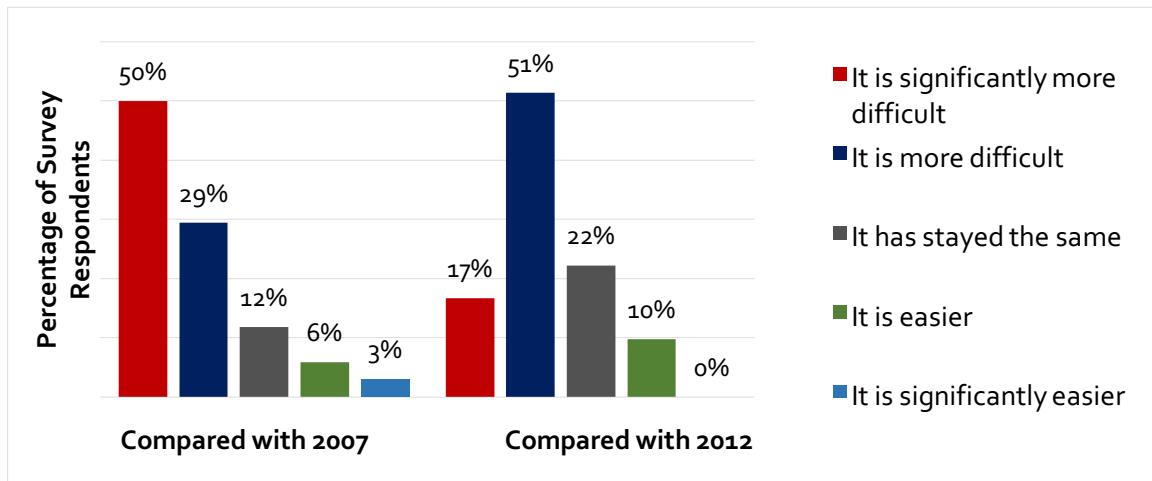
The financing of UK independent films can be highly complex, and the need for producers to knit together disparate types of finance has remained unchanged over the timeframe. Also unchanged is the vital importance of public funding as a cornerstone for many independent projects, often alongside FTR and other elements such as gap financing. While such models are generally unchanged, other models have disappeared since 2007. These include the complex structures involving tax shelter finance that existed under the Section 42 and Section 48 tax reliefs, which ceased with the introduction of the new FTR in 2007.

The strength of some individual financing sources has also altered markedly since 2007, and the shifts in this landscape mean that sourcing, combining and closing finance can often be very complex. Producers generally must create new capital structures for each production.

An industry survey undertaken for this Study questioned respondents on how the current financing landscape compares with both 2007 and 2012. The results underline the fact that financing for UK independent films has become much more difficult over the Study timeframe. This trend is also ongoing, albeit slightly less pronounced since 2012 than 2007. In total, 79% of respondents consider the current landscape to be significantly or more difficult now than in 2007. This compares with 68% of respondents who thought the landscape had become significantly or more difficult since 2012.

¹² *Film, high-end television and animation programmes production in the UK: full-year 2016*. Ibid.

Figure 10: Comparison of the Current UK Independent Financing Landscape with 2007 and 2012



Source: SPI industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

The increased difficulty relates to several factors, including the weakening of the international sales market for independent films as well as the partial or complete withdrawal of certain other sources of finance over the timeframe, such as banks. As outlined in the following section, the reduction in international value has been pronounced for some projects, and is problematic since international presales can provide a significant budget element and can also help reduce perceptions of risk for other investors.

While some new sources of finance have emerged over the timeframe – such as investment through EIS and SEIS, and some new national and regional funds – these are not considered to have balanced the reduction seen elsewhere.

FTR has also been very successful as a support mechanism for independent producers, contributing around 16%-17% of the example budgets examined in Section 11. The sector has also seen some renewed, if tentative, bank interest in recent years, while there has been a rise in single-source financing from distributors and international sales companies keen to commit to and secure attractive independent projects.

One issue for this Study was the lack of data on financing sources and finance plans, and changes over the timeframe. To assess changes in this area, a wide range of consultations were undertaken and several example budgets were sourced for analysis (see Section 11). Unlike countries such as France and Sweden, the UK does not publish annual data on key sources of film finance.

Beyond models and sources of finance, difficulties for independent producers are have been exacerbated by the rising cost of financing and closing UK films. The increased complexity in financing has also seen the cost of financing rise, with significant amounts of legal work required, even for projects at lower budgets.

Since the global financial crisis, financiers have understandably become much more focused on risk and return and are structuring their investments accordingly.

1.2.5. The Decline in International Value

As previously outlined, a key trend over the timeframe is the reduction in international market value. This has also affected the potential to presell rights to UK independent projects – with buyers often opting not to pre-buy many types of projects, waiting instead to make an investment decision after viewing the completed film. At this stage, it has also become more challenging for some projects to secure sales.

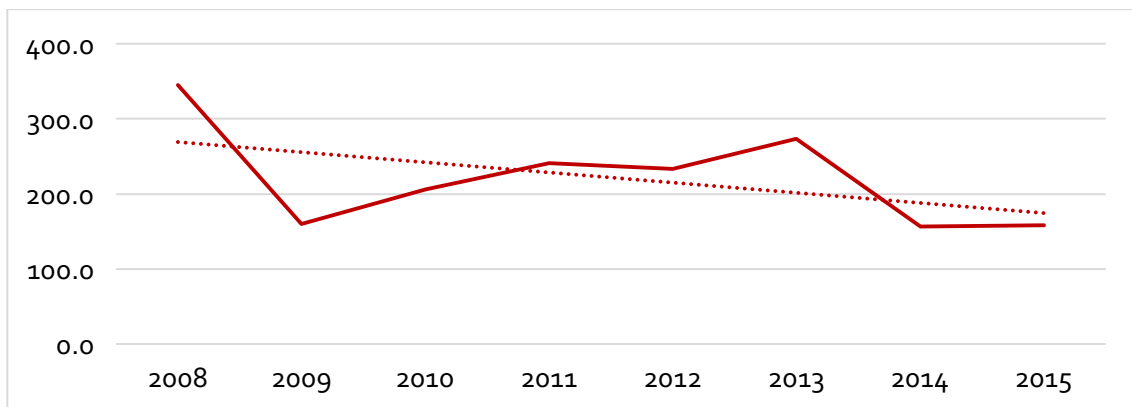
While this was a clear trend, data on the precise decline of UK sales rights in the international market were lacking. It is difficult to be definitive about the overall reduction because it can differ markedly across projects: while premium independent films with clear international elements remain in demand, the value of some lower-budget projects from talent with no major international appeal has reduced markedly. Indeed, projects may not now even sell to certain territories that might have provided a sale in 2007. Mid-range films budgeted at around £5 million have become a more difficult proposition if they have no obvious selling points for the international market. With pressure on such films to be produced at a lower cost, there is a degree of polarisation towards premium projects with marketable elements or low-cost projects.

To source a data-led estimate for changes in the value of UK independent films in the international market between 2007 and 2015, SPI asked three leading UK sales companies – HanWay Films, WestEnd Films, and Independent – to supply data on a UK independent project that they had initially sold around 2007, and to estimate the value of the film in the current landscape. The aggregated results of this exercise point to a decline in total sales value of around 50% over the Study timeframe.¹³

This decline is reflected in the industry survey undertaken for this project, with 87% of respondents holding the view that international presales as a source of finance had decreased, or decreased significantly between 2007 and 2015.

The finding is supported by data from the Centre National du Cinéma et de l’image Animée (“CNC”) on the financing of French films through presales. These data show that the total value of presales in financing French films had declined 54% between 2008 and 2015, from €345.2m to €158.1m.¹⁴

Figure 11: Value of Presales in the Financing of French Films, 2008-2015 (€ million)



Source: CNC. Includes French and international presales.

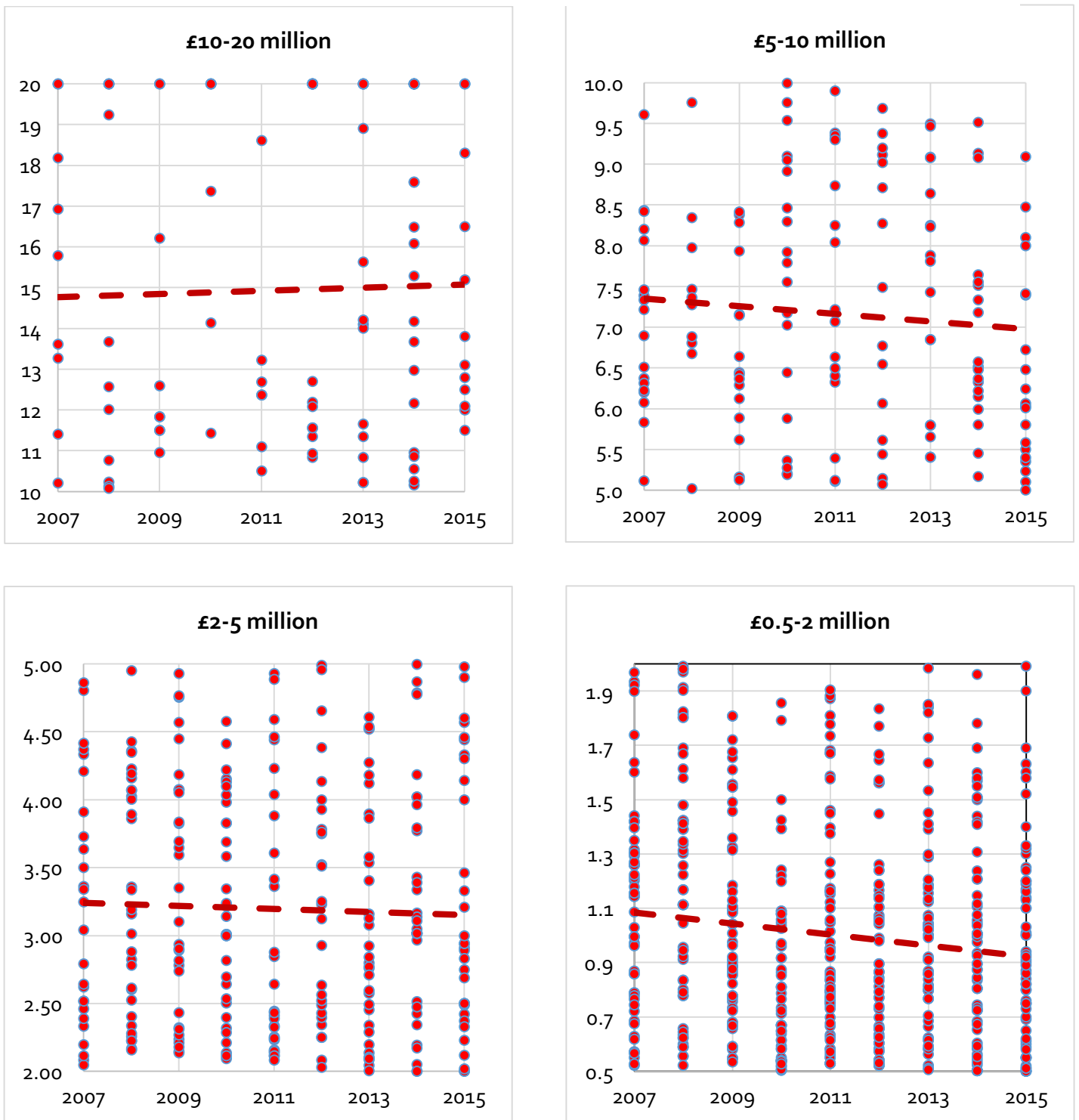
¹³ The issue of a value decline was also discussed during industry consultations, which supported the notion of the decline being around 50%.

¹⁴ *La production cinématographique en 2015*. CNC, April 2016.

1.2.6. Budgets

Data were sourced from the BFI on the budgets of UK independent film produced between 2007 and 2015, adjusted for inflation. Due to confidentiality, these data were supplied as visual data points on a chart showing distribution of budgets (Figure 12). The addition of a trend line demonstrates a degree of downwards pressure on budgets at all bands apart from above £10 million, where a gradual rise is discernible. This relates to the fact that commercial, high-budget independent projects are in demand in the marketplace.

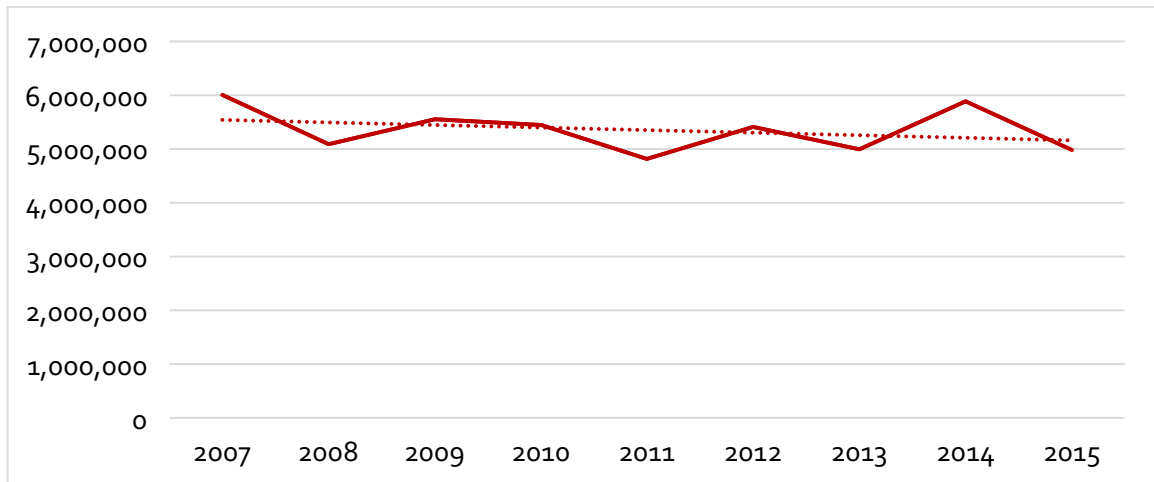
Figure 12: Budgets of UK independent Films, 2007-2015 (£, Inflation Adjusted)



Further analysis of BFI data on mean average budgets at above and below £2 million shows that for domestic projects at higher budgets, levels have been relatively static over the timeframe, with a slight downward trend visible (Figure 13). However, decline is much more pronounced at budgets under £2 million – underlining increased difficulty in financing films without high-profile elements (Figure 14).

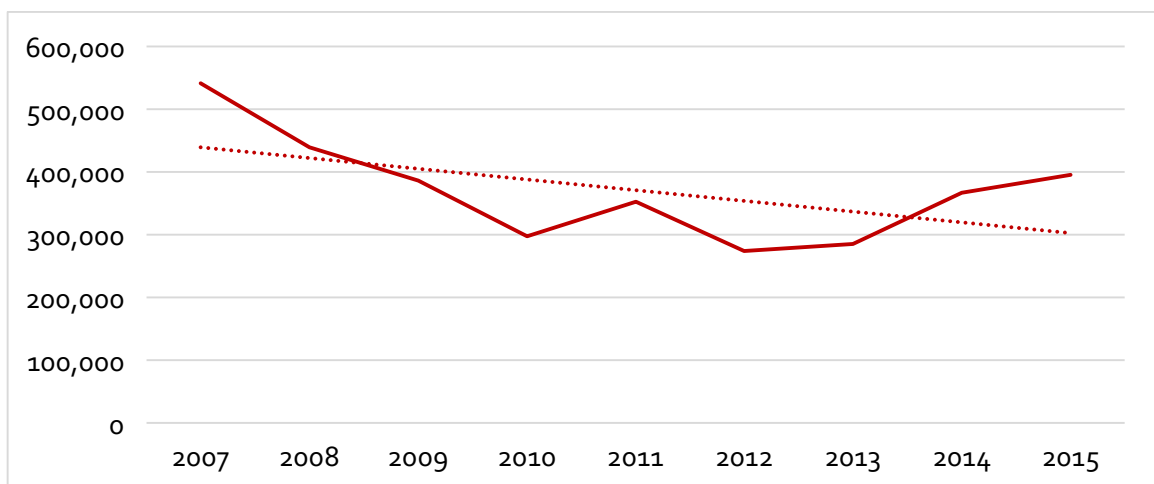
In the co-production category, a decline in budgets is evident both above and below £2 million (Figures 15 and 16).

Figure 13: UK Independent Domestic Films - Average Mean Budgets for Projects Above £2 million, 2007-2015 (£, Inflation Adjusted)



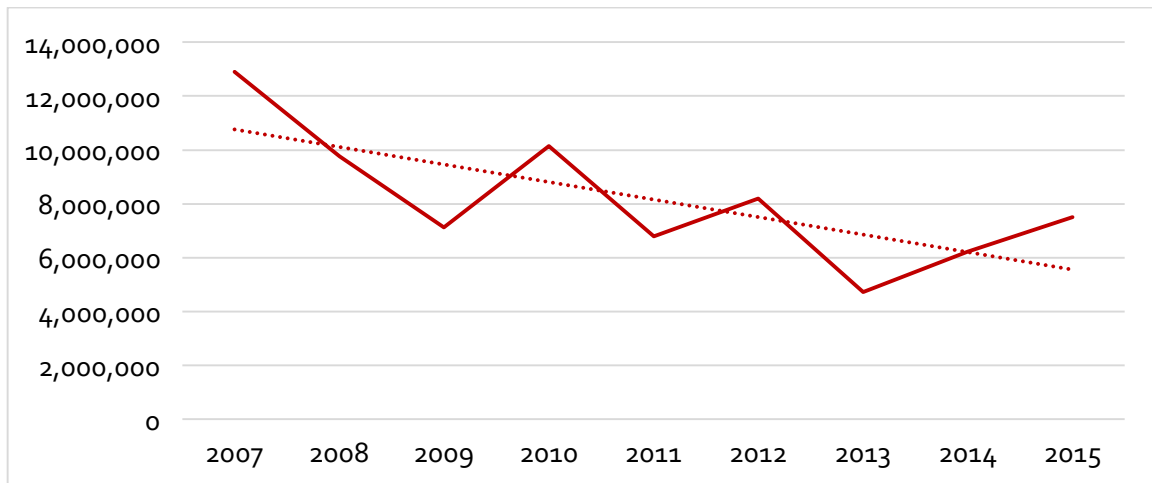
Source: BFI / SPI analysis. Data correct to September 2016.

Figure 14: UK Independent Domestic Films - Average Mean Budgets for Projects Below £2 million, 2007-2015 (£, Inflation Adjusted)



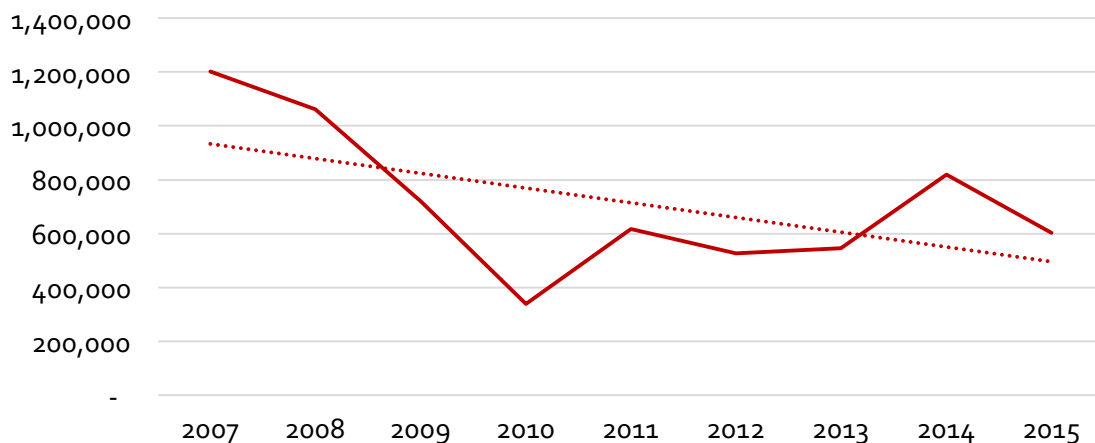
Source: BFI / SPI analysis. Data correct to September 2016.

Figure 15: UK Independent Co-Productions - Average Mean Budgets for Projects Above £2 million, 2007-2015 (£, Inflation Adjusted)



Source: BFI / SPI analysis. Data correct to September 2016.

Figure 16: UK Independent Co-Productions - Average Mean Budgets for Projects Under £2m, 2007-2015 (£, Inflation Adjusted)



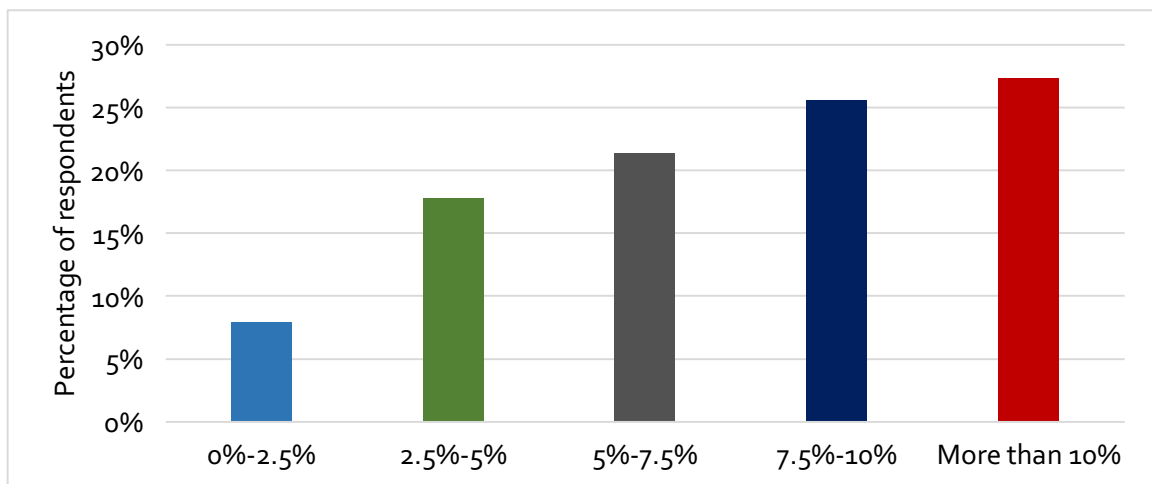
Source: BFI / SPI analysis. Data correct to September 2016.

1.3. Impacts on the UK Independent Film Sector

Independent films are generally unique undertakings, and can be considered prototypes in that the exact level of audience interest is only fully realised after the film is made and released. Their production can therefore require significant creative and financial entrepreneurialism, and this complex, costly, and risky process has been exacerbated by a weakened landscape.

This is having a range of impacts for producers, including the fact that establishing and closing multi-party funding models can be very challenging, with significant costs in relation to financing and legal work. Most respondents to the industry survey pointed to financing costs as being more than 10% of a budget. Moreover, the amount of legal work required can be out of alignment to the scale of the production budget, with the cost and complexity involved in financing a low-budget film similar to – and in some cases more than – those associated with higher-budget films.

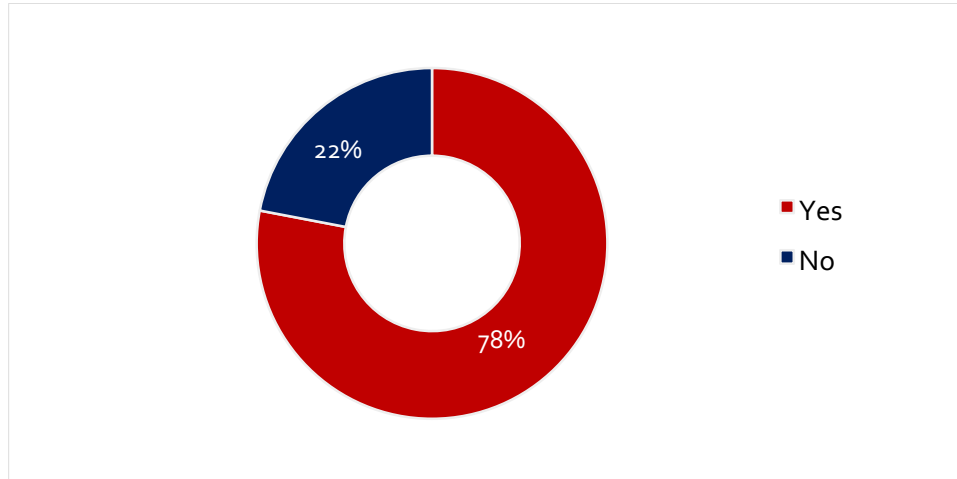
Figure 17: Average Financing Costs as a Proportion of the Production Budget



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”. The above data is an average of each budget band.

A key pressure point comes in closing finance – when producers must balance the finalisation of a highly complex capital structure with the creative needs of a film gearing up to shoot. At this point the producer is often under pressure to reduce or defer fees in order to ensure a project goes before the cameras. This is very common in the independent sector, with 78% of survey respondents finding it necessary to defer some or all of their producer fees since 2007.

Figure 18: Survey Respondents Who Found It Necessary to Defer Some or all of their Producer Fee on any UK Independent Films Made Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

This is a significant problem, since the fee remains the key revenue-generating opportunity for independent production companies. Attaining a meaningful stake in downstream revenues can be difficult for producers unable to invest significantly in their own productions, who will sit behind finance providers in the revenue waterfall. This impacts production company sustainability, with BFI data showing that 24% of the UK’s 6,805 film production companies achieved turnover of less than £49,000 in 2015. The majority – 81.2% – saw turnover of less than £249,000 in 2015, with 19%

achieving revenues of over £250,000. Only 1.6% of film production companies achieved turnover of over £5 million.¹⁵

BFI data show that of the 368 production companies associated with a UK feature in 2015, 94% (347 companies) were associated with a single film. Only four companies were associated with three films.¹⁶

This demonstrates the difficulty of achieving business sustainability through film production alone. The structural fragility of the model was underlined by the UK film policy review, an independent report commissioned by the Department for Culture, Media & Sport ("DCMS") and published in 2012: "Despite the successes of individual films, the strategic goal of more sustained growth across the sector has not yet been achieved. This is an even bigger challenge in a digital era in which the overall value of the market for film in the UK has been falling. The traditional business model for UK film production companies is economically inefficient and structurally defective because it repels rather than attracts investors, except on a project-specific basis."¹⁷

The lack of sustainability of the UK's independent film production companies stands in contrast with a clear growth in corporate stability and investment readiness of UK production companies working in television drama, a sector underpinned by Terms of Trade. A number of companies active in television drama have been acquired by other entities in recent years, with a 2015 study for Ofcom on the TV production sector noting: "The independent sector has witnessed significant corporate activity over the last 20 years, leading to consolidation of smaller players and talent into large holding companies typically running multiple production brands. Such consolidation has been driven by easy access to capital (enabled by financial success and the increasing exploitation of rights in secondary windows), enabling investment, expansion and acquisition." The study notes that international ownership has been led by both domestic and international investors, with deals including NBCUniversal's 2008 acquisition of Carnival Films, News Corp's 2011 acquisition of Shine Group, Sony Pictures Television's 2012 acquisition of Left Bank Pictures, and ITV's 2013 acquisition of Big Talk.¹⁸

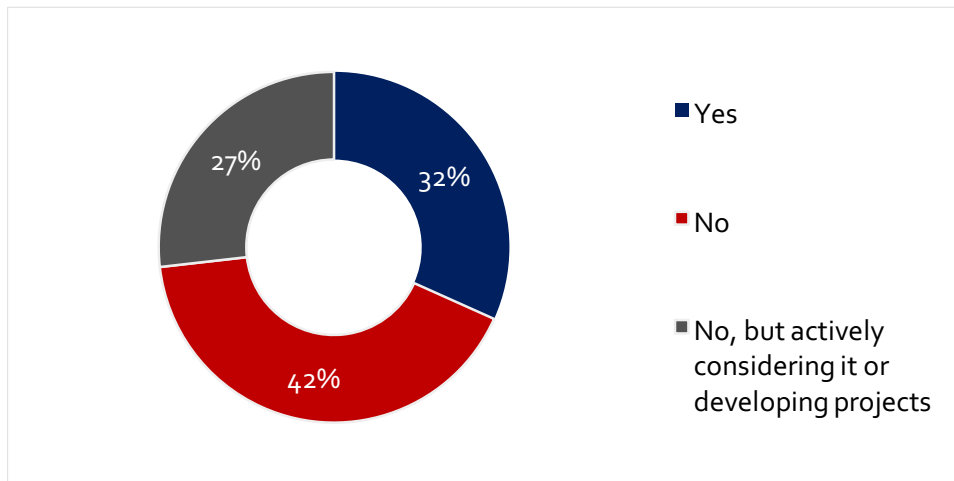
Underlining the difference in sustainability between independent television and film production, the majority of film producers surveyed have also produced television drama since 2007, or are actively considering it or developing projects.

¹⁵ *Film Industry Companies*. BFI Research and Statistics Unit, June, 2016. According to the BFI, growth in film production companies is likely to reflect Special Purpose Vehicles, which are created for a specific production and remain in existence after completion.

¹⁶ *Screen Sector Production in 2015*. BFI Research and Statistics Unit, April 2016. Data covers all production categories.

¹⁷ *A Future for British Film: It begins with the audience... A UK film policy review*. An independent report commissioned by the DCMS, January 2012.

¹⁸ *TV production sector evolution and impact on PSBs*. Mediatique for Ofcom, December 2015.

Figure 19: Survey Respondents Who Have Also Produced Television Drama Since 2007

Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

Lack of sustainability undoubtedly represents a threat to the sector’s future viability. If unchecked, continued decline is likely to reduce the sector’s economic impact for the UK, as well as its valuable role in building skills and talent, and its unique cultural and audience impacts. The UK independent film sector produces a highly diverse range of stories that communicate UK culture to audiences around the world. Among other impacts, this global cultural reach helps drive UK cultural diplomacy, or “soft power”, and helps attract tourism.

The market’s focus on commercial elements such as named talent, and the resulting difficulties in financing mid-range films with newer or less well-known talent, has potentially damaging effects on the sector’s ability to function as a talent escalator, with newcomers developing as they make projects at progressively higher budgets. Clearly, this impacts the ability for new talents to develop their skills and rise to prominence in independent film. This could pose problems beyond the sector, given the domestic talent base utilised by major inward investment productions coming to the UK.¹⁹

Diversity of production is also likely to be an issue, and the difficulty of producers retaining a stake in their work, and subsequent potential effects on audience choice, already noted by the 2012 independent film policy review: “Independent producers continue to face historic structural issues relating to their inability to retain a meaningful financial stake in their films and to attract investment into their companies. This restricts their ability to deliver a wider range of films to audiences.”²⁰

Ensuring broad access to diverse cinema is a key focus of the BFI’s strategy to 2022: “We believe that everyone, everywhere in the UK, should have the opportunity to enjoy and learn from the richest and most diverse range of great British and international filmmaking, past, present and future. This is central to our goal of encouraging ambition in filmmakers, and curiosity and hunger in audiences.”²¹

¹⁹ The difficulty facing mid-range budgets was underlined by producer Iain Canning at the 2015 Screen Film Summit: “That middle space of budget definitely feels like something we don’t necessarily intend to develop as much any more because we’ve identified it as problematic. Today if a director makes a wonderful first feature, they are jumping into that £8m-plus space.” *Screen Film Summit: state of the nation*. ScreenDaily, 18th December, 2015.

²⁰ *A Future for British Film: It begins with the audience... A UK film policy review*. Ibid.

²¹ *BFI2022 – Supporting UK Film. BFI Plan 2017-2022*. The BFI, 2016

1.4. Cyclical and Structural Changes

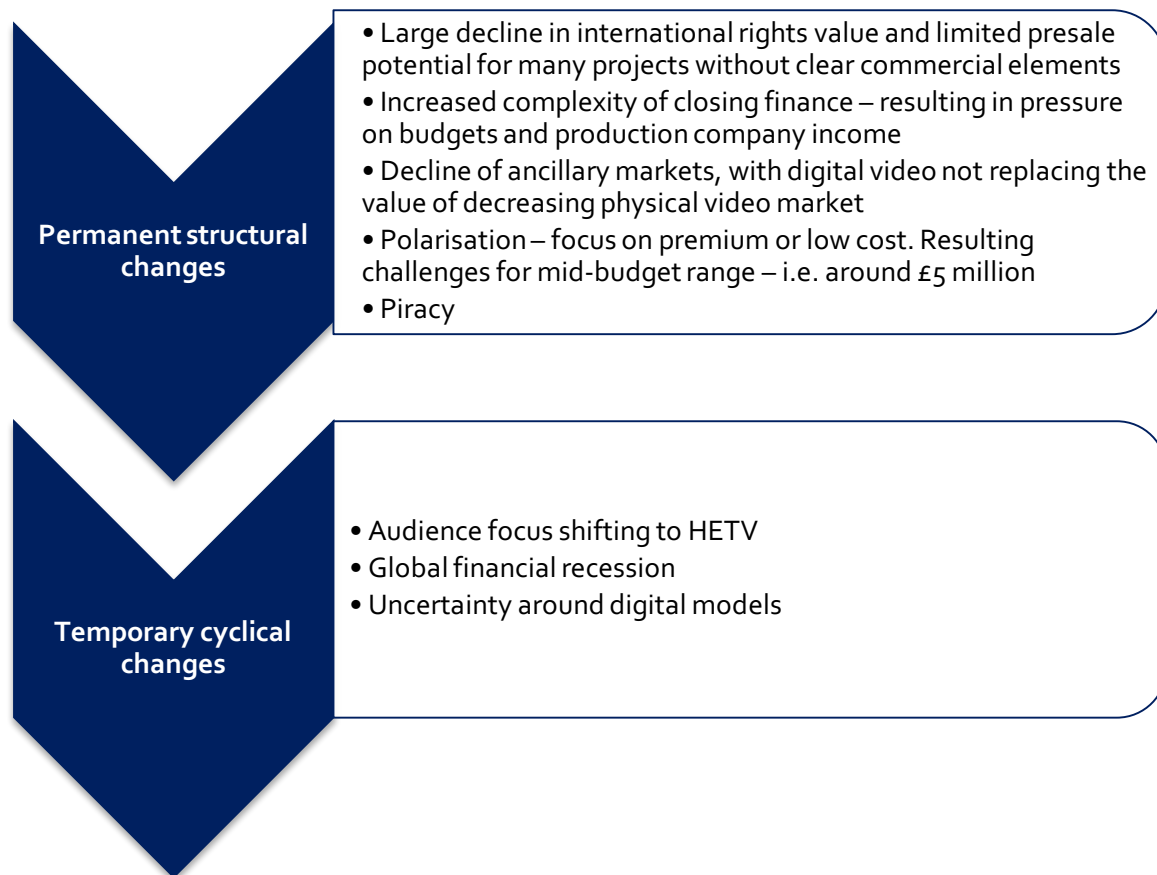
With a range of factors buffeting the UK independent sector it is important to consider which are permanent, structural changes and which are cyclical, or temporary. This is an important distinction when considering future support and policy for the sector.

All producers are facing a new market reality in which competition for audiences, talent and finance is fierce. Nevertheless, the independent business has been notably cyclical over the years – with certain types of financing increasing in volume as others decline; the strength of individual international markets rising and falling; and certain distribution channels dropping in value as others increase.

The digital market has confounded this pattern, with a clear move away from physical markets to digital ones. However, while the value of physical video has declined in relation to this, no equivalent revenue stream is yet emerging from the digital landscape.

Cyclical and structural changes are outlined below, and explored further in Section 13.

Figure 20: An Overview of Structural and Cyclical Changes in the UK Independent Film Sector Since 2007



1.5. The Importance of the UK Independent Film Sector

UK independent film production delivers a vital range of benefits for the UK, including economic impact. Although expenditure from UK independent films is not as high as Studio production expenditure, it is nevertheless significant, with £357.2 million spent producing 273 independent

films in the UK in 2015.²² This supports a range of jobs and services, with expenditure from this sector also occurring throughout the UK.

Beyond production expenditure, further economic impact is generated from the global exploitation of films produced by the sector, as well as spillover effects such as merchandise sales, screen tourism, and UK brand promotion.²³ BFI data show that UK independent films earned \$1.1 billion in gross box office globally in 2015, a 2.8% share of global revenues.²⁴ FTR has been crucial in underpinning this level of economic impact, vital for both UK independent and inward investment productions alike.

The sector's cultural and audience impacts are also notably strong, with UK independent films routinely receiving major global recognition for their outstanding artistic quality and cultural significance. At the 2016 Cannes film festival Ken Loach was awarded the Palme d'Or for *I, Daniel Blake*, while UK director Andrea Arnold won the Jury Prize for *American Honey*, a US-set film produced by US and UK companies.

The independent sector is also a proven talent escalator for new film-makers and actors, helping new talent to rise to global prominence. This includes such directors as Steve McQueen (from *Hunger* to *12 Years a Slave*), Danny Boyle (from *Shallow Grave* to *Steve Jobs*), and Gareth Edwards (from *Monsters* to *Rogue One: A Star Wars Story*) and actors such as Carey Mulligan (*An Education*, *The Great Gatsby*), Tom Hardy (*Bronson*, *The Revenant*), and Riz Ahmed (*The Road to Guantanamo* and *Shifty* to *Rogue One: A Star Wars Story*).

Analysis of the top 20 films at the global box office in 2015 underlines the importance of the UK independent sector in growing talent. In total, 15 films in the top 20 (or 75% of the total) featured writers, directors or key cast members who worked in the UK independent film sector earlier in their careers, or continued to work in the sector. This includes actors such as Daniel Craig, John Boyega, and Tom Hardy and film-makers such as Sam Taylor-Johnson (Table 1).

UK independent films interrogate the reality of life in the UK, its culture, stories and values, in a way that deeply engages diverse UK and global audiences. The global profile of some UK independent films ensures that their cultural impacts can be highly significant. According to British Council data for example, there is a strong interest in British film in China, where film is the second most important source of information about the UK.²⁵

Such effective communication is also a major benefit with regards to areas such as tourism and diplomacy. The UK independent sector also helps drive the wider creative industries through use of skills, talent, and services from such sectors as design, advertising, digital, and music. Detailed analysis of film and HETV projects across four countries, undertaken by SPI, demonstrates that around 38% of a film budget impacts other creative industries.²⁶

²² *Film, high-end television and animation programmes production in the UK: full-year 2016*. Ibid.

²³ *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors*. Olsberg•SPI with Nordicity, February 2015.

²⁴ *BFI 2016 Statistical Yearbook – UK Films at the Worldwide Box Office*. BFI, June 2016.

²⁵ *Cultural and Audience Contributions of the UK's Film, High-End TV, Video Games, and Animation Programming Sectors*. Olsberg•SPI with Nordicity, 2nd December 2015.

²⁶ *How film drives the growth of the creative industries*. Olsberg•SPI, to be published in 2017.

PART TWO

FILM PRODUCTION IN THE UK

2. OVERVIEW OF UK PRODUCTION

This section outlines the background to the Study, including how conditions in the UK independent sector have grown more challenging, even as the UK's reputation and success as a major film hub has increased. It also outlines the importance of the UK's independent film sector, and how it contributes to the UK's attractiveness as a market for inward investment.

2.1. Context for the Study

The UK is currently experiencing a boom in film production expenditure, and is well established as one of the world's leading destinations to manufacture high-quality film. It has seen unprecedented levels of expenditure on film in recent years, with £1.596 billion in 2016 – the highest figure since measurement began in 1994.²⁷ This was an increase of 13% from £1.416 billion 2015, the final year in the timeframe for this Study.

The UK's record production expenditure is underpinned by an attractive tax relief mechanism for film. Introduced in January 2007, and aiming to promote the sustainable production of culturally British films, FTR had paid out over £1.8 billion from its introduction up to the 2015-16 financial year, in relation to over £8 billion of film expenditure in the UK.²⁸ In a highly competitive global market, FTR helps underpin the UK's ability to attract such production spend.

The UK's production environment is particularly attractive to producers. Built up over decades of work on high-level films, the UK landscape supports a world-renowned talent base. This includes actors, writers and directors and also spans the cutting edge artistic and technical capabilities of UK film crews and its highly-developed post production sector. There is also an attractive array of service companies, studio facilities and natural locations.

However, the clear success of the UK as a film hub is not reflective of all areas of the industry. This is because much of the expenditure is created by incoming US Studio-backed productions. In 2015, UK independent films contributed £357 million in production expenditure – just 25% of the total and a 32% decline on 2014 (Figure 1). In comparison, the production of US Studio films was worth £1.058 billion in 2015, or 75% of the total – and an 7% increase from 2014.

Overall, production expenditure increased by 67% between 2007 and 2015. Within this, expenditure from US Studio films increased by 100%, while spend from UK independent films rose by 34%.

While the Studio and independent sectors are both facing major disruptive challenges, the impact of a turbulent global market can be particularly pronounced for independent producers, as evidenced by the comparative flatness of UK independent expenditure over the timeframe. This relates to the different formulation of the two sectors. Independent producers must generally create a new financial model and structure for each project, and then sell to international distribution companies to financially exploit the resulting film. In comparison, the Studio model is vertically integrated, with existing financing and distribution structures through which productions can be channelled. Because of these differences, the independent sector is comparatively more exposed to market volatility.

As outlined in the Glossary, this Study utilises the BFI's definitions of UK independent film.

2.2. 2007 – Opportunity and Disruption

This Study assesses conditions on the UK independent film sector from 2007 to 2015. The start of this timeframe was chosen because it is the year that FTR was introduced, and represented

²⁷ *Film, high-end television and animation programmes production in the UK: full-year 2016*. Ibid.

²⁸ *Creative Industries Statistics. Official Statistics on Film, High-End Television, Animation, and Video Games Tax Relief*. HMRC, July 2016. Data from 2013-14 onwards are provisional.

something of a new era for UK film. However, while the establishment of FTR created new financing opportunities, the early years of the timeframe also coincided with a period of difficulty for the global independent film sector.

A range of disrupting factors contributed to this, including the onset of global recession in 2008. This severely impacted the independent film sector across several fronts, serving to reduce production finance and limit the ability of international distributors to acquire new projects.

Alongside ongoing digital disruption, this has led to a decline in territorial rights value for many independent projects and reduced potential to presell some types of projects. The emergence of digital services has seen a marked shift away from physical video over the timeframe, with a related decline in revenues. In the UK marketplace, for example, gross film revenues from physical video rental and retail stood at £2,029 million in 2007. By 2015, this had declined 62% to £774 million. While gross film revenues from digital video increased 467% over the same period, from £88 million in 2007 to £499 million in 2015, this obvious growth does not compensate for the decline seen in physical product revenues.²⁹

A further, and pronounced, disruptive force is piracy, which has also reduced value and revenues. The effects are particularly marked in the independent sector, with the erosion of already tight margins serving to make distributors more risk averse.

Other disruptive factors include changing audience viewing behaviour – most evident in the clear rise of HETV in recent years, coinciding with feature films becoming less of a focus for broadcasters, many of whom look to sports and television drama as key audience attractors.³⁰

These factors have combined to significantly reduce the international demand for, and value of, rights to UK independent films. The extent of this decline relates to the type of project, with mid- and lower-budget independent films with no elements of appeal to global financiers and buyers – such as a high-profile cast and director – devaluing much more than some higher-budget projects that do have these elements.

While precise data on the extent of this trend is not available, SPI asked three leading UK sales companies – HanWay Films, WestEnd Films, and Independent – to supply data on a UK independent project that they had initially sold around 2007, and to estimate the value of the film in the current landscape. One company compared actual sales of similar projects in terms of budget and genre.³¹ The three individual estimates were submitted on a confidential basis and span low, mid, and higher budgets. The aggregated results of this exercise point to a decline in total sales value of around 50% over the Study timeframe.

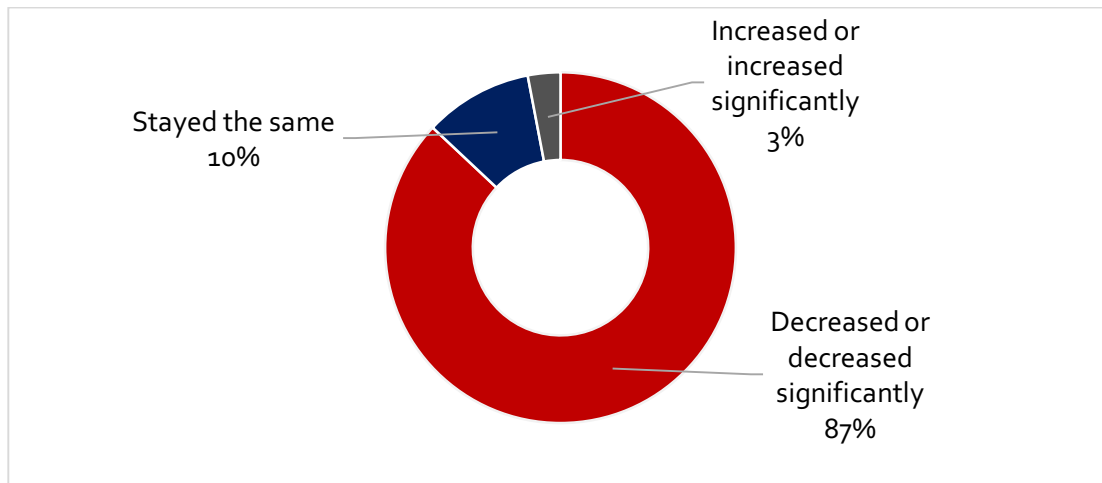
This decline is reflected in the results of a survey undertaken for this project, with 87% of respondents holding the view that international presales as a source of finance has decreased, or decreased significantly since 2007. The decline in rights value impacts the ability for producers to utilise this value in financing their films.

²⁹ *The UK Film Market as a Whole*. Ibid. Revenue figures have been adjusted for inflation.

³⁰ The audience shift towards HETV in recent years could be considered a cyclical, rather than a structural, change.

³¹ SPI also discussed the issue of a value decline in industry consultations, which supported the notion of the decline being around 50%.

Figure 21: Results of Industry Survey on how Individual International Presales Have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

2.3. Identifying Trends in Finance Sources and Models

While the factors outlined in the previous section affect the entire film business, their impacts can be experienced very differently across the UK independent sector.

This is because trends common to the sector can have different effects across budget levels and types of project. For example, the reduction in international market value over the timeframe is particularly pronounced at the mid-budget range, where it is less likely that projects will have the calibre of cast and film-makers that can secure significant international sales and finance. As outlined, independent projects with major cast and film-makers are in demand. There is also an element of subjectivity, since producers are likely to have different experiences of raising finance at different times.

While there is a lack of aggregated data regarding UK finance sources and models, it is possible to identify general trends in this area. The typical UK independent financing model that combines investment from a key public film funder such as the BFI, Film4 and BBC Films, international presales, UK distribution, gap financing, and potentially some equity has remained relatively unchanged over the timeframe.

However, the strength of individual components within this model has changed. The decline in international market value has severely limited the potential for some projects to obtain finance through the preselling of distribution rights to foreign companies. Meanwhile the timeframe has seen the introduction of some new sources, including FTR, which has been key for the independent sector as well as contributing to the inward investment boom. Other new sources to have emerged include EIS, SEIS, regional funding from entities such as the Yorkshire Content Fund and the Welsh Government's Media Investment Budget, as well as investment from post production companies.

Some models have also declined over the timeframe, including the complex sale-and-leaseback models that existed around the UK's previous incentive prior to its replacement in 2007. Other models have grown, with UK distributors or international sales companies sometimes providing significant amounts of finance to ensure that the most attractive projects are secured.

2.4. The Importance of a Healthy UK Independent Film Sector

UK independent film production delivers a range of important economic and cultural impacts that are distinct from those made by inward investment projects shooting in the UK. These are outlined in the following sections.

2.4.1. Economic Impact

While production expenditure from independent films is not as high as US Studio expenditure, it is nevertheless significant, with £357.2 million spent in 2015. This supports a range of UK jobs and services across the UK.

Further economic impact is seen from the exploitation of these films in the UK and around the world, with further spillover effects from merchandise sales, screen tourism, soft power, and promotion of the UK brand.

According to previous analysis, the core UK film sector supported 39,800 Full-Time Equivalents (FTEs) of direct employment and contributed £1.4 billion in direct Gross Value Added (GVA) in 2013. Core UK film sector refers to the economic contribution generated by UK-qualifying content – i.e. screen content that qualifies for FTR – and therefore spans both independent and inward investment production.

The core sector generated almost £1.4 billion in exports in 2013, yielding a trade surplus of £916 million. Including multiplier and spillover effects, the core film sector in 2013 supported 97,300 FTEs of employment, generated £3.7 billion in GVA, and contributed £1.1 billion to the Exchequer.

FTR has been vital in underpinning this impact, utilised by independent and inward investment projects. The mechanism is also delivering for government: for each pound of relief granted across the period 2006-07 to 2013-14, £12.49 in additional GVA was created through direct and multiplier effects, equating to a taxation return for the Exchequer of £3.74 in additional tax revenues for each £1 of relief granted.³²

2.4.2. Cultural and Audience Impact

The UK independent film sector has a profound effect on culture and audiences, with films receiving major global recognition for their outstanding artistic quality, including the Palme d'Or at the Cannes film festival in 2016 for Ken Loach's *I, Daniel Blake*.

While the UK independent sector continues to produce the work of major film-makers and other talents right through their careers, it is also notable that the sector is a proven talent escalator for new film-makers and actors. UK independent film enables new talent to rise, often to global prominence from where they may be in strong demand from US and international producers, as well as continuing to work in the independent sector.

This includes such directors such as Steve McQueen (from *Hunger* to *12 Years a Slave*), Danny Boyle (from *Shallow Grave* to *Steve Jobs*), and Gareth Edwards (from *Monsters* to *Rogue One: A Star Wars Story*) and actors such as Carey Mulligan (*An Education*, *The Great Gatsby*), Tom Hardy (*Bronson*, *The Revenant*) and Riz Ahmed (*Shifty* to *Rogue One: A Star Wars Story*).

The importance of the UK independent film sector as a talent escalator is underlined by analysis of the top 20 top films at the worldwide box office in 2015. In total, 15 films (or 75% of the total) featured writers, directors or key cast members who worked in the UK independent film sector earlier in their career, or continued to work in the sector.

³² *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors*. Ibid.

Table 1: Involvement of Talent with Links to the UK Independent Film Sector in the Top 20 Grossing Films of 2015 Worldwide

Film Title	Writer / director with UK independent film background (selected examples)	Key cast with UK independent film background (selected examples)
1. <i>Star Wars: The Force Awakens</i>	No	John Boyega (<i>Attack the Block</i>), Andy Serkis (<i>Sex & Drugs & Rock & Roll</i>)
2. <i>Jurassic World</i>	No	No
3. <i>Furious 7</i>	No	Jason Statham (<i>Lock, Stock and Two Smoking Barrels</i>)
4. <i>Avengers: Age of Ultron</i>	No	Aaron Taylor-Johnson (<i>Nowhere Boy</i>), Paul Bettany (<i>Gangster No. 1</i>)
5. <i>Minions</i>	No	No*
6. <i>Spectre</i>	Neal Purvis and Robert Wade (<i>Let Him Have It</i>), Jez Butterworth (<i>Mojo</i>)	Daniel Craig (<i>Love is the Devil</i>); Ben Whishaw (<i>Bright Star, Lifting</i>), Naomie Harris (<i>28 Days Later</i>)
7. <i>Inside Out</i>	No	No
8. <i>Mission: Impossible - Rogue Nation</i>	No	Simon Pegg (<i>Shaun of the Dead</i>)
9. <i>The Hunger Games: Mockingjay - Part 2</i>	No	Sam Claflin (<i>The Quiet Ones, The Riot Club</i>)
10. <i>The Martian</i>	No	Chiwetel Ejiofor (<i>Dirty Pretty Things</i>)
11. <i>Fifty Shades of Grey</i>	Sam Taylor-Johnson (<i>Nowhere Boy</i>)	Jamie Dornan (<i>Shadows in the Sun</i>)
12. <i>Cinderella</i>	Kenneth Branagh (<i>Henry V</i>)	Lily James (<i>Broken</i>), Richard Madden (<i>Complicity, Chatroom</i>)
13. <i>The Revenant</i>	No	Tom Hardy (<i>Bronson</i>); Will Poulter (<i>Son of Rambow</i>)
14. <i>Ant-Man</i>	Edgar Wright (<i>Shaun of the Dead</i>) and Joe Cornish (<i>Attack the Block</i>)	No

15. <i>San Andreas</i>	No	Archie Panjabi (<i>East is East, Bend it Like Beckham</i>), Ioan Gruffudd (<i>Wilde</i>)
16. <i>Hotel Transylvania 2</i>	No	No
17. <i>Terminator: Genisys</i>	No	Emilia Clarke (<i>Spike Island, Dom Hemingway</i>)
18. <i>Kingsman: The Secret Service</i>	Matthew Vaughn (<i>Lock, Stock and Two Smoking Barrels</i>)	Colin Firth (<i>Fever Pitch, The King's Speech</i>)
19. <i>Home</i>	No	No
20. <i>Mad Max: Fury Road</i>	No	Tom Hardy (<i>Bronson</i>), Nicholas Hoult (<i>Kidulthood</i>)

Source: <http://www.boxofficemojo.com/yearly/chart?view2=worldwide&yr=2015>

* Jennifer Saunders is part of the voice cast for *Minions* and has appeared in UK independent films such as *Absolutely Fabulous: The Movie*. However, Saunders' background in television is considered to be stronger for the purposes of this analysis.

UK Independent films interrogate the reality of life in the UK, its culture, people, stories and values, in a way that deeply engages diverse UK and global audiences. The global profile of some UK independent films ensures that their cultural impacts can be highly significant, as evidenced by British Council data showing a strong interest in UK film in China, where film is the second most important source of information about the UK.³³

Separating the impact of independent film from other types of UK film is difficult in this context, but it is clear that the sheer range of themes and stories explored by UK independent films mean that the sector is unique in its ability to transmit UK culture to the world.

The impact of such effective communication can be significant for the UK, driving areas such as tourism and diplomacy. The latter, referred to as soft power, is a particular focus in the UK. As described in the UK Government's 2016 Culture White Paper: "Culture continues to expand the UK's influence, promotes trade and investment and attracts visitors to experience the beauty of our landscapes, the treasures of our national heritage and the life of our towns and cities. This respect and influence gives us status in global networks and international organisations. In turn, those networks give us the opportunity to promote our cultural and creative talent."³⁴

Audience value is also pronounced in the UK, where the public value British films. A 2011 study found strong support for British films and film-making, with 88% of survey respondents agreeing that it is important for Britain to be able to make British films.³⁵ In addition, 84% thought British films were an important part of British culture.

Previous analysis by SPI for the BFI found that the premium placed on British film by British audiences was worth £63 million in 2014.³⁶ This represents the additional cost that British audiences

³³ *Cultural and Audience Contributions of the UK's Film, High-End TV, Video Games, and Animation Programming Sectors*, p 20. Ibid.

³⁴ *The Culture White Paper*. DCMS, March 2015.

³⁵ *Opening our Eyes. How film contributes to the culture of the UK*. Northern Alliance and IpsosMediaCT, July 2011.

³⁶ *Cultural and Audience Contributions of the UK's Film, High-End TV, Video Games, and Animation Programming Sectors*. Ibid.

were willing to pay to access UK-made films at the cinema. Again, separating independent film within this is difficult, but its impact is likely to be significant given the sector's range.

2.4.3. *Impact as a Driver of the Creative Industries*

One key benefit of UK independent film production is its ability to impact other creative industries. This occurs in a number of ways. For example, film production develops skills that can then be utilised by other sectors – such as film directors using their skills to undertake work in theatre or advertising. The sector is also a key financial driver of other creative industries, with film production drawing on a wide range of talent, goods and services from other creative sectors such as TV drama and other TV, advertising, marketing and PR, publishing, writing and print media, music, performing arts, and digital.

A forthcoming study by SPI which involved detailed budget analysis of eight film and HETV projects in four countries highlighted the strong impact that film can have, with 38% of budgets impacting other creative industries.³⁷

³⁷ *How film drives the growth of the creative industries*. Ibid.

3. VOLUME AND TYPES OF UK INDEPENDENT FILM PRODUCTIONS

This section outlines the results of an analysis of UK independent production data from 2007 to 2015. This includes an assessment of overall production levels, as well as trends in production by budget band and project type.

3.1. Overview

To understand how UK independent production has changed since 2007 detailed analysis was undertaken from a dataset supplied by the BFI on UK independent feature films produced during the Study timeframe. This included a total of 2,680 films.³⁸ For the purposes of this analysis projects budgeted at under £0.5 million – 1,612 films, or 60.1% of total production – were removed. This is because not all projects made at this level are produced for commercial reasons and may, for example, be made as calling cards or as part of film-maker development or industry access schemes.³⁹ The financing and commercial performance of such films is therefore not generally considered to be directly comparable with processes undertaken by producers working on projects at higher-budget levels.

The remaining dataset for analysis therefore included a total of 1,068 UK independent films produced between 2007 and 2015.

A range of analyses was undertaken into this data set. This included the budget band of each film, defined by the BFI as:

- £0.5 million to £2 million;
- £2 million to £5 million;
- £5 million to £10 million; and
- £10 million and above.

As outlined in the Glossary, the BFI applies three further definitions to the UK independent films in the dataset – as co-productions, domestic UK features, or inward investment features.

3.2. Volume of UK Independent Films Produced

Overall, the number of films produced by the UK independent production sector at budgets of above £0.5 million shows an increase between 2007 and 2015 (Figure 7). Analysis of production volume by budget bands shows that the majority of UK independent production occurs at lower-budget levels, with only 8% of films made between 2007 and 2015 budgeted at over £10 million.

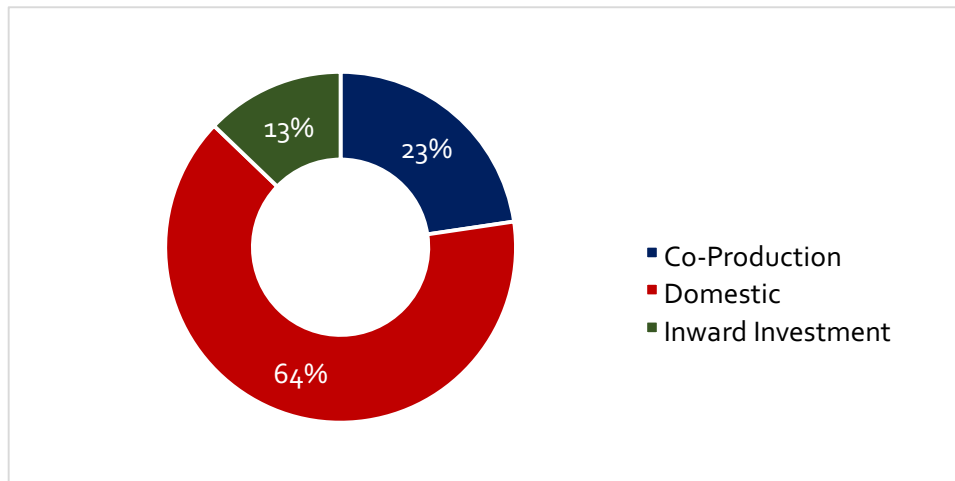
While the above £10 million band has seen some growth over the timeframe – reflecting the international demand for larger-budget commercial independent films – the fact that 92% of film budgets are under £10 million underlines the difficulties that UK producers can have in sourcing finance for large budgets.

3.3. Types of UK Independent Films – Domestic, Inward Investment and Co-Productions

Of UK independent films produced between 2007 and 2015 the majority (64%, or 689 films) were classified as domestic. By way of comparison only 23% (242 films) were co-productions while 13% (137 films) were defined as being inward investment UK independent films.

³⁸ The total of 2,680 reflects the removal by SPI of five titles from the dataset that appeared to be duplicates, TV films or made without clear UK production involvement.

³⁹ It should be noted that some low-budget production schemes, such as Microwave and iFeatures, have had some particular success in developing new talent who have been able to attract acclaim and sales.

Figure 22: UK Independent Films Produced Between 2007 and 2015 by Production Type

Source: BFI / SPI analysis

3.4. Country of Origin

The majority of UK independent films are produced by UK companies only, with 657 films (62%) in the BFI dataset only including the UK as the country of origin. This underlines the sector's reliance on UK funding and its exposure to any decline in UK-sourced production investment, as well as a comparatively limited access to the benefits of co-production.

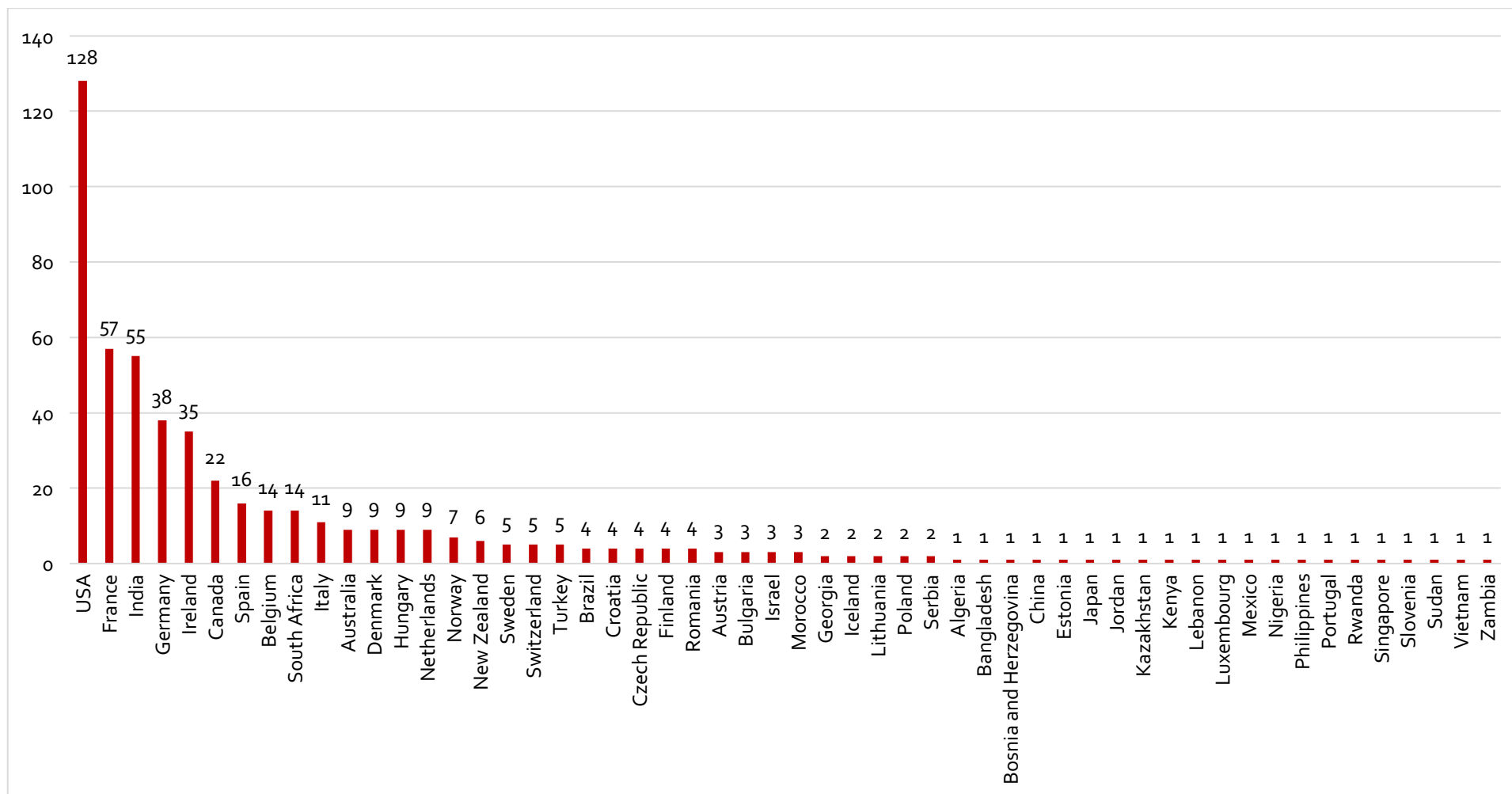
Of the remaining films in the dataset, 29% (314 films) have one further country of origin in addition to the UK and only 9% of films – 97 productions – were listed with two or more. The most frequent production partner over the timeframe is the US, followed by France, India, Germany, and Ireland (Figure 23).

In the inward investment category, the US was involved in 79% of productions, with India the second most active production partner, involved in 20% of productions in this category.

In the co-production category (Figure 24) France is the most common country of origin along with the UK, involved in 21% of films. Of the top 10 most common countries of origin, six are EU countries. Asian co-production partners are limited, with only one film with China, one with Japan and one with Singapore produced over the timeframe.

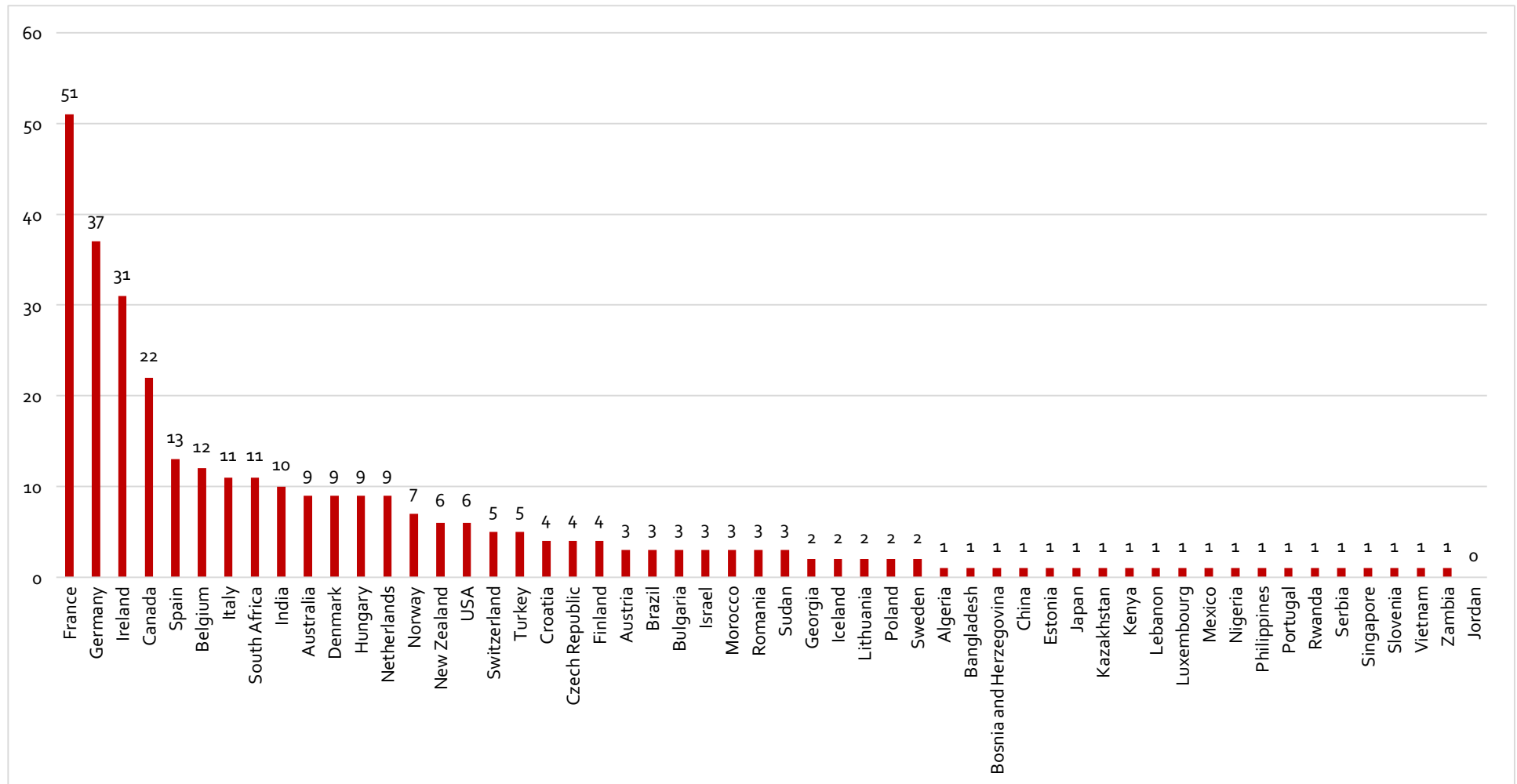
It should be noted that this analysis is based on BFI data which lists three potential countries of origin for each film, based on the largest contributors. Therefore, there may be further country involvement beyond this analysis.

Figure 23: Production Partner Countries for UK Independent Films Budgeted Above £0.5 million, 2007-2015



Source: BFI / SPI analysis. BFI data details the three largest contributors in terms of country of origin. There may be further participant countries that are not covered by the analysis.

Figure 24: Production Partner Countries of Films Classified as UK Independent Co-Productions Budgeted Above £0.5 million, 2007-2015

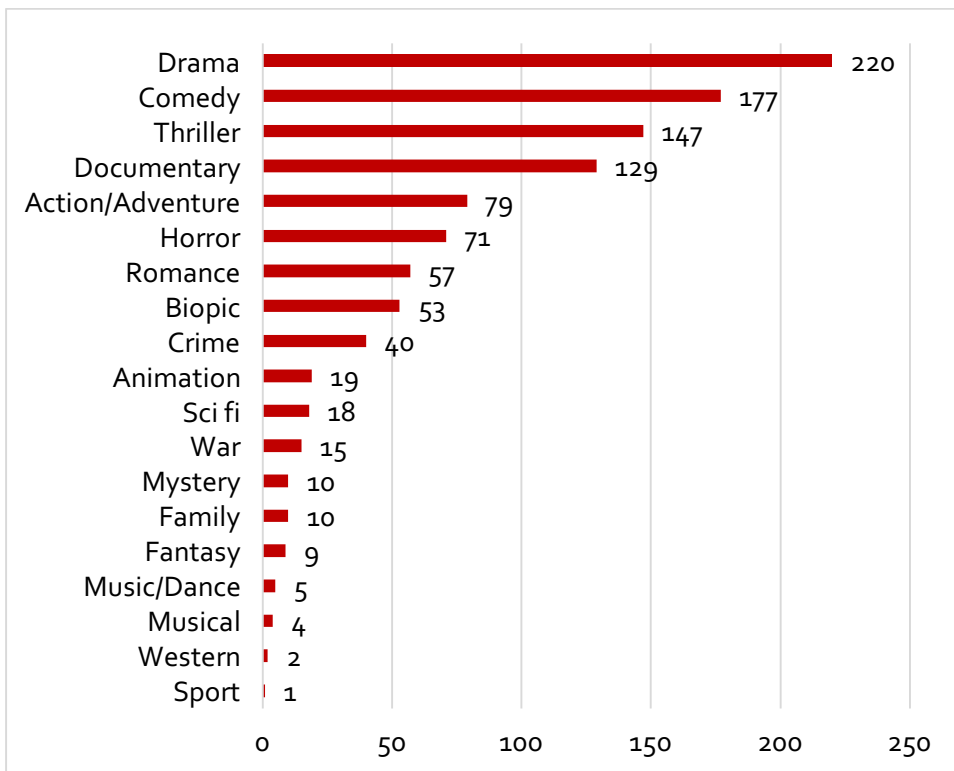


Source: BFI / SPI analysis. BFI data details the three largest contributors in terms of country of origin. There may be further participant countries that are not covered by the analysis.

3.5. Genre of Projects

Drama is the most commonly produced genre in the UK independent film sector, with films such as *I, Daniel Blake*, *A United Kingdom*, and *45 Years* gaining international profile and acclaim. Comedies, such as *Florence Foster Jenkins*, *David Brent: Life on the Road*, and *The Best Exotic Marigold Hotel* and thrillers such as *High-Rise*, *The Survivalist*, and *Locke* are also commonly produced genres. Documentaries, such as *My Scientology Movie* and *Supersonic*, also contribute a high number of films across the timeframe. Conversely, genres like fantasy and sci-fi are less commonly produced – most likely because of the expense of working in these genres.

Figure 25: Genres of UK Independent Films Budgeted Above £0.5 million, 2007-2015



Source: BFI / SPI analysis. BFI data includes a number of genres: analysis based on the primary genre included in the data set.

PART THREE
**DEVELOPMENT, FINANCING
AND PRE-PRODUCTION**

4. SOURCES OF FINANCE FOR UK INDEPENDENT FILMS

Finance is a central consideration when assessing conditions in the UK independent film sector. This section outlines the results of detailed analysis of key funding sources for independent producers working across all budget bands, including the health of each source and any changes over the Study timeframe.

It also considers the complexity of finance plans in the UK independent film sector, pressures related to closing finance, and the impact the current landscape can have on producers.

4.1. Overview

Generally, UK independent producers finance their projects by piecing together financing from disparate sources. These can include public funding and FTR, as well as commercial finance through the preselling of distribution rights to international territories or from equity or debt providers. Co-production partners may also supply finance, while a bank or other provider is likely to be engaged in order to cashflow elements such as presales contracts and FTR.

Just as many independent films can be considered a prototype – i.e. the exact level of audience interest is only really realised after the film is made and released – a producer will usually have to reinvent how their films are financially structured with each project.

The survey undertaken for this project points to the fact that this complex landscape has now become more challenging. In total, 50% of respondents consider the landscape to be significantly more difficult now than in 2007, with 29% believing it to be more difficult. Fewer respondents identified the landscape as being significantly more difficult than 2012, but more respondents identified it as having become more difficult. This reflects the fact that financing pressures were particularly acute towards the start of the timeframe as the global recession hit.

4.2. Complex, Multi-Party Financing and the Impacts on Producers

The process of drawing finance together into a single structure for a project can be highly complex and is a key skill for the independent producer, requiring entrepreneurialism, knowledge, and good relationships.

The complexities inherent in the financing process are a feature of the independent sector, and predate the Study timeframe. However, the difficulties that have impacted the independent sector since 2007 have served to destabilise and in some cases significantly reduce the value of some key sources. This has resulted in a more difficult and uncertain financing environment.

The complexity and cost of external multi-party financing can mean that production companies can struggle to secure a meaningful ownership position in their projects. Financiers, of course, will generally require a position in the revenue waterfall – i.e. the agreement related to when a financier's return on investment will occur, and in what order (or position) they will begin to recoup after downstream revenues start to accrue. In cases where producers have contributed little or no finance, financiers will all sit ahead of the producer in recoupment terms.

With the securing of downstream revenues difficult, the key revenue-generating opportunity for a production company is the producer fee. This budgeted item represents payment for the producer's work on the project. However, the difficulty of multiparty financing means that this production company revenue is often put under pressure, as outlined in the following section.

A further complicating factor for independent producers has been a rise in costs over the timeframe, to the point where they can be misaligned with budget. Lower-budget films can require as much, or

more, legal work relating to complex interparty agreements as higher-budget films. A key element in this relates to whether the project’s financiers have in-house legal capacity.

For example, approximate all-party legal costs on a film with a budget of around £2 million, on which the financiers had no in-house capacity, were approximately £77,000, inclusive of production legals. Conversely, on a film with a budget nearly twice the size, where all but one of the financiers had legal capacity in-house, all-party legal costs were just over half that amount.

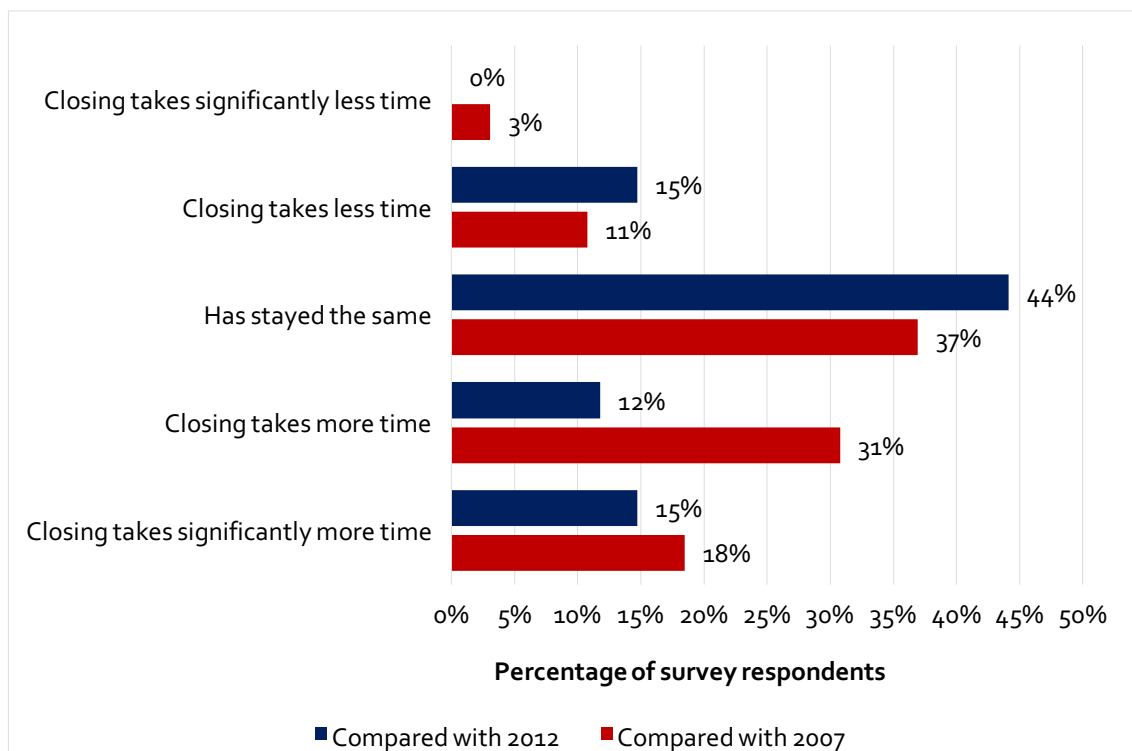
4.2.1. Closing Finance

Finalising the capital structure of a film can be a challenging process for an independent producer as they seek to satisfy the needs of numerous financing parties in an increasingly complex and expensive environment. At the point of closing, a producer is often at their most vulnerable in negotiations and often has to accept decreased or deferred fees in exchange for being able to finalise financing, particularly because final elements of financing necessary to close a film can be very costly.

The majority of respondents to the industry survey (49%) thought closing now takes significantly more time, or more time, than in 2007. In comparison, 37% of respondents thought it took the same amount of time as in 2007, while a total of 14% thought it took less time or significantly less time. In total, 37% thought it had stayed the same.

The survey also looked at changes in the time to close a film since 2012, with results showing that 44% of respondents thought it had stayed the same. For 27% of respondents films take significantly more time, or more time, to close now than in 2012, while 15% thought that films now take less time to close than in 2012.

Figure 26: Length of Time to Close a Film Currently Compared with 2007 and 2012



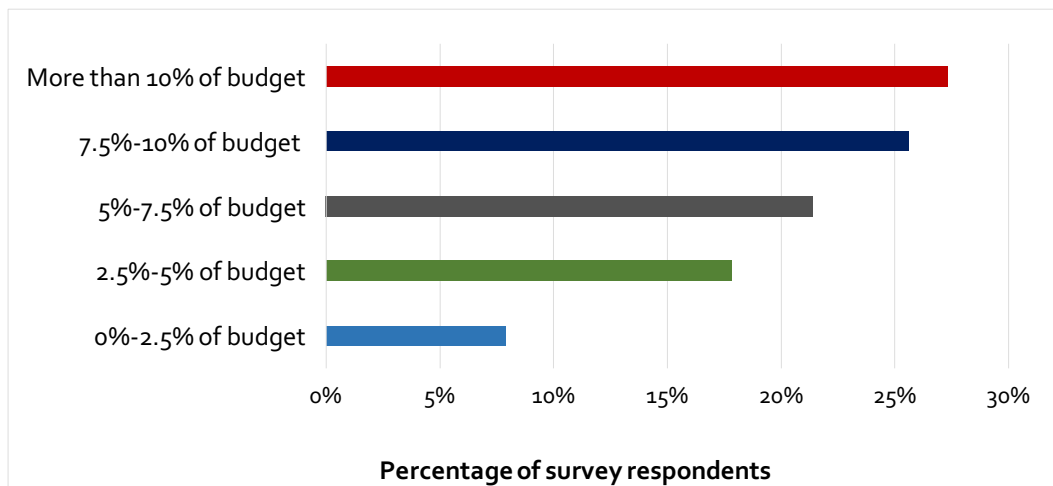
Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

4.3. Financing Costs

The cost of finance is a crucial issue for the UK independent film sector. Such costs are necessary for securing financing and financial services related to production but the scale of these costs reduce the amount of finance that can be spent on the film production itself.

Costs can be a particular problem for independent projects with complex multi-party finance plans. Respondents to the industry survey undertaken for this project were questioned about typical financing costs for all budget bands, including under £0.5 million. The combined response data shows the majority of those surveyed felt that typical financing costs were more than 10% of the film's budget, although there were a range of responses. Therefore, financing costs on a £5 million film might be around £0.5 million.

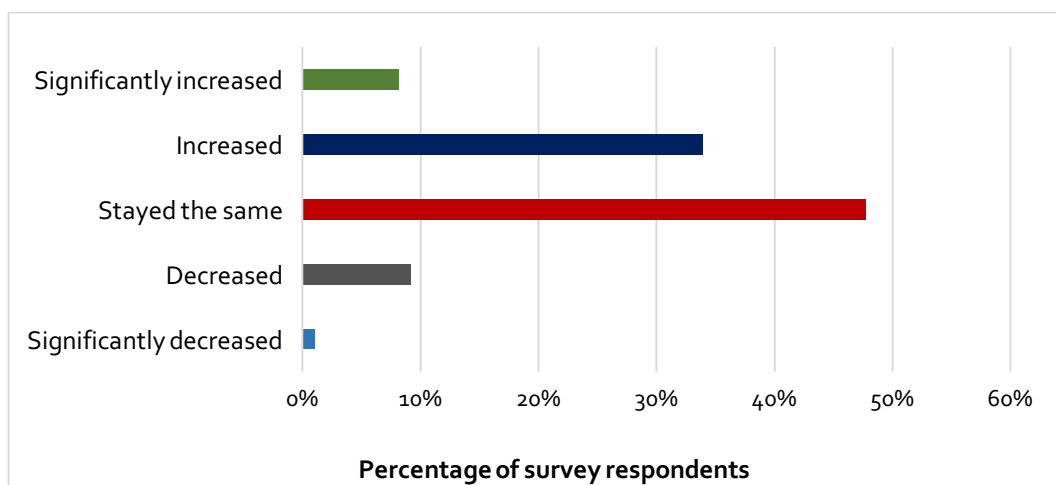
Figure 27: Typical Current Financing Costs



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

Survey respondents were also asked about how the typical costs they had identified had changed since 2007. While the majority (48%) felt costs had stayed the same across the budget bands, 42% of respondents thought costs had increased, or increased significantly. In comparison, only 10% pointed to costs decreasing, or decreasing significantly.

Figure 28: Changes in Typical Finance Costs Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

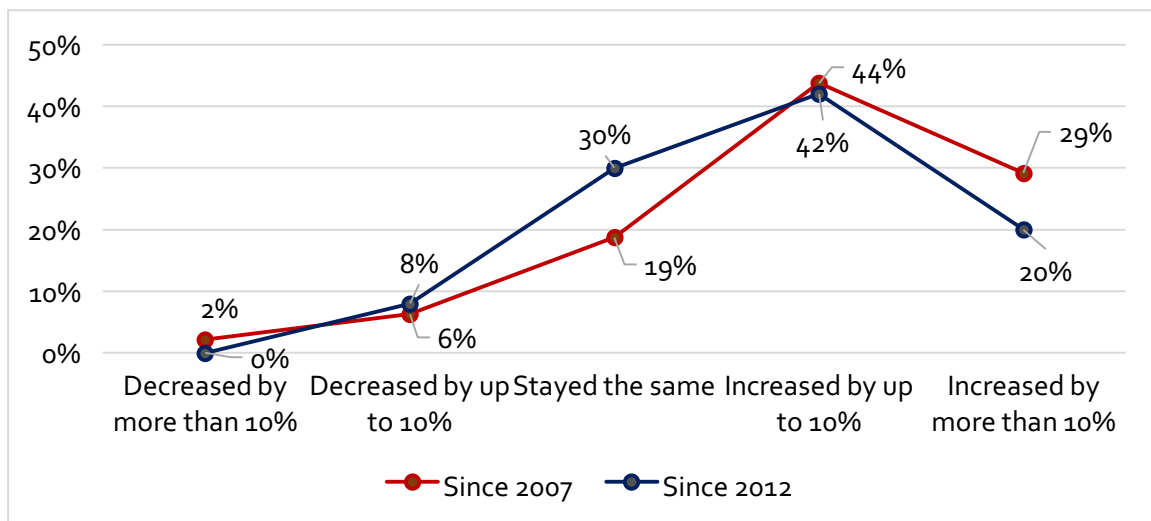
4.4. Impact of High Production Levels on Crews, Talent and Facilities

The boom in film production expenditure has also served to increase some costs of production for the independent sector. High production levels have increased demand for the UK’s film-making infrastructure – i.e. crews, talent and facilities. This trend has been exacerbated by a sharp rise in expenditure in the UK on HETV production, which reached £888.5 million in 2015 – an increase from £658.2 million in 2014 and £433.8 million in 2013.⁴⁰

The majority of survey respondents thought that crew costs had risen significantly since 2007 with 44% pointing to costs having risen by up to 10%, and 29% pointing to costs having risen by more than 10%. A lower proportion, 19%, pointed to costs remaining the same while only 6% of respondents pointed to costs having decreased by up to 10%.

A concern is that the upward trend in crew costs appears to be ongoing, with 42% of respondents identifying costs as having risen since 2012, compared with 44% since 2007.

Figure 29: Changes in Crew Costs for UK Independent Films Since 2007 and 2012



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

When set against the backdrop of a straitened market in which the value of UK independent films has declined, such cost rises are a further damaging factor for the independent sector. With international buyers focused on elements of market attraction, particularly talent, high levels of film and HETV production have also increased competition in this area. The rise of HETV in recent years has seen any previous reluctance that talent established in the film sector might have had about working in television disappear, and the barriers between the sectors are now porous from a talent perspective.

Another impact of the wider production boom is that established studio facilities are very busy indeed. According to the Pinewood Group, its stage occupancy stood at 90% for the year ending 31st March 2016, up from 80% the previous year.⁴¹ Studio capacity limitations have reportedly hampered the UK’s ability to host some major inward productions in recent years, and while low-budget independent productions may not opt to undertake set builds, shooting instead at existing locations, lack of capacity can impact independent producers.^{42, 43}

⁴⁰ Film, high-end television and animation programmes production in the UK: full-year 2016. Ibid.

⁴¹ Audited results for the year ended 31 March 2016. Pinewood Group plc.

⁴² According to a report in 2012 the high-budget film *47 Ronin* filmed in Hungary because of lack of space at Pinewood. *Pinewood announces new expansion plan*. Financial Times, 17th May 2012.

The growth of inward investment projects in the UK, and their extensive use of UK talent, does have a number of reciprocal benefits for UK independent producers. For example, talent who have attained global exposure through Studio projects can help attract finance and attention to an independent film, providing they are willing to work on such films. Meanwhile, cutting-edge skills developed on high-budget projects can become available for UK independents such as in the hair and make-up and post production and VFX areas.

⁴³ "The shortage of stages in the southeast is forcing lower budget indie features into warehouse buildings that are little more than sheds," Andrew Boswell, commercial director of Twickenham Studios, told ScreenDaily. *Infrastructure analysis: Can UK studios maintain the pace?* ScreenDaily.com, 6th November 2016.

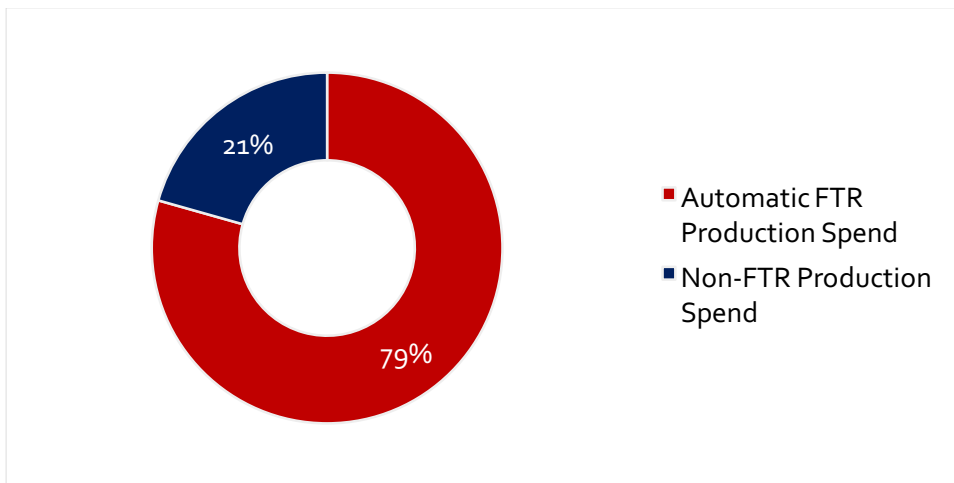
5. PUBLIC FUNDING

This section examines the overall amount of public funding available for film in the UK, including the proportion directed to production. It assesses the total amounts of FTR and non-FTR funding for production, and outlines investment from key public funders.

Public funding is a cornerstone of many UK independent film finance plans. According to the BFI, total estimated public funding for film in the UK in 2014/15 was £414 million, a year-on-year increase of 3%. Total public film expenditure – additionally including earned and self-generated income, commercial sponsorship, grants from trusts and foundations and transfers from reserves – stood at £465.4 million in 2014/15.⁴⁴

Film production received £316.6 million, or 68% of total public film expenditure.⁴⁵ Of this, the majority was contributed by HM Revenue & Customs (“HMRC”) in the form of FTR. This was worth £251.3 million, representing 79% of the total.⁴⁶ Non-tax relief production support was worth £65.3 million in 2014/15.

Figure 30: Public Production Expenditure by Type of Funding, 2014-15



Source: BFI

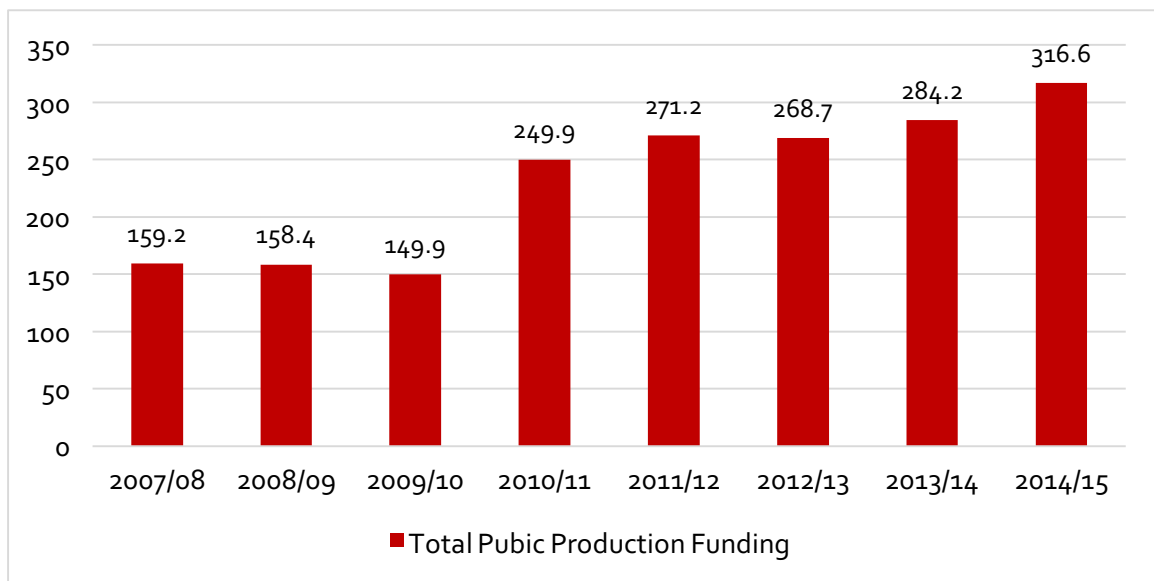
Analysis of total public funding for production over the Study timeframe shows an increase of nearly 100% between 2007 and 2015 (Figure 31). However, this rise is largely driven by an increase in FTR funding: the increase of non-FTR production funding was 20% between 2007 and 2015, as outlined in Figure 32. Overall, the average annual amount of non-FTR production funding was £57.1 million between 2007 and 2015.

⁴⁴ *Public Investment in Film in the UK*. BFI Research and Statistics, October 2016.

⁴⁵ Expenditure on education, young people and lifelong learning represented the second largest share, with 10%. Administration and services to the public represented 5.2%, while distribution and exhibition and archives and heritage represented 4%.

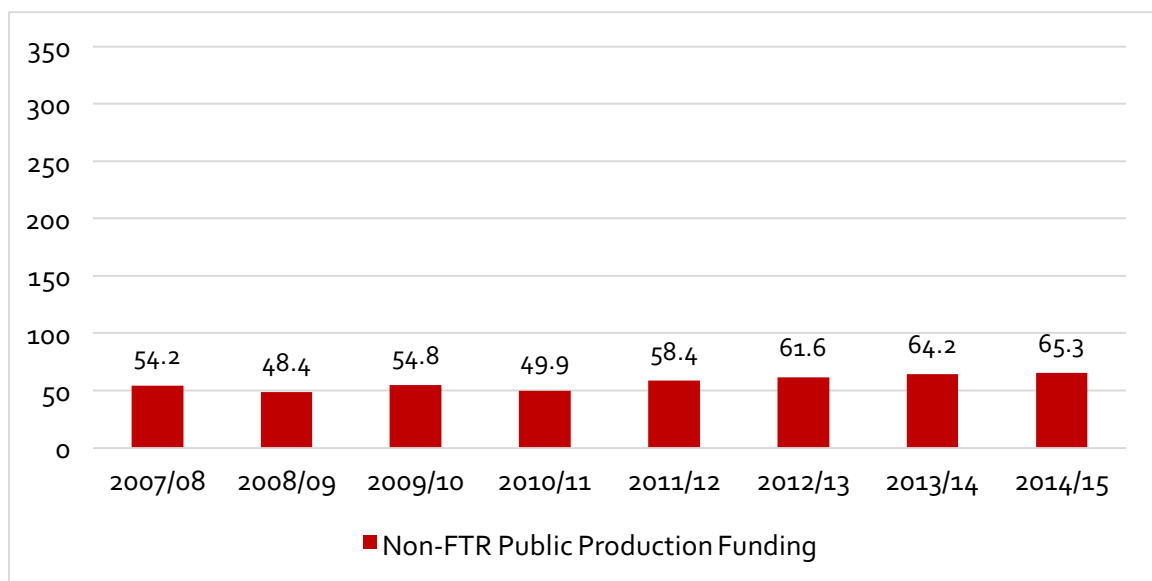
⁴⁶ The BFI notes that 2013/14 and 2014/15 data are provisional.

Figure 31: Total Annual Public Spend on Film Production, 2007-2015 (£m)



Source: BFI / UK Film Council Statistical Yearbooks. Note: 2013/14 and 2014/15 FTR data are provisional.

Figure 32: Total Non-FTR Annual Public Spend on Film Production, 2007-2015 (£m)



Source: BFI / UKFC Statistical Yearbooks.

BFI data on the leading public investors in film production show that the BFI had backed the most projects between 2013 and 2015, followed by BBC Films/BBC, European agencies such as Deutscher Filmförderfonds, and France’s CNC (Table 2). Film4/Channel 4 was the fourth leading investor in terms of volume of projects backed.

In terms of project volume, the Irish Film Board has also increased its investment in UK films over the timeframe. These have risen from 10 projects between 2007-09 to 17 projects between 2010-12 to 23 projects between 2013-15.

Table 2: Leading Public Investors in British Film Production by Numbers of Projects Backed, 2013-15

Public Funder	Number	Estimated Combined Project Budgets (£m)
BFI	102	264
BBC Films/BBC	85	272
European agencies	58	323
Film4/Channel 4	37	164
English regional screen agencies	26	90
Creative England	26	28
Scottish agencies	25	28
Irish Film Board	23	47
Welsh agencies/S4C/ Welsh Government	23	37
Northern Ireland Screen	18	33
Creative Europe	15	23

Source: *Public Investment in Film in the UK*. Ibid. Note: In some cases, more than one agency contributed funding to the same film, so there is double counting of budgets.

5.1. The British Film Institute

The BFI officially took over funding responsibilities from the UK Film Council (“UKFC”) 2011. In 2014-15 the BFI’s net spend was £90 million, and it made 393 Lottery Awards in the 2015 calendar year across 393 projects. This included 149 Film Fund awards worth £17.9 million for development, pre-production, production, and completion funding. The Film Fund invested a further £0.8 million in documentaries, £0.5 million in Vision Awards, £0.1 million in International and £0.2m in the Animation Development Lab.⁴⁷

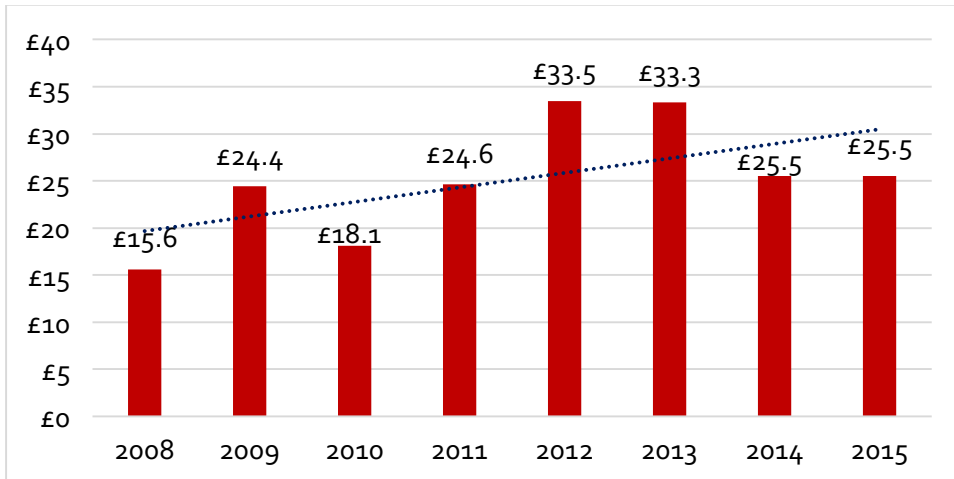
Of the Film Fund’s awards in 2015 26 were for production, of which 14 were worth £300,000 or more. The Fund can make significant investments, with the largest in 2015 being a £2 million award for Aardman’s *Early Man*. It also made investments of over £1 million each in *The Girl With All The Gifts* (£1.8 million), *Swallows and Amazons* (£1.5 million), *Ethel & Ernest* (£1.2 million), *American Honey* (£1 million), *Free Fire* (£1 million), *A United Kingdom* (£1 million) and *Viceroy’s House* (£1 million). Other awards were made to *Dark River* (£0.9 million), *City of Tiny Lights* (£0.8 million), *Fanny Lye Deliver’d* (£0.8 million), *Journeyman* (£0.7 million), *I, Daniel Blake* (£0.4 million) and *Mindhorn* (£0.3 million).⁴⁸

⁴⁷ *Public Investment in Film in the UK*. Ibid.

⁴⁸ There were two further Distribution and Documentary awards through the Film Fund of £300,000 each.

Analysis of annual data on Lottery awards made by the BFI and the UKFC show a rise in the value of awards between 2008 and 2015. However, taking into account annual fluctuation total value has remained relatively level over the timeframe with 2015 similar to 2009. The average annual total between 2008 and 2015 was £25.1 million, at a similar level to awards made in 2015.

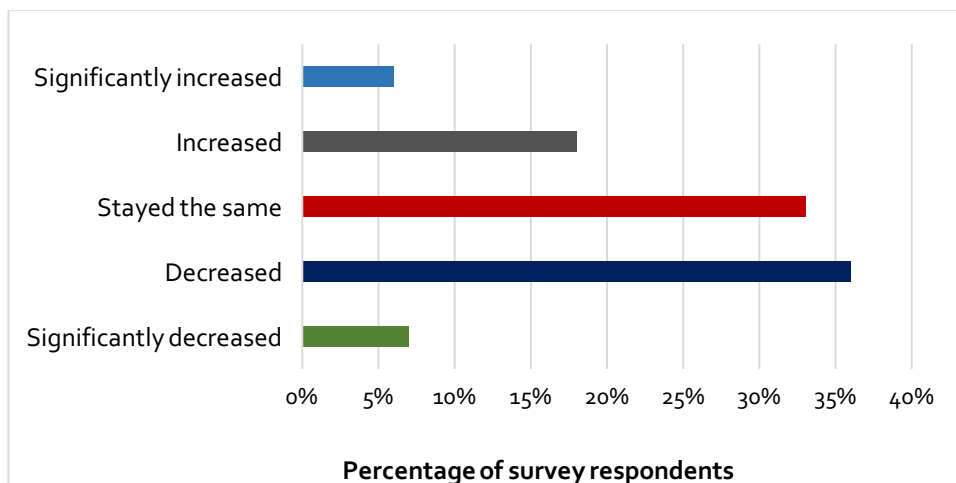
Figure 33: Total Value of UKFC and BFI Lottery Awards, 2008-2015 (£ millions)



Source: BFI/UKFC Yearbooks. Notes: 2015 data include Film Fund investments in: development, pre-production, production, completion, and Vision Awards; Distribution - Exhibition Fund; Export development; International Fund; Partnerships - Audience Fund; Partnerships - Film Academy. Elements in previous years differ. Data not included for 2007 because of reporting differences. Data not adjusted for inflation.

Reflecting this, 33% of respondents to the industry survey considered that BFI/UKFC funding had stayed the same over the Study timeframe. A further 36% thought it had decreased.

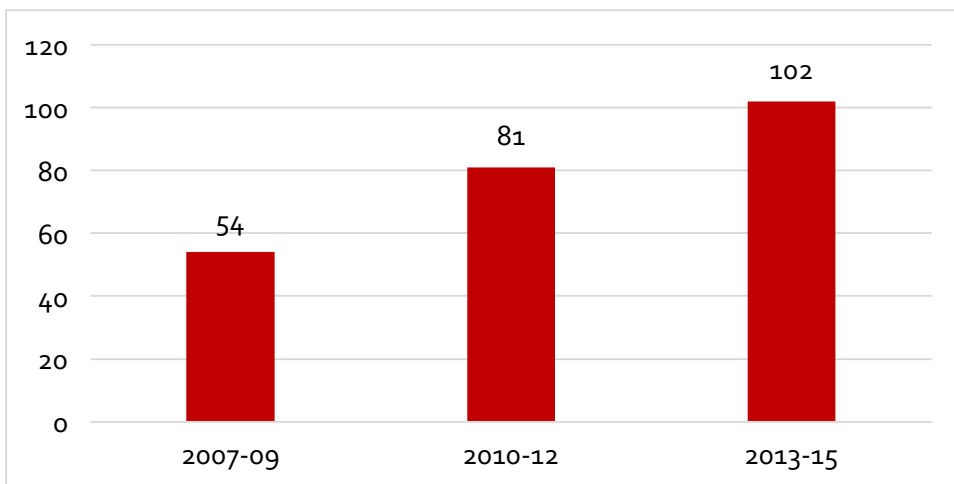
Figure 34: Results of Industry Survey on how BFI Funding (Including Past UKFC Funding) has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

The number of individual projects backed by the BFI has also risen across the timeframe, as outlined below, although data is grouped in three year intervals and does not show any changes in the level or nature of BFI investment since 2007.

Figure 35: BFI Investment in British Film by Number of Projects, 2007-15

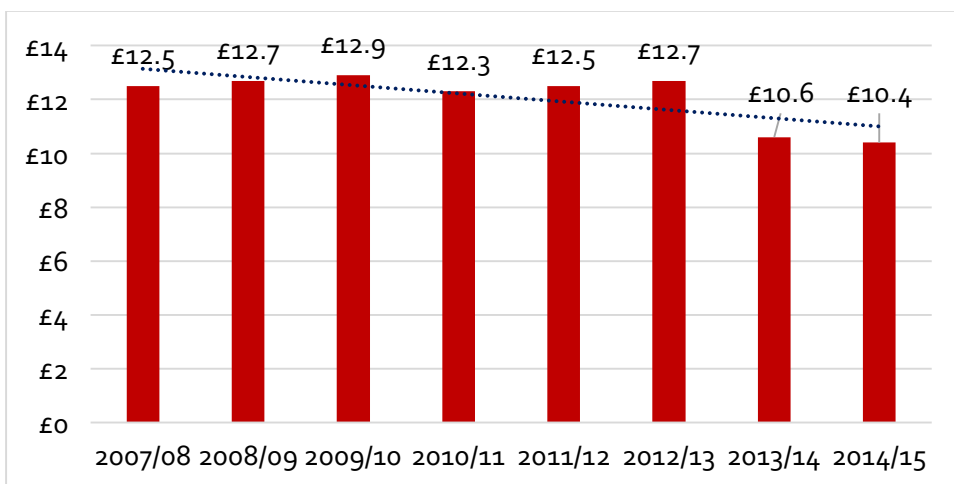


Source: BFI/UKFC Yearbooks.

5.2. BBC Films

In 2014-15 BBC Films/BBC invested £10.4 million in UK film, a figure which includes BBC Films' production investment and the BBC's investment in the National Film and Television School ("NFTS") and film archives.⁴⁹ BBC Films' funding for film was increased by £2 million to £12 million in 2007, with the additional funding available from 2008/09 and fixed for six years.⁵⁰ According to BFI data included in Figure 36 this level reduced in 2013/14 and 2014/15.

Figure 36: BBC Films/BBC Funding for Film in the UK, 2007/08 to 2014/15 (£millions)



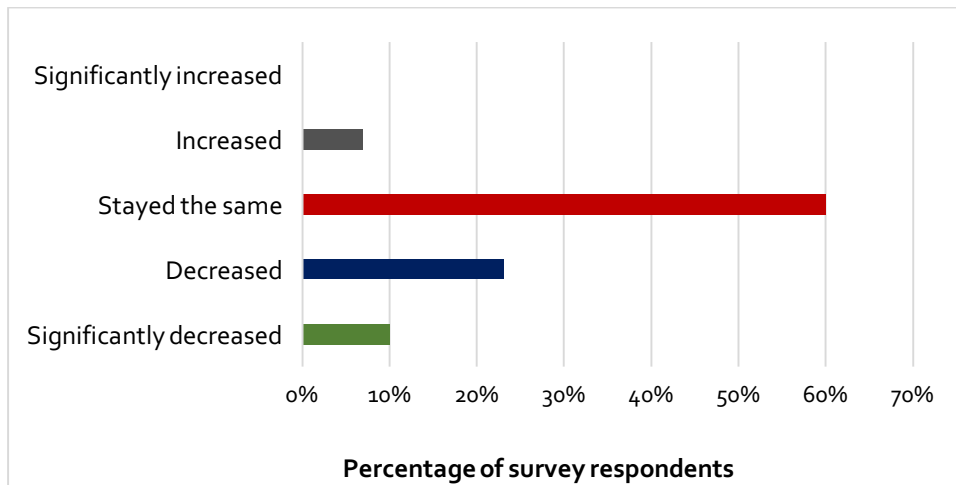
Source: BFI/UKFC Yearbooks. Includes BBC Films' production investment, BBC investment in the NFTS and film archives. Data from 2007-08 to 2011-12 for BBC Films only.

The majority of respondents (60%) considered BBC Films funding to have stayed the same since 2007.

⁴⁹ Public Investment in Film in the UK. Ibid.

⁵⁰ Tranter welcomes six-year stability of new BBC Films budget. ScreenDaily, 18th October 2007.

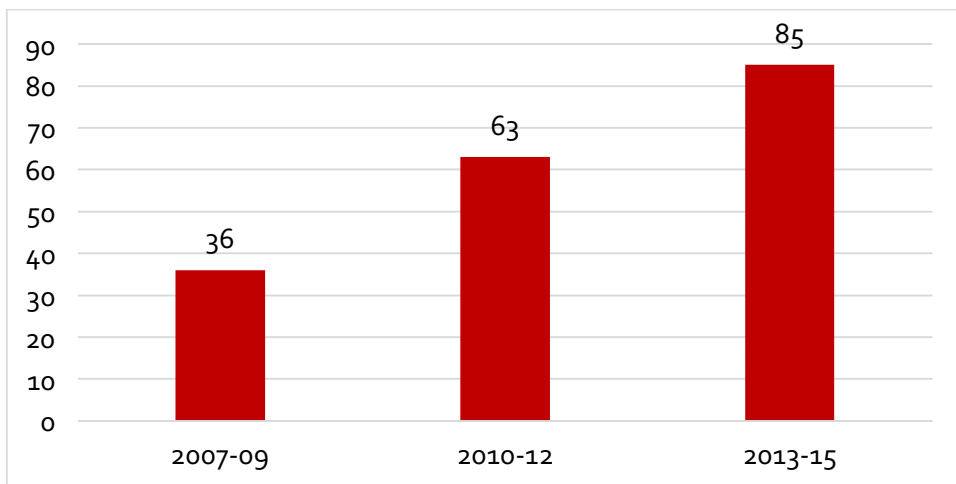
Figure 37: Results of Industry Survey on how BBC Films Funding Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

In terms of projects backed, BFI data show that the number backed by BBC Films has grown over the timeframe, with the volume of projects highest in 2013-15. However, data is grouped in three-year intervals and does not show any changes in the level or nature of these investments since 2007.

Figure 38: BBC Films/BBC Investment in British Film by Number of Projects, 2007-15



Source: BFI/UKFC Yearbooks.

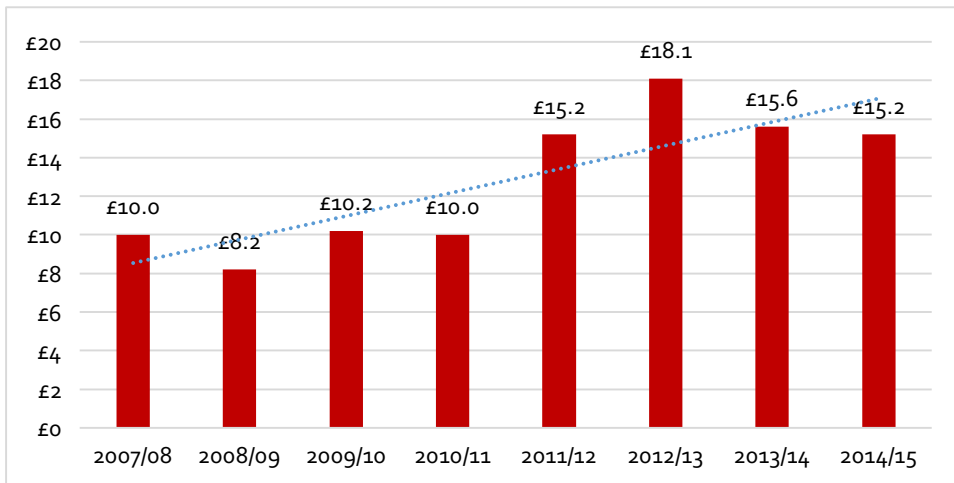
5.3. Film4

Overall, Film4’s funding has risen over the timeframe. In 2010, Channel 4 announced a 50% increase in funding, to £15 million annually, effective from 2011.⁵¹ Its funding was further increased in February 2016, to £25 million for 2016, although this falls outside the Study timeframe.⁵²

⁵¹ Channel 4 increases Film4’s budget by 50% to £15 million. Channel 4 press release, 13th October, 2010.

⁵² Film4 funding increased to record \$36m; signs Fox Searchlight deal. ScreenDaily, 9 February 2016.

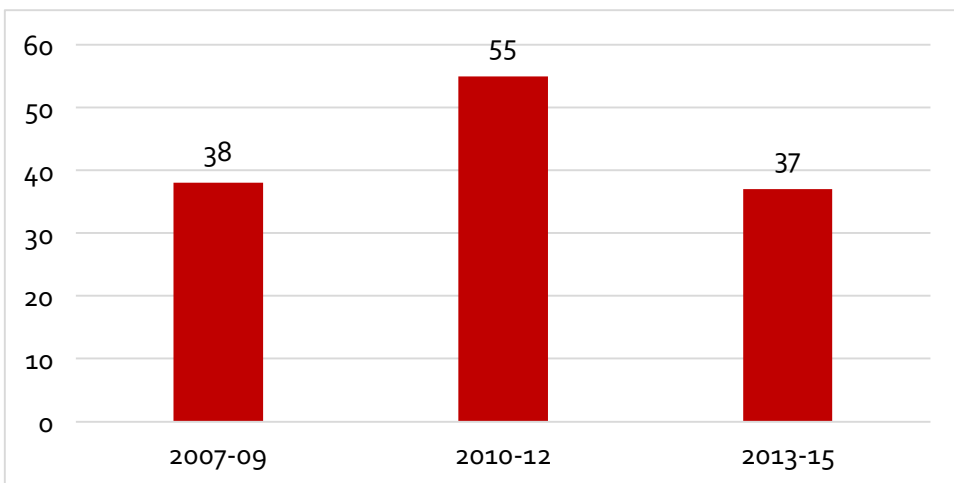
Figure 39: Film4/Channel4 Funding for Film in the UK, 2007/08 to 2014/15 (£millions)



Source: BFI/UKFC Yearbooks. Includes Film4’s production investment and Channel 4 investment in the NFTS.

Despite the rise in funding, BFI data show that the volume of projects backed by Film4 between 2013-15 was at a similar level to 2007-09. Data is grouped in three year intervals and does not reflect any changes in the level or nature of these investments since 2007.

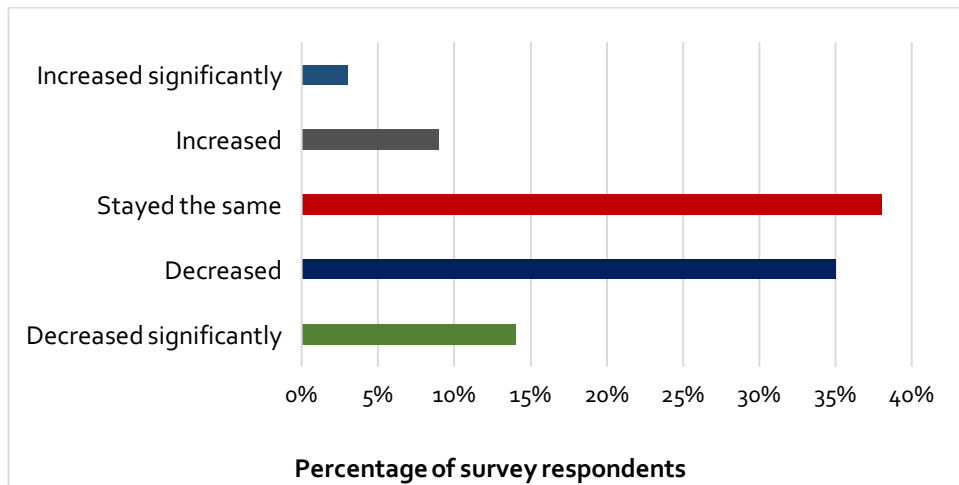
Figure 40: Film4/Channel 4 Investment in British Film by Number of Projects, 2007-15



Source: BFI/UKFC Yearbooks.

This is likely to be reflected in the results of the industry survey, which showed a perception that Film4 funding had stayed the same over the timeframe.

Figure 41: Results of Industry Survey on how Film4 Funding Has Changed as a Source of Finance for UK Independent Films Since 2007

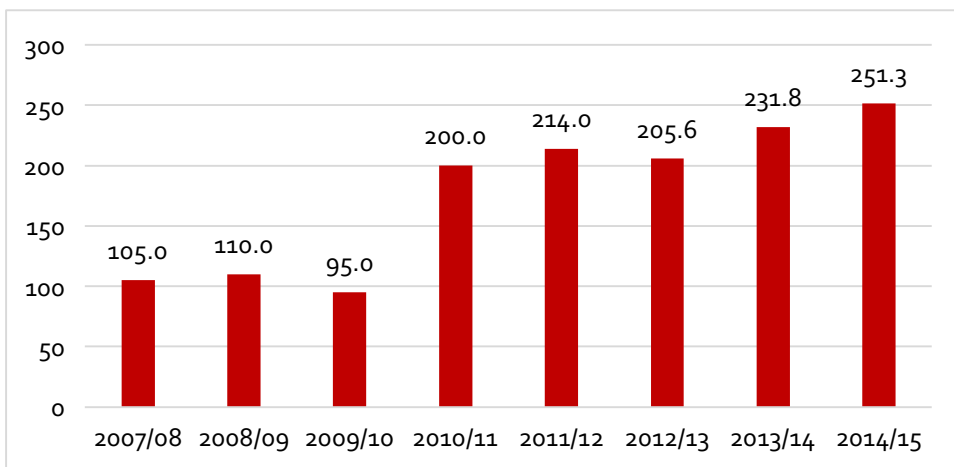


Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

5.4. Film Tax Relief

FTR was the largest source of public funding for film in 2014/15. The mechanism provided £251.3 million, according to BFI data. This is the highest annual level over the Study timeframe.

Figure 42: Total FTR Film Production Funding, 2007-2015 (£m)



Source: BFI/UKFC Statistical Yearbooks 2007-2015

The £251.3 million represents total HMRC expenditure on all production types in the 2014/15 financial year. While precise data were not available on FTR expenditure on UK independent film, HMRC analysis from December 2015 shows that of almost £1.5 billion that had been paid out in FTR claims by 2014-15, £1 billion was paid out to what are defined by HMRC as large-budget films, and £450 million to limited-budget films, which undertake production expenditure of £20 million or less.

The majority of UK independent films are this latter category: as outlined in Section 1.2.2, 96.6% of UK independent films produced between 2007 and 2015 were made at budgets of under £10 million.

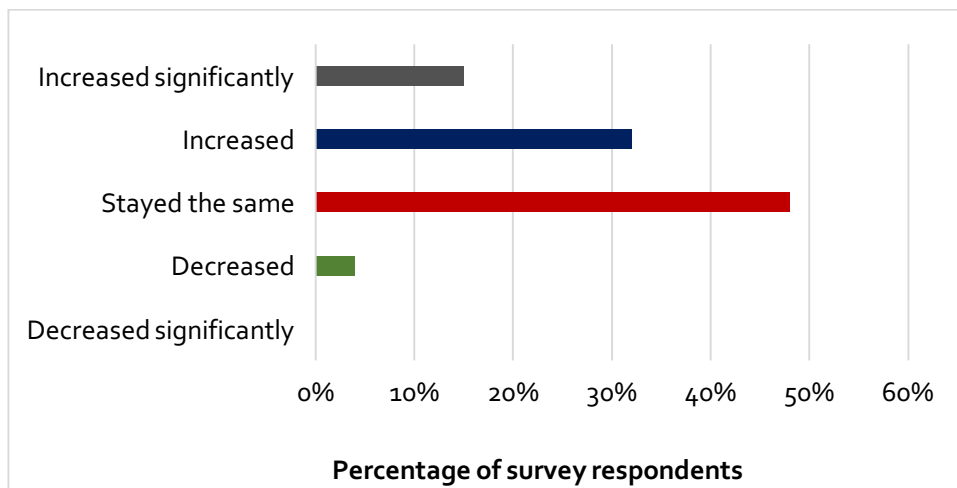
Payments to these limited-budget films averaged just £0.2 million per claim, compared to average payments to large-budget films of £3.5 million per claim.⁵³

FTR offers a 25% return on qualifying production expenditure, capped at 80% of core expenditure. Therefore, for a £1 million budget film made wholly in the UK FTR is worth 20% of the budget. The net amount of FTR is reduced further by ineligible expenditure, such as completion bonds and publicity and promotion. The example budgets outlined in Section 11 show a total of around 16%-17%.⁵⁴

Crucially, FTR is automatic rather than selective funding. This means that any qualifying UK production is able to access it – providing a degree of stability to a finance plan. As FTR is structured as a tax credit it must be cashflowed for production purposes.

FTR has been a key support for the UK independent sector over the Study timeframe. Unsurprisingly, given its introduction in 2007, the majority of survey respondents pointed to it having stayed the same over the timeframe. In total, 47% of respondents pointed to it having risen, which likely relates to changes, approved by the EU in 2015, to extend FTR’s value to 25% for all qualifying expenditure. Previously, 25% had been available for the first £20 million, with a 20% rate for spend above this level.

Figure 43: Results of Industry Survey on how FTR Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

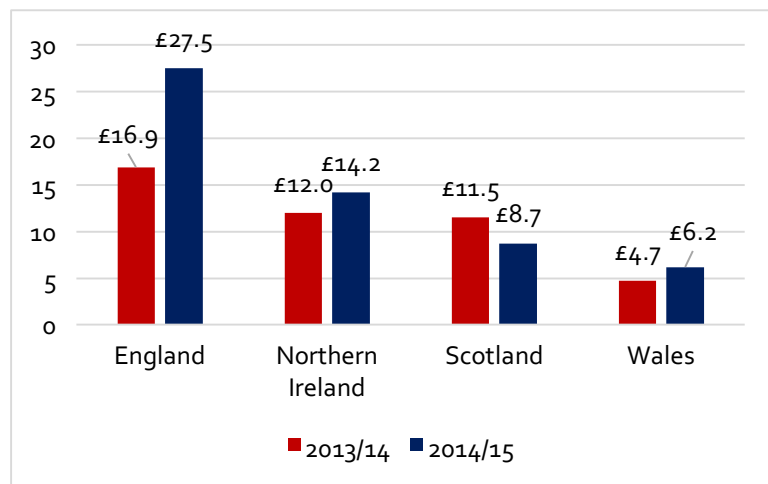
5.5. UK Nations

The Study timeframe has seen continued development in the individual UK nations. All have opened new studios since 2007 – whether purpose built, or converted from industrial buildings – and all offer selective production finance through agencies such as Creative England, Northern Ireland Screen, Ffilm Cymru Wales, and Creative Scotland. BFI data show that between 2013 and 2015 investment increased in England, Wales, and Northern Ireland, and decreased in Scotland.

⁵³ *Creative Industries Statistics. Official Statistics on Film, High-End Television, and Animation Tax Relief.* HMRC, December 2015. Data for 2013-14 and 2014-15 are provisional.

⁵⁴ *Film Tax Relief: Eligible Expenditure: Ineligible Expenditure.* HMRC webpage, 3rd August, 2016.

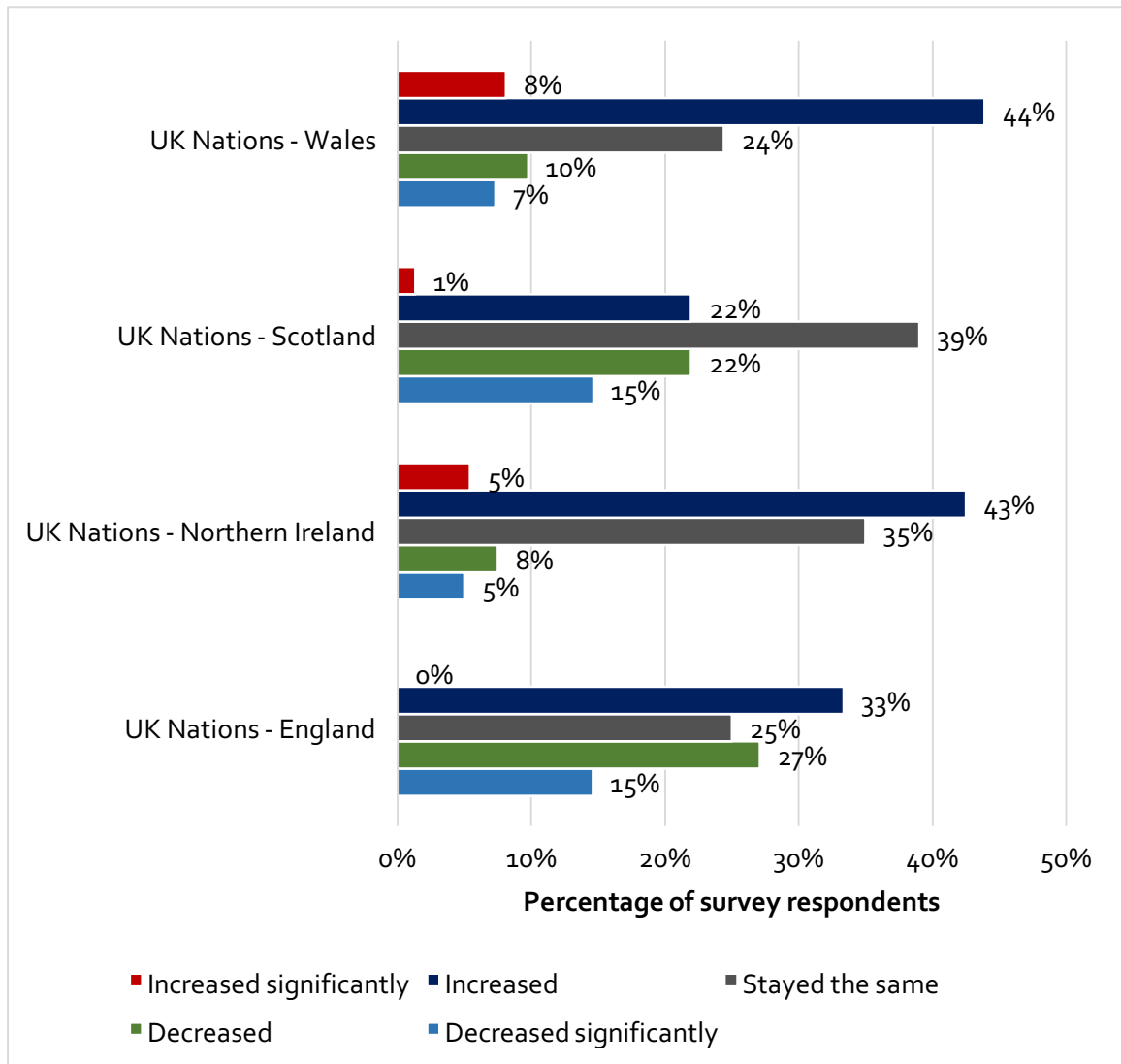
Figure 44: Total Dedicated Investment in Film in UK Nations, 2013/14 and 2014/15 (£millions)



Source: *Public Investment in Film in the UK*. Ibid. England figure includes investment from Creative England, English Regional Screen Agencies, English Regional Screen Archives and Arts Council England. Northern Ireland figure includes investment from Northern Ireland Screen and Arts Council of Northern Ireland. Scotland figure includes investment from Creative Scotland. Wales figure includes investment from Ffilm Cymru Wales, Wales Film Archive, Arts Council of Wales and Welsh Assembly Government direct expenditure.

This is reflected by the industry survey, which shows a perception that production funding from England, Northern Ireland, and Wales has risen over the Study timeframe, while Scottish funding has stayed the same (Figure 45).

Figure 45: Results of Industry Survey on Funding Changes in UK Nations Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

6. TAX-BASED AND OTHER PRIVATE EQUITY

This section assesses changes in private investment over the Study timeframe, including the effects of the end of the sale-and-leaseback era, and the rise of EIS financing.

6.1. Tax-Driven Schemes and the Private Equity Landscape

As previously noted, the start of the Study timeframe coincided with the end of the previous film incentive model in the UK and the beginning of the new FTR mechanism. This shift was significant for the UK independent film sector. The previous Section 42 and Section 48 tax reliefs attracted private investors to film in order to secure a tax reduction. This resulted in significant private investment flow but also the growth of complex financing structures geared towards maximising tax advantages.

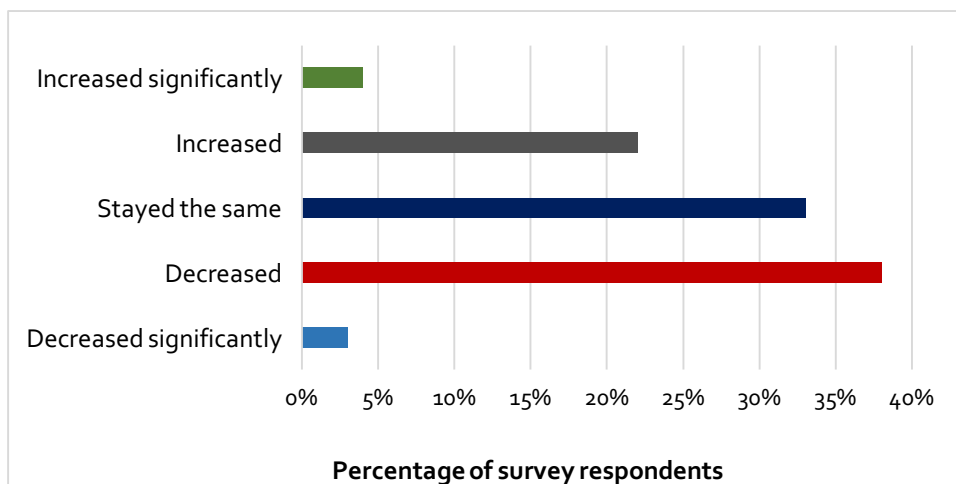
The closure of these schemes, and HMRC’s subsequent legal action against some investors has, to a degree, served to erode some investor confidence over the Study timeframe. While the current FTR mechanism supplies independent producers with a crucial financing component, it is not geared specifically towards attracting private investment into film.

This contrasts with the US independent film landscape, in which a number of private equity players are active. These are not motivated by tax reduction opportunities, but by the perception that independent film can offer a return on investment, as well as other motivations such as working with acclaimed film-makers.

The UK independent business does attract some private equity – particularly through EIS schemes – but it is comparatively limited. Such investment can range from risk capital to the type of lower-risk discounting undertaken by banks. Equity providers may finance FTR, presales, and gap – though the latter, which comes with a higher risk, is likely to only be cashflowed alongside other, less risky elements.

Difficulties in attracting private equity investors are underscored by the survey results, with the majority of respondents pointing to this having decreased as a financing source.

Figure 46: Results of Industry Survey on how Private Equity Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

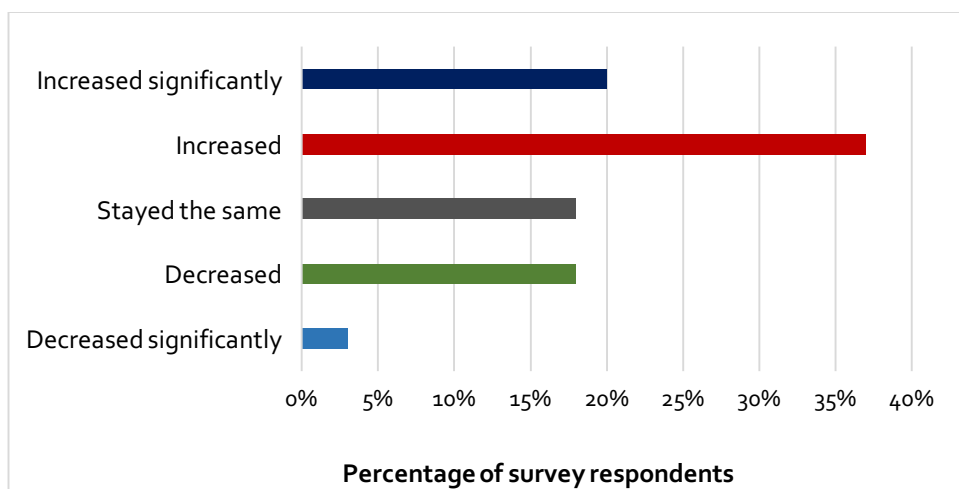
6.2. EIS and SEIS Schemes

One area of financing that is attracting private investment is the UK’s EIS and SEIS schemes. Unlike other types of film investment these are investment structures that are established for other industries, such as technology, and understood and viewed as stable by investors and their financial advisers. They are also recognised by HMRC.

In total, 52% of survey respondents pointed to EIS/SEIS as having risen since 2007, and they appear to be performing very well currently in terms of attracting investors.

Yet there has been limited impact on production company sustainability. Producers do not tend to operate their own schemes, instead utilising finance from EIS providers.

Figure 47: Results of Industry Survey on how EIS/SEIS have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

7. SOURCES OF TRADE FINANCE

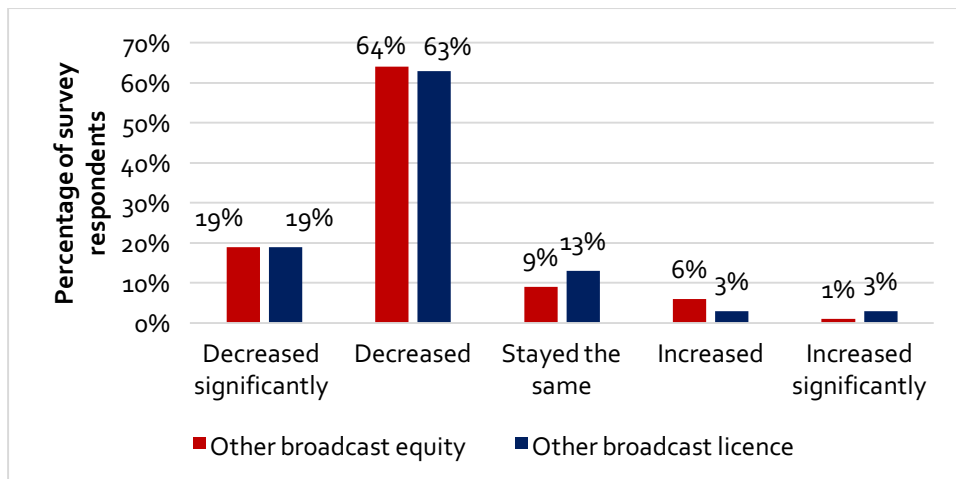
Independent producers can also source finance from a range of trade sources that are not public or tax-related. These include presales to foreign distributors, to broadcasters or VoD platforms, and funding from post production companies.

7.1. Broadcaster Equity and Licence Fee

Typically, broadcaster investment in independent film is structured as an equity investment and a licence fee. Recent years have seen a retrenchment among some broadcasters, with content such as sports and HETV considered to be more of a driver of audiences and subscriptions than film.

Reflecting this, the industry survey points to a clear decrease in broadcaster funding, across both licence and equity investments. It may also reflect a shift to other types of finance structure.

Figure 48: Results of Industry Survey on how Broadcaster Equity and Licence Fees Have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

7.2. International Sales and Presales

The value of UK independent films in the international distribution market can be crucial in independent financing plans. However, international value has seen a pronounced decline over the Study timeframe for some types of independent projects. This affects the ability of UK independent film to attain presales, and the value of those presales to contribute to the project's financing. It has also created a more challenging landscape in which to sell completed films.

The value of individual sales rights for many types of projects has declined markedly in some territories, while straitened markets mean that buyers often opt not to pre-buy many types of projects, waiting instead to make an acquisition decision on considering the completed film.

Data on the precise decline of UK sales rights in the international market were lacking and it is difficult to be definitive about the overall reduction because it can differ markedly across projects. While premium independent films with clear international elements remain very much in demand, the value of some lower-budget projects from talent with no major international profile has reduced markedly. This is because buyers in the current market landscape are focused on reducing risk, and are likely to look for independent projects with elements of audience recognition, such as those with attractive stars or those based on popular novels. Indeed, projects may not now even sell to certain territories that might have provided a sale in 2007. Mid-range films around £5 million have become a more

difficult proposition if they have no obvious selling points for the international market. With pressure on such films to be lower cost, there is a degree of polarisation towards premium projects with marketable elements or low-cost projects.

To source a data-led estimate for changes in the value of UK independent films in the international market between 2007 and 2015, SPI asked three leading UK sales companies – HanWay Films, WestEnd Films and Independent – to supply data on a UK independent project that they had initially sold around 2007, and to estimate the value of the film in the current landscape. One company compared actual sales of similar projects in terms of budget and genre.⁵⁵ The three individual estimates were submitted on a confidential basis and span low, mid, and higher budgets. The aggregated results of this exercise point to a decline in total sales value of around 50% over the Study timeframe.

The scale of this decrease was also examined through industry consultations, which also supported the notion of a decrease of around 50% in the value of UK independent films internationally. In addition, 87% of survey respondents pointed to individual presales as a source of finance having decreased, or decreased significantly between 2007 and 2015 (Figure 21).

The finding is supported by CNC data on the financing of French films through presales. These data show that the total value of presales in financing French films had declined 54% between 2008 and 2015, from €345.2m to €158.1m.⁵⁶

The international market is naturally cyclical, with the values of some individual territories falling as others rise. This is due to market forces – for example, individual territorial value may rise if a number of new distributors are in competition for similar projects, while prices may fall if the market is rationalising and distributors are consolidating. However, the overall decline outlined in this chapter is considered to be structural, since it is underpinned by wider changes that have undermined the value of the sector, such as the depletion of a home video market that had previously underpinned rights value.

For the UK independent production sector the reduction in presales has been a major disruptive factor since 2007. Previously, presales could represent a major source of production funding, coupled with gap finance against any unsold territories. Presales can also represent a degree of market validation for a project, and can help attract other financiers.

The decline has reshaped finance plans – but with costs rising and wider difficulties sourcing other types of finance, there is no easy replacement for presales value. This has put further pressure on producers to cut their own earnings from a project – affecting their ability to sustain their businesses.

7.3. Gap Finance

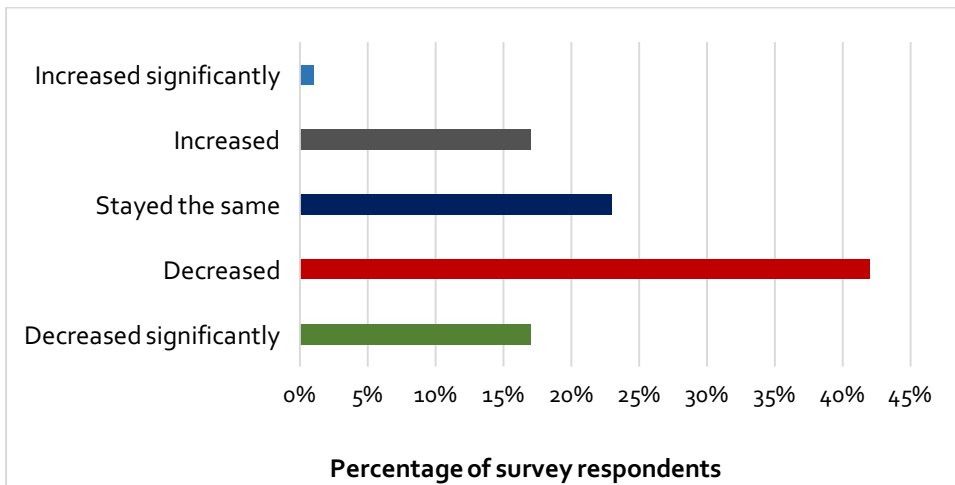
The requirement for gap – financing the value of unsold territories – has increased as producers attempt to finance their films without, or with minimal, presales. Gap finance is available for producers but it can be expensive and tends to be offered alongside less risky types of finance, such as discounting FTR.

The majority of respondents to the industry survey felt that gap financing had decreased over the timeframe.

⁵⁵ SPI also discussed the issue of a value decline in a large number of industry consultations, which supported the notion of the decline being around 50%.

⁵⁶ *La production cinématographique en 2015*. Ibid.

Figure 49: Results of Industry Survey on how Gap Finance Has Changed as a Source of Finance for UK Independent Films Since 2007



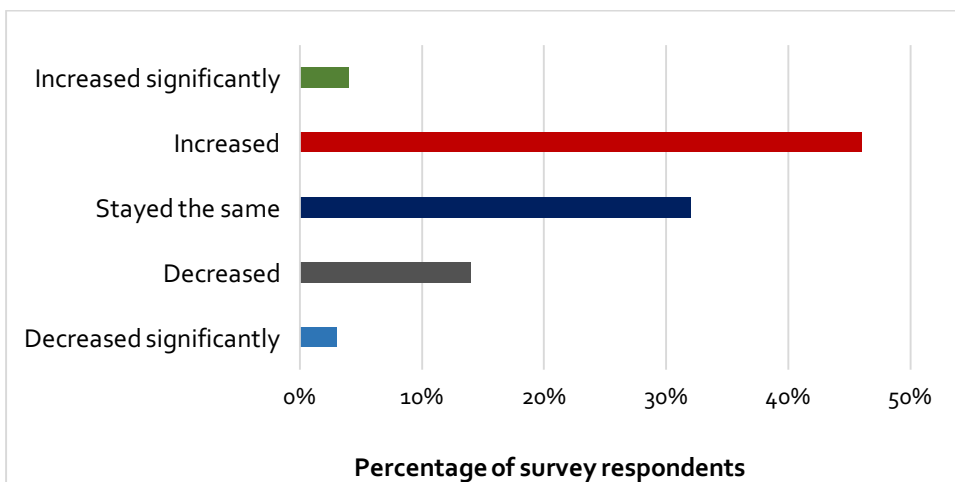
Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

7.4. Post Production Providers

One area identified as having grown since 2007 is financing from post production providers such as LipSync Post and others.⁵⁷

Such deals can differ but generally involve the post production provider making an investment in the film in return for securing all the post production work.

Figure 50: Results of Industry Survey on how Post Production Deals Have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

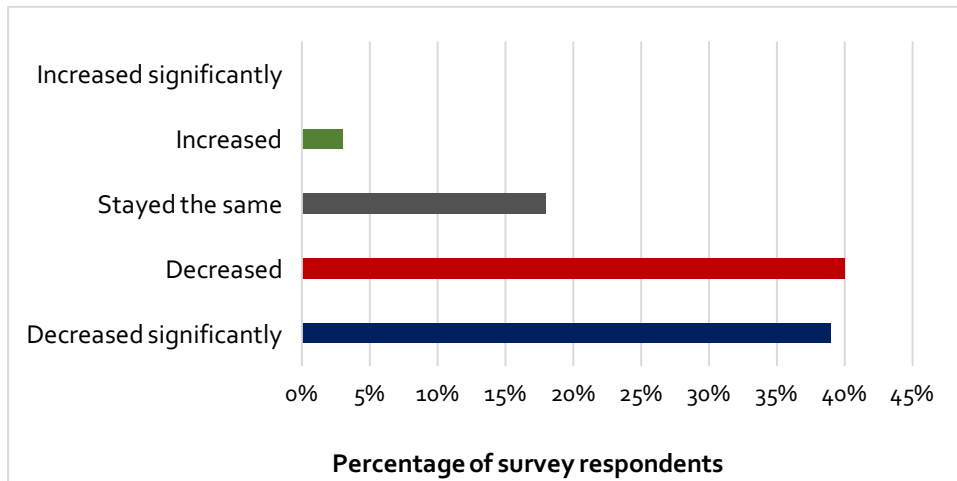
7.5. Sales Company Advances

Just as the decline in the international market over the Study timeframe has limited presales, it has also limited the potential to secure advances from sales companies.

⁵⁷ According to a 2014 article, LipSync Post began making equity investments in 2006 and has invested in around 50 features. *LipSync Post at 30*. ScreenDaily, 19 June, 2014.

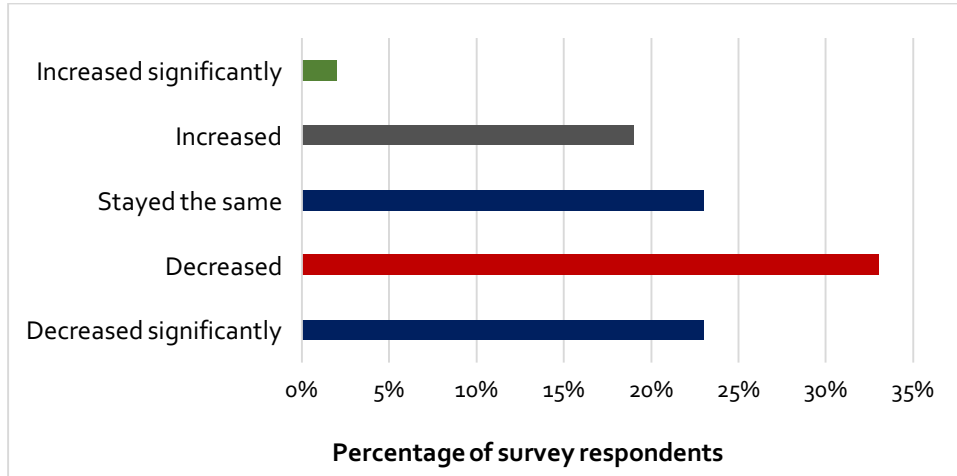
According to 79% of survey respondents, sales company advances have declined or declined significantly since 2007 (Figure 51). Conversely, there were mixed views on how demand from non-UK sales companies had changed over the same timeframe (Figure 52). While the majority (56%) of respondents pointed to a decline in demand, 23% thought demand had stayed the same, with 21% pointing to an increase.

Figure 51: Results of Industry Survey on how Sales Company Advances Have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

Figure 52: Changes in Demand for UK Independent Films from Non-UK Sales Companies Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

Clearly, views of respondents are subjective in this regard, and sales company advances relate to the potential of individual projects and marketable elements.

Overall, there is evidence that sales companies are responding to the changing landscape by diversifying their businesses. This may involve expanding their core range of projects to new territories, or by operating more like financiers in how deals are structured and at what stage they join a project.

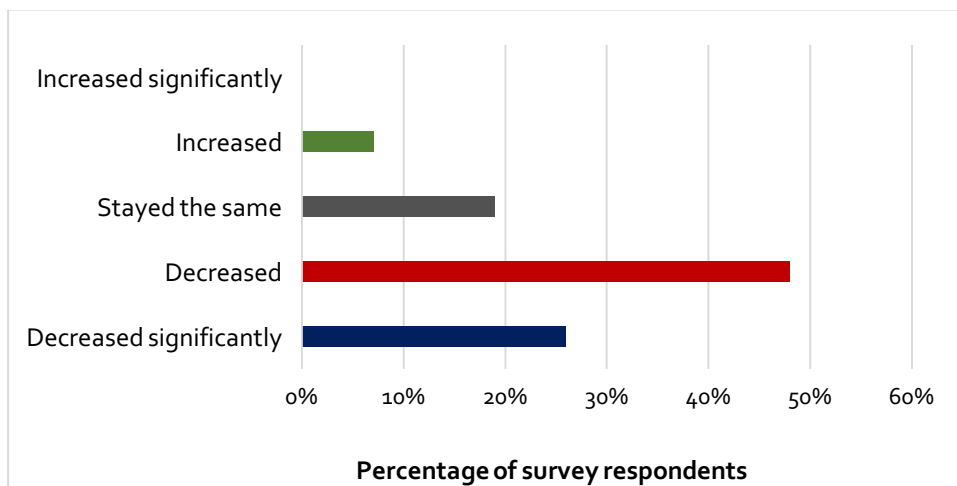
7.6. UK Distribution

Currently, the UK distribution sector for independent films is a fairly robust and competitive market.⁵⁸ Several key players – such as StudioCanal and Lionsgate – are well-capitalised companies that operate in multiple markets and there is competition for commercial independent projects. As a result, several players have strategically moved closer to production, sourcing films to acquire and invest in at an early stage and, in some cases, fully financing. Distributors like Lionsgate, eOne, StudioCanal, and Entertainment Film Distributors are all potential partners for high quality, commercial, UK independent films.

However, there is a greater focus on premium product and the market has become somewhat polarised. Producers of less commercial films will very likely be facing a much more difficult market than those working in the premium space.

The majority of survey respondents pointed to UK distribution having declined as a financing source over the timeframe. Only 7% thought it had increased.

Figure 53: Results of Industry Survey on how UK Distribution Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

7.7. VoD Services

Digital distribution has been a major disrupting factor over the Study timeframe and there is obvious potential for operators like Netflix and Amazon to act as production partners.

As yet, these services are not direct competitors for independent finance. However, both are financing long-form projects that involve UK film talent – such as Netflix's *The Crown*.

Outside of production, these services can also distribute UK independent films and help open markets outside of the UK for these films.

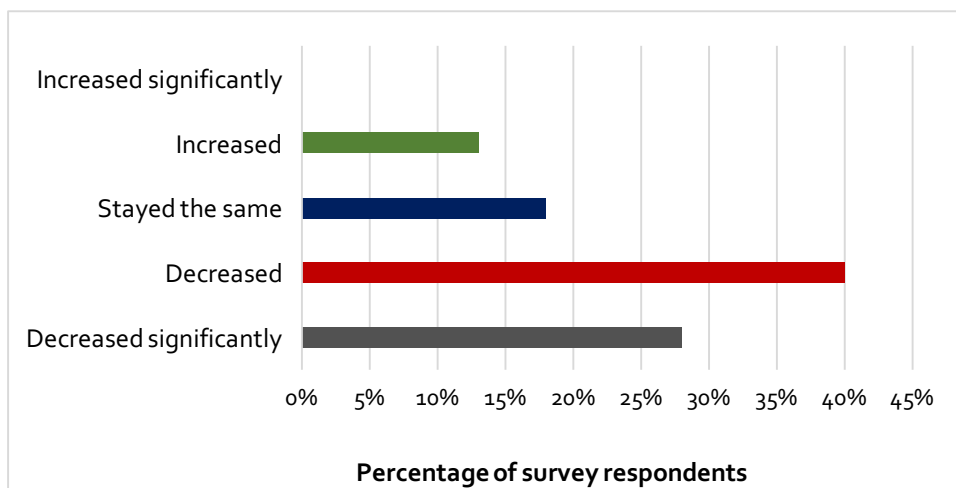
⁵⁸ The UK theatrical distribution market is explored in Section 12.

8. BANK FINANCE

Financing from banks can play a crucial part in independent film budgets. This section assesses levels of involvement from the banking sector in UK film over the Study timeframe, as well as the types of finance typically offered by banks.

In the wake of the global financial crisis the UK banking sector almost completely withdrew from film. This is reflected in the results of the survey, which show that 68% of respondents thought bank financing had decreased or decreased significantly.

Figure 54: Results of Industry Survey on how Bank Finance Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

However, a number of banks continue to operate in this space, while others are incoming. In 2015, for example, it was announced that French lender Cofiloisirs was growing its footprint in the UK market.⁵⁹ Other foreign banks are also active in UK film finance, such as the National Bank of Canada. Banks are also active funders of HETV.

8.1. Types of Bank Finance

Typically, banks will offer a range of cashflow funding for films against collateral, such as presales, subsidy, and FTR. Gap finance may also be available as part of this offer although it appears there is limited provision for gap alone.

Bank finance is likely to be structured as senior debt – i.e. the bank will have first position in the revenue waterfall.

⁵⁹ French lender Cofiloisirs grows UK footprint. ScreenDaily, 29 September 2015.

9. INTERNATIONAL CO-PRODUCTION FINANCE

While overseas co-production finance can be valuable, less than a quarter of UK independent film productions were structured as a co-production over the Study timeframe. This section assesses co-production financing.

9.1. EU Co-producers

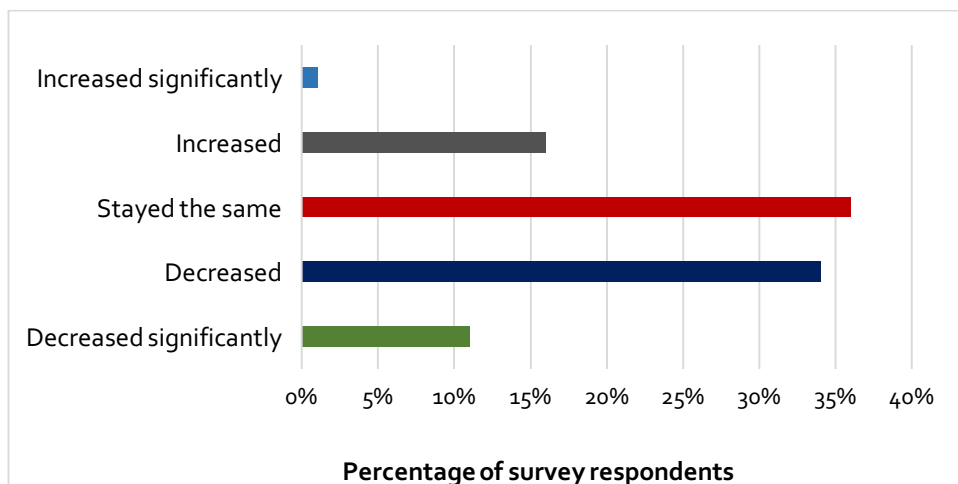
The majority of UK independent films (62%) made between 2007 and 2015 were produced by UK companies alone – with only 23% made as co-productions.

As with other types of investment, attracting EU co-production finance can also be stimulated by the profile and marketability of a project’s elements. This includes a number of UK independent film-makers, such as Ken Loach, who routinely attract co-production interest.

Of the 242 films defined as co-productions, the majority were made with partners from France (51 films), Germany (37), Ireland (31) and Canada (22).

In total, 36% of survey respondents thought funding from EU co-producers had stayed the same over the timeframe, with 34% pointing to a decrease. This is likely to reflect the fact that many EU funders are under the same market pressures that have seen other financiers retrench since 2007 – i.e. structural industrial changes that have limited their ability to supply finance or reduced their appetite for risk.

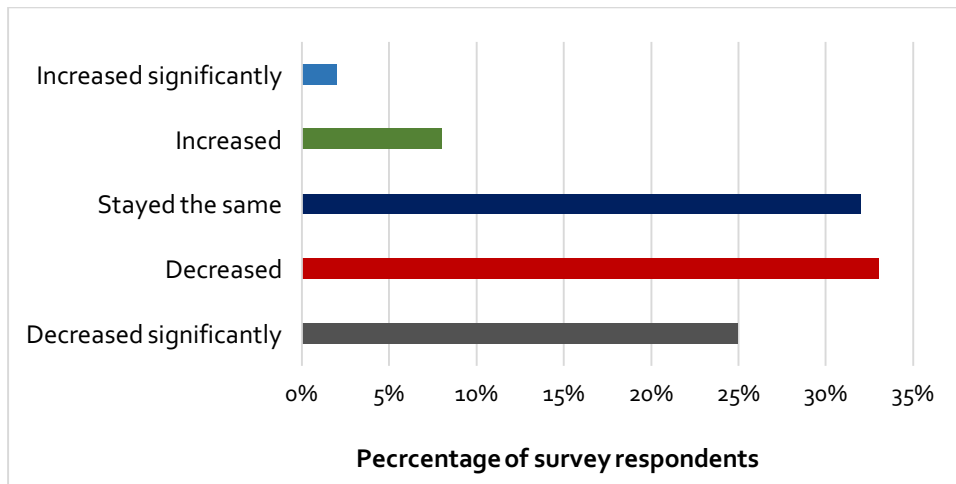
Figure 55: Results of Industry Survey on how Funding from EU Co-Producers Has Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

Respondents also pointed to a reduction in demand from official international co-production partners over the timeframe. In total, 58% pointed to a decrease or a significant decrease, with 32% saying demand had stayed the same. A smaller number, 10%, pointed to an increase, or a significant increase, in interest.

Figure 56: Changes in Demand for UK Independent Films from International Official Co-Producers Since 2007

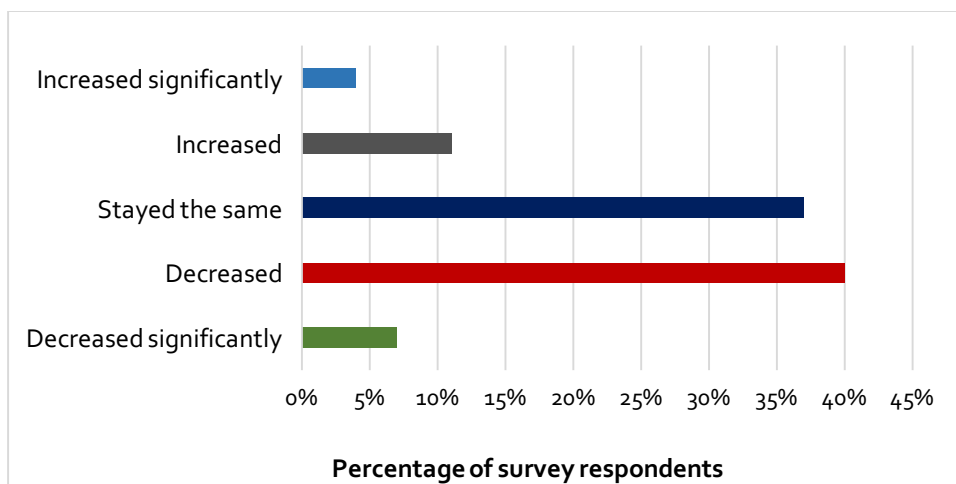


Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

9.2. Other International Co-producers

There is limited involvement with other international co-producers over the timeframe. Only four of the top 10 co-production partners for UK independent films made between 2007 and 2015 were outside of the EU: Canada, South Africa, India, and Australia. Only a small number of UK independent co-productions with other international markets were made between 2007 and 2015, including New Zealand and the US (six films each), Turkey (five films) and Brazil (three films). Co-production engagement with Asia was very limited.⁶⁰ The industry survey shows a similar decline in financing from other international co-producers.

Figure 57: Results of Industry Survey on how Other International Co-Producers Have Changed as a Source of Finance for UK Independent Films Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

⁶⁰ As previously noted, this analysis is based on BFI data which lists three potential countries of origin for each film, based on the largest contributors. Therefore, there may be further country involvement beyond this analysis.

10. PRODUCER EQUITY CORRIDOR AND PRODUCER EQUITY ENTITLEMENT

The Producer Equity Corridor ("PEC") and Producer Equity Entitlement ("PEE") are deal elements created to improve the producer's financial position in a project. This section assesses the initiatives and their impacts.

10.1. Overview

Jointly announced by BBC Films, Film4 and the UKFC in May 2007, the use of FTR as producers' equity in features (also known as PEE) aimed to improve the sustainability of the production sector by ensuring independent producers could secure a financial stake in their work.⁶¹ The initiative recognised the difficulties faced by UK producers in obtaining a financial stake in their projects and associated downstream financial returns, and the subsequent impact on developing and building successful production businesses.

The funders announced that they had agreed a position which "emphasises and promotes the principle that the benefits of the new UK tax credit should accrue to UK film production companies in order to help achieve the Government's policy objective of creating sustainability in the UK film production sector".

The announcement made clear that for every British film in which BBC Films, Film4 and the UKFC participated, the net value of the UK tax credit "should be treated as the UK producer's equity share in the film, recouping and participating, wherever possible, on a pro rata pari passu, pound for pound basis with other equity funding".

In 2008 BBC Films announced that achieving the use of tax credit as producer equity was proving "hard for the BBC and producers to achieve in all cases". As a result, it created a corridor for producers from its own equity recoupment. This applies when FTR is not being treated as producer equity, and is a standard 30% of the equity recoupment the BBC receives on a film. The producer corridor is mirrored by a corridor to the BBC of the producer's net profits, if achieved.⁶²

Unlike BBC Films and Film4, the BFI operates its initiative as locked boxes, which hold a share of revenues against the BFI's production or development awards, and can only be used by the producer for future development or production, or towards staff training. Three types of funds can accrue to a locked box:

- **The BFI Corridor**, in which part of the BFI's recoupment from a production award flows to a locked box. The BFI calculates this corridor as being 25% of its recoupment income until an amount equal to 50% of its award is recouped, including the amount paid to the locked box, and then 50% of the BFI's recoupment until the BFI's award has been repaid in full (including amounts paid into the locked box). This means that where the BFI is repaid its full production award, an amount equal to a blended percentage of 37.5% of the total award is accrued to the locked box. Under a 2015 agreement between Pact, the Writers' Guild of Great Britain, and Directors UK, BFI Corridor sums held in a locked box are allocated to the UK producer, as well as the writer and director.⁶³
- **PEE, referred to by the BFI as UK Tax Credit Entitlement**, is also accessible and can be utilised by producers in addition to the BFI Corridor. According to BFI guidelines, the position is the lower amount of the FTR advance included in the finance plan or the actual proceeds of

⁶¹ *UK tax credit as producers' equity in feature films*. Joint press release by BBC Films, Film4 and the UKFC. 14th May, 2007.

⁶² *BBC Films announces agreement with Pact on changes to deal terms for UK producers*. BBC Films press release. 13th May, 2008.

⁶³ *Directors, producers and writers sign new revenue sharing deal*. BFI, Directors UK, Pact, The Writers' Guild of Great Britain press release. 27th March, 2015.

FTR. Unlike the BFI Corridor, this is only available to the UK producer and is subject to financier approval. As noted by the BFI: “We will always support the producer in requesting such approval, but we cannot guarantee that it will be given in every case.”

- Money repaid to the BFI in relation to its development funding is also allocated to a locked box, with a maximum allocation per film of £100,000.⁶⁴

10.2. Measuring Success

The introduction of the PEC and PEE have been very positive for UK independent producers, affording them a more advantageous position in the revenue waterfall and reflecting the fact that, for producers, downstream earnings can be elusive.

According to data received from the BFI, BBC Films, and Film4 and aggregated for this Study, the PEC and PEE initiatives have functioned well in providing additional finance to independent producers. As outlined in Table 3, of 335 films backed by the public funders the majority received a PEE or PEC position, although it should be noted that there is likely to be duplication in the data on investments and PEE because of projects that received backing from more than one of these funders.

The aggregated data show that the PEE has accrued around £6.5 million, while the PEC has accrued around £4.6 million, although the amount is likely to be higher because projects in question will continue to be exploited or, in some cases, receive a first release. UKFC data is also not included.

Table 3: Aggregated Results of PEE and PEC Initiatives Operated by the BFI, BBC Films, and Film4

Number of Investments	Use of UK Film Tax Relief as Equity (PEE)			Producer Equity Corridor (PEC)		
	Films that received PEE	No. that received revenue	Amount accrued to 2015/16 (£m)*	Films that received PEC	No. that received revenue	Amount accrued to 2015/16 (£m)*
335	126	32	6.5	183	69	4.6

Notes: Aggregated from data supplied by the BFI, BBC Films, and Film4. Data on total number of investments and the films receiving PEE do not represent totals for individual films as there is likely to be duplication of projects that received backing from more than one of the BFI, BBC Films and Film4.

* BFI data includes recoupment from all Film Fund film investments from 1st April 2010 to 31st March 2016. BBC Films data spans May 2008, when the BBC Producer Equity Corridor commenced, to March 2016. Film4 data spans 2007 to 2015. Results likely to be higher than the data supplied for this chart as some films may not have been released, and will continue to generate revenues. Use of PEC refers to BFI Corridor and similar revenue corridor initiatives operated by Film4 and BBC Films. Writers and directors are also entitled to a share of the BFI Corridor with effect from April 2015. BFI data excludes recycled development locked box monies. Film4’s data for 2013, 2014 and 2015 include some projections, which it considered to be close to final amounts.

In some cases, PEC and PEE have had major impacts, enabling independent producers to recoup significant amounts. However, the beneficial effects of these initiatives have been somewhat uneven – reflecting the fact that corridor recoupment relates to market revenues, which can of course differ widely across different projects. Effects also relate to the individual capital structure of each project and, particularly in the case of the PEE, whether a producer has been able to secure this deal point.

The data also show a difference between PEE and PEC. A PEE position was included on a lower number of films than PEC, which likely reflects the fact that PEE can meet some resistance from commercial and foreign funders. This can limit its effectiveness somewhat.

⁶⁴ BFI Locked Boxes Fact Sheet.

While both initiatives have led to a relatively significant additional amount of money flowing into the sector – and as a result are viewed by many producers as crucial – PEC and PEE have not had a widespread transformational effect on the sustainability of the overall UK independent production sector. While the initiatives have been extremely valuable for some producers, they have offered little or no value for others.

PART FOUR

PRODUCTION AND POST

11. BUDGET BAND ANALYSIS

This section provides a detailed overview of production and funding within key budget bands. The level and type of production over the timeframe is been assessed, along with typical funding models.

11.1. Overview

Since changing conditions and the resulting disruption have impacted UK independent films in different ways, detailed analysis of production within key budget bands was undertaken. This considered several aspects, including the number of films made, their type, and typical financing structures. While budget is not the only factor related to financing model – genre, for example, can also be a key factor – it is nevertheless a useful way of examining financing.

One issue is that there is limited public data regarding finance plans and financing sources for UK independent films, which means that it is not possible to be definitive about changes in finance over time. This contrasts with countries such as France, Sweden, and Finland, which publish an annual breakdown of financing sources for domestic films.

For example, France's CNC publishes an assessment of financing for 'French initiative films' that assesses total investment from key sources such as television channels, the Les Sociétés de financement de l'industrie cinématographique et de l'audiovisuel (SOFICA), exploitation rights, and selective regional funds.⁶⁵ The Swedish Film Institute ("SFI") also publishes data on average financing for films with funding from its film commissioners, and projects that receive automatic funding.⁶⁶ The UK should consider publishing data on financing sources so that any changes can be tracked over time.

To provide examples of actual UK independent models, finance plans were sourced from producers. These provide a typical – if not definitive – overview of how a film might currently be financed in relation to budget band. For confidentiality reasons the titles of the films are not included.

11.2. Budgets Trends

To analyse wider budget trends over the Study timeframe, data were sourced from the BFI on the budgets of UK independent films produced between 2007 and 2015, adjusted for inflation. Due to confidentiality, these data were supplied as visual data points on a chart showing distribution of budgets (Figure 12). A trend line added to these scatter charts highlights that there has been a degree of downwards pressure on budgets at all bands, except budget above £10 million, where a gradual rise is discernible. This relates to the fact that market demand for commercial, high-budget independent films remains strong.

In addition, analysis of BFI data on mean average budgets at above and below £2 million show that for domestic projects at higher budgets, levels have been relatively static over the timeframe, with a slight downwards trend visible, as outlined in Figure 13. However, decline is much more pronounced at under £2 million – underlining increased difficulty in financing films without high profile elements (Figure 14). In the co-production category, a decline in budgets is evident at both above and below £2 million (Figures 15 and 16).

11.3. The Growth of Micro-Budget Production and its Impact on the Sector

Films budgeted at £0.5 million and below contributed the bulk of UK independent film production in terms of number of projects made over the timeframe. This is due to a range of reasons, including the

⁶⁵ *La production cinématographique en 2015*. Ibid.

⁶⁶ *Facts and Figures 2015*. SFI, 2016.

decline in cost of high-quality cameras and other production equipment and technology, as well as industry initiatives to foster film-making at this level.

While this budget band was not included in the analysis, its growth has had impacts for other budget bands. One effect has been to raise expectations around what can be achievable on lower budgets – even as some costs, such as talent, may have actually risen. This has been a factor in the downwards pressure on budgets, particularly at lower levels.

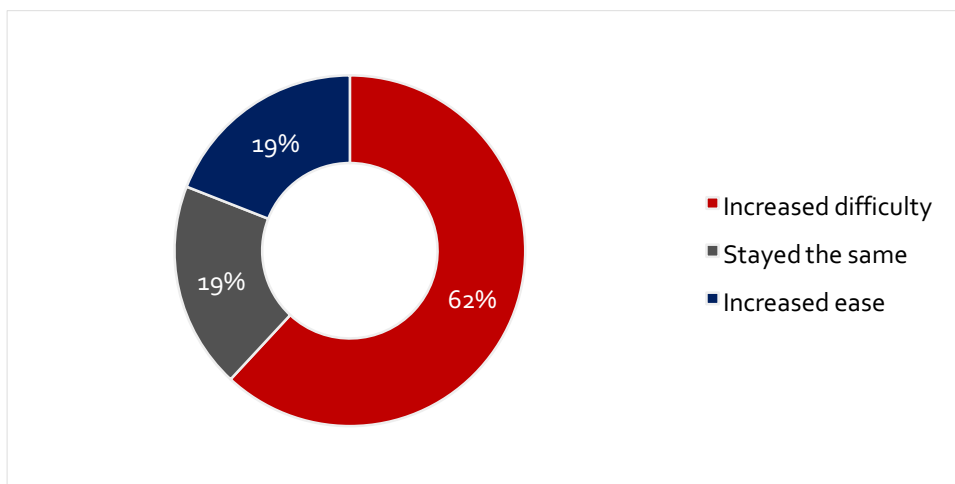
The growth has also increased product flow into the market. While a number of films made at this level may not be produced for full commercial reasons – a proportion will be made for commercial purposes.

11.4. £0.5 million-£2 million

11.4.1. Analysis of Finance Model and Changes Since 2007

Results of the industry survey undertaken for this project show that the majority of respondents felt that finance had become more difficult at this budget band. One factor in this is likely to be the downwards pressure on budgets above £0.5 million that has resulted from the rise of the sub-£0.5 million budget band.

Figure 58: Ease of Financing UK Independent Films in the £0.5 million to £2 million Budget Band since 2007

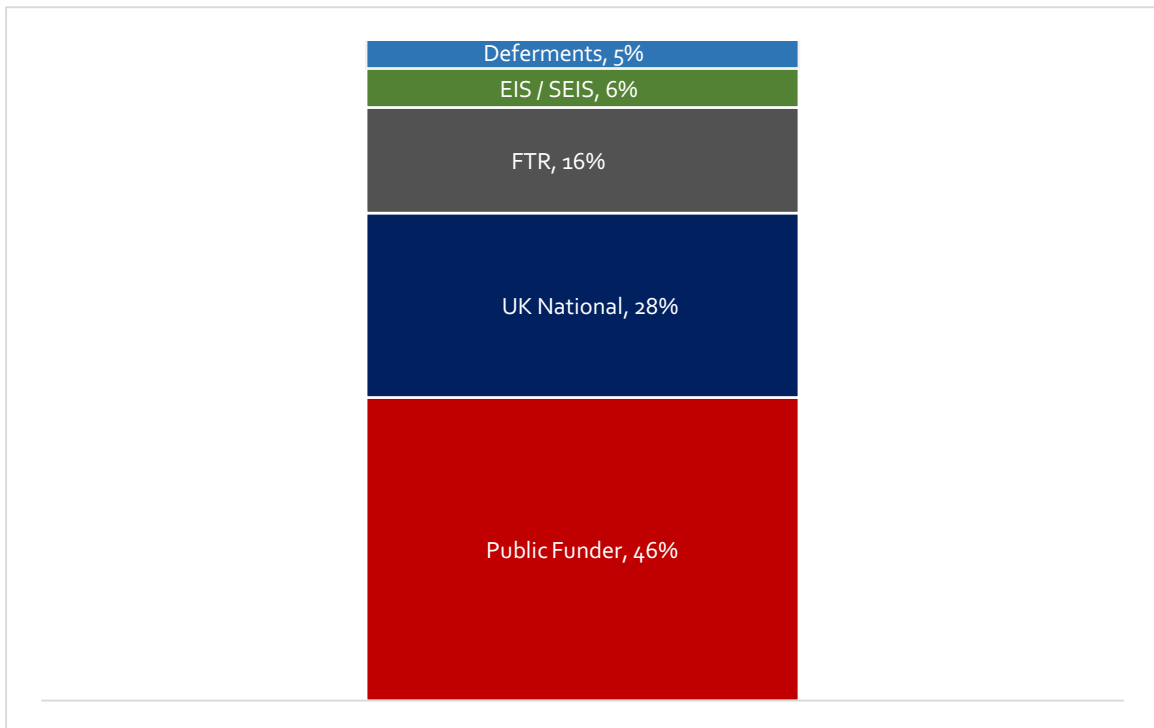


Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

Financing models vary, but it is unlikely that projects at this level will be funded with a high degree of presales. This reflects the decline in international value for projects without major marketable elements – and lower budgets are less likely to be able to afford high-profile cast or film-makers that could drive presales. Public funding is likely to be an important part of a film’s financing structure at this level, along with other sources such as regional funding. Commercial funding may also be limited or non-existent, and there may also be a degree of self-funding or deferments from the producer.

To illustrate how a project may be funded in the £0.5 million to £2 million budget band a finance plan was obtained for a UK independent film budgeted at around £1 million. As outlined in the following figure, this project was made with a high degree of public funding, and no international presales before production.

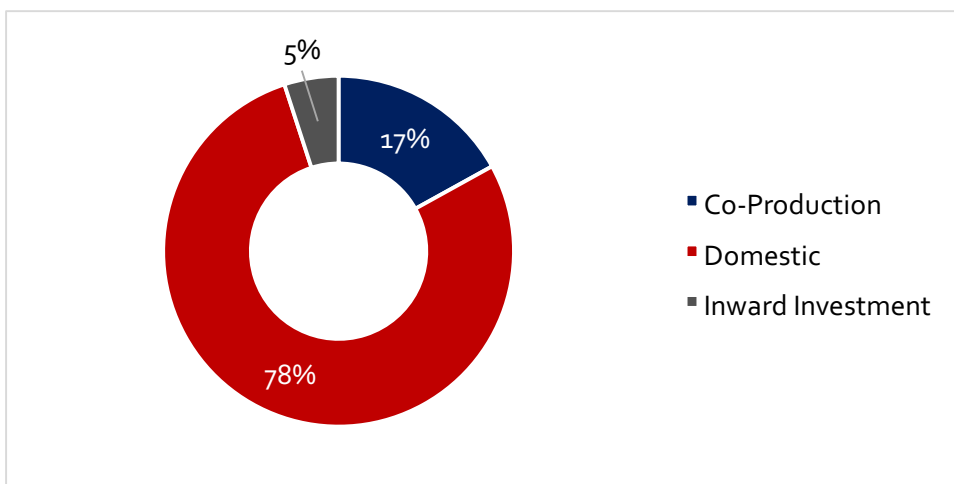
Figure 59: Example Finance Model of a Film Budgeted at Around £1 million



11.4.2. Volume and Type of Projects

The £0.5 million to £2 million band was the second-largest in terms of project numbers over the timeframe, with 560 films made between 2007 and 2015 – an average of 62 per year. This represents 20.9% of total production over the timeframe. Of these, the majority (437 films, or 78%) were domestic productions. In comparison, 17% of projects (95 films) were co-productions while 5% (28 films) were inward investment.

Figure 60: Type of UK Independent Films in the £0.5 million to £2 million Budget Band, 2007-2015

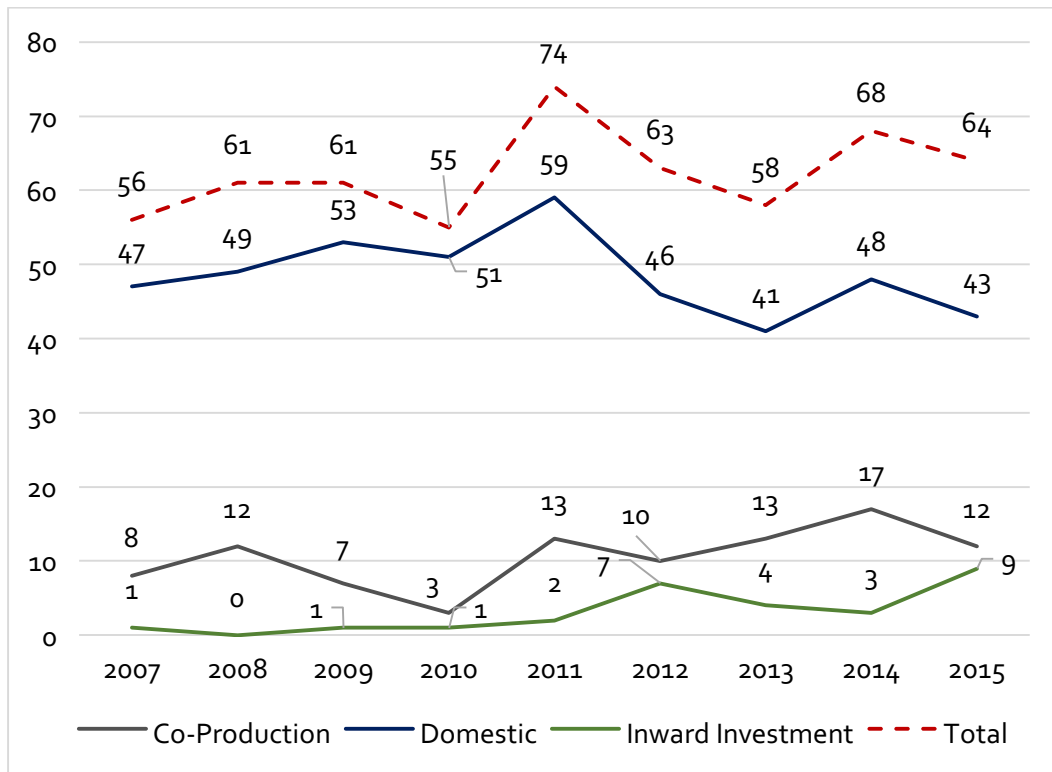


Source: BFI / SPI analysis

Overall, production volume over the timeframe was relatively static, despite a peak in 2011 of 74 films. There was a subsequent 15% reduction in 2012, with 63 films produced and a further 8% decline in 2013, with 58 films produced. Production did rise from this level to 68 films in 2014. As outlined in

Figure 61, the slight increase between 2007 and 2015 was driven by inward investment and co-production projects, pointing to the difficulties of sourcing UK finance and the need to look overseas. Reflecting the difficult market conditions outlined in this Study, domestic films declined markedly from a peak in 2011, with 2013 showing the lowest number of productions over the timeframe.

Figure 61: Production of UK Independent Films in the £0.5 million to £2 million Budget Band, 2007-2015

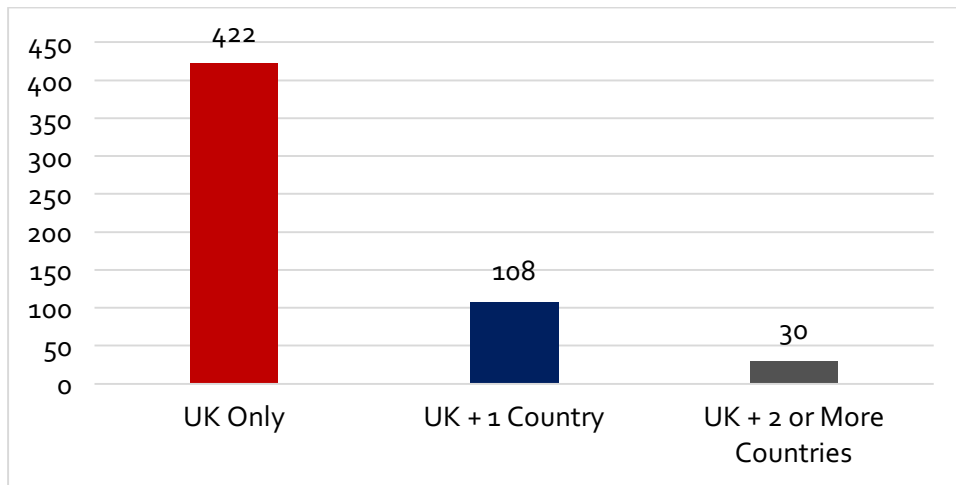


Source: BFI / SPI analysis

11.4.3. Countries

Production in the £0.5 million to £2 million budget band is largely undertaken by UK companies alone, with 75% of films not involving other countries. Of the 138 films that did involve other countries 26 were with the US, 22 with India, 15 each with Germany and France, and 14 with Ireland.

Figure 62: Countries Involved in Production of Films in the £0.5 million to £2 million Budget Band, 2007-2015

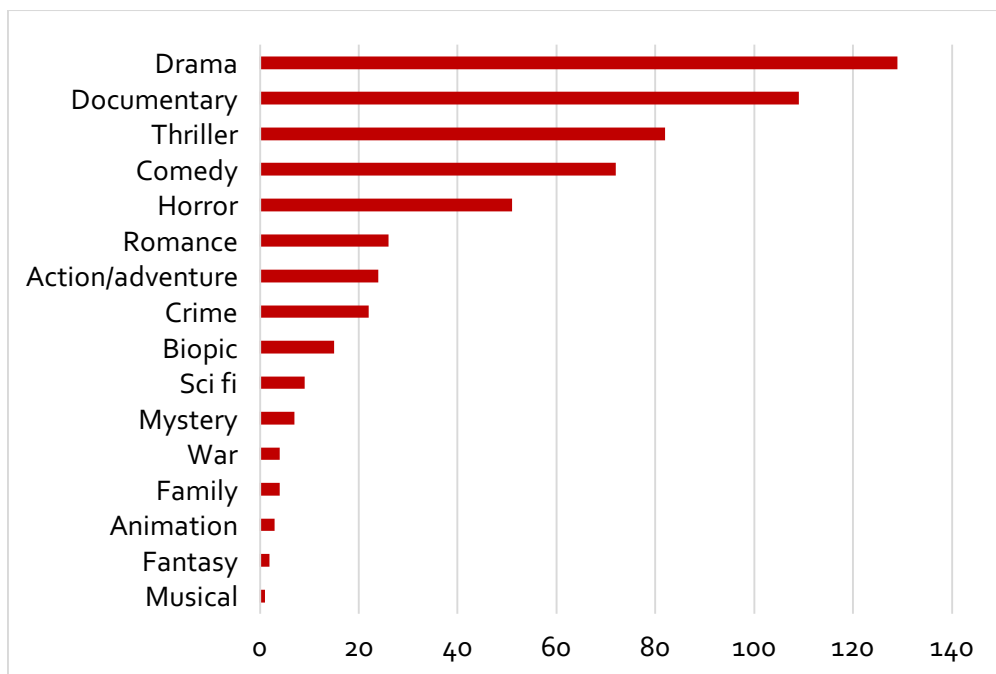


Source: BFI / SPI analysis

11.4.4. Genre

Drama dominated production over the timeframe in this budget band, and there was a strong number of feature documentaries. This reflects the interest and expertise in this genre among UK producers and film-makers. Thrillers, comedies, and horror all feature strongly at this band, while production of action/adventure, sci-fi, and fantasy are limited – reflecting the fact that these genres can be comparatively costly to work in.

Figure 63: Genres of UK independent film productions in the £0.5 million to £2 million Budget Band 2007-2015



Source: BFI / SPI analysis

11.5. £2 million-£5 million

11.5.1. Analysis of Finance Model and Changes Since 2007

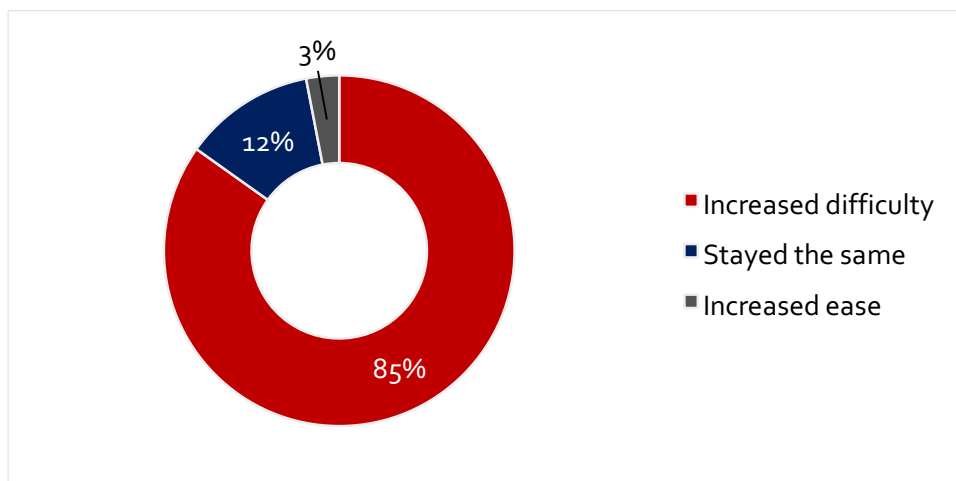
The higher end of this budget band can be considered the mid-range of UK independent film production and this proved to be a particularly difficult level over the timeframe from a financing perspective. The size of budgets at this level can require more complex multi-party financing models, while it can be challenging to secure major talent that can attract financing and presales.

Some projects, particularly those with acclaimed directors, are able to attract A-list elements and will be able to achieve presales despite the decline in international value.

This band can also be difficult from the producer's perspective since the presence of multi-party financing increases complexity and costs. Indeed, legal work in closing films at this level may be similar in volume to projects with higher budgets, which can make this band less cost-effective for producers.

These issues are reflected by the views of industry survey respondents, 85% of whom reported financing between £2 million and £5 million as having become significantly more difficult or more difficult over the time frame. Only 3% of respondents reported financing having become easier.

Figure 64: Ease of Financing UK Independent Films in the £2 million to £5 million Budget Band, 2007-2015



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

The size of budgets in this band means that multi-party models are common. This can be seen in the example budget in Figure 51. This film was budgeted at around £3 million and was made with over 10 sources of finance. The importance of public investment is evident, as is FTR, which was worth 17.4% of the budget. There was also gap, some presales, equity, a post production deal, and a deal with a camera and lighting company.

Presales played a more significant role in the financing of a second project example, outlined in Figure 66. With a high-profile cast and film-maker, this project was budgeted at around £3.5 million and sourced a quarter of its budget from international presales.

Figure 65: Example Finance Model of a Film Budgeted at Around £3 million

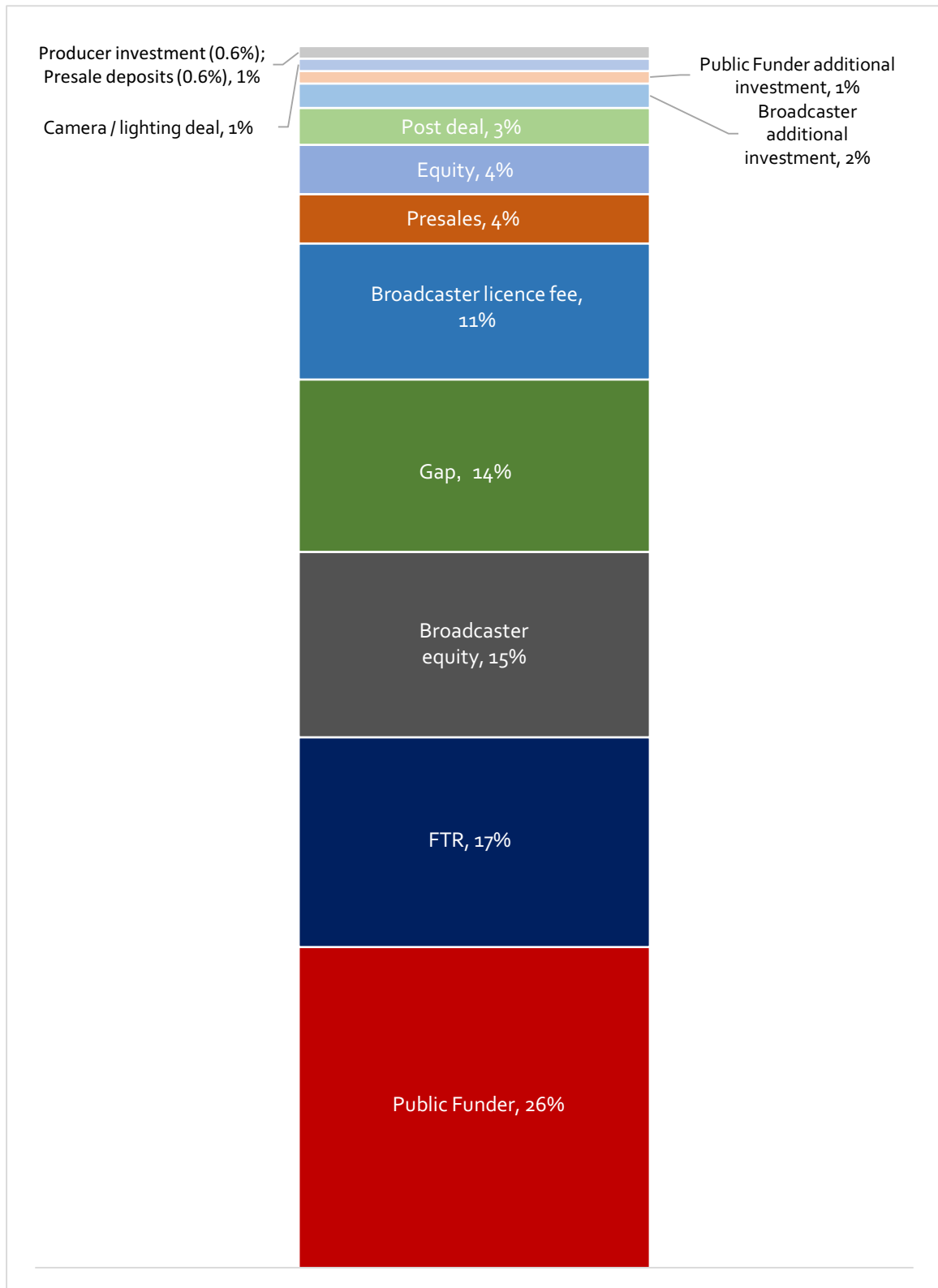
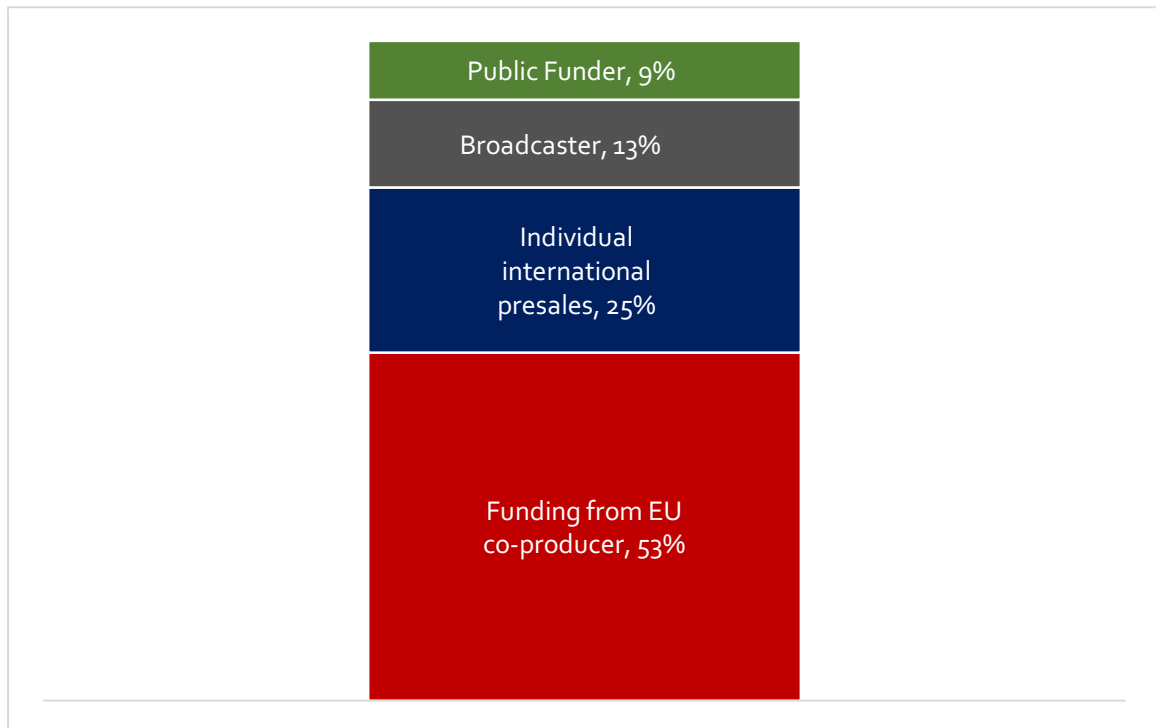


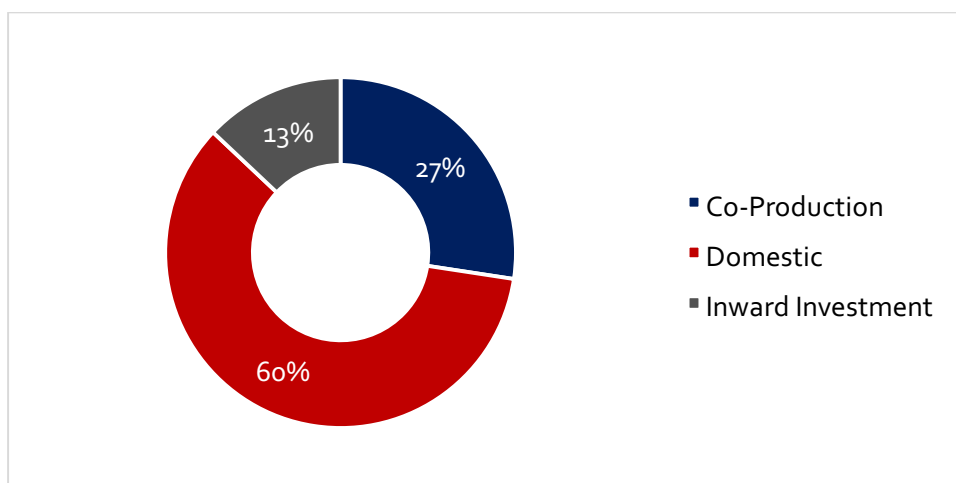
Figure 66: Example Finance Model of a Film Budgeted Around £3.5 million



11.5.2. Volume and Type of Projects

Overall, 270 films were produced in this band between 2007 and 2015 – less than half the number produced in the £0.5 million to £2 million band. This represents 10.1% of total production over the timeframe, with an average of 30 films produced per year. Reflecting the need for numerous financing sources, including foreign partners, domestic projects are less dominant than at the lower-budget band. The number of co-productions rises to 27% of all projects produced over the timeframe, up from 17% in the £0.5 million to £2 million band.

Figure 67: Type of UK Independent Films in the £2 million to £5 million Budget Band, 2007-2015



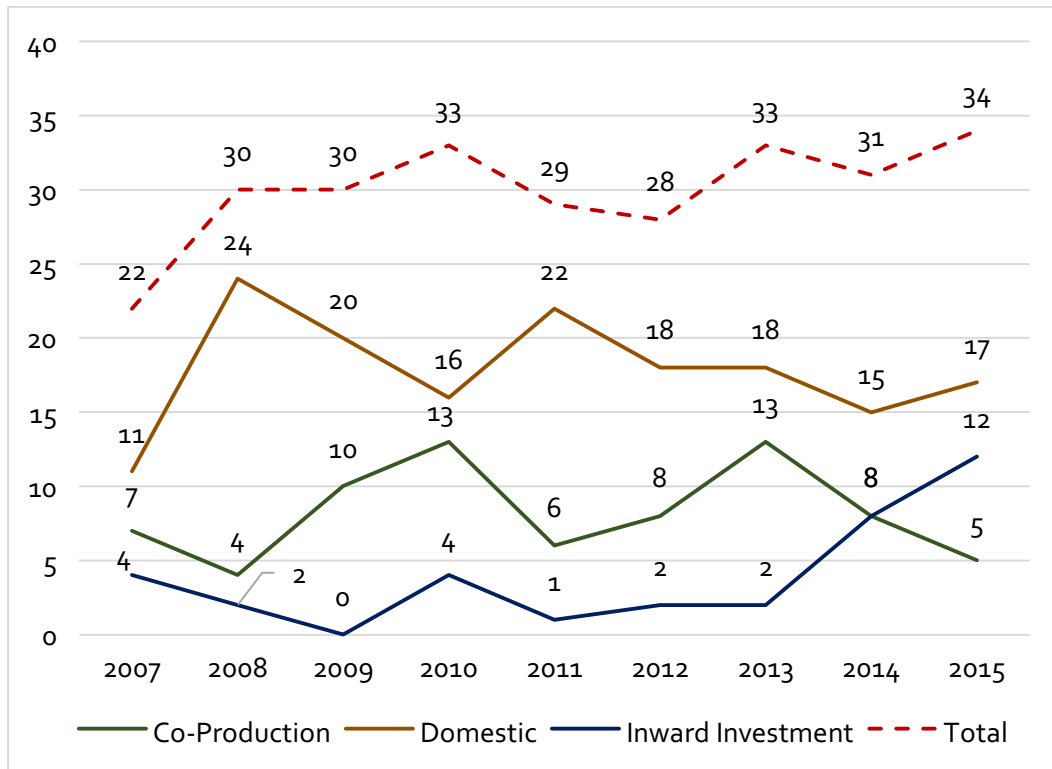
Source: BFI / SPI analysis

With year-on-year fluctuations, overall production volume rose slightly over the timeframe, with an increase in 2014 and 2015 clearly driven by inward investment projects (Figure 68). An element of this

relates to a rise in inward investment projects that involve Indian partners. Between 2007 and 2012 only one inward investment project in this band involved an Indian partner; between 2013 and 2015 there were seven.

Domestic production has seen a flattening since 2011, reflecting the difficulty in sourcing UK finance for projects at this level, while the number of co-productions also declined between 2013 and 2015.

Figure 68: Production of UK Independent Films in the £2 million to £5 million Budget Band, 2007-2015

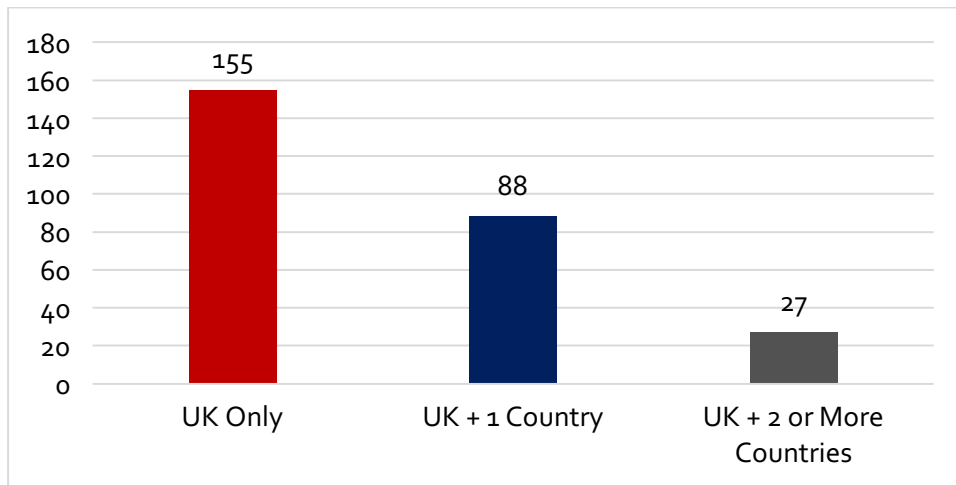


Source: BFI / SPI analysis

11.5.3. Countries

The proportion of films made without the involvement of other countries reduces slightly at this level, compared with the £0.5 million to £2 million band, reflecting the need for producers to go outside the UK to source finance when working at this larger level and above. UK-only films represent 57% of the total number of films produced, compared with 75% at the lower-budget band. The most frequent partner countries in this budget band are the US (29 films), Ireland (15), India (13), France (10) and Canada (9).

Figure 69: Countries Involved in Production of Films in the £2 million to £5 million Budget Band, 2007-2015

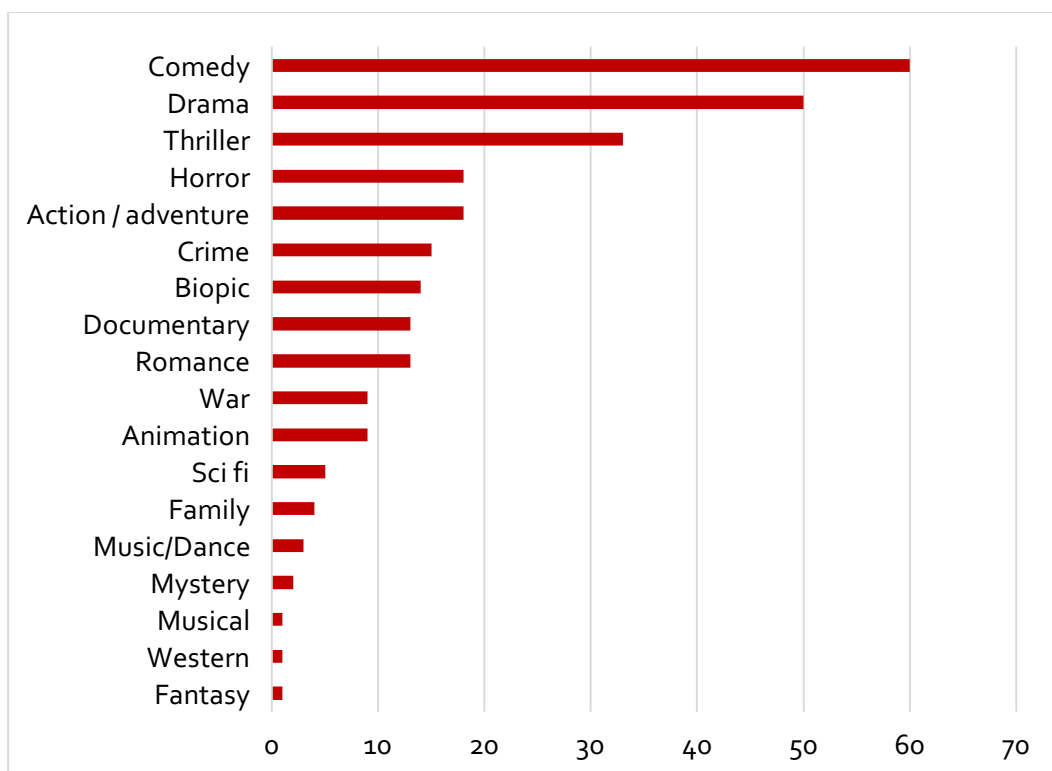


Source: BFI / SPI analysis

11.5.4. Genre

While drama is the second most produced genre in this band, comedies, thrillers, horror, and action/adventure all feature strongly. This relates to the fact that such projects have the potential to be sold on their concept or underlying material rather than major talent, which can be difficult to secure at this budget level. While there were a high proportion of documentaries produced between £0.5 million and £2 million their number is far less prevalent in this band.

Figure 70: Genres of UK Independent Film Productions in the £2 million to £5 million Budget Band, 2007-2015



Source: BFI / SPI analysis

11.6. £5 million-£10 million

11.6.1. Analysis of Finance Model and Changes Since 2007

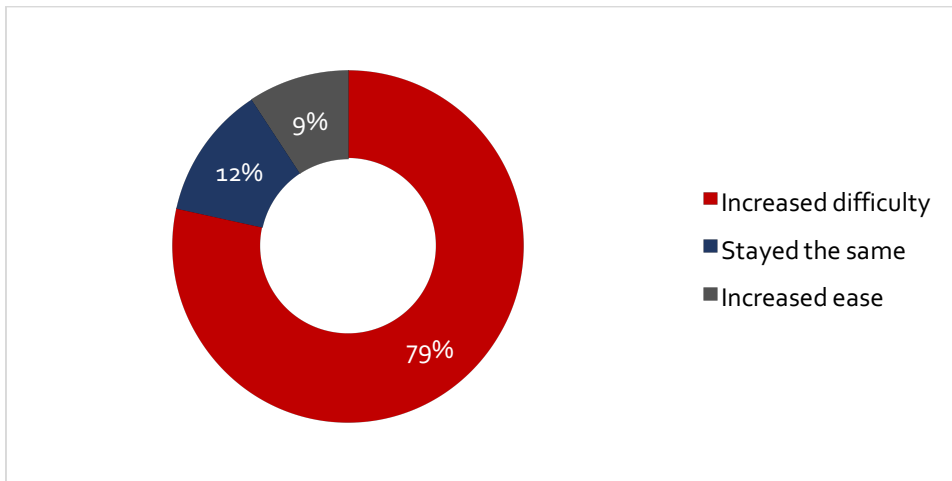
This band, along with the above £10 million band, is not considered to have experienced the same level of disruption and difficulty in attracting financing as at lower levels. This is because while international sales value has declined for many projects, there remains strong demand in the international marketplace for premium, commercial projects.

Such projects must have above-the-line elements with market value, and will ideally also be branded – i.e. based on concept, story, or specific source material with profile among potential audiences.

However, it is likely that this band is affected by trends at budget bands above and below. At lower budgets it may still be difficult to attract presales, and at higher budgets it may be preferable to move into the higher £10 million budget band.

The majority of survey respondents reported that financing had become more difficult over the timeframe.

Figure 71: Ease of Financing UK Independent Films in the £5 million to £10 million Budget Band, 2007-2015

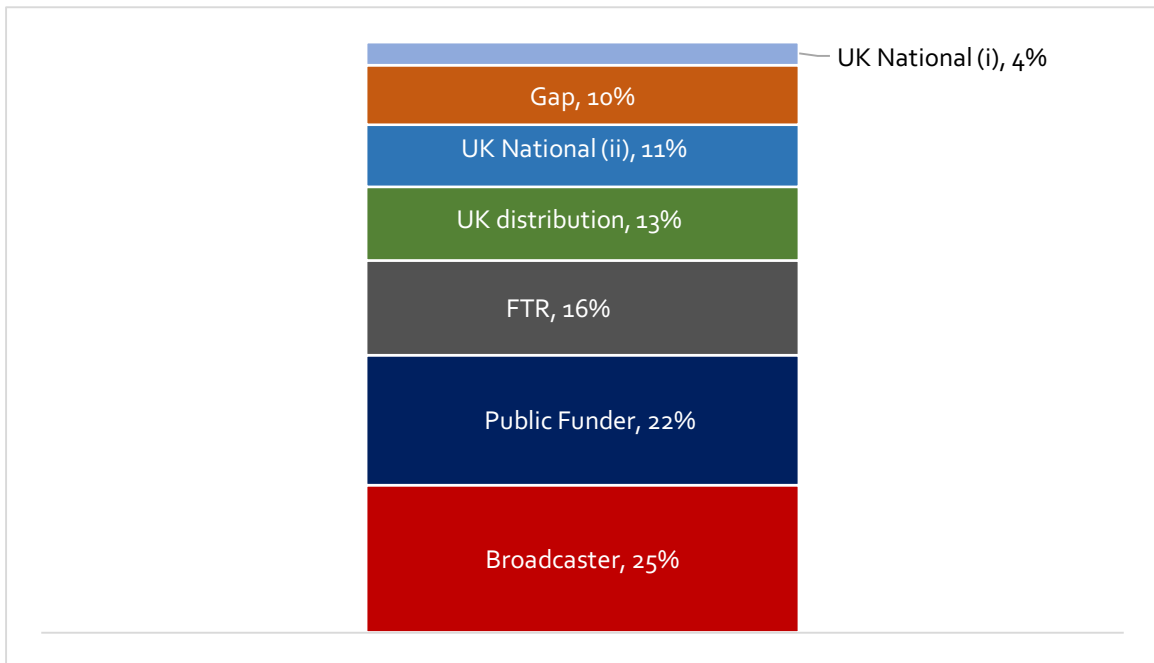


Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

Financing models can differ in this band. At the lower end, projects may have extensive public funding. Higher budgets are very likely to require significant presales, with a North American deal likely to be necessary.

In the budget example included below – for a film budgeted at around £5.5 million – the importance of UK public funding is underlined, as well as FTR. The film also obtained UK distribution and regional funding.

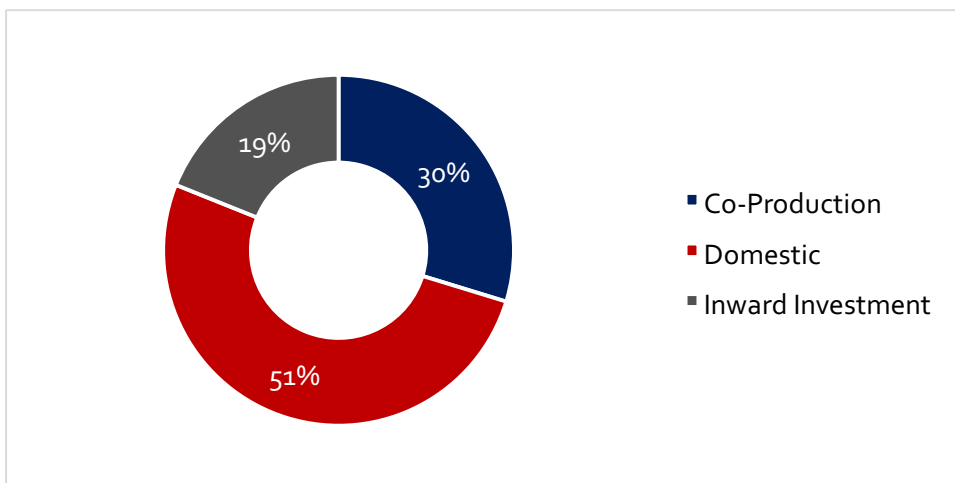
Figure 72: Example Finance Model of a Film Budgeted at Around £5.5 million



11.6.2. Volume and Type of Projects

Overall, 148 films were made in this budget band between 2007 and 2015, representing an annual average of 16 productions and 5.5% of total production. Reflecting the need for multi-source and international financing, domestic projects represented 51% of total production at this level, down from 60% in the £2 million to £5 million band. The proportion of inward investment projects rises to 19% of production in this band, compared with 13% in the £2 million to £5 million range. Co-productions rise from 27% of production at the lower band to 30%.

Figure 73: Type of UK Independent Films in the £5 million to £10 million Budget Band, 2007-2015

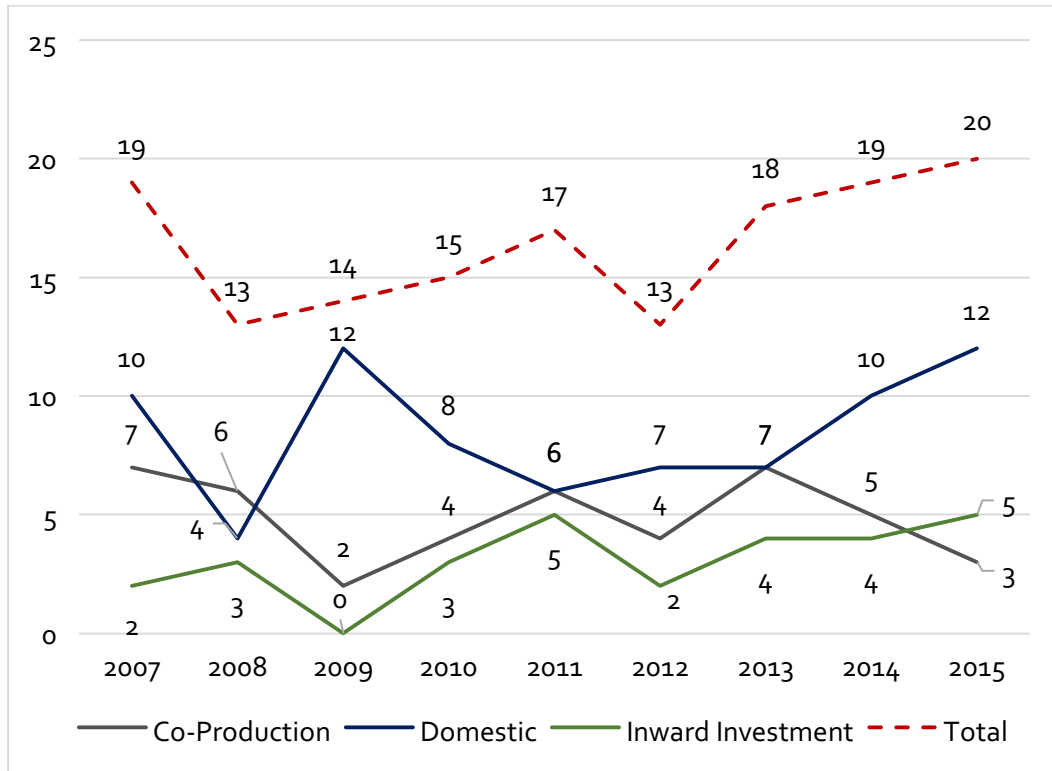


Source: BFI / SPI analysis

While the same level of films were produced in 2007 and 2015, data on the volume of projects shows clear fluctuation between these years. There is a decline after 2007, related to the global recession and a gradual upturn in the three following years. After 2011, there is a further decline, but increases between 2013 and 2015 suggest that films made at this level are seeing less impact from the market and financing issues that have impacted lower-budget projects in recent years. This relates to the fact

that higher-budget films are likely to involve recognisable talent that can attract finance and buyers – with this trend particularly apparent in the above £10 million band.

Figure 74: Production of UK Independent Films in the £5 million to £10 million Budget Band, 2007-2015

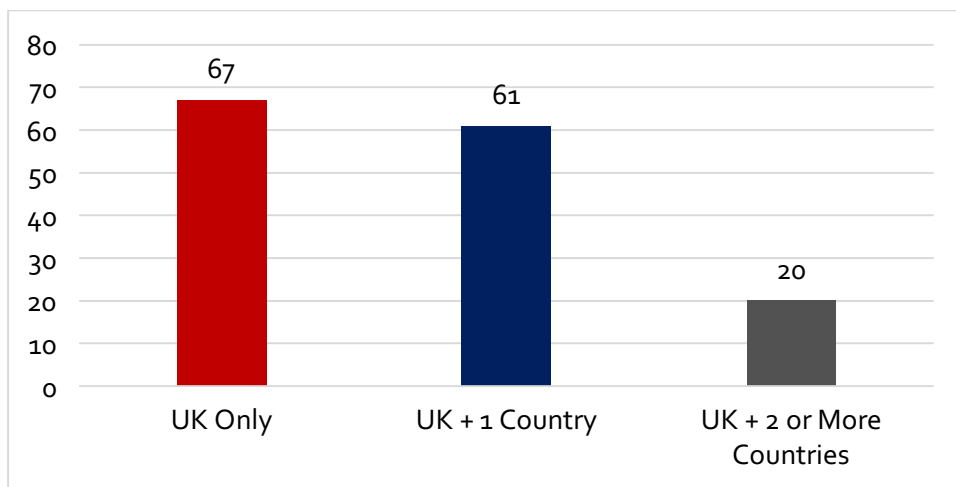


Source: BFI / SPI analysis

11.6.3. Countries

Unlike in the two lower bands, the volume of projects made at this level involving an additional country is larger than projects only involving the UK. Between 2007 and 2015 55% of projects were made with one or more foreign countries, reflecting the need to partially source finance for larger budgets overseas, and also the interest among foreign financiers in larger-budget commercial English-language projects. The most frequent countries are the USA (30 films), France (13), India (10), Canada (7), Ireland and Germany (6), and Spain (5).

Figure 75: Countries Involved in Production of Films in the £5 million to £10 million Budget Band, 2007-2015

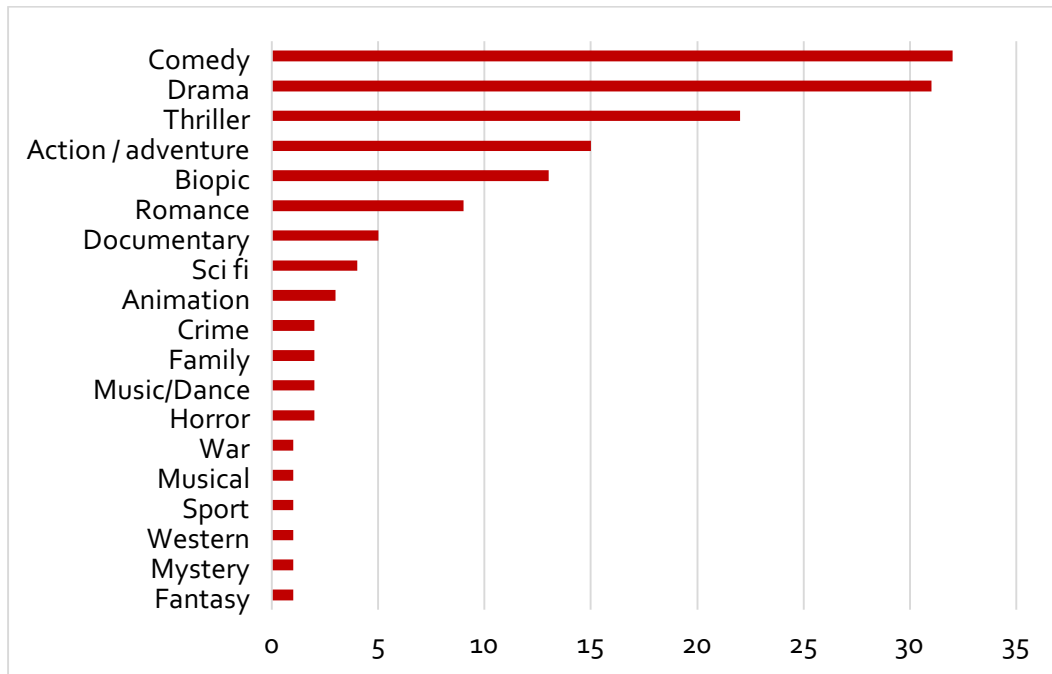


Source: BFI / SPI analysis

11.6.4. Genre

The most produced genres are comedy, drama, and thriller, which is consistent with overall UK independent production trends.

Figure 76: Genres of UK Independent Film Productions in the £5 million to £10 million Budget Band, 2007-2015



Source: BFI / SPI analysis

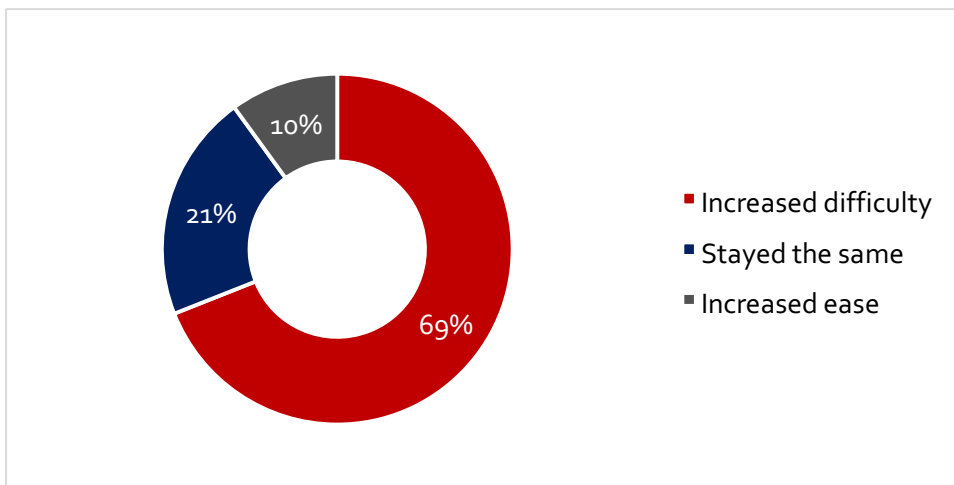
11.7. Above £10 million

11.7.1. Analysis of Finance Model and Changes Since 2007

As with the £5 million-£10 million band, commercial projects at high-budget levels above £10 million are in demand. At this level projects are highly likely to have high-profile cast and film-makers and may also be based on a well-known book or other property.⁶⁷

While 21% of respondents reported that the ease of financing at this level had stayed the same since 2007, 69% of respondents felt it had become more difficult. Though significant, this was a lower proportion than the two preceding budget bands, suggesting this range has been rather less impacted by the financing difficulties buffeting the sector.

Figure 77: Ease of Financing UK independent Films in the Above £10 million Budget Band, 2007-2015



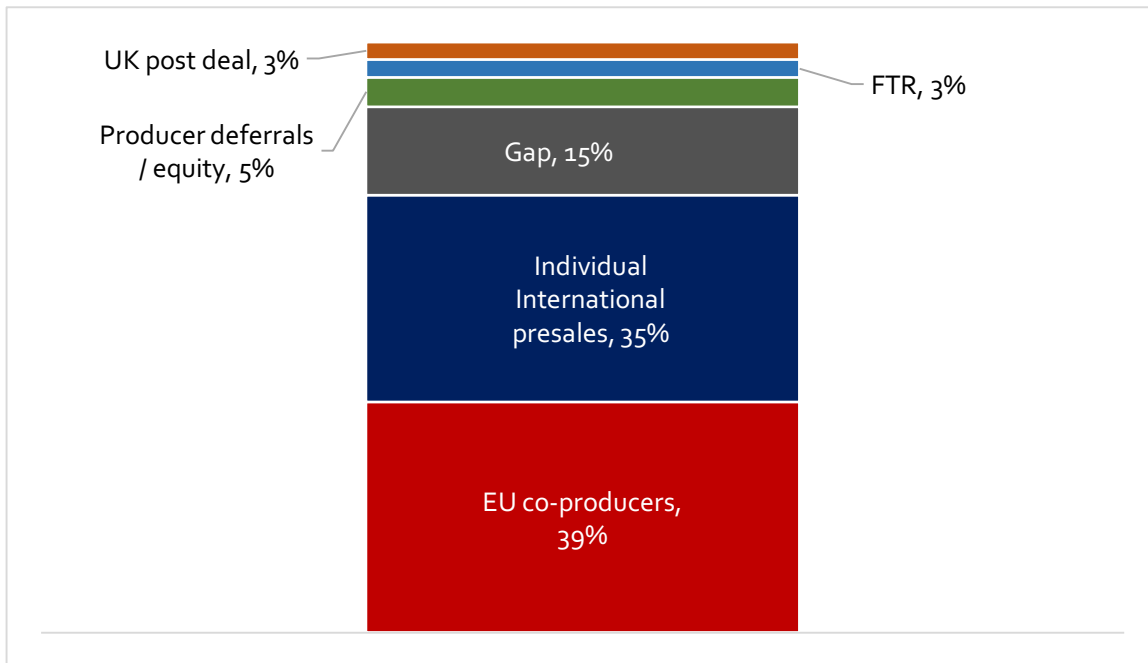
Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as "don't know".

While multi-party financing is utilised at this level, the timeframe has also seen a rise in single-source financing. Competition for prime projects has increased to the point that recent years have seen a range of players, including UK distributors and foreign sales companies, particularly from the US, moving closer to production. This can mean that, for some producers, working at higher budgets may actually be less onerous in terms of piecing together financing and closing finance than at lower budgets.

The example budget below, for a UK independent film with a budget of around £12 million, was a multilateral European co-production that sourced 39% of its financing through EU co-producers and 35% from presales.

⁶⁷ It is not possible to ascertain from the BFI the spread of budgets within the above £10 million band.

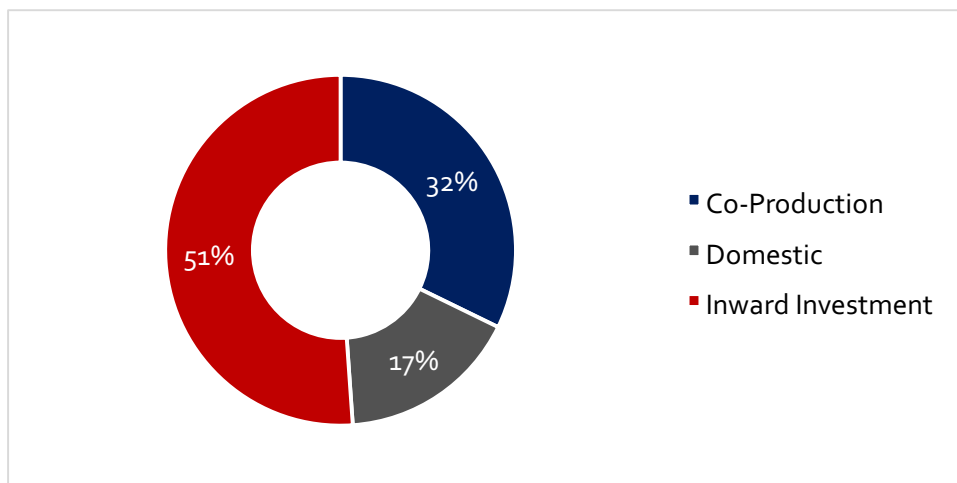
Figure 78: Example Finance Model of a Film Budgeted at Around £12 million



11.7.2. Volume and Type of Projects

Overall, 90 films were produced in this budget band between 2007 and 2015, reflecting just 3.4% of UK independent film production over the Study timeframe. This represents an average of just 10 films annually. Illustrating the need for international finance and production partners at budgets above £10 million, this band is the first for which domestic projects do not form the largest number of projects. There were 46 inward investment projects, representing 51% of production, and 29 co-productions (32%). There were only 15 domestic productions at this level, representing 17%.

Figure 79: Type of UK Independent Films in the Above £10 million Budget Band, 2007-2015

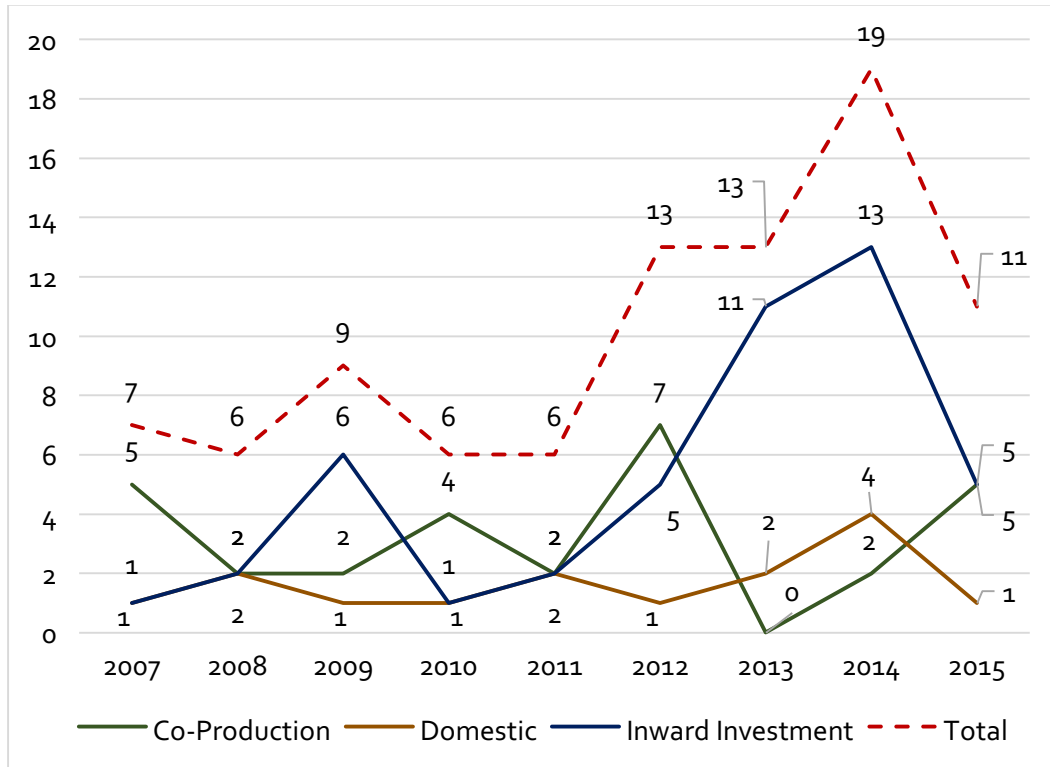


Source: BFI / SPI analysis

Reflecting the demand for commercial independent projects, there has been growth in the number of films made at this level over the timeframe. Over the first five years of the timeframe, between 2007 and 2011, production was relatively static with an average of seven films produced annually. This rose to 13 films in 2012 and 2013 and 19 in 2014. However, there was a decline to 11 films in 2015, although it is possible that this number will be revised upwards by the BFI as it obtains further production data.

Much of the growth has been driven by inward projects, particularly in 2013 and 2014. Since 2012 there have been 34 inward projects, outstripping domestic projects (8) and co-productions (14). A number of these inward investment projects involve high-profile backers from the US independent business, underlining the clear global appeal of UK independent films with strong theatrical prospects.

Figure 80: Production of UK Independent films in the Above £10 million Budget Band, 2007-2015



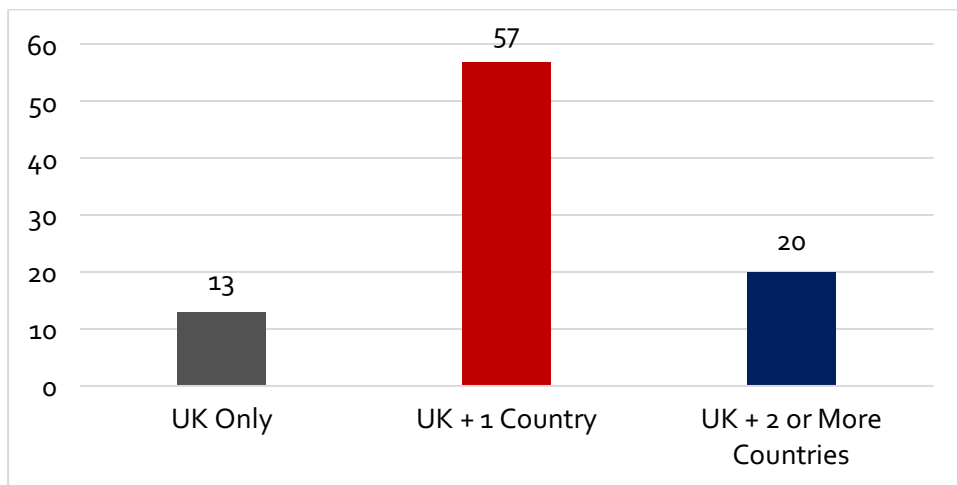
Source: BFI / SPI analysis

11.7.3. Countries

In contrast with lower-budget bands, projects involving foreign countries represented 86% of productions made at above £10 million, underlining the need for producers to look outside the UK for finance.

The USA was the most frequently involved country at this level, involved in 41% of productions (37 films). This was followed by France (14 films), India (13), Germany (10) and Spain (5).

Figure 81: Countries Involved in Production of Films in the Above £10 million Budget Band, 2007-2015

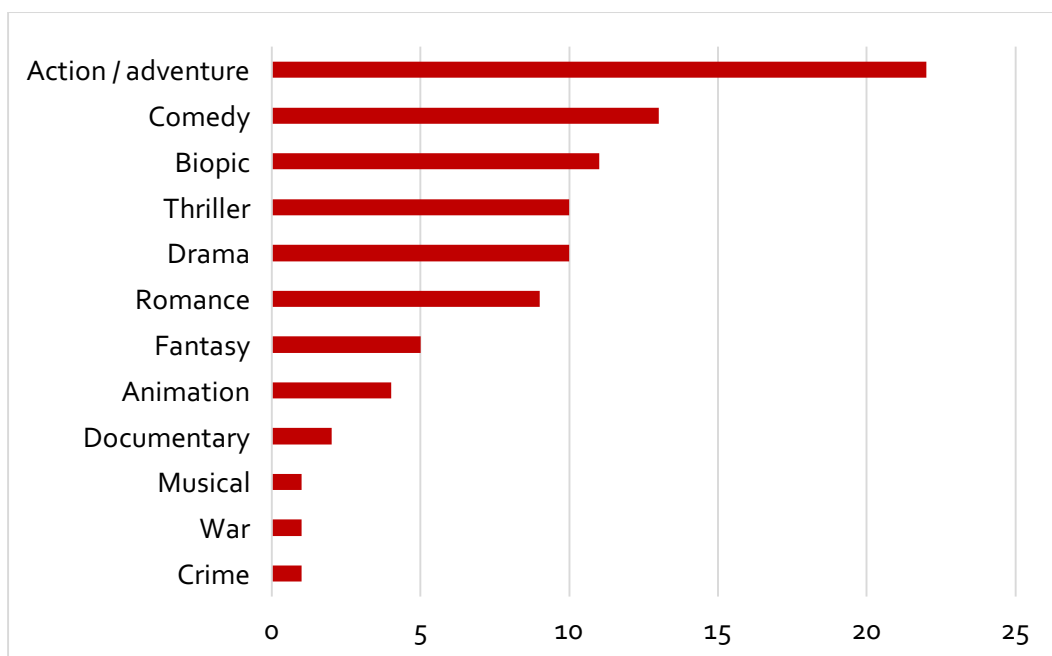


Source: BFI / SPI analysis

11.7.4. Genre

Reflecting the resources available for higher-budget bands, action/adventure is the most produced genre overall (22 films) with comedies, biopics, thrillers, dramas, and romance projects all featuring. All the films in the action/adventure genre are co-productions or inward projects, reflecting the need for foreign partners at higher levels. Drama is less prominent in this budget band than others, although biopics will clearly have drama elements.

Figure 82: Genres of UK Independent Film Productions in the Above £10 million Budget Band Since 2007



Source: BFI / SPI analysis

PART FIVE

RELEASE AND REVENUES

12. THE THEATRICAL DISTRIBUTION LANDSCAPE

Following production, films can be financially exploited in various distribution windows in markets around the world. Despite major changes from the rise of digital distribution, theatrical release is still key for many films.

This section outlines key trends in the theatrical market and the resulting impacts for UK independent films.

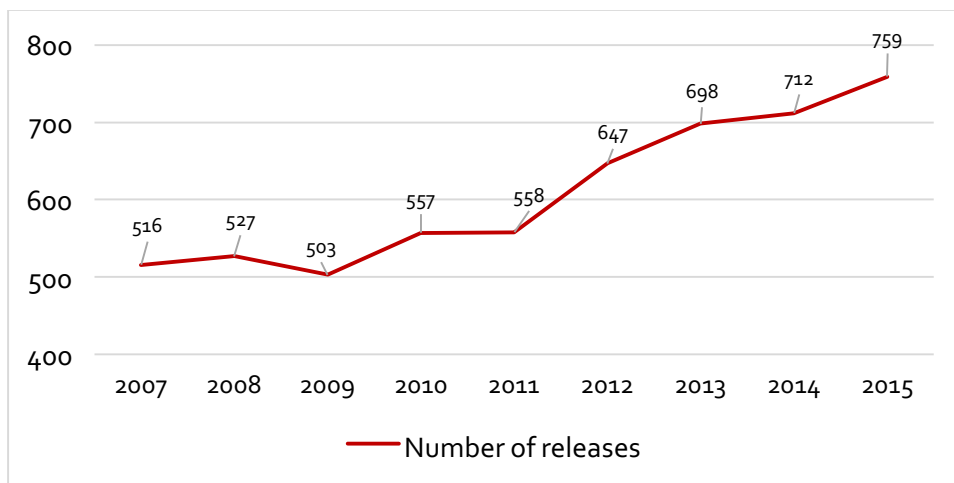
12.1. Overview

Theatrical release can be vital for UK independent films, both terms of in generating specific revenues and in building profile and value that can be exploited in subsequent windows.

Over the Study timeframe, however, the theatrical marketplace has become much more challenging – and gaining any market visibility and traction in what is now a market saturated with product is a major challenge for an independent film.

Market oversupply is a key problem. According to BFI data, the amount of all theatrical releases – i.e. including UK independent films and all other types of release – increased by 47% between 2007 and 2015.

Figure 83: Number of Releases at the UK and Republic of Ireland Box Office, 2007-2015



Source: BFI Statistical Yearbooks 2014 and 2015

Data from comScore show that releases continue to rise, with 900 films released in the UK in 2016, equating to an average of 17 films per week.⁶⁸

Oversupply is limiting space in the market. The sheer volume of new releases means that there is distinct pressure on releases to perform well on their first weekend of release in order to continue their theatrical run in the face of strong competition for screens. Many releases will also only be offered split terms (where they share a screen) or even more limited scheduling. This is a particular problem for many UK independent films which may not have sufficient marketing spend to compete with larger-budget releases.

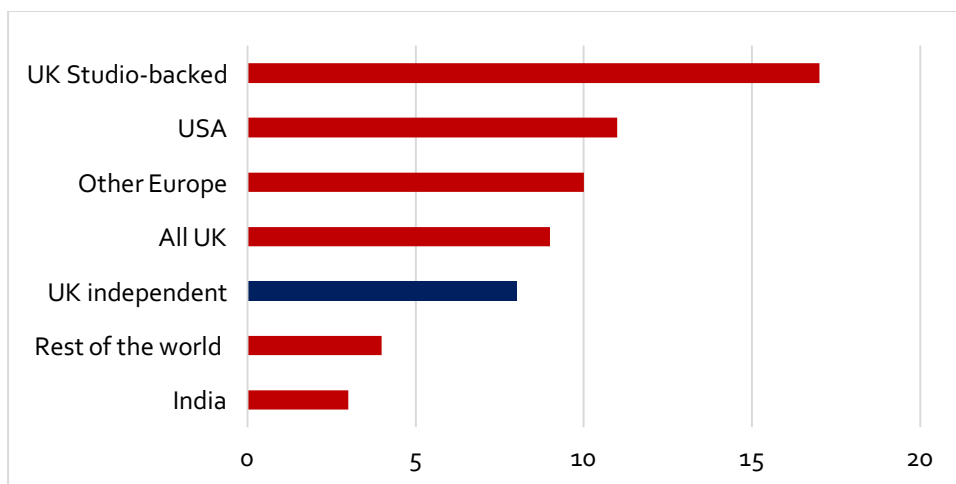
The disparity can be seen in the fact that of the 759 films released in the UK and Republic of Ireland in 2015, 93% of the market's £1.2 billion gross box office was claimed by the top 100 films, the highest level between 2007 and 2015.⁶⁹ In 2007, the top 100 films claimed 91% of the box office.⁷⁰

⁶⁸ FDA Yearbook 2017. Film Distributors' Association, 2017.

The overall value of the UK box office may have increased significantly over the timeframe – from £821 million in 2007 to £1.2 billion – but market space has become very much more limited by the sharply rising product flow. In 2007, 516 films were released in the UK and the Republic of Ireland. In 2015, there were 759 releases – an increase of 47%.

This pressure is also evident in average length of cinema release, with UK independent films averaging a shorter release than Studio films. According to the BFI, the median theatrical release length for UK independents was eight weeks in 2015, lower than both UK Studio-backed films and US films.

Figure 84: Median Number of Weeks on Release by Country of Origin, 2015



Source: BFI 2016 Statistical Yearbook - The box office 2015. Ibid.

A further complicating factor has been the rise of alternative content in the UK and other markets. As the exhibition sector has digitised, it has been able to widen its content offer to show live theatre, opera, and other types of non-traditional content. While popular, alternative content clearly provides further competition for screens and audiences in cinemas.

There is also an element of changing audience expectations related to the increased focus on the cinema as a space for premium content. Recent years have seen the Hollywood Studios retrench and produce fewer, but higher budget, tentpole films. Many of these films are based on brands or underlying material that audiences can recognise and are associated with hugely expensive marketing campaigns. Against this backdrop, it can be difficult for many independent films to compete – which they do at the same ticket price.

The pressure on UK independent films is highlighted by the fact they claimed just 10.5% of the market in 2015, down from 16% in 2014, despite contributing 24% of all releases.⁷¹ In total, UK independent films grossed £136 million in 2015.

⁶⁹ BFI 2016 Statistical Yearbook - The box office 2015. BFI, April 2016.

⁷⁰ 08 Statistical Yearbook. UKFC, 2008.

⁷¹ The marketshare for UK independent films fluctuates over the timeframe, with 2015's figure the third-highest since 2007.

Table 4: Country of Origin of Films Released in the UK and Republic of Ireland, 2015

Country of origin	No. of releases	% of all releases	Box office gross (£m)	Box office share (%)
USA	218	28.7	663.5	51.1
UK Studio-backed	27	3.6	443.9	34.2
UK independent	182	24.0	136.0	10.5
All UK	209	27.5	579.8	44.7
Other Europe	119	15.7	30.9	2.4
India	115	15.2	17.2	1.3
Rest of the world	98	12.9	7.0	0.5
Total	759	100.0	1,298.4	100.0

Source: BFI 2016 Statistical Yearbook - The box office 2015. Ibid.

12.2. Key Market Analysis

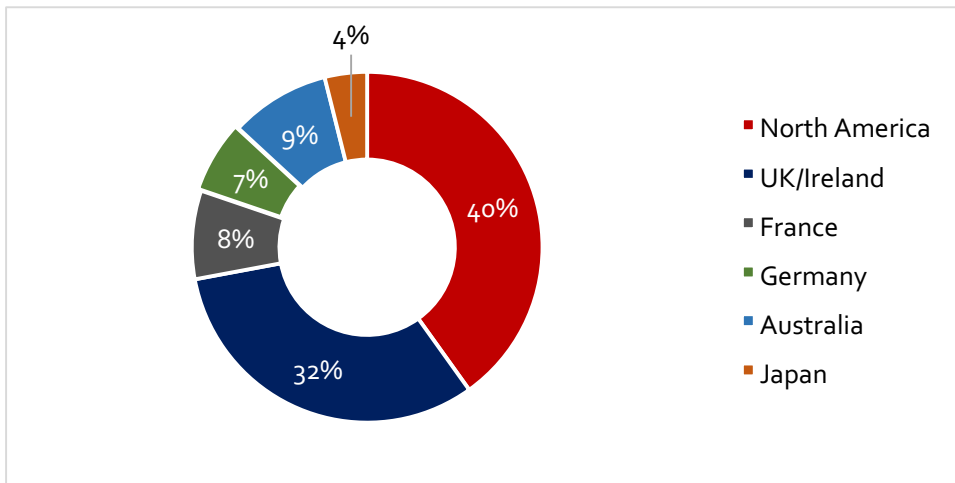
Detailed assessment was undertaken into the theatrical performance of UK independent films in six key markets: the UK and Ireland; North America; Germany; France; Australia; and Japan.⁷²

In total, 61.9% of UK independent films produced over the timeframe – 576 films – were released in at least one of these six markets. Their collective gross in the timeframe across the six markets was £2.6 billion, representing an average per-film gross of £4.5 million.

Naturally, the UK and Ireland is a key market for UK independent film, showing the highest rate of release among the six territories, with 57% of films made over the period gaining a release in the territory. North America is actually the largest market for UK independent films by box office gross, worth £1.04 billion in box office over the timeframe. Average box office takings per film was also highest in North America, reflecting the size of this market.

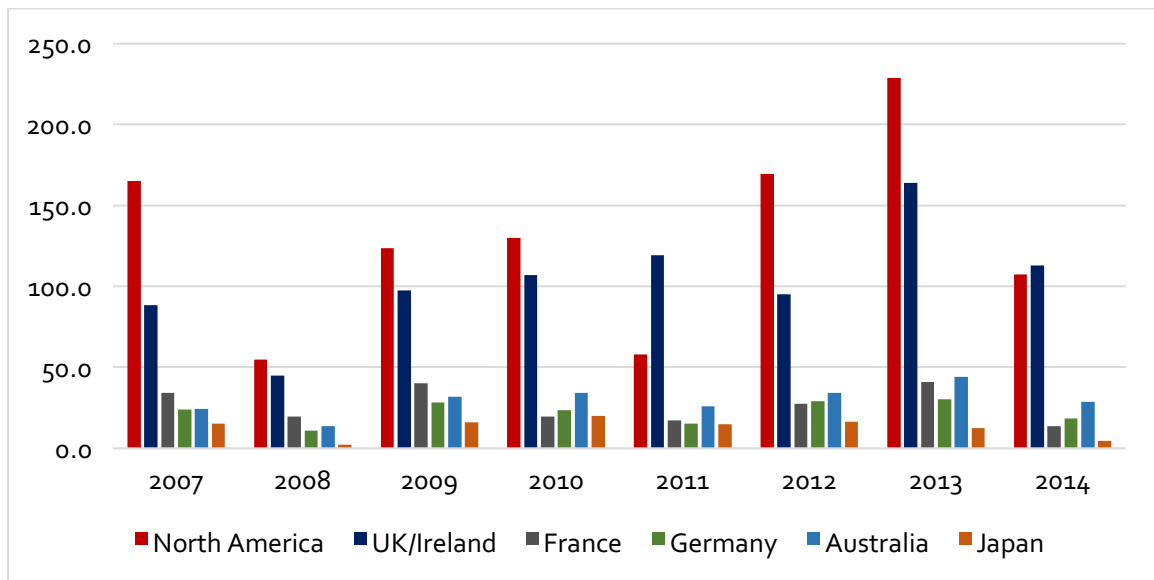
⁷² The full analysis is included in Appendix Two.

Figure 85: UK Independent Productions 2007-2014: Total Box Office Performance by Market



Source: comScore / SPI analysis

Figure 86: UK Independent Productions 2007-2014: Total Box Office per Year by Market (£million)^{73,74}



Source: comScore / SPI analysis

In terms of production types, domestic UK independent productions attained the highest box office across the six markets, with £1.11 billion. Inward investment UK independent projects, by way of comparison, generated £1.01 billion. This group also achieved the highest rate of release with 66.7% – i.e. 72 out of 108 inward investment films produced between 2007-2014 received theatrical release in at least one of the six markets. Average box office for an inward investment production was also

⁷³ A number of 2014 productions were still in release as of December 31, 2015 or had yet to release in one or more of the six markets under consideration but have since done so in the first months of 2016. These include: *Brooklyn*, *45 Years*, *The Lady in The Van*, *Legend*, *Miss You Already*, *Mr. Holmes*, *The Second Best Exotic Marigold Hotel*, *Suffragette*, *Youth*.

⁷⁴ A number of 2014 productions had yet to release anywhere in the world as of December 31, 2015 but have either since seen release or have scheduled releases. These include: *Bastille Day*, *Collide*, *Couple In A Hole*, *Dad's Army*, *High-Rise*, *London Has Fallen*, *The Ones Below*, *Our Kind Of Traitor*, *Pride + Prejudice + Zombies*.

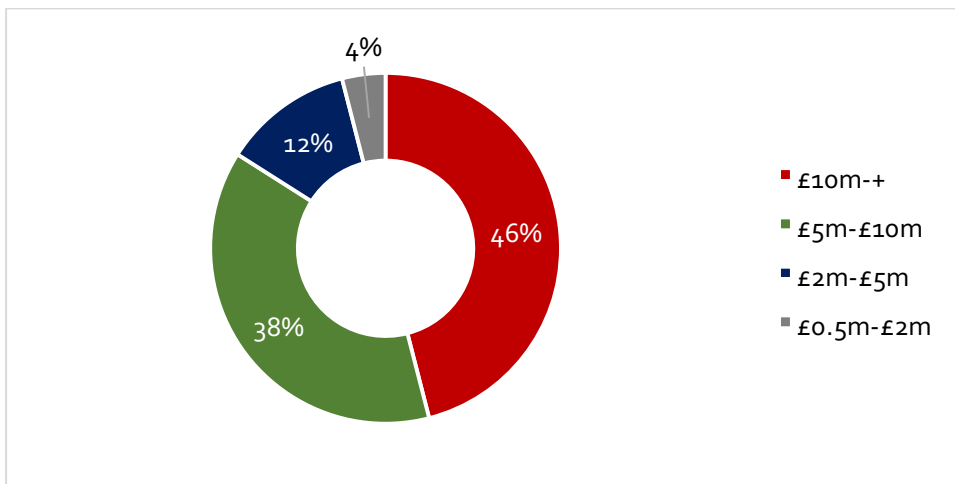
highest, at £14.1 million. Co-productions generated £473.6 million over the same timeframe and attained a 63.9% release rate.

Release rate and share of box office is higher in the higher-budget band. Films in the above £10 million budget band generated the largest share of box office over the timeframe, with 46.1%. This budget band is made up of the fewest films released (66) but with the greatest rate of release amongst any budget band, with 83.5%. This rises to 95.0% if 2014 is discounted.

UK independent films budgeted between £5 million and £10 million generated 37.9% of box office, showing a rate of release of 82.5%. Release rates decline at lower-budget levels, reflecting the fact that these films may have fewer commercial elements in comparison to higher-budget projects. Films budgeted between £2 million to £5 million account for 12.4% of box office, with a release rate of 68.9%. This rises to 73.5% if 2014 is discounted.

Films made in the lowest budget band, £0.5 million to £2 million, account for just 3.6% of box office. A greater number of released films fall into this budget band (244) but there is a significantly lower release rate of 49.0%. This rises to 52.4% if 2014 is discounted.

Figure 87: Total Box Office of UK Independent Productions 2007-2014 by Budget Band



Source: comScore / SPI analysis

PART SIX

IMPACTS ON THE SECTOR

13. IDENTIFYING PERMANENT STRUCTURAL AND TEMPORARY CYCLICAL CHANGES

This section explores the issues facing UK independent producers over the Study timeframe in order to assess which are permanent and which may be cyclical.

13.1. Overview

Since 2007, the UK independent film sector has been buffeted by a range of difficulties – many of which are global in their origin and impact. In order to provide a base for future policy considerations it is important to consider which of these difficulties represent a new, continuing market reality for producers, and which may be cyclical – and therefore limited in their future effects.

Indeed, the independent film business can be notably cyclical, with new major independent financing sources – such as home video, DVD – emerging and declining over time, along with specific threats to the stability of film revenues. The value of individual territories can also rise and fall over time, in relation to territory-specific market forces. For example, prices paid in a territory may increase if several new distributors enter the market and begin competing for similar projects, while prices may decrease if a market is rationalising, or is undergoing a wider downturn.

Despite the cyclical nature of the independent business, the overall decline for many types of independent projects is considered to be structural, since it is underpinned by factors that have disrupted the long-term value of the sector, such as the permanent decline of a previously lucrative home video market.

Digital disruption is also considered an overall structural change – although some of its effects may be both permanent and temporary. For example, the uncertainty around digital models that has been marked over the Study timeframe is unlikely to be permanent, as the sector stabilises. However, the negative impact of digital video on DVD value and piracy most certainly are permanent.

Key changes are outlined in the following sections.

13.2. Structural Changes

The central structural change to affect the independent sector over the Study timeframe has been the significant reduction in international value which, as previously outlined, has declined by around 50% for some types of projects. This has limited the ability to sell some types of UK independent film to the international market. It has also limited the ability to presell films, which has further complicated the financing of such projects. This is because presales can represent a major source of production funding, coupled with gap finance against any unsold territories. Presales can also represent a degree of market validation for a project, serving to attract other financiers.

The reasons for this shift are myriad, and while some effects may be cyclical – i.e. value may return to some degree – the overall effect is considered to be structural change because value has been markedly reduced. The decline in physical video value is itself structural.

This value shift has had a major and ongoing impact on financing plans. Again, there may be cyclical elements to this but the reduction in international value and a resulting increase in complexity must be considered structural. There is also increased pressure on budgets, and an evident polarisation towards premium projects with marketable elements or low-cost projects. This is affecting mid-range budgets.

13.3. Cyclical Changes

Cyclical changes are another key component in considering conditions in the UK independent sector, and several standalone cyclical trends are evident. For example, a rise in production costs may prove to

be cyclical, if the high levels of inward production currently attracted to the UK begins to decline or if the availability of industry workforce increases.

14. BUSINESS MODELS AND ACCESS TO FINANCE

This section outlines why the producer fee is the key source of income for UK production companies and how these vital earnings have been affected by the complexities of the financing landscape since 2007.

14.1. Production Company Income and Deferrals

The dominant production company model in the UK independent film sector is based around fees – i.e. a payment for the company's work on a project that is included in the film's budget. This is because it can be difficult for producers to access revenues from the exploitation of their films. Revenue waterfalls recoup income to financiers and other parties – including related sales and distribution costs – before producers. Since producers often lack the ability to supply finance and access a prime position in the waterfall they often sit relatively far back in the recoupment waterfall.

Moreover, film revenues are typically subject to a range of deductions before reaching the waterfall. For example, a portion of theatrical ticket sales is retained by cinema exhibitors. The exact percentage of this is subject to commercial negotiation, but can be 50% or more of gross box office.

Because production companies may see no further income from their work, production fees remain the single key source of company income. This one-off payment can be the only return for what can be a very lengthy, and in some cases entirely speculative, development process that has been undertaken by the producer over years.

Even before 2007, the typical UK independent production company business model was based around fees. However, the increased complexity of the finance landscape over the Study timeframe, as evidenced in previous sections, has increased the onus on fees as the company's key revenue-generating opportunity.

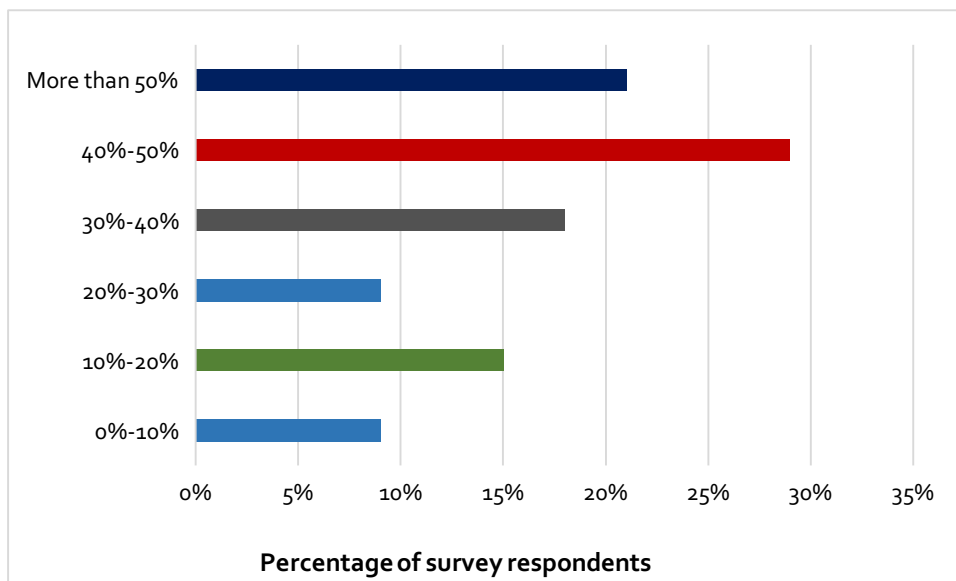
This is a key problem for the UK independent film production sector, limiting the potential to grow thriving, sustainable businesses with multiple income streams. The problem is exacerbated further by the fact that the production company's fee can often come under severe pressure from other financiers, particularly around the time of closing the finance of a film. At this late stage, a producer can be asked to reduce or defer their fee, with compromise often very difficult to avoid given the producer's limited leverage in negotiations and with an interest in ensuring the project continues rather than collapses.

The current financing climate has added extra complexity to closing, and an increased focus on returns among some providers means that closing has become a more challenging time for producers. The complexities involved in finalising disparate types of funding can mean that the attention of producers can be drawn away from vital creative tasks during pre-production.

Deferral of fees is rife in the independent sector. In total, 78% of respondents to the industry survey undertaken for this project had found it necessary to defer some or all of their producer fee since 2007 (Figure 18).

Clearly, many production companies have to defer the budgeted fee for their work. Estimating an average for the level of these deferrals is difficult since it depends on a range of factors specific to each project including the size of the initial budgeted fee and the subsequent negotiating position of the producer. Nevertheless, the survey results show that typical deferral levels can be significant. The majority pointed to a deferral in the region of 40%-50% or more, though the wide spread of responses shows the range of reductions producers are having to accept.

Figure 88: The Percentage of Producer Fee Typically Deferred by Survey Respondents Since 2007



Source: Industry survey, undertaken in 2016. Does not include results from respondents identifying as “don’t know”.

14.2. Production Company Sustainability

The pressure on production company income, and the lack of a strong ownership position, undermines sustainability in the UK independent sector.

As previously explained, fees and deferrals will vary from project to project. As a general estimate, a 5% fee on a £5 million film would be £250,000. If the producer then defers 40% of the fee an amount of £150,000 remains. However, that payment could reflect many years of work – perhaps three years of development, and a year of production and post. In this case, the fee would equate to around £38,000 annually.

This tallies with Office for National Statistics data reported by the BFI, which shows that of the 6,805 film production companies in 2015, 24.4% saw turnover of less than £49,000. Most companies – 81% – saw turnover of less than £249,000 in 2015, and only 1.6% of film production companies achieved turnover of over £5 million. The data also show that the number of film production companies had grown by 41.9% between 2010 and 2015, from 4,795 companies to 6,805.⁷⁵

Such an income level clearly limits the potential to invest in and grow independent production companies. There is something of a vicious circle, because the lack of strong revenues limits sustainability and the potential to access corporate finance and attract investors.

BFI data also show that of the 368 production companies associated with a UK feature in 2015, 94% (347 companies) were associated with a single film. In total, 17 companies were associated with two films, and only four companies with three films.⁷⁶

⁷⁵ *Film industry companies*. Ibid. According to the BFI, growth in film production companies is likely to reflect Special Purpose Vehicles, which are created for a specific production and remain in existence after completion.

⁷⁶ *Screen Sector Production in 2015*. Ibid. Data covers all production categories.

15. IMPACT OF CURRENT CONDITIONS ON PRODUCER ASPIRATIONS, TALENT AND AUDIENCES

This section explores how the identified issues are affecting producer aspirations in the UK independent sector, as well as the impacts on talent.

15.1. Producer Aspirations

There is a clear lack of sustainability for many UK independent production companies. Producers can struggle to earn significant fees and retain meaningful ownership over their work, while there is pressure on budgets and reaching audiences can be challenging.

There is no data on how many established producers are working in the micro-budget or low-budget arena, but the sharp rise in this type of work suggests that, for some, aspirations have been recalibrated towards less expensive productions – particularly because of the difficulties in financing at mid-range budgets.

Only a small proportion of production occurs above the £10 million range, which is an issue for the sector considering the international demand for higher-budget projects with marketable elements. Clearly, producers have to be experienced to work at this level, but difficulties in attracting finance for mid-level projects will likely make it challenging for producers to attain experience over successively larger productions, just as it may limit the development of other types of UK film talent.

While producers do not appear to be leaving the sector in great numbers, with the number of production companies increasing in recent years, the focus of many does seem to be shifting towards HETV, where a number of production companies have attracted major investment in recent years. Around a third of survey respondents said they had worked in this sector since 2007. Revealingly, 42% of respondents had not but were actively considering it (Figure 19).

15.2. Talent and Audience Impact

The UK is a global talent source and the UK independent sector not only provides a crucial proving ground for emerging talent but also supplies an arena for this talent to continue working throughout their career.

While there are still many UK independent films made, the profile they are able to achieve may limit the effectiveness of the sector in terms of driving talent. The shift towards lower budgets means that many films may not attract foreign sales, therefore limiting the number of people who get to see them. The large volume of low-budget work, and the limited remuneration for producers, may also limit the diversity of talent able to sustain a career in the UK independent film sector. In turn, this is likely to further limit the diversity of films produced.

Meanwhile, the difficulties in financing mid-range projects also limits the ability of the independent sector to provide a talent escalator – i.e. a succession of larger projects in which talent can work at increased budgets and scale.

Indeed, talent is a key issue for the sector. While talent drives international interest and sales, UK producers face strong competition from several fronts. This includes inward investment projects, which have a strong appetite for UK talent, including new talent. The highest earning film in 2015, *Star Wars: The Force Awakens*, featured two young UK stars, John Boyega and Daisy Ridley, in lead roles. HETV is also a key competitor.

16. CONCLUSIONS

Conditions in the UK independent sector have shifted markedly since 2007. For producers, the sharp reduction in international value for some projects represents a key shift, and the related reduction in presales is a major challenge for project financing. Beyond FTR, which was introduced in 2007, there has been limited emergence of new sources of finance. To this end, the UK should consider tracking aggregate financing sources for independent films, as well as international sales values, so that changes in individual sources over time can be better understood.

The net result is that access to finance has become more difficult, and closing finance can be much more complex – with many financiers more focused on risk and return in a post-recession landscape. This environment has put increased pressure on production companies to defer or cut their fees and has further served to limit their financial ownership of the IP that they have created. Both are structural issues that predate the timeframe but have become more pronounced.

Closing finance is a particular issue for producers and a large amount of pre-production time can be spent on financing issues rather than vital creative functions. The negotiating position of the producer is also weakened, with the focus on ensuring the film moves forward, even if this may reduce their financial interest in the project. This is being exacerbated by the costs of finance, which can typically run to 10% of a budget or more, and also the cost of legal work in closing finance. Such work can be extensive, even on low-budget projects, and may even cost more than on higher budgets depending on factors such as the level of in-house legal representation among financiers.

The rise in such costs is in sharp contrast to production company income. Most survey respondents have found it necessary to defer fees on films made since 2007 and as a result production companies may have very limited return for the years spent developing, producing and post producing a feature film. The lack of strong revenue streams affects production company sustainability, and the sector struggles to attract corporate finance – unlike the UK independent television sector.

In addition to financing issues, the sector is also seeing increased competition across several fronts. The rise of HETV, and its appeal to high-end talent, has provided a new outlet for film-makers and actors – at a time when international film buyers are closely focused on the market appeal of a project. There is also strong competition for audiences from HETV and a wide range of digital content. Meanwhile, the theatrical market has also become saturated, with a significant rise in film releases over the Study timeframe. This has further limited market space, particularly for lower-budget independent films that may struggle to attain visibility for audiences.

The worsening conditions have been obscured to a degree by the significant rise in expenditure of inward investment projects in the UK over the same timeframe.

The shift in conditions is being experienced differently across the industry. While international value for some independent projects has declined significantly, independent projects with commercial elements are in clear demand. There has been a polarisation over the timeframe towards premium and low-budget projects, meaning that those working in the former range may find that conditions feel very healthy. For those operating at the mid- and lower-budget levels, conditions are likely to have become much more difficult.

There are particular difficulties at the mid-budget range, with projects requiring commercial finance but potentially unable to attract a level of talent that can drive such finance. Given that this area links low- and high-budget ranges, difficulties here are likely to limit the UK independent sector's ability to continue developing major films and talent that win awards, generate economic impact, and project the stories, characters and themes that can stimulate a global audience's interest in the UK.

PART SEVEN APPENDICES

17. APPENDIX ONE – COUNTRY COMPARISON

This section provides an overview of how the UK independent film sector, and current conditions for independent producers, compares with a number of key countries.

17.1. Introduction

The purpose of this analysis is to contextualise the current independent production environment in the UK against the cyclical and structural issues that are also affecting the independent film business in a number of European territories, as well as key points of comparison such as local marketshare.

The countries selected for comparison are France, Germany, and the Nordic countries: Denmark, Finland, Iceland, Norway, and Sweden. France and Germany were selected because, like the UK, they are mature film markets with high volumes of both domestic independent production and inward investment.

Iceland also attracts high profile international productions that draw on the local crew base, while the other Nordic countries have active independent film sectors with a strong track record in developing talent, which are often utilised by foreign productions.

A short overview of each country is provided, followed by a quantitative assessment. This compares metrics such as production market size by the number of projects made, and budgets.

The analysis also details schemes, where they exist, that aim to strengthen the position of the independent producer, such as guidelines or legislation related to producer fees or rights retention, and any schemes designed to reward producers for the commercial or critical success of their work.

In addition, any relevant data relating to strength of production companies is also included.

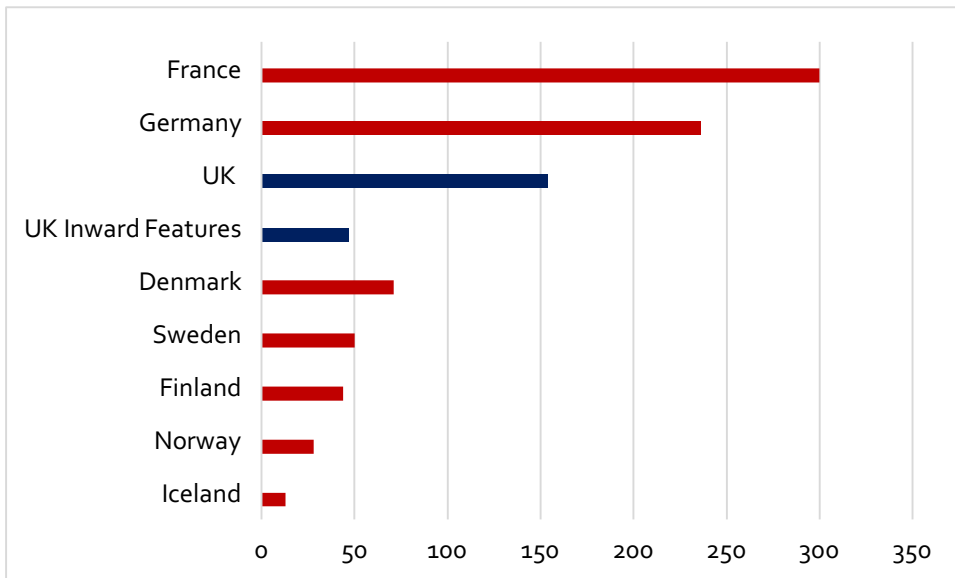
A note on data: the UK production analysis in this Study focuses solely on films classified by the BFI as UK independent – i.e. excluding UK films made with Hollywood Studio backing. The countries in this section do not classify national productions as independent and non-independent in this way, largely because of a low (if non-existent) Studio involvement in national productions. This section therefore compares UK independent with films defined as national by the other countries in the analysis, assuming these groups to be generally comparable.

Figures stated in GBP are converted from Euros with an average exchange rate for the 12 months at time of writing in late October, 2016, of €1.28 to £1. Because of the volatility of the pound's value following Brexit, in some instances the difference between the June 2015 exchange rate (€1.40 to £1) and the October 2016 rate (€1.12 to £1) created significant differences on some larger figures quoted, making funding comparisons between countries challenging.

17.2. Key Findings

The volume of feature films produced varies across the comparison countries. Domestic production is the number of films produced which are considered by the country's national film body to be domestic or national films, usually classed as such for creative and financial reasons. These include co-productions but generally do not include films produced by the six major US Studios. Figure 8g shows the number of national films produced in each EU comparison country in 2015, with the UK the third most active producer of six EU comparison countries. The UK data supplies additional data on inward investment films, showing that 47 such films were produced in 2015.

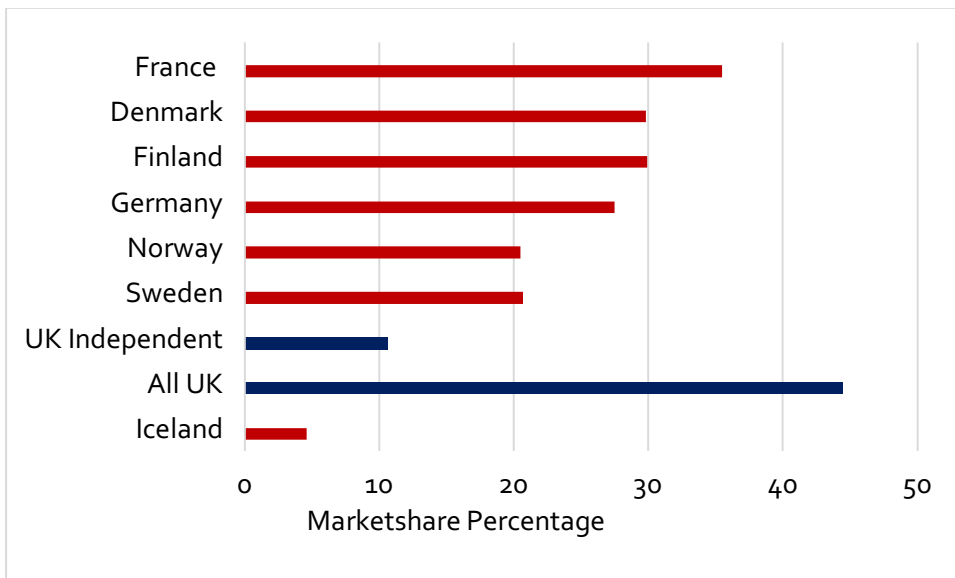
Figure 89: Volume of Feature Film Production in the UK and Comparison Countries, 2015



Note: Data for all countries includes 100% national films, majority and minority co-productions, and feature documentaries. Data on UK Inward Features do not include features only undertaking VFX work. 2015 data provisional. Source: *Focus – World Film Market Trends*. European Audiovisual Observatory / Marche du Film, 2016.

With regards to the marketshare of national films, the average for European films at the EU box office is 26.1%. As well as producing the most films in 2015, France also has the highest national marketshare of 35.5% (Figure 90). Although UK films had an average marketshare of 44.5% the majority was contributed by US Studio-backed UK qualifying films such as *Spectre* and *Star Wars: Episode VII – The Force Awakens*, with 34%. UK independent films attained a marketshare of just 10.6%.

Figure 90: Marketshare of National Films in the UK and Comparison Countries, 2015



Source: *Focus: World Film Market Trends*. Ibid.

Challenges facing UK producers were also identified in other countries such as the polarisation of film budgets and a reduced middle ground in France and, in most countries, the presence of a large number of small production companies who struggled to fund their projects. This is being addressed in different ways – for example, schemes designed to increase and facilitate co-productions introduced in

Germany, an automatic monetary benefit (to be re-invested in production) given to producers in France when their films perform at the box office, and a low-budget support scheme in Denmark that aims to give experience film-makers and emerging talents the opportunity to work in different ways.

17.3. France

In 2015, France had the highest production volume of domestic films and the highest marketshare for domestic films of the countries in the comparative group. Like the UK and Germany, it has a highly developed national film industry with generous and sophisticated public support mechanisms for local and foreign production. Meanwhile, France's Tax Rebate for International Productions (TRIP) has helped the country attract a wide variety of international projects and a high level of inward investment. This mechanism was increased from 20% to 30% in 2016 and the cap on eligible spend was increased from £16 million (€20 million) to £23 million (€30 million).⁷⁷ France is also a very active international co-producer.

The total value of investment in the production of French films increased by 23.1% to £938 million (€1.2 billion) in 2015. French investment provided 79.3% of this total, with the rest provided by foreign investors. The average production budget of a French film in 2015 was £3.4 million (€4.4 million), which was an increase from £3 million (€3.9 million) in 2014.⁷⁸

The largest share of financing (35.5%) came from television. In total, French broadcasters spent £781 million (€1 billion) on buying films in 2015, of which £330 million (€423 million) was spent on French films.⁷⁹ French producers contributed 30.4% of financing. In 2015, 13.7% of budgets were generated from presales. This overall value of presales fluctuates year on year, with 2014 and 2015 the two lowest years since 2008 (Figure 11). This mirrors the decline identified in presale finance for UK projects over the Study timeframe.

French producers have also been working with declining budgets: from 2007 to 2015 the average budget declined by 19%, from £4.2 million (€5.4 million) to £3.4 million (€4.4 million).⁸⁰

There is a clear correlation between budget size and finance model. In 2015, public funding made up 15.9% of the funding for films budgeted at under £3.1 million (€4 million), but only 3.4% of films with a budget of or above £5.5 million (€7 million). Conversely, presales represented 17.5% of the financing for films budgeted at or above £5.5 million (€7 million) and only 9% for films budgeted under £3.1 million (€4 million).⁸¹

Total CNC support in 2015 was £598 million (€765.2 million) of which £260 million (€332.5 million) was spent on cinema across a number of elements, including automatic and selective supports, production, distribution and cinema broadcasting.

⁷⁷ *Screen Sector Production in 2015*. BFI Research and Statistics Unit, April 2016
ions (TRIP). CNC document.

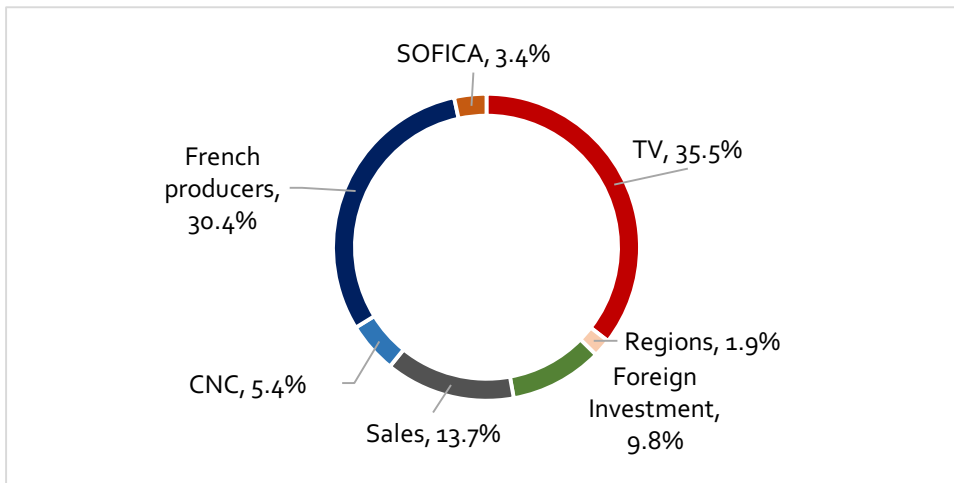
⁷⁸ *Key film figures in 2015*. CNC, May 2016.

⁷⁹ *Ibid.*

⁸⁰ *Results 2015*. CNC, May 2016.

⁸¹ *Ibid.*

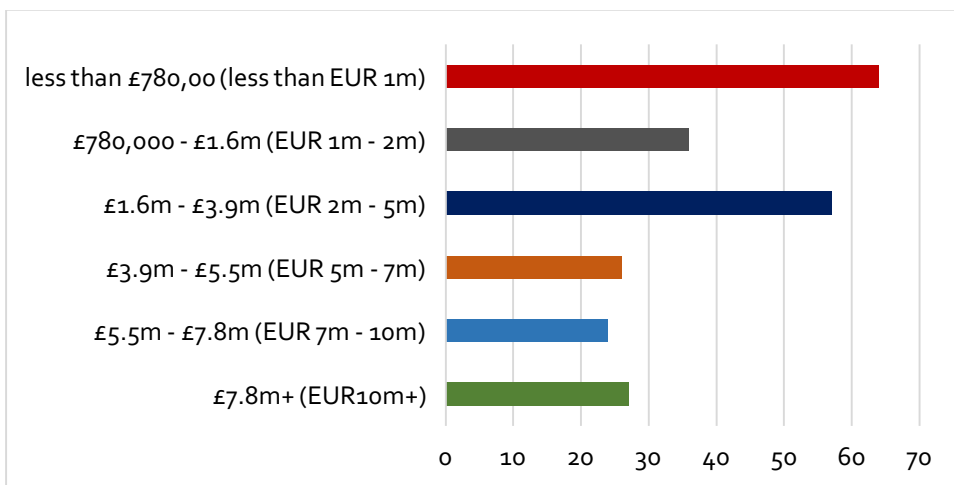
Figure 91: Financing of French Initiative Films, 2015 (%⁸²)



Source: Key film figures in 2015. Ibid.

The analysis of French initiative films by budget band reveals a similar polarisation trend as the UK, and film production in 2015 had a marked rise in the number of high-budget films and very low-budget films. In total, 27 films were made for above £7.8 million (€10 million), 50 between £3.9 million and £7.8 million (€5-10 million), 57 between £1.6 million and £3.9 million (€2-5 million), 36 between £780,000 and £1.6 million (€1-2 million), and 64 for under £780,000 (€1 million).

Figure 92: Production volume of French Initiative Films by Budget Band, 2015



Source: Key film figures in 2015. Ibid.

The CNC notes that the French film production sector is made up of many small companies, with the number growing by 4.8% per year on average over the past decade. In 2015, 215 companies made 234 French initiative films. Of those, 76 were co-productions, representing a rise of 46% from 2007.

The most active production company in 2015, Gaumont, produced eight French-language films (six of which were co-productions) with an average budget of £8.5 million (€10.9 million). In second place was Mandarin Cinema, which produced six films (including two co-productions) with an average budget of £7 million (€8.9 million). In total, 174 companies produced a single film in 2015.⁸³

⁸² French Initiative Films refers to 100% French films and majority French co-productions.

⁸³ La production cinématographique en 2015. CNC, April 2016.

French filmmakers and producers have access to a wide range of support mechanisms, primarily provided by the CNC. This includes an important automatic benefit that is given to the French producer or French production company when their film reaches a certain level of success at the French box office or generates a certain return through home entertainment sales or sales to broadcasters. For example, producers will receive the number of admissions multiplied by the price of cinema tickets multiplied by VAT multiplied by 125% – up to £7.2 million (€9.2 million) of box office returns (estimated at 1.5 million admissions). From £7.2 million to £24.1 million (€9.2 million to €30.8 million) the rate is 95% and anything above £24.1 million (€30.8 million) will be multiplied by 10%.

The sum given to the production company must be reinvested in the development and/or production of a future film and cannot be used to recoup the costs of the film which triggered the support. If the subsequent film in which the grant is re-invested meets certain conditions, the automatic support given to the production company can be increased by 15%.

Local film production has fallen in recent years but rebounded in 2015 to 300 films. This is an increase of 42 films from 2014. Notably, the number of projects co-produced with foreign investors increased from 106 in 2014 to 142 in 2015. Belgium was the main country involved with French majority co-productions, followed by Germany and Canada.⁸⁴

France's national marketshare dropped from 44.4% in 2014 to 35.5% in 2015. Nevertheless, this is much higher than the 10.5% box office share claimed by UK independent films in the UK in 2015.⁸⁵ Despite the decrease in domestic marketshare, France still had one of the highest in Europe.

Of the total number of films released in cinemas, 49.2% were French, 21.6% were US films, and 19.1% were European.

17.4. Germany

Like the UK and France, Germany has a highly-developed film industry, which significant levels of production and infrastructure that supports both domestic and inward investment production.

The German film industry also benefits from a strong film-making infrastructure and increasingly high profile talent. It produced the second-highest number of features in the EU in 2015, with 236 films. This is above average, with data from the German Federal Film Board ("FFA") showing that the country produced an average of 222 films annually between 2011 and 2015.⁸⁶ Total funding in 2015 stood at €73.2 million, with €29.1 million invested in features.⁸⁷ FFA offers selective project funding and automatic 'reference' funding which is a retroactive support for successful films. Delivered in the form of non-repayable grants that can be used for future productions, reference funding relates to a number of points such as ticket sales and awards success.⁸⁸

Germany consists of 16 regions, most of which offer support: the total annual budget of Germany's eight regional film funds totalled €158.1 million in 2015. In addition, the German Federal Film Fund (DFFF) has an annual budget of €60 million.

The majority of films are budgeted between €1 million and €3 million, with the majority financed with public money.⁸⁹

⁸⁴ Results 2015. Ibid.

⁸⁵ Including UK Studio backed titles, the total box office share in the UK for comparison was 44.7%.

⁸⁶ The German Film Scene 2015. A Comprehensive Overview. Split Screen/German Films.

⁸⁷ Facts and Figures for German Cinema in 2015. FFA.

⁸⁸ FFA Production Funding webpage: <http://www.ffa.de/production-funding.html>

⁸⁹ The German Film Scene 2015. Ibid.

Germany is an active co-producer with an international outlook. In 2015, only seven of the 30-plus German films and co-productions which screened at the Toronto international Film Festival were in the German language.⁹⁰

The second-highest grossing film in Germany in 2015 was a local comedy sequel, *Fack ju Göhte 2*, which earned £49 million (€62.7 million). The sixth most successful film of 2015 was also a German film, *Honig im Kopf*, which earned £45.7 million (€58.5 million). Driven by such local successes, the marketshare for national films at the cinema – 27.5% – reached the highest level since records began in 1992.⁹¹

Of the 596 new releases in cinemas, 226 were German representing a 37.9% share of releases and an increase of 29 films from 2014.⁹² In comparison, UK independent films saw a marketshare of 10.6%, excluding Studio releases.

In March 2017, the German government announced a £39.1 million (€50 million) increase in film funding to £117.2 million (€150 million) from 2018, in order to grow the local and international film business.⁹³

17.5. The Nordic Countries

17.5.1. Denmark

Of the Nordic countries, Denmark had the highest volume of production in 2015, with 71 films produced. As with the other comparison countries, public support plays a crucial role in film financing. The average subsidy allocation from the Danish Film Institute (“DFI”) for a Danish fiction feature in 2015 was 40.2% – an increase from 31% in 2014. Meanwhile, the average feature budget declined from €3.4 million in 2014 to €2.1 million in 2015, with the DFI noting that this reflects an increase in low-budget productions.⁹⁴

The DFI primarily supports the film industry through various types of production subsidies. These support, among other things, development, production, co-productions and distribution of feature fiction films, documentaries and shorts. In 2015, the DFI supported 31 feature fiction films, which is an increase of three from 2014.

In November 2014, the Danish Parliament signed off on the latest Film Agreement which came into force in 2015 and will run until 2018, laying down the framework and funds to support for the local film industry.⁹⁵ A key aim of the Agreement was the boost the production volume of Danish films and the Danish Film Institute (“DFI”) is to support the production of 82 to 104 films over the four-year period. This will include eight Danish films targeting the international market, 20-36 minority Danish co-production, and 12-24 low-budget films over four years, through the creation of a new low-budget scheme that aims to give established and emerging talents the opportunity to try different ways of working.⁹⁶

The initiative covers up to 80% of the budgets for films up to £300,000 (DKK 3 million), and up to 60% for films up to £600,000 (DKK 6 million).⁹⁷ The purpose is to provide the opportunity to new talents and companies to make feature films earlier in their career. As such, the DFI assesses the applications quickly and notes that there is only a short development period in order to enter production as quickly

⁹⁰ *German filmmakers look beyond their borders*. Variety, 11th September 2015.

⁹¹ *The German Film Scene 2015*. Ibid.

⁹² *Facts and Figures for German Cinema in 2014*. FFA.

⁹³ *Germany ups film funding by €50m in major boost to sector*. ScreenDaily, 16th March 2017.

⁹⁴ *Facts & Figures – Production and Exhibition 2016*. Danish Film Institute, 2016.

⁹⁵ *Danish Film Agreement 2015-2018 in place*. Nordisk Film & TV Fond, 14th October, 2014.

⁹⁶ *Danish Film Agreement in place for 2015-2018*. Danish Film Institute webpage.

⁹⁷ *DFI Low Budget film scheme up and running*. 14th August, 2015.

as possible. Claus Ladegaard, DFI's Head of Production and Development, stated: "It's about creating tight production conditions and challenging new and established talents. It's also about opening up to new distribution routes as we make no demands for theatrical releases."⁹⁸

In 2015, Danish films earned a 30% marketshare and represented 14% of film releases in the country. These levels have been stable for the last five years.⁹⁹ Across all releases, 14 million tickets were sold in 2015, an increase of 14.9% from 2014 and the second best year since 1982.¹⁰⁰

The third highest-grossing film in 2015 was a Danish production, comedy sequel *Klown Forever*, which attracted just over 500,000 admissions. Two other national films made it into the annual top 10, *Men & Chicken* and *My Canadian Adventure*, which attracted more than 300,000 admissions each. Overall, nine Danish films made it into the 2015 box office top 20.

17.5.2. Sweden

In recent years, the Swedish film industry has demonstrated an ability to produce strong talent, with many local filmmakers making their mark at the local box office and gaining critical recognition overseas. Much like the UK, the high calibre of talent in Sweden has attracted the interest of foreign producers and has provided local auteurs the opportunity to direct international productions such as *Tinker Tailor Soldier Spy*, *Safe House*, and *Child 44*. Local productions such as *Force Majeure*, *Eat Sleep Die*, *She Monkeys*, and *Let the Right One In* were all selected for, and won awards at, major festivals.¹⁰¹

In 2015, the highest grossing Swedish film was the comedy *A Holy Mess* which achieved over 715,000 admissions and was the fourth highest grossing film in the country for the year. *A Man Called Ove* was released at Christmas, but is now the most successful film to be released that year in Sweden and the third biggest Swedish box office hit since measurements began in the early 1960s.¹⁰²

In 2015, 46 Swedish feature films were released, the majority of which were documentaries (39%), followed by drama (37%) and comedy (16%). Much like in the UK, genres such as action, fantasy and horror were less prevalent accounting for 2% of production volume each.¹⁰³

Challenges to feature film production are similar to those in the UK, and the SFI notes: "With talents moving from feature-length film to television series, finances in the feature-length business model have grown increasingly weak." Combined with the decline in the physical video market, this has prompted several production outfits to refocus away from features and onto series. According to the SFI, companies in the Swedish film sector had total net sales of approximately £833 million (SEK 10 billion). However, the average turnover per company is low, especially for production companies with an average of approximately £915,000 (SEK 10,976,000).¹⁰⁴

Between 2011 and 2015 the vast majority of Swedish production companies, 230 out of 261, turned over less than £1.5 million (SEK 18 million), 27 companies made between £1.5 and 7.4 million (SEK 18-89 million), 2 made between £7.4 and £33.25 million (SEK 90-399 million) and two made more than £33.3 million (SEK 400 million).¹⁰⁵

⁹⁸ Ibid.

⁹⁹ *Facts and Figures – Production and Exhibition 2016*. Danish Film Institute.

¹⁰⁰ *2015 a record year at the movies*. CPH Post, 4th January, 2016.

¹⁰¹ *Swedish Film's New Wave*. 16 May 2016. Official site of Sweden.

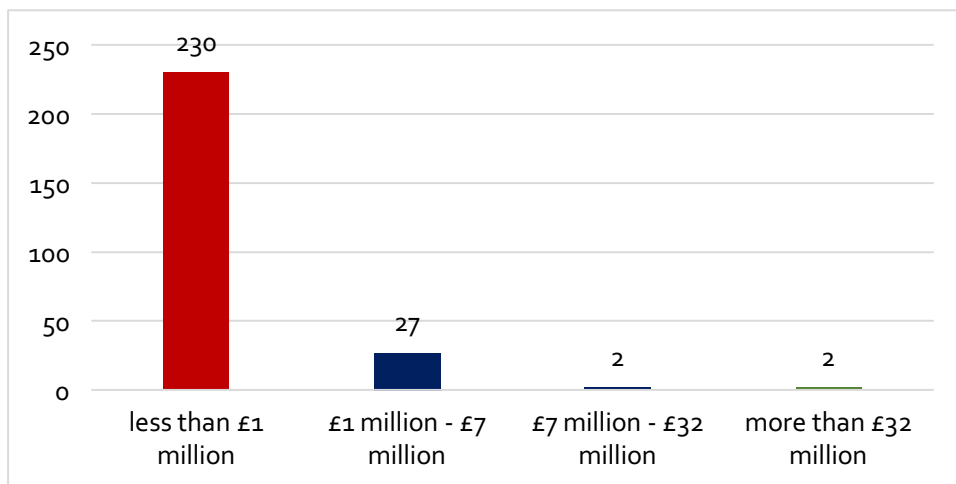
¹⁰² *Facts and Figures. SFI, 2015*.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Limited companies that produced at least one film, regardless of length/form, in the past five years according to the Swedish Film Database.

Figure 93: Number of Swedish Production Companies by Revenue, 2015

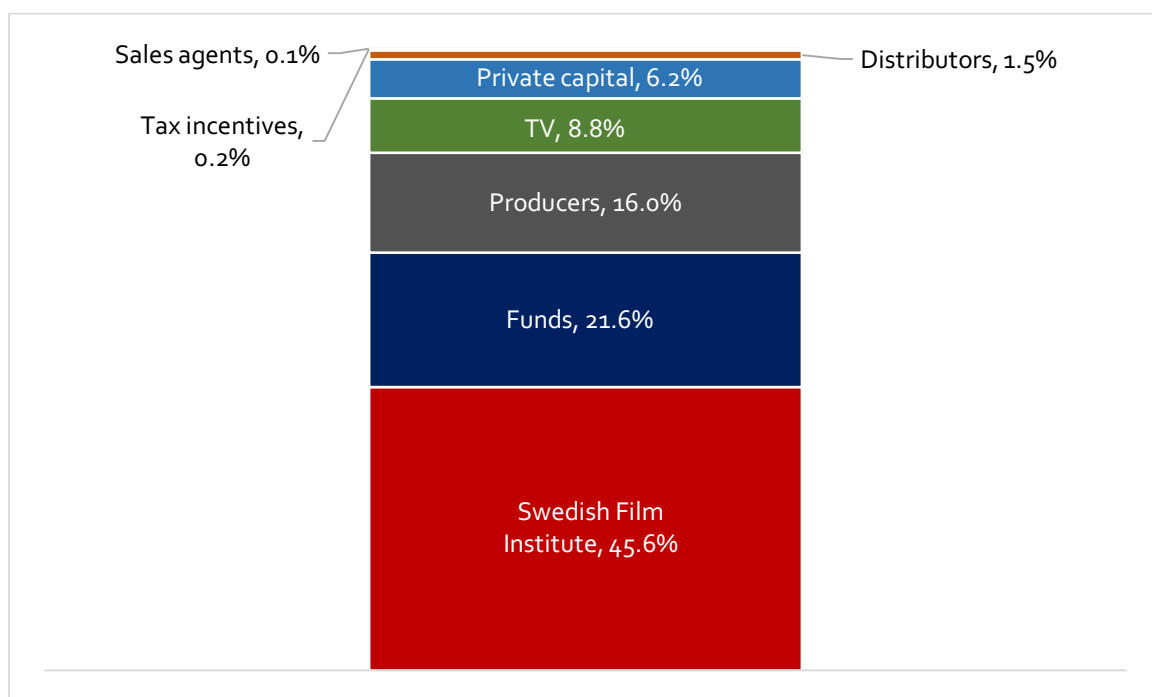


Source: SFI

The SFI provides development and production funding for shorts, documentaries, features and converged media projects, and there is also automatic funding that aims to specifically support films with strong box-office potential in the Swedish film market. Public funders also offer some slate funding that is given to companies rather than specific projects.

As in the UK, public support plays a major role in film finance. On average, 46% of the budget for an SFI-supported Swedish feature fiction film is covered by production funding from the SFI. A further 16% comes from producers, including 12.4% from the producer’s own investment, 2.8% from co-producers and 0.8% from foreign co-producers. Unlike the UK, Sweden does not have an automatic incentive mechanism, so tax incentives play a minor role in financing. On average, only 0.2% of a budget is contributed by foreign tax incentives.

Figure 94: Average Financing for a Feature Length Fiction Film With Funding From an SFI Film Commissioner, 2015



Source: Facts and Figures 2015. Ibid.

SFI data show that 19 feature fiction films received public funding in 2015, the average budget for these was £1.56 million (SEK 18.7 million), which is lower than the average for the past five years (SEK 21.7 million – i.e. £1.8 million). In 2015, external venture capital represented about 10% of the average budget for fiction features.

Germany is the foreign country where the most cinema admissions to Swedish films were recorded between 2011 and 2015, followed by France, Denmark, Norway, the US, and Spain. The Netherlands released the most Swedish films theatrically, followed by Norway, Switzerland, and Finland.

17.5.3. Norway

In 2015, the Norwegian Film Institute spent £38.5 million (NOK 445.7 million) to fund Norwegian films, documentaries, short films, television drama, and computer games. A further £1.9 million (NOK 21.9 million) was awarded through other subsidies.¹⁰⁶

A total of 23 Norwegian feature films were released in 2015 in local cinemas. The marketshare for domestic films was 20.5% as admissions for local films fell by 9%. Norway's highest grossing film of 2015 was a national production, *The Wave*.

In 2015, the average production budget for features receiving support through the Market Criteria Scheme was £2.8 million (NOK30.3 million). Projects supported through the New Ways Norway scheme to support artistic audacity and progress of young, talented directors, had an average budget of £0.75 million (NOK 8 million).

On linear television, the viewer share for Norwegian films was 4.2% in 2015, a reduction of 5% in 2014. The viewer share for Norwegian television series was 12.4%, an increase from 9.6% in 2014.

In 2015, the Norwegian Culture Ministry introduced the country's first incentive scheme to attract foreign productions to the country.

17.5.4. Finland

Admissions for domestic films in Finland reached record-breaking levels in 2015, with a marketshare of 30%. The recent success of Finnish film is attributed to a revitalisation of Finnish cinemas due to digitisation as well as diverse domestic output supported by public funding. The Finnish Film Foundation's support budget was £19 million (€24.6 million), which was the same as 2014 but a 7% decrease from 2012. 88% of the FFF's budget is spent on production support. Applications for support have been steadily rising, with a total of 1,419 applications in 2015 which was more than a 40% rise from five years ago.

The biggest Finnish hit of 2015 was *Luokkakokous*, a remake of a 2011 Danish hit film, which came second at the box office and made just over 500,000 admissions. The film had a budget of £1 million (€1,281,500) with over a third provided by the Finnish Film Foundation (FFF). In total, 88% of the FFF's £19.2 million (€24.6 million) budget goes to production support which includes scriptwriting, development, production, marketing and distribution and post-release support. The rest is aimed at exhibition, international promotion, distribution and festivals. The FFF's production support covers over 90% of Finnish film production.¹⁰⁷

In 2015, the average budget for a fiction feature was £1.5 million (€1.9 million). This represents a significant rise from £1 million (€1.3 million) in 2014. The increase is due to a significant increase in foreign investment from 7% in 2013 to 15% in 2014 to 28% in 2015. Investment levels from production companies, television companies and distribution companies stand at around 10% each. The Finnish Film Foundation notes that internationalisation "is the natural course for the Finnish film industry

¹⁰⁶ Årsrapport 2015. NFI.

¹⁰⁷ Facts & Figures 2015. The Finnish Film Foundation.

considering the apparently limited capital markets in Finland and the new distribution methods not limited by national borders".¹⁰⁸

17.5.5. Iceland

Like the UK, Iceland has also seen a growth in inward investment productions which draw on the industry's existing crew capacity.

Iceland is a strong generator of film-making talent, although revenues from Icelandic films saw a 63% decline between 2014 and 2015, from £1.2 million (ISK 197 million) in 2014 to £0.4 million (ISK 73.8 million) in 2015.¹⁰⁹ Marketshare decline from 13.3% in 2014 to 4.8% in 2015. *Rams* was the highest grossing Icelandic film of 2015, with 16 titles released.¹¹⁰

Many local titles that did modestly in the country were critical hits abroad. These include *Rams*, which won the Un Certain Regard prize at the Cannes Film Festival and screened at the Toronto International Film Festival; *Sparrows*, which also screened at Toronto and won prizes at the San Sebastian Film Festival and the Chicago Film Festival, and Dagur Kari's *Virgin Mountain*, which premiered at the Berlin Film Festival and won a prize at the Tribeca Film Festival.

Public money plays a significant role in financing, with Icelandic producers historically needing international producing partners due to the small size of the local industry. The primary mode of public support is through project funding from the Icelandic Film Centre.

¹⁰⁸ Ibid.

¹⁰⁹ This relates to the fact a local film, *Life in a Fishbowl*, topped the Icelandic box office in 2014.

¹¹⁰ *Nordic box office reports healthy 2015*. ScreenDaily.

18. APPENDIX TWO – ANALYSIS OF THEATRICAL PERFORMANCE OF UK INDEPENDENT FILMS IN KEY TERRITORIES

This section outlines the results of analysis into the performance of UK independent films in six key markets: North America, UK/Ireland, France, Germany, Australia, and Japan.

18.1. About the Analysis

This appendix provides a data-driven assessment of the performance of the films in the BFI data set theatrically in six key territories:

- The UK and Ireland
- North America
- Germany
- France
- Australia
- Japan.

It focuses on the production years 2007-2014 due to the delay that can exist between production and release: at the close of 2015, for example, only two UK independent productions produced in that year had seen release anywhere in the world. All data is based on UK independent productions receiving theatrical release tracked by comScore. The box office data runs until 31st December 2015.

18.2. Total Performance and Rate of Release

18.2.1. Overview

In total, 576 UK independent films produced between 2007-2014 received a theatrical release in at least one of the six markets considered. This represents an overall release rate of 61.9%.¹¹¹ However, of the 576 films that received a release, 190 films – or 33% of the total – only received a release in the UK/Ireland. The collective gross of UK independent films released in the timeframe across the six markets was £2.6 billion, representing an average per-film gross of £4.51 million from these markets.

Table 5: UK Independent Productions Release Rate and Performance, 2007-2014¹¹²

Year	UK Independent Films			Box Office (£m)	
	Released	Produced (above £0.5m)	Rate of release	Total	Average
2007	70	104	67.3%	350.4	5.0
2008	70	110	63.6%	145.7	2.1
2009	63	114	55.3%	337.2	5.4
2010	69	109	63.3%	333.5	4.8
2011	91	126	72.2%	256.2	2.8

¹¹¹ A number of 2014 productions had yet to release anywhere in the world as of December 31, 2015 but have either since seen release or have scheduled releases. These include: *Bastille Day*, *Collide*, *Couple In A Hole*, *Dad's Army*, *High-Rise*, *London Has Fallen*, *The Ones Below*, *Our Kind Of Traitor*, *Pride + Prejudice + Zombies*. It should also be noted that release rate is for theatrical market only: films may have been released on other platforms.

¹¹² Results measured across six markets: North America, UK/Ireland, France, Germany, Australia, Japan.

2012	84	117	71.8%	371.7	4.4
2013	80	122	65.6%	520.8	6.5
2014	49	137	35.8%	284.3	5.8
Total	576	939	61.9%	2,600.0	4.5

Source: comScore / SPI analysis

Analysis of the number of UK independent films released in the six key markets by budget band shows a marked decline in the rate of lower-budget films – particularly in the £0.5 million to £2 million band. The number of releases in that band declined from 45 in 2011 to 19 in 2014, although 2011 was a peak release year in the timeframe (Table 6, Figure 4).

This underlines the challenges of the international theatrical market for UK independent features, particularly those at lower budgets which are unlikely to contain major commercial talent. Further analysis of releases at above and below budgets of £5 million show that the decline is much more pronounced for films budgeted at between £0.5 million and £5 million, with a slight rise in release for films above £5 million (Figure 5).

Table 6: Number of UK Independent Films Released Across Six Key Markets by Budget Band, 2007-2014

	£0.5m-£2m	£2-£5m	£5m-£10m	Above £10m
2007	34	16	14	6
2008	32	21	11	6
2009	21	20	13	9
2010	26	24	14	5
2011	45	24	16	6
2012	41	20	11	12
2013	26	25	16	13
2014	19	12	9	9
Total	244	162	104	66

Source: comScore / SPI analysis

18.2.2. Key Markets Overview

As to be expected, the UK/Ireland market is key for UK independent films with the highest rate of release among the six territories. In total 57% (537 films) of productions made during the Study timeframe attained a UK/Ireland release, earning a total of £829.1 million.

North America was the most lucrative market by box office grosses for UK independent films, which earned £1.04 billion over the timeframe. In terms of release rate, 31.7% (297 films) attained a North American release. Average box office per film was also highest in North America which, at £3.50 million per film, outperformed the UK/Ireland, which saw average box office of £1.54 million.

Australia, France, and Germany all saw a rate of release around 20%, with Australia at 25.8% (242 films), France at 20.3% (190 films), and Germany at 19.9% (187 films).

Japan saw the lowest rate of release with 8.2% (77 films) but, conversely, shows a higher average per film box office result than Australia, France, and Germany. The Japanese average was £1.31 million, outperforming £1.12 million in France, £0.98 million in Australia, and £0.96 million in Germany.

Overall, 2013 productions saw the highest box office results of any year in all markets except Japan. This is partly down to staggered release dates. While the top three production titles of 2013 – *Paddington*, *The Imitation Game*, and *The Hundred-Foot Journey* – were released in all markets, the fourth and fifth largest titles (*The Inbetweeners 2* and *Woman in Black 2*) were not released in Japan by the end of 2015. Nor were two other films in that year's top 10 – *Ex Machina* and *Far From the Madding Crowd*.

Conversely, 2008 productions saw the lowest box office results of any year in all markets except France. The general lack of success can be attributed to a lack of key awards season titles, with only the modest performer *An Education* (£12.5m across these six markets) seeing significant awards season play. This compares to the years either side of 2008, when UK independent productions won the best picture Oscar. In 2007 this was achieved by *Slumdog Millionaire* (£169.3m across these six markets) and in 2009 by *The King's Speech* (£197.7m). These two films were not only the biggest box office successes of their years but also the two biggest UK independent successes across the eight-year period considered. In 2008, the top performer was *Kick-Ass* with a far smaller £53.3 million from these six markets.

France is an exception due in large part to two productions. Although *Kick-Ass* was the top UK independent performer from 2008 in France (£4.3m), the next best were Ken Loach's *Looking For Eric* (£2.7m) and family fantasy *Skellig* (£2.03m). Loach is particularly popular in France, where *Looking For Eric* saw its French gross outperform the collective gross of the film across all five other markets (£2.2m). The film also has a plot connected to prominent French footballer Eric Cantona, who also appears in the film. Other than the UK (where it grossed £1.3m, out-performed by France), *Skellig* did not release in the other markets examined.

18.2.3. UK/Ireland

Partly due to hits like *Paddington*, 2013 productions saw the biggest box office year in their home market, with £164 million. Overall, UK independent productions saw box office exceed £100 million in UK/Ireland in four out of eight years (2010, 2011, 2013, 2014).

The highest rate of release was achieved by 2011 productions (71.4%) with 90 titles receiving theatrical release. This year also generated the second-best box office results, with £119.7 million.

Average box office exceeded £2 million for both 2013 (£2.16m) and 2014 (£2.50m) productions. Only 2008 productions saw average box office fall below £1 million (£0.75m).

18.2.4. North America

As with four other markets, 2013 productions grossed the biggest box office in North America with £228.8 million. Five other years saw UK independent productions gross more than £100 million collectively in North America, with films produced in 2008 and 2011 showing the weakest performance (£54.5 million and £61.7 million respectively).

The highest rate of North American release was attained by 2012 productions, with 48 titles receiving theatrical release for an overall rate of 40.7%.

18.2.5. France

Again, 2013 productions grossed the biggest box office in France with £41.0 million. That year also saw the highest number of releases (33) and rate of release (27.3%).

Conversely, 2014 productions saw the weakest performance in France with £13.5 million. While 2007 productions saw the second weakest results of any year in UK/Ireland (£88.4m) they proved third strongest in France (£34.0m).

18.2.6. Germany

Overall, 2013 productions grossed the biggest box office in Germany with £30.4 million. That year saw the highest number of releases (33) and rate of release (27.3%).

The weakest performance was seen by 2008 productions, which earned £10.9 million overall. That year also saw the second lowest rate of release (14.5%) after 2014 (12.4%).

18.2.7. Australia

Productions from 2013 grossed the biggest box office in Australia across the timeframe of £44.1 million. This year also saw the highest number of releases (37) and highest rate of release (31.4%).

All other years saw rate of release exceed 20% except 2014 (15.3%). Despite a strong rate of release (30.0%) 2008 productions still saw the lowest box office result: £13.5 million. Average box office for 2008 productions was £0.41 million.

18.2.8. Japan

Bucking the trend, 2010 productions grossed the biggest box office of the examined year in Japan with £19.9 million. This year saw 11 productions released, matching 2013 and two behind 2013. This is almost solely due to the success of Paul W.S. Anderson's *The Three Musketeers*, which earned £15.6m in Japan and was the film's biggest market ahead of the US (£12.85m) and Germany (£10.6m). Anderson is well known in Japan for the massively popular Resident Evil series.

The highest rate of release was seen by 2012 productions, with 14 films released for a rate of 11.9%. These releases generated £16.2 million in Japanese box office.

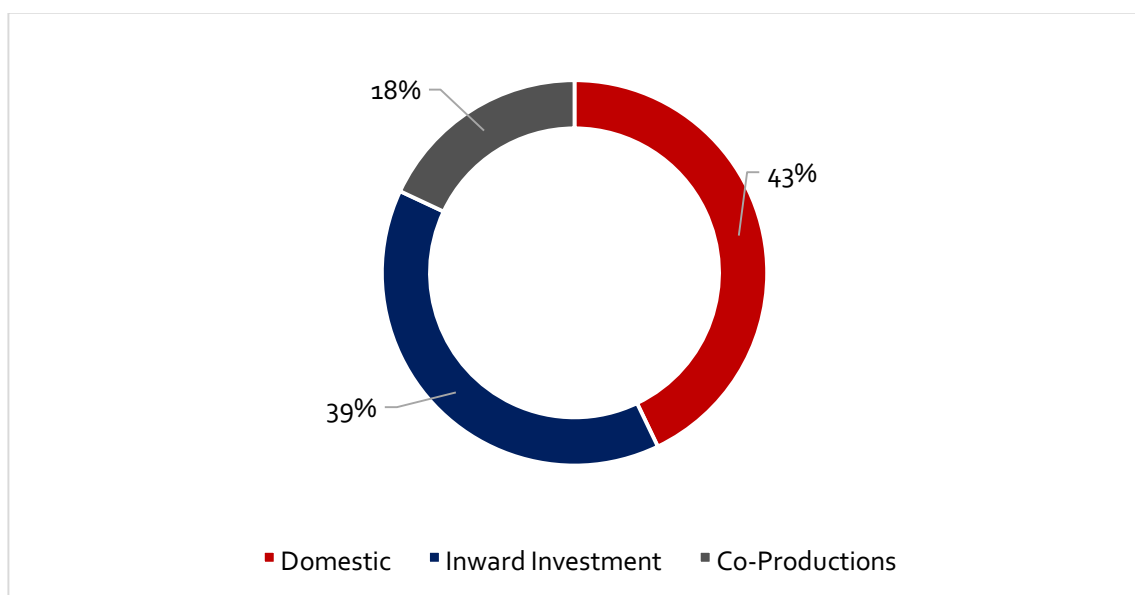
The weakest box office performance was seen by 2008 productions, which generated just £2.3 million from seven releases.

While 2007 productions saw average box office exceed £2 million (£2.17m) all other years saw average box office above £1 million, except 2008 (£0.32m).

18.3. Performance by Type of Production

This section assesses performance by type of UK independent production: i.e. domestic, co-productions and inward investment productions.

Figure 95: Percentage of Box Office by Type of Production 2007-2014



Source: comScore / SPI analysis

18.3.1. Overview

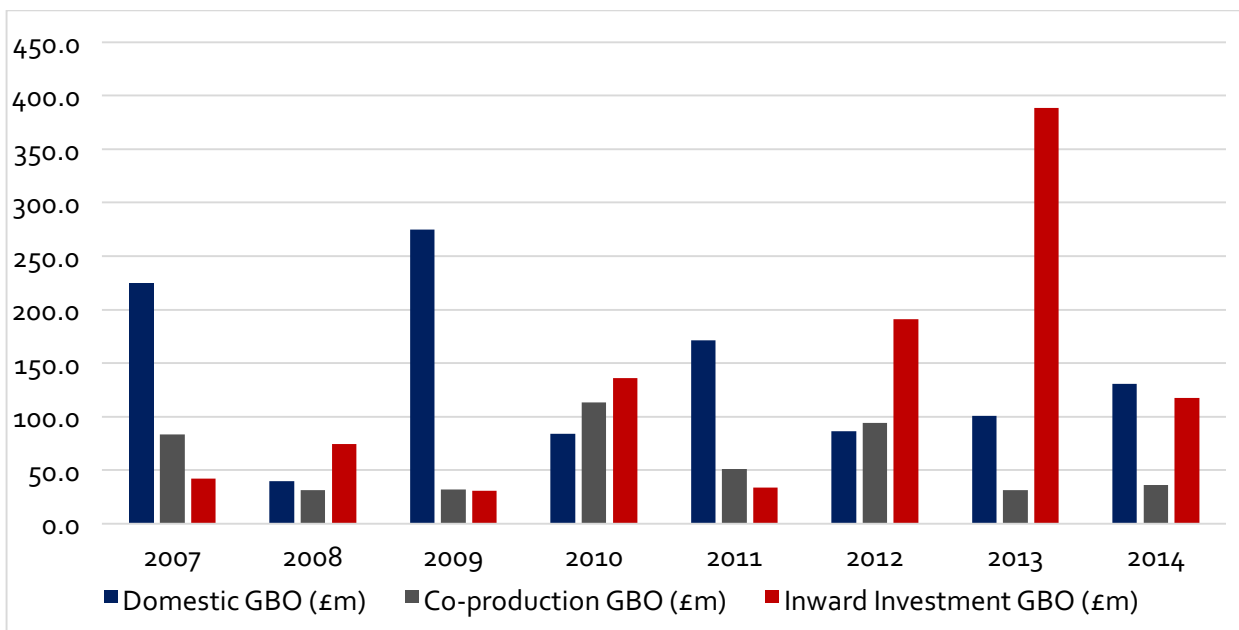
Domestic UK independent productions accounted for the highest percentage of box office (£1.11 billion) taken across the six markets considered. However, rate of release for domestic productions is lower than that seen for either inward investment or co-productions. In total, 366 of the 614 domestic productions made between 2007 and 2014 received release in at least one of the six markets – a release rate of 59.6%. Their average box office was £3.04 million.

In comparison, inward investment productions generated £1.01 billion, and achieved the highest rate of release with 66.7% – i.e. 72 out of 108 inward investment films produced between 2007-2014 received release in at least one of the six markets. Average box office for an inward investment production was £14.1 million – more than four times greater than that for domestic titles or co-productions.

Co-productions generated £473.6 million over the same timeframe with 138 out of 216 produced receiving release in at least one of the six markets. This is a 63.9 % release rate.

The disparity between the types of production is in large part because of the higher number of domestic productions, and the fact a greater number of domestic films are low-budget independents with 394 total productions (64.2% of all domestic productions) budgeted under £2 million and 499 (81.3%) budgeted under £5 million. These titles are less likely to have key commercial points of sale such as well-known cast and director who enable them to secure foreign sales more easily. In comparison, 69.9% of co-productions are budgeted under £5 million and inward investment productions see only 40.7% budgeted under £5 million. In total, 38.0% of inward investment productions are budgeted over £10 million.

Figure 96: Box Office by Type of Production per Year (£ million)



Source: comScore / SPI analysis

18.3.2. Domestic Productions

Annual box office was dominated by domestic UK independent productions in 2007, 2009 and 2011. In 2007, domestic films earned £225.2 million in the six markets considered from 47 films released (69.1% rate of release). This success was fuelled by *Slumdog Millionaire*, which earned £169.3m from the six markets and won eight Oscars, including best picture. It was the second-top grossing film between 2007 and 2014.

Domestic UK independent productions earned even more in 2009 from the six markets – grossing £274.6 million from 44 films released (57.9% rate of release). This was driven by *The King's Speech*, which earned £197.7m from the six markets and won four Oscars, including best picture. It was the top-grossing film for the eight-year period considered.

In 2011, domestic UK independent films earned £171.2 million from 61 films released (68.5% rate of release). Box office successes included *The Inbetweeners Movie*, *The Iron Lady*, and *Quartet*.

Outside of these successful years there is clear fluctuation in performance. Despite 2009's strong performance, domestic UK independent films then contributed the least box office of the three types of production in the following year. This speaks to a lack of consistent output, and the instability underlying the UK independent sector.

The final year in the timeframe, 2014, once again saw domestic outperforming inward investment and co-production titles, with £130.7 million from 31 films released. While this represents a 40.3% rate of release a number have since been released or are scheduled for release, including *Dad's Army*, *High-Rise*, *The Ones Below*, and *Our Kind Of Traitor*.

18.3.3. Inward Investment Productions

Fewer UK independent productions fall into the inward investment category, with half of the number of co-productions produced during the 2007-2014 period and less than one fifth the number of domestic productions.

Inward investment productions see higher rates of release (66.7%) than domestic or co-productions. This would rise to 78.8% if 2014 were discounted. In 2008 there was a 100% release rate for inward investment productions.

In 2013, the most successful year in the timeframe for UK inward investment productions, they generated £388.4 million across the six markets considered. This represented an average box office of £21.6 million, the highest in the timeframe.

Inward investment productions delivered the highest box office results amongst the three types of productions in 2008, 2010, 2012 and 2013. In 2008, seven films earned £74.4 million, with *Kick-Ass* a driver of this success, earning £53.3 million across the six markets. In 2010 seven films earned £136.2 million, with *The Best Exotic Marigold Hotel* and *The Woman in Black* driving success with £69.9 million and £60.9 million respectively. The 2012 total of £190.8 million from 12 films was driven by *Non-Stop* (£84.8 million), *Red 2* (£51.3 million) and *Rush* (£38.4 million), while the 2013 total was driven by *Paddington* (£122.3 million) and *The Imitation Game* (£95.5 million).

18.3.4. Co-Productions

Across the timeframe, 2010 co-productions generated the biggest box office success, with £113.6 million from 18 films, a 75.0% rate of release. This was driven by *The Three Musketeers* (£46.9 million) and *Tinker Tailor Soldier Spy* (£40.2 million).

Co-productions received release in greatest numbers in 2011 (23 films for a release rate of 85.2%), 2012 (22 films for a release rate of 75.9%) and 2013 (21 films for a release rate of 65.6%). However, 2011 co-productions generated just £51.4 million in box office, almost half that of 2012 (£94.3m). In 2011, co-productions averaged box office of £2.23 million, compared with £4.29 million in 2012.

Co-productions in 2008 grossed the lowest box office of £31.4 million despite seeing the same number of films receive release (17) and a higher rate of release (70.8%) than 2007.

18.4. Performance by Budget Band

This section assesses performance of UK independent productions across four different budget bands: films budgeted at above £10 million; between £5 million and £10 million; between £2 million and £5 million; and between £0.5 million and £2 million.

18.4.1. Overview

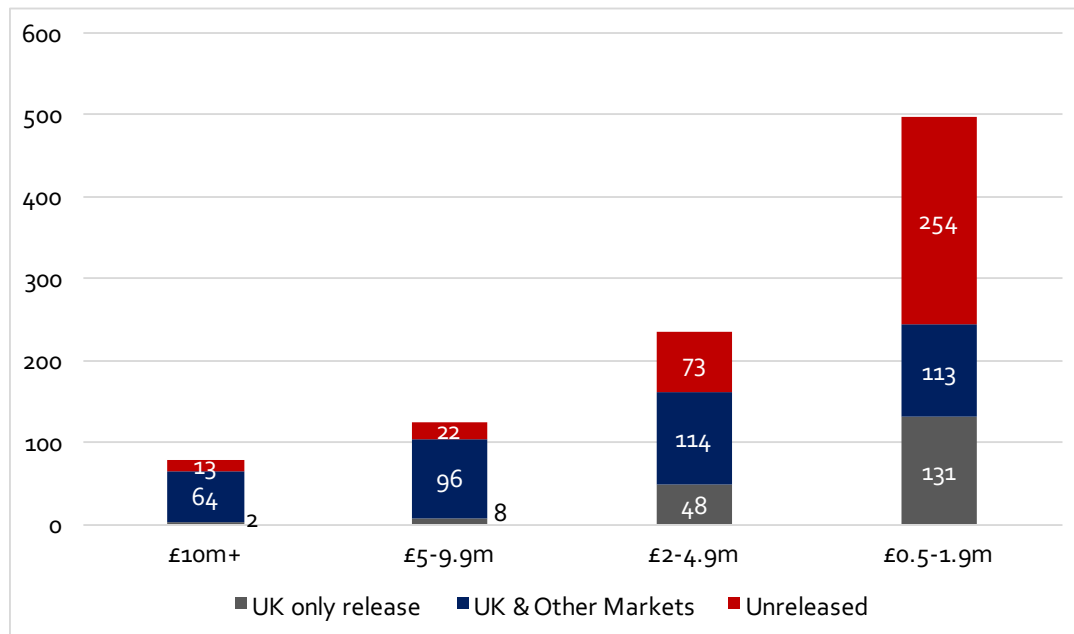
UK independent films with a budget of £10m+ produced between 2007-2014 generated the largest share of box office, at 46.1%. This budget band is made up of the fewest films released (66) but with the greatest rate of release amongst any budget band, with 83.5%. This rises to 95.0% if 2014 is discounted.

UK independent films budgeted between £5 million and £10 million generated 37.9% of box office, showing a rate of release of 82.5%.

Release rates decline at lower-budget levels, reflecting the fact films may have fewer commercial elements in comparison to higher-budget projects. Films budgeted between £2 million and £5 million account for 12.4% of box office, with a release rate of 68.9%. This rises to 73.5% if 2014 is discounted.

Films made in the lowest budget band, £0.5-£2 million, account for just 3.6% of box office. A greater number of released films fall into this budget band (244) but there is a significantly lower release rate of 49.0%. This rises to 52.4% if 2014 is discounted.

Figure 97: Rate of Release of UK Independent Productions 2007-2014 by Budget Band

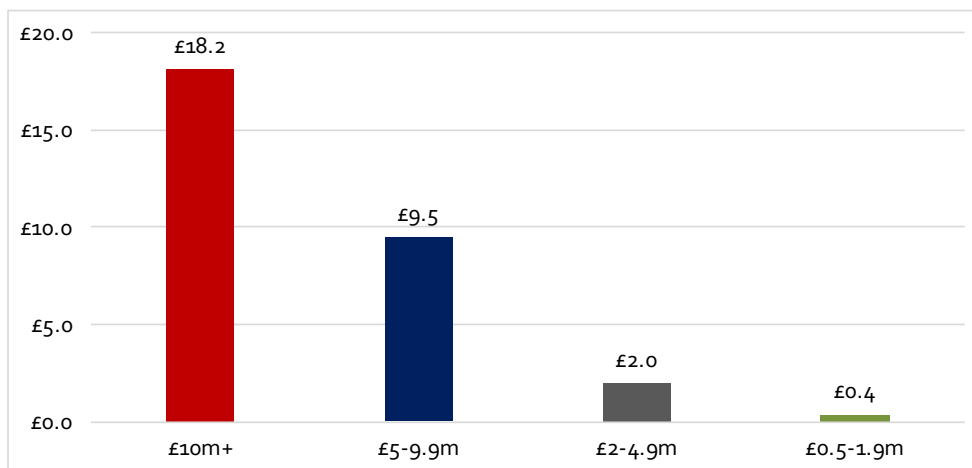


Source: comScore / SPI analysis

UK independent films with a production budget of £10 million+ are most likely to see release outside of the UK, with four of the eight years considered seeing 100% rate of release for films budgeted at £10 million+.

Average box office for a film in this budget band receiving release was £18.2 million, with the average declining sharply through the lower-budget bands – standing at just £0.4 million per film in the £0.5 million to £2 million band.

Figure 98: Average Box Office per Film Attaining Released in Six Study Markets, 2007-2014



Source: comScore / SPI analysis

UK independent films budgeted at £0.5 million to 2 million are most reliant on the UK market. In total, 131 out of 244 films (53.7%) in this budget band which saw theatrical release did so only in UK/Ireland.

Films under £5 million see far greater risk of remaining unreleased or only seeing theatrical release in the home market: Only 55.4% of films budgeted under £5 million receive any theatrical release with nearly a quarter (24.4%) only receiving release in UK/Ireland. In comparison, 82.9% of films budgeted at £5 million and above receive release with just 4.9% only receiving release in UK/Ireland.

18.5. Performance by Type of Production and Budget Band

This section assesses performance of UK independent productions across both the three types of production and the four different budget bands.

Inward investment productions account for the largest share of films budgeted at £10 million+ that receive release, reflecting the commercial potential of such films. In total, there were 33 inward investment productions, compared with 20 co-productions and 13 domestic productions.

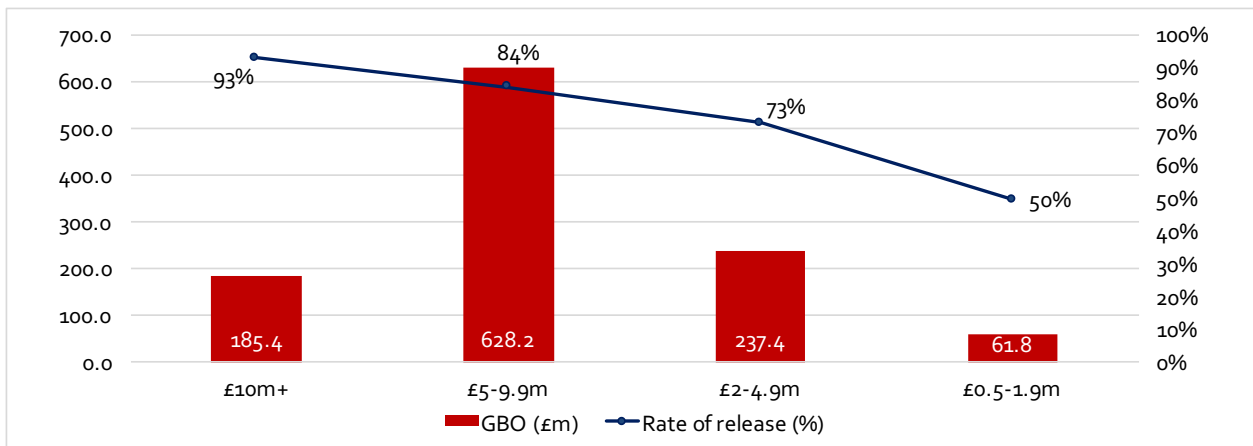
Domestic productions account for the largest share of films in all other budget bands that receive release:

- £5 million to £10 million: 52 domestic; 32 co-productions; 20 inward investment.
- £2 million to £5 million: 105 domestic; 43 co-productions; 14 inward investment.
- £0.5 million to £2 million: 196 domestic; 43 co-productions; 5 inward investment.

All three types of production are least likely to see release for films budgeted between £0.5 and £2 million.

Domestic and co-productions see the rate of release decline as the budget is reduced. However, inward investment productions see a higher rate of release for films budgeted between £5 million and £10 million (87.0%) than those budgeted £10 million+ (80.5%).

Figure 99: UK Independent Domestic Productions, Performance by Budget Band

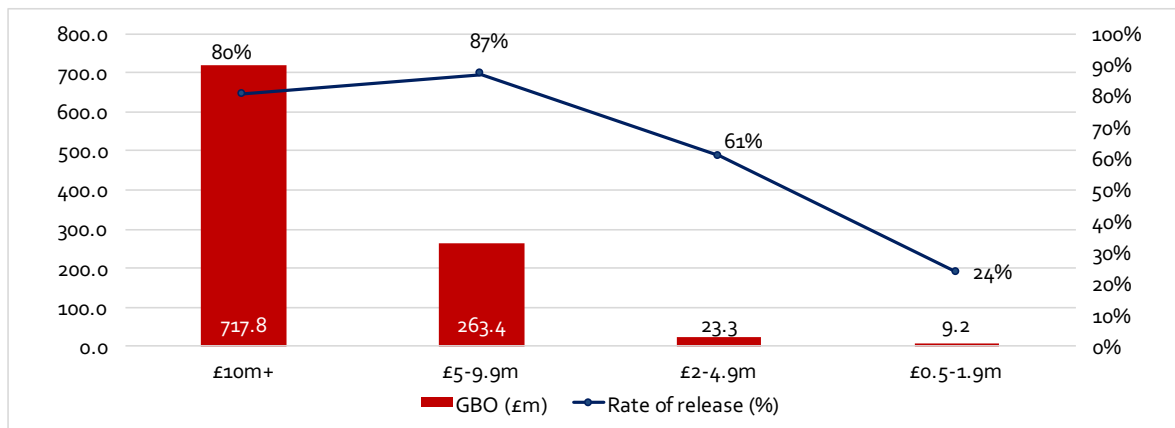


Source: comScore / SPI analysis

Domestic productions budgeted between £5 million and £10 million generated the greatest box office, which is related to there being four times as many domestic releases in this budget band as in the above £10 million band. However, average box office is greatest for domestic productions budgeted at above £10 million, at £14.3 million. For films budgeted at between £5 million and £10 million, average box office for domestic productions was £12.1 million.

Average box office is much lower for films under £5 million – i.e. £2.3 million for productions in the £2 million to £5 million range, and £0.3 million in the £0.5 million to £2 million range. The number of domestic productions both released and produced rises as budget decreases.

Figure 100: UK Independent Inward Investment Productions Performance by Budget Band

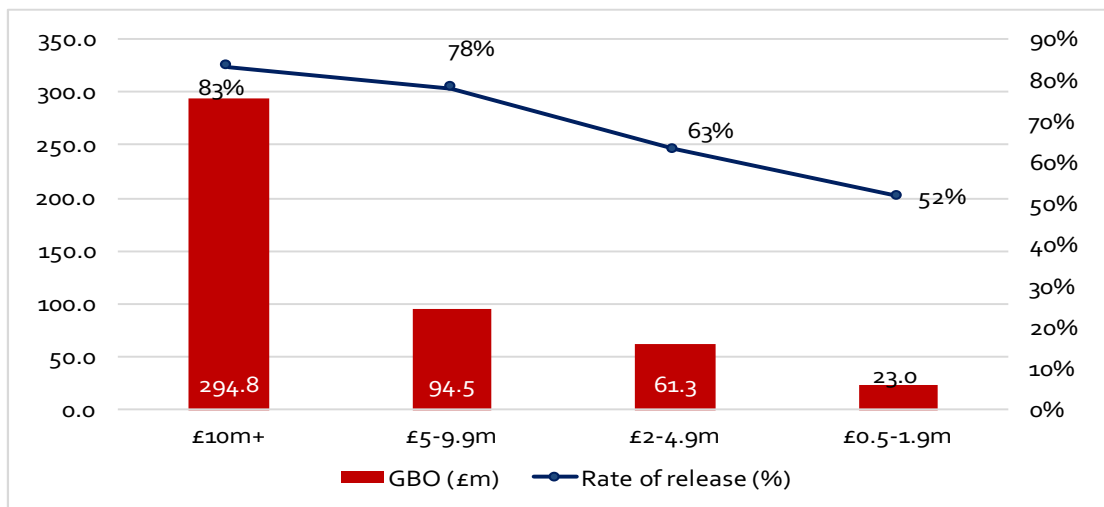


Source: comScore / SPI analysis

A similar trend is also evident in inward investment. Such productions in the top band account for 70.8% of box office generated for this type of production, with £717.8 million between 2007-2014. Those budgeted below £5 million account for just 3.2% of box office.

Average box office for inward investment productions budgeted at £10 million+ is £21.8 million – higher than for any other budget band across all three types of production. For films in the £5 million to £10 million band it was £13.2 million but the average significantly drops for budgets under £5 million. In the £2 million to £5 million band it was £1.66 million and in the £0.5 million to £2 million band it was £1.84 million.

Figure 101: UK Independent Co-Production Performance by Budget Band



Source: comScore / SPI analysis

The number of co-productions released and produced also increases as budget decreases across the three higher-budget bands.

Co-productions budgeted £10 million+ see slightly higher average box office than domestic productions in the same budget band. This is in part due to the wider release of the higher-budgeted co-productions. In total, 9 out of the 24 co-productions budgeted above £10 million saw release across all markets. This compares to just two out of 14 for £10 million+ domestic titles. Like inward investments, co-productions are likely to draw foreign investors to proven genres with internationally marketable elements.

However, average box office for co-productions budgeted below £10 million falls dramatically. While the average above £10 million is £14.7 million it stands at just £2.95 million in the £5 million to £10 million range, £1.4 million in the £2 million to £5 million range, and £0.5 million in the £0.5 million to £2 million range.

19. APPENDIX THREE – METHODOLOGY

The methodology developed for this project draws on extensive qualitative and quantitative analysis, with eight distinct phases of work. Several of these phases occurred at the same time and are outlined individually in this section.

19.1. Preliminary Desk Research

Before the main work of the Study got underway an initial desk research phase was undertaken to ensure that the Study team was sufficiently familiar with available data and information on the UK independent film sector and related issues. This process involved reviewing publicly available material and literature from UK and international sources.

19.2. Inception and Steering Group Meetings

To oversee this Study, Pact convened a steering group of the following individuals:

- Hakan Kousetta, See-Saw Films
- Rebecca O'Brien, Sixteen Films
- Andy Paterson, Sympathetic Ink
- Marc Samuelson, Samuelson Productions
- John McVay, Pact
- Max Rumney, Pact.

The steering group provided invaluable feedback and guidance throughout the process. This included an inception meeting, at which all aspects of the Study were discussed, and further regular meetings. The group also provided input into key aspects of the Study such as the industry survey.

19.3. Data Gathering/Desk Research/Literature Review

An important part of the methodology was the collation and analysis of a range of data. This included data on UK independent films produced between 2007 and 2015 that was supplied by the BFI.

Data on key producer schemes such as the PEC and PEI were also sourced from the UK's public funders, and data on the performance of UK independent films in key global theatrical markets was also purchased from comScore. Throughout the Study process other types of data were also sourced and obtained including on a confidential basis from producers and others.

An extensive literature review was also undertaken that considered over 120 documents. These included studies, trade news stories and features.

19.4. Quantitative Analysis

SPI undertook extensive data analysis for this project. BFI data were further modelled to assess a broad range of factors including volume, genre, and number of production partners for projects made in each of the budget bands over the Study timeframe. For the performance analysis, comScore data were modelled to assess the performance of films in the production data set.

To understand individual financing models, data on budgets was also obtained from a number of producers and analysed. Data gathered on the PEC and PEI schemes was also assessed. A detailed country comparison was also undertaken.

19.5. Confidential Consultations

Alongside the data analysis the Study team also undertook an extensive programme of confidential consultations throughout this Study. This process involved consulting with over 80 individuals including:

- Producers
- Public and other funders
- Sales companies
- Lawyers
- Accountants
- Trade and other bodies.

These consultations provided valuable qualitative evidence regarding conditions in the sector.

19.6. Industry Survey

A key element of the Study methodology was a survey of UK producers and other professionals which was used to gather data and evidence for a number of focus areas. This occurred mid-way through the project, which enabled the Study team to closely interrogate the key emerging issues, and generate evidence for these. It also enabled the collection of vital data that provided an evidence base regarding the structural conditions within the sector.

The survey was sent to a selective recipient list of 205 individuals considered to be active and knowledgeable about the UK independent sector. This spanned 113 producers or production companies, 11 individuals at UK public funders, 19 individuals at other funders including banks, 9 distribution companies, 15 sales companies, 10 accountants / completion bonds / collection agencies, 17 specialist lawyers, and 11 trade bodies.

Of those invited to complete the survey, 128 people responded and 74 completed the full survey. Results were based on the answers from 74 completed surveys – a response rate of 36%.

19.7. Team Brainstorm and Synthesis of Findings

With much of the quantitative and qualitative analysis complete, and to prepare for drafting the final report, all data and findings of the Study were collated and analysed at an internal brainstorm meeting. The brainstorm involved the Study team plus one other SPI executive who had not been involved in any of the Study to date in order to provide added objectivity.

19.8. Final Report

At this point the Study Team provided a written interim report for Pact, which was discussed with the steering group. Further redrafting was undertaken as result of steering group meetings.

20. APPENDIX FOUR – INDUSTRY SURVEY

20.1. Overview

Given the lack of data in some areas, such as individual finance sources, an industry survey was a key element of the methodology developed for this project. The survey generated primary data relating to structural conditions in the UK independent film sector, and was held mid-way through the Study so that emerging findings from the data analysis and consultations process could be interrogated.

The survey was utilised to explore industry perception of a wide range of issues including the current health of the financing landscape, changes in specific sources of finance, producer fee levels and use of deferrals. It was undertaken using online software, with a survey link sent to a broad cross-section of individuals with experience in the UK independent film sector. The survey remained open for respondents for a two-week period in January 2016.

Questions differed depending on whether or not the respondent was a producer. All respondents answered the same 10 questions, with producers receiving an additional nine questions. For survey design purposes, the responses from producers and non-producers were collected in separate databases. The results of 10 questions asked of both producers and non-producers were then combined, with the results of those questions outlined in this section spanning all recipients. Survey results were anonymous.

Given the range of industry roles represented by recipients, a 'don't know' option was given for most questions, with the introduction to the survey asking respondents to complete the survey based on their direct personal industry experience.

20.2. Recipients and Response Rate

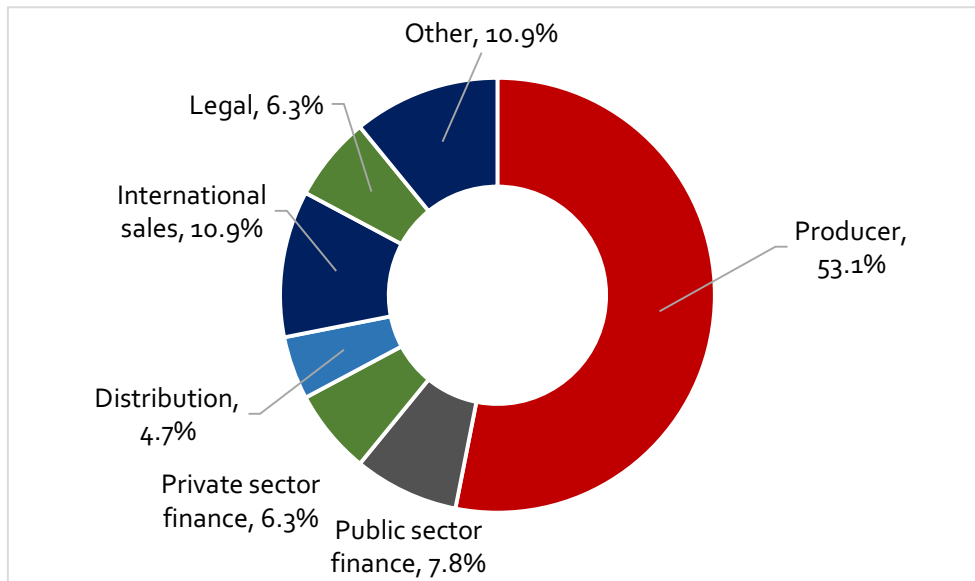
The survey was sent to 205 individuals representing the following industry areas:

- Producing
- Public sector finance
- Private sector finance
- Distribution
- International sales
- Legal
- Other.

There were 128 responses, representing an overall response rate of 62%. From these responses there were 74 fully completed surveys, or 36%, which were used for this analysis.

Just over half of the survey respondents were producers, as outlined in Figure 102. Respondents identifying themselves as 'other' spanned roles including accountancy, exhibition, auditing and tax advisory, post production, and collection account management.

Figure 102: "Which area of the film industry do you represent?"



Source: Industry survey, undertaken in 2016.

20.3. Full Text of Industry Survey

The State of the UK Independent Film Sector: Industry Survey

Introduction

This survey is part of a major study being undertaken by Olsberg•SPI for Pact.

It is being conducted to gather data on a number of aspects related to the UK independent film sector since the advent of Film Tax Relief in 2007. UK independent films are defined as those produced without creative or financial input from the major US Studios.

Please complete the survey based on your direct personal industry experience. Where relevant, the 'don't know' option should be used when respondents have no direct experience of a specific question area.

There are additional questions in this survey for producers.

Your response will be anonymous.

Questions for producers and non-producers

1. Which area of the film industry do you represent?

- Producer
- Public sector finance
- Private sector finance
- Distribution
- International sales
- Legal
- Other
- Please specify [Text box]

2. How does the current financing landscape for UK independent films compare in general with 2007 and 2012?

Compared with 2007

Compared with 2012

It is significantly more difficult/ it is more difficult / It has stayed the same / It is easier / It is significantly easier / Don't know

3. As sources of finance for UK independent films, have the following decreased, increased, or stayed the same since 2007?

British Film Institute (including past UKFC funding)

BBC Films

Film4

Film Tax Relief

UK Nations - England

UK Nations – Northern Ireland

UK Nations - Scotland

UK Nations - Wales

Bank

EIS / SEIS

Funding from EU co-producer

Funding from other international co-producer

Gap finance

Individual international presales

Other broadcast equity

Other broadcast licence

Post production deals

Private equity

Sales agent advance

UK distribution

Decreased significantly / Decreased / Stayed the Same / Increased / Increased significantly / Don't know

4. Since 2007, has it become easier or more difficult to finance UK independent films in the following budget bands?

Below £500,000

£0.5 million to £1.9 million

£2 million to £4.9 million

£5 million to £9.9 million

Above £10 million

Significantly more difficult/ More difficult / Has stayed the same / Easier / Significantly easier / Don't know

5. Since 2007, how has demand for UK independent films changed from the following international sources?

Non-UK distributor presales

Non-UK sales agents

International official co-producers

Significantly decreased / Decreased / Stayed the Same / Increased / Significantly increased / Don't know

6. What are the typical current financing costs for a UK independent film in each of the following budget bands, as a proportion of the total production budget?

Below £500,000
£0.5 million to £1.9 million
£2 million to £4.9 million
£5 million to £9.9 million
Above £10 million

0%-2.5% / 2.5%-5% / 5%-7.5% / 7.5%-10% / More than 10% / Don't know

7. How have the typical current financing costs identified for each budget band in your previous answer changed since 2007?

Below £500,000
£0.5 million to £1.9 million
£2 million to £4.9 million
£5 million to £9.9 million
Above £10 million

Significantly decreased / Decreased / Stayed the Same / Increased / Significantly increased / Don't know

8. How does the length of time necessary to close the financing of a UK independent film in the current market compare with 2007 and 2012 (i.e. all documents signed off)?

Compared with 2007
Compared with 2012

Takes significantly more time / Takes more time / Stayed the same / Takes less time / Takes Significantly less time / Don't know

9. How have crew (below-the-line) costs for UK independent films changed since 2007 and 2012?

Since 2007
Since 2012

Decreased by more than 10% / Decreased by up to 10% / Stayed the same / Increased by up to 10% / Increased by more than 10% / Don't know

10. Do you have any comments regarding the state of the UK independent film sector?
[Text box]

Questions for producers

11. Since 2007, have you been able to use the Producer Equity Entitlement initiative on any of your

productions so that the UK Film Tax Relief has been treated as producer equity?

Yes

No

I have not produced any films for which the Producer Equity Entitlement initiative would be applicable
I am not familiar with the Producer Equity Entitlement

12. In your opinion, how effective has the Producer Equity Entitlement initiative been in supporting UK independent producers?

Highly effective / Very effective / Some positive effects / Limited effectiveness / No effect / Don't know

13. Since 2007, have you been able to utilise a Producer Corridor on any of your productions?

Yes

No

I have not produced any films for which a Producer Corridor would be applicable
I am not familiar with Producer Corridors

14. In your opinion, how effective has the Producer Corridor initiative been in supporting UK independent producers?

Highly effective / Very effective / Some positive effects / Limited effectiveness / No effect / Don't know

15. As a percentage of the total budget, what is a typical non-deferred producer fee plus overheads for a UK independent film currently?

1% / 2% / 3% / 4% / 5% / More than 5%

16. How does this compare with a typical non-deferred producer fee for a UK independent film in 2007?

Significantly decreased / Decreased / Stayed the Same / Increased / Significantly increased / Don't know

17. Have you found it necessary to defer some or all of your producer fee on any UK independent films made since 2007?

Yes

No

18. If you answered yes to the previous question, what percentage of your producer fee has typically deferred on films you have made since 2007?

0%-10% / 10%-20% / 20%-30% / 30%-40% / 40%-50% / More than 50%

19. Have you also produced any television drama since 2007?

Yes

No

No, but actively considering it or developing projects

21. APPENDIX FIVE – CONSULTEES

More than 80 confidential consultations were undertaken with individuals across the industry. These are detailed below.

Producers

- Rory Aitken, Co-Founder, 42
- Julie Baines, Producer and Managing Director, Dan Films
- Graham Broadbent, co-Chairman, Blueprint Pictures
- Andrea Calderwood, Founder, Slate Films
- Danny de Warren, Production and Business Executive, FilmWave
- Andrew Eaton, Revolution Films
- Tristan Goligher, The Bureau
- Mark Herbert, Joint CEO, Warp Films
- Niall Shamma, COO/CFO, Warp Films
- Damian Jones, DJ Films
- Robert Jones, Managing Director, The Fyzz Facility
- Hakan Kousetta, Chief Operating Officer, Television, See-Saw Films
- Kevin Loader, Free Range Films
- Andrew Macdonald, CEO, DNA Films
- Margaret Matheson, Bard Entertainments
- Diarmuid McKeown, Managing Director, Blueprint Pictures
- Rebecca O'Brien, Sixteen Films
- Andy Paterson, Sympathetic Ink
- Marc Samuelson, Samuelson Productions
- Iain Smith, Applecross Productions / British Film Commission
- David Thompson, Origin Pictures
- Paul Trijbits, FilmWave
- Oliver Veysey, Camden Film Company
- James Wilson, JW Films.

Funding, Distribution, Sales, Legal, Accountancy, Other

- Elisa Alvares, Head of Media Finance, Bank Leumi
- Reno Antoniades, Head of Film, Lee & Thompson
- Geraldine Atlee, Head of Legal & Business Affairs Film4, Channel 4 Acquisitions, Channel 4 scripted content
- Kirsty Bell, Founder, Goldfinch Entertainment
- Clare Binns, Programming & Acquisitions Director, Picturehouse Cinemas
- Charlie Bloye, Chief Executive, Film Export UK
- Zoe Brown, Head of Business Affairs, Drama, Films and Acquisitions
- Pauline Burt, Chief Executive, Ffilm Cymru
- Judith Chan, Director, Media Banking, Coutts Media Banking
- Will Clarke, Co-Founder, Altitude Film Entertainment
- Carl Clifton, Partner, Sales and Marketing, K5 International
- Christine Corner, Head of Film, Television and Royalty Auditing, Grant Thornton UK
- Clare Crean, Head of International Sales, The Works International
- Simon Crowe, Managing Director, SC Films International
- Benoît Danard, Directeur des études, des statistiques, et de la prospective, CNC
- Harry Dixon, Head of Film Finance, Film4

- Anders Erden, Head of Business and Legal Affairs, Prescience Film Finance
- Will Evans, Director of Business Affairs, BFI
- Sheila Fraser Milne, Founder & CEO, Paterson James
- David Garrett, CEO, Mister Smith Entertainment
- Mike Goodridge, CEO, Protagonist Pictures
- Laufey Gudjonsdottir, Director, Icelandic Film Centre
- Alex Hamilton, Managing Director, Entertainment One UK
- Andrew Hildebrand, Senior Vice President UK, Cofiloisirs
- Richard Holmes, Senior Film Executive – Production, Creative England
- Norman Humphrey, Executive Chairman and COO, Icon Film Distribution
- Phil Hunt, Co-founder and Managing Director, Head Gear Films
- Ian Hutchinson, Partner / CEO, Silver Reel
- Zygi Kamasa, CEO, Lionsgate UK
- James Kay, Partner in the Film, TV and Broadcasting Groups; head of the Media Finance Team, Sheridans
- Stephen Kelliher, Director - Head of Sales and Marketing, Bankside Films
- David Kosse, Director, Film4
- Christine Langan, Head of BBC Films, BBC Films
- Pia Lundberg, Head of International Department, SFI
- Helena Mackenzie, Head of Inward Investment & Business Development, Film London
- Nicole Mackey, Head of Sales, HanWay Films
- Cameron McCracken, Managing Director, Pathe UK
- Martijn Meerstadt, Partner, Freeway Entertainment
- Agnieszka Moody, Director, Creative Europe Desk UK
- Tony Morris, Partner, Head of Media, Marriot Harrison
- Andrew Orr, Managing Director, Independent
- Katharine Otway, Business affairs consultant, Kenren Media
- Samantha Perahia, Head of Production UK, British Film Commission
- Richard Philipps, Lawyer Consultant, Reed Smith
- Gavin Poolman, CEO, Apollo Media
- Amanda Pyne, AP Media Ltd / Freeway
- Ben Roberts, Director of the BFI Film Fund, BFI
- Nicolas Sandler, Business Development Director, Ingenious
- Eve Schoukroun, Managing Director, WestEnd Films
- Jenna Seguin, Senior Relationship Manager, Aver Media Finance / Bank of Montreal
- Alison Small, CEO, The Production Guild
- Martin Smith, Special Adviser, Ingenious
- Alison Thompson, Co-President, Cornerstone Films
- Adrian Ward, Division Manager - Entertainment Industries Division, Pacific Mercantile Bank
- Peter Watson, Chief Executive, Recorded Picture Company / Vice Chairman, HanWay Films
- Tristan Whalley, Managing Director, Goalpost Film
- Michael Wood, Senior Business Manager, BBC Films
- Adrian Wootton, Chief Executive, Film London.

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23. APPENDIX SEVEN – ABOUT PACT

Pact is the trade association representing the commercial interests of UK independent television, film, digital, children's and animation media companies.

Pact supports its members with legal and business affairs advice and support, as well as a wide range of services and campaign work. Pact helps to shape the best possible regulatory and legislative environment for the independent production sector to grow domestically and internationally – the association has a strong record of success in campaigning for producers' rights.

Pact was highly influential in shaping the current production business environment and the Communications Act 2003, giving independent UK producers their intellectual property rights. In just over a decade, the sector has grown from a cottage industry to a world-beating multi-billion pound business.

Pact is socially responsible and seeks to influence the wider industry to commit to diversity on and off the screen. Pact works closely with broadcasters and producers' groups to create training opportunities and promote fair access for all.

www.pact.co.uk

24. APPENDIX EIGHT – ABOUT OLSBERG•SPI

Olsberg•SPI provides a range of expert consultancy and strategic advisory services to public and private sector clients, specialising in the worlds of film, television, video games and digital media. Formed in 1992, it has become one of the leading international consultancies in these dynamic creative screen industries.

With its trusted insight and track record the firm has a diverse client base that includes:

- Multi-national public authorities
- National governments, including culture and economics ministries
- National film institutes and screen agencies
- Regional and city development agencies and local authorities
- National and regional tourism agencies
- Studios and facilities companies
- Independent companies at all points of the screen business value chain
- National and international broadcasters
- Trade associations and guilds
- Training and skills development organisations
- Publishers and conference organisers

Olsberg•SPI has expertise in all areas of the fast-moving global creative sectors, and the firm's services span:

- Strategy and policy development for the creation and management of healthy and sustainable national and regional screen sectors
- Advising on the creation and implementation of fiscal incentives for the screen industries
- Research projects on all aspects of the value chain – including mapping and economic impact studies
- Business development for content companies
- Strategic development of studio facilities, including business planning and feasibility studies
- Acquisition and divestment advice for owners of SMEs
- Evaluations of publicly-funded investment schemes
- Creating prospectus-style funding proposals | International cost comparisons for film and television productions
- Advising on inward investment and exports for national and regional public bodies
- Identifying and measuring the cultural value of a productive screen sector
- Analysing workforce skills, diversity and related best practice strategies
- Assessing the value of tourism generated by a nation or region's film and television output and developing strategies to maximise future impacts
- Providing strategic advice for screen commissions, including business and marketing plans

Clients for these services have included:

- Australian Film, Television and Radio School
- Barcelona Culture Institute
- BBC Worldwide
- The Bottle Yard Studios (Bristol)
- The British Film Commission
- The British Film Institute
- Canada Media Fund

- The Canadian Media Production Association
- The Commercial Broadcasters Association (London)
- The Council of Europe
- Creative England
- Creative Scotland
- Directors UK
- Doha Film Institute
- Emerging Pictures (New York)
- The European Audiovisual Observatory
- The Eurimages Fund (Strasbourg)
- Film i Väst (Gothenburg)
- The Government of Hong Kong SAR
- Greek Film Centre
- Ingenious Media (London)
- Instituto do Cinema e do Audiovisual (Lisbon)
- Irish Film Board
- Mauritius Board of Investment
- MG ALBA (Scotland)
- The MEDIA Programme of the European Union
- Motion Picture Association of America (Brussels)
- The NEC (Birmingham)
- The New Zealand Film Commission
- The Norwegian Film Institute
- Pinewood Group
- Polish Audiovisual Centre Foundation
- Prime Studios (Leeds)
- Producers Alliance for Cinema and Television (London)
- Screen Australia
- ScreenWest (Perth)
- Screen Yorkshire
- Sigma Films
- Tourism NI (Belfast)
- Ukie.