Film Policy in the UK 2000-2010
An Overview

A Report for the UK Film Council
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Introduction

The purpose of this overview is to set out some of the key developments in film policy in the UK between 2000 and 2010.

During that decade, the UK Film Council was the government’s lead agency for film and the organisation features prominently in this text. But this overview charts the development of film policy as a whole, during a time when the UK Film Council was the crucible in which much – but not all – of the direction of that policy was forged.

It was a decade in which film policy was shaped both by the Labour Government’s broader ambitions for the creative industries as an engine of economic growth, and by the increasingly significant influence of digital technology in shaping the world. In fact, these two forces were sometimes at odds with each other in ways that made life uncomfortable for policymakers.

To enable the reader to focus on particular areas of interest, this overview is organised thematically rather than chronologically. It is designed to provide the basis for histories of the period which will draw on different perspectives and interpretations.
Chapter 1: 
The Back Story

The roots of film policy in the UK between 2000 and 2010 ultimately lie in the 1985 Films Act.¹ This Act, arguably the single most significant piece of statutory legislation for the film sector since the introduction of a British film quota in the Cinematograph Films Act of 1927, abolished the Eady Levy which had served as the fulcrum of government support for the sector since 1948.²

The Levy was named after the Treasury official Wilfred Eady, who was its architect. Under the Levy, one twelfth of the price of a cinema ticket was paid to the British Film Fund Agency. The proceeds were used to support the National Film Finance Corporation (NFFC), which invested in British films, the Children’s Film Foundation, and the producers of qualifying British films. Later, they were also used to support the Production Board at the British Film Institute (BFI) and the then National Film School.

Once the agreed allocations had been made to organisations, the remaining funds were allocated to the producers of British films in proportion to their receipts at the UK box office. The underlying policy intention of this particular measure was that producers of successful British films would be rewarded from the residual proceeds of Eady, and that this money, in turn, would be reinvested in future productions. The benefits would be felt by both the audience and the entire film sector.³

The removal of Eady was spurred by a combination of ideological fervour and the declining financial benefits delivered by the Levy as a consequence of falling cinema admissions. Margaret Thatcher’s Conservative Government was opposed to statutory levies, regarding them as an unnecessary burden on industry. Created at a time when cinema admissions totalled 1.5 billion annually, the Levy had become an ineffectual means for raising money when annual cinema attendances had sunk to a historic low (54 million a year) and cinemas were closing throughout the UK.⁴

It was Kenneth Baker, the minister for information technology, who had responsibility for the white paper on film policy, which was published on 19 July 1984.⁵ Norman Tebbit, secretary of state for trade and industry, said the plan was ‘to deregulate the film industry as soon as possible’.⁶

¹ http://www.legislation.gov.uk/ukpga/1985/21/contents
² The Eady Levy came into effect in 1950 and was initially voluntary. It was put on a statutory basis in the 1957 Cinematographic Films Act
³ It is arguable that towards the end of Eady this principle was more honoured in the breach than the observance, with reports of earnings being used for private gain by a variety of interests across the film sector.
⁴ Figure for 1984, http://www.launchingfilms.com/research-databank/uk-cinema-admissions
⁵ ‘Film Policy’, Cmdnd. 93129, London, HMSO, 1984
⁶ http://hansard.millbanksystems.com/written_answers/1984/jul/31/deregulation-1984cv0065p0_19840731_CWA_430
In place of the NFFC, the government created an organisation called British Screen Finance (BSF), a private company, with initial shareholders being Cannon, Channel 4, Granada and the Rank Organisation.

BSF was given a government grant of £2 million a year for a period of five years. Its mission was to support the development and production of British films. In parallel, the National Film and Television School (NFTS), as it was now known, was to be supported on a voluntary basis by the industry and the broadcasters. The BFI Production Board was to be financed by the annual grant given to the BFI.7

The 1985 Films Act resulted in a significant reduction in the financial support flowing into the film sector through government intervention.8

But the Act also impacted on the way in which film policy was delivered. The means of intervention altered, as direct subsidy replaced a redistributive levy. It was now the taxpayer, not the industry itself, who shouldered the burden of support.

Moreover, alongside the abolition of Eady, the Act dissolved the Cinematographic Films Council (CFC), a statutory organisation comprised of representatives from across the film industry which had served as the government’s advisory body since 1938. This was now replaced by a private sector body comprised of members from across the audiovisual sector, called the British Screen Advisory Council (BSAC), which did not have the statutory duties of the CFC and correspondingly had less power to influence the shape of government policy for film.

But if the nature and shape of industrial policy for film shifted significantly, cultural and educational policy was largely left alone. Aside from the change in the funding of its production board, the BFI remained immune from the effects of the Act.

7 Since the 1949 British Film Institute Act, the Treasury had been permitted to provide grants to the BFI which had been founded in 1933 (http://www.legislation.gov.uk/ukpga/1949/22/section/1) to promote the public appreciation of film and, among other duties, to certify films as cultural or educational on behalf of the government
8 In 1984, the total sum generated by Eady was £4.5 million. Of this, £1.5 million went to the NFFC, £500,000 to the NFTS and £125,000 to the BFI Production Board, with the remaining £2.375 million divided among producers of qualifying British films. By contrast, from 1985 onwards a total of £2.5 million a year was allocated. In addition to the £2 million to British Screen Finance, one-off payments were to be made to the NFTS and to an initiative called British Film Year. Cinema and State — The Film Industry and the British Government 1927–1984, Margaret Dickinson and Sarah Street (London, BFI Publishing 1985), pp 246-248
Separately from the Act, the Thatcher government had instigated the phased withdrawal of 100% first-year capital allowances for film, a form of tax relief which reduced the cost of producing films in the UK which had been introduced by an Inland Revenue ruling in 1979. In 1984, it was announced that first-year 100% allowances in general would be subject to a phased withdrawal because it was believed they interfered with the free play of market forces. They had gone by 1986.

The combined consequence of these measures was that the production of British films slumped. In 1985, 54 films with a total cost of £248 million were produced in the UK. By 1989, that had dropped to 30 films with a total cost of £120 million.

This was despite the increasingly vigorous role played by Channel 4 which had become a significant investor in film production, backing such titles as My Beautiful Laundrette (1985), Prick Up Your Ears (1987) and High Hopes (1988). Many people in the production sector felt that the destructive impact of deregulation was all too apparent. To borrow a word which would only be invoked a decade later, many felt that the sector was no longer sustainable.

However, there was better news elsewhere in the British film sector. A number of American cinema owners had invested significant sums in building multiplexes in the UK. Initially, they were taking advantage of the failure of Thorn-EMI and the Rank Organisation to invest in their decaying cinema estate. Between them the two companies owned the vast majority of the UK’s cinemas. They operated as a duopoly which, despite periodic incursions in the form of reports by the Monopolies and Mergers Commission (MMC), had remained largely undisturbed since the early 1960s.

Largely as a consequence of the new American investment, UK cinema admissions rose from the historic low of 54 million in 1984 to 95 million by 1989. However, because of the weakness of the production sector, the makers of British films were unable to capitalise on this substantial, and largely
unforeseen, growth in demand. For many people in the British creative community, these were the wilderness years. For others, they were the Hollywood years, with Los Angeles able to offer a continuity and scale of work unavailable in the UK.

It was hardly surprising, therefore, that directors and producers were the driving force behind an initiative to persuade the Thatcher Government that its moves to ‘deregulate the film industry’ (as Norman Tebbit had put it) had, in the case of film production at least, caused significant harm.

It was Sir Richard (later Lord) Attenborough who persuaded the Conservative arts minister, Richard Luce, that a meeting at Downing Street would be an opportunity for the industry to put its case directly to the prime minister. On 15 June 1990, Margaret Thatcher hosted a seminar attended by a group drawn from across the film sector, including representatives from Hollywood such as Lew Wasserman, chairman and chief executive of Music Corporation of America (later Universal Studios).

What emerged from that seminar was a series of proposals which, if predictably modest in financial scope, were surprisingly interventionist in substance.

It was agreed that a £5 million fund for investing in films co-produced with European partners would be created, to be administered by BSF. It was agreed that four working parties would be set up under the aegis of government to examine: the structure of the industry and its impact on private investors; fiscal incentives for production investment; setting up a screen commission to promote Britain as a location for filmmaking; and a marketing organisation to promote British films abroad. In short, it was agreed that ‘something must be done’.

As had so often been the case with working parties on film in past decades, the appointed representatives from different sectors rapidly descended into forms of internecine squabbling.

Nonetheless, it was as a direct consequence of the seminar and the working parties which followed from it that a new tax break for film was introduced in Sections 41 and 42 of the Finance (No. 2) Act in 1992.15

14 Headland and Ralph, op. cit., p. 3
Chapter 1:  
The Back Story

As with the previous 100% capital allowances regime, to access these reliefs filmmakers would have to use a mechanism called sale and leaseback, which was often used in relation to land and property as a means of raising money from an asset.

However, unlike the capital allowances regime, the reliefs had to be taken over three years rather than all being given in the first year. The complications of sale and leaseback, together with less generous relief, meant that most UK filmmakers were left feeling that the new rules would do little to alter the precarious state of indigenous film production. Over time, they would be proved right.

In fact, Section 42 would come to be widely used for higher budget films made by the Hollywood studios, not least because the proportion of the benefit absorbed by transaction costs was much lower, and because the larger firms were able and prepared to take the benefit over three years.

Meanwhile, the independent filmmaking community, led by the Producers Alliance for Cinema and Television (Pact), launched a campaign for a tax break which was more fit for its own purposes. Alongside this, the BFI, under its director Wilf Stevenson, made a concerted effort to help drive forward policy, publishing a number of pamphlets to stimulate debate.

The policy measures which eventually emerged from the Downing Street seminar were focused on the supply side and on industry. There was better news for other parts of the industry, and in particular the independent exhibition sector, when it was announced in 1994 that funds from the proceeds of the newly launched National Lottery would be made available to assist the financing of capital projects in the film sector.

After an aggressive lobbying campaign, which included direct approaches to Margaret Thatcher’s successor John Major, the government had agreed that a film negative also qualified as a capital asset and that film production, in the form of single projects, would therefore be eligible for Lottery support. The funding was to be distributed by the newly devolved arts councils in England, Scotland and Wales.

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16 ‘Independent’ here refers to that part of the film industry which does not involve the major Hollywood studios or the major cinema chains.
For the entire sector, the decision to make film eligible for support from the National Lottery was one of the most significant policy decisions of the 1990s. It provided a new source of funding which, over time, would grow to be substantial and lead to a rush of applications for support. It resulted in the injection of an additional £130 million into film, including £90 million resulting from a decision made in 1996 to create so-called film franchises, supported by Lottery funds.\(^\text{18}\)

Significant levels of subsidy for film had returned. It had taken less than 10 years. But this time the subsidy was funded neither by the taxpayer nor the industry, but from a new source of revenue hitherto unknown in the UK — the National Lottery player. Seen through the prism of the Major Government, film was no longer just an industry which was largely expected to stand on its own two feet, it was also something of cultural value — part of the ‘good causes’, along with arts, sport, heritage and projects to mark the millennium. The willingness to continue funding the BFI through grant-in-aid underlined this cultural value.

The shift in policy went beyond the willingness to support a sector which, just a decade earlier, had seen the withdrawal of much public intervention. Taken at face value, a 1995 report by the Department of National Heritage (DNH), imaginatively titled ‘The British Film Industry’,\(^\text{19}\) contained little in the way of costed new proposals for the sector.

But this report, prompted by a National Heritage Select Committee report on film, indicated a clear change of direction in government’s and parliament’s approach to film. It set out a clear and careful analysis of the industry, underpinned by firm data. The principle of an evidence-based approach to film policy was back in fashion. The decision to move government responsibility for film — which had historically been scattered across a number of different departments — under the unified control of the DNH was emblematic of this.\(^\text{20}\)

The commitment to an evidence-based approach, drawing on the expertise of those involved in the sector, was underlined in 1996, when the government asked Sir Peter Middleton to chair an advisory committee on film finance. The committee recommended the immediate introduction of a 100% write-off of production and acquisition costs for film.\(^\text{21}\) It also

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\(^{18}\) For more detail, see Chapter 3

\(^{19}\) ‘The British Film Industry’ (National Heritage Select Committee, House of Commons, 1995), London, HMSO, 1995

\(^{20}\) Responsibility for film had previously been principally divided between the Department of Trade and Industry (DTI) and the Office of Arts and Libraries

\(^{21}\) Report of the Advisory Committee on Film Finance, London, 1996
Chapter 1:
The Back Story

recommended that £100 million of Lottery money be set aside to create a distribution-led studio — a recommendation that would eventually be made flesh in the form of the Lottery franchises.\textsuperscript{22}

By the time of the May 1997 general election, some of the foundation stones for film policy between 2000 and 2010 had been laid: a willingness on the part of government to actively engage with film policy; an acceptance that the market failures which characterised the film production landscape justified intervention in the form of tax relief; and an understanding that the benefits of film could be cultural as well as industrial.

But the gaps were striking too: the inconsistency in the performance of British films at the box office; the paucity of strategic investment in skills; and, most visibly of all, the lack of an overarching coherent policy which extended right across the film sector.

Cinema admissions had continued to grow and by 1996 had reached 124 million.\textsuperscript{23} British films had a 16% share of the UK box office in that year.\textsuperscript{24} And 98 British films were made including Trainspotting, The English Patient and In Love and War, at a total cost of £560 million.

This was the backdrop against which the film policy of the next 13 years would be forged. Like the years leading up to 1997, film policy in the time that followed would continue to be haunted by the memory of the 1985 Films Act.\textsuperscript{25}

\textsuperscript{22} Ibid.
\textsuperscript{23} http://www.launchingfilms.com/research-databank/uk-cinema-admissions
\textsuperscript{24} UK Film Council Research and Statistics Unit, Rentrak EDI
Chapter 2:  
A Sustainable Film Industry?

The recurrent aspiration which permeated the government’s approach to film policy from 2000-2010, certainly as regards its economic agenda, was that of creating a ‘sustainable film industry’.

The difficulty, however, was to understand what the government meant when it used that phrase or when it used terms such as ‘self-sustaining’ which did not necessarily appear to be synonymous.

In the world of policy, the genesis of the use of the term sustainable is to be found in work on the environment and on poverty. In its 1987 report ‘Our Common Future’, the United Nations World Commission on Environment and Development, chaired by the Norwegian politician Gro Harlem Brundtland, famously defined sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’

The Oxford English Dictionary (OED) defines sustainable in three ways:

- [rare] supportable, bearable;
- able to be upheld or defended;
- able to be maintained at a certain rate or level.

The Brundtland report definition appears to be convergent with the third definition offered by the OED, which suggests that sustainability involves maintaining something at a certain rate.

The Labour Government’s economic policy objective for film was part of a larger agenda for the creative industries as a whole which included design, music and video games. The emphasis on the creative industries as sectors of potential competitive advantage, rather than on culture for the sake of culture, became a distinguishing feature of Labour’s approach to film policy.

New Labour policymakers substituted ‘creative’ for ‘cultural’, perhaps in an attempt to emphasise the principally economic aims which underpinned their agenda for the wider sector. As the academic Nicholas Garnham has argued, this was part of a broader shift, driven by the chancellor of the

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28 This was symbolised by the decision by Chris Smith to set up a Creative Industries Taskforce comprising leading figures from across the various sectors. The terms of reference for the taskforce were ‘to provide a forum in which government ministers could come together with a few senior industry figures to assess the value of the creative industries, analyse their needs in terms of government policies and identify ways of maximising their economic impact’.

http://hansard.millbanksystems.com/written_answers/2001/may/02/creative-industries-task-force
exchequer Gordon Brown’s Treasury, in which public expenditure was seen as investment against which recipients had to show measurable outputs against pre-defined targets. It was against this backdrop that government film policy would develop at the turn of the millennium.

The seeds for the most sweeping change in UK film policy for a decade were sown at the Cannes Film Festival, a few days after Labour had been elected at the May 1997 general election. The newly appointed secretary of state for culture, media and sport Chris Smith announced a comprehensive review of film policy, to be co-chaired by minister for film Tom Clarke and Stewart Till, president of PolyGram Filmed Entertainment.

Smith set out six key objectives for the British film industry:

- A doubling of the domestic market share of British films;
- A larger and more diverse audience for film in general and cinema in particular;
- Training provision that fully meets the industry needs;
- A financial framework that facilitates and encourages sustained investment in the British film industry;
- Export performance that reflects British films’ full potential;
- Continued success in attracting valuable inward investment.

The focus of the review was therefore principally on industrial rather than cultural policy. The following month the members of the review were announced, and six sub-groups were created to align with the priorities that Smith had set out.

The report of the Film Policy Review Group, ‘A Bigger Picture’ was published on 25 March 1998. Its principal recommendations included:

- The creation of an all-industry fund to underpin the development, distribution and marketing of British films and related training, supported by a voluntary contribution of 0.5% of turnover from exhibitors, distributors, video companies and broadcasters;
- Lottery support for development and distribution;

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29 ‘From cultural to creative industries: An analysis of the implications of the ‘creative industries’ approach to arts and media policy making in the United Kingdom,’ Nicholas Garnham, http://i Konob p bworkos com/1f/FROM%20CULTURAL%20TO%20CREATIVE%20Industries.pdf
31 Ibid, p.52
The creation of a private-sector film marketing agency to provide expertise to the industry;

A new skills investment fund based on voluntary contributions, calculated as a percentage of the budget of a film;

A joint education initiative by government and industry to boost film, notably in schools, to be supported by the BFI.\textsuperscript{33}

Although the all-industry fund did not come to pass, principally because of the opposition of commercial broadcasters, most of the other recommendations of the report were implemented over time.

The report stated that `. . . the Government believes that it has a role to play in helping to create a self-sustaining commercial film industry.'\textsuperscript{34} What the government actually meant by self-sustaining was left unstated, although in this context it could be interpreted as meaning the creation of an indigenous industry which (after a period in which the state would act as a catalyst for enterprise) would eventually no longer require any public support. However, by focusing specifically on ‘industry’, this formulation also allowed for the continuation of support for film culture, once the goal of economic policy had been attained.

The self-sustaining theme was one that would be picked up by the government in the context of tax reliefs for film. One of Labour’s earliest and most decisive interventions, under the aegis of chancellor Gordon Brown, had been the introduction a new 100% first-year write-off for British films costing £15 million or less, in Section 48 of the July 1997 budget.\textsuperscript{35} This now sat alongside the Section 42 relief (a three-year write-off to the producers of all British films, regardless of budget) which had been introduced by the Conservative Government in 1992.\textsuperscript{36}

In the summer of 1999, films minister Janet Anderson expanded on the idea of a self-sustaining industry in an answer to a parliamentary question about the financing of the British industry: ‘The Government’s objective is to create the conditions for the growth of a self-sustaining, commercial film industry through the tax incentives introduced in 1997, through collaboration with the industry on the film policy review and the film finance forum, and through targeted support for the development and production of British films.’\textsuperscript{37}

\textsuperscript{33} ‘A Bigger Picture’, op. cit., pp 6 and 15
\textsuperscript{34} Ibid, p4
\textsuperscript{35} http://www.legislation.gov.uk/ukpga/1997/58/section/48
\textsuperscript{36} See Chapter 1
\textsuperscript{37} http://hansard.millbanksystems.com/commons/1999/jun/28/film-industry
Chapter 2: A Sustainable Film Industry?

She also added an important coda: ‘We are also establishing a new body – the Film Council – which will have the specific task of helping the industry to develop sustainable financial structures.’

The government’s decision to create this new organisation flowed from one of the less-noticed recommendations of ‘A Bigger Picture’. The report referred to the need for a ‘rationalisation of the government support machinery’. A review was to be undertaken which would ‘look at how the roles of all the national and regional publicly-funded bodies fit together’, with the aim of establishing structures that would ‘provide strategic leadership for the film industry and a clearer focus on its development’, as well as seeking to ‘achieve greater coherence by ensuring that the allocation of resources reflects priorities, and that gaps and areas of overlap in provision are eliminated’.

The creation of a self sustaining commercial film industry was therefore to be stimulated by a combination of tax reliefs, the measures announced in ‘A Bigger Picture’ and the new UK Film Council.

The idea of the UK Film Council had taken root during the review of the rationalisation of government machinery which had been proposed by the Film Policy Review Group. This review of delivery mechanisms had been a private one, undertaken behind closed doors in Whitehall rather than via public consultation.

Its conclusions were announced on 19 May 1999 by Chris Smith, again at the Cannes Film Festival. Smith said that the new body would have an initial budget of £145 million over three years, a mix of Lottery funding and grant-in-aid. He observed that:

‘The Film Council will develop a coherent strategy for film culture, the development of the film industry, and the encouragement of inward investment, and determine the allocation of resources between them. The establishment of a single lead film industry body will help to ensure that the film industry builds on its current successes and enjoys many more triumphs in the future.’

38 Ibid
39 A Bigger Picture, op.cit., p. 7
40 Ibid, p. 50
41 The Film Council was renamed the UK Film Council in 2003. The later designation is used throughout the text apart from when quoting from official documents.
42 http://news.bbc.co.uk/1/hi/entertainment/347552.stm
The inclusion of both ‘film culture’ – which was given pride of place – and the reference to a ‘lead film industry body’ could be read as reflecting the long-standing uncertainty as to whether the principal goals of the government film policy were economic or cultural. Equally, it could be seen as symptomatic of an unresolved tension within the structure now unveiled by government.

On the one hand, a variety of functions were to be brought under one roof at the UK Film Council – the provision of Lottery support for film production undertaken by the Arts Council of England (ACE), the inward investment activities of the British Film Commission (BFC), the support for ‘cultural’ production provided by the BFI and the support for development and production provided by British ScreenFinance. On the other hand, the BFI would remain legally independent of the UK Film Council, although it would now be directly accountable to the new body, rather than to the government.  

Chris Smith appointed filmmaker Alan Parker (then chair of the BFI) as the first chair of the UK Film Council. Stewart Till was appointed as deputy chair, alongside other board members including Dawn Airey (director of programmes at Channel 5), Tim Bevan (co-chairman of Working Title) and Duncan Kenworthy (producer of Notting Hill). John Woodward, the director of the BFI and a former chief executive of Pact, became chief executive.

The Department for Culture, Media and Sport (DCMS) gave the UK Film Council the task of taking forward two main aims:

- To develop film culture by improving access to and education about the moving image;
- To help develop a sustainable domestic film industry.  

The language of policy had moved from self-sustaining to sustainable, but just as the meaning of self-sustaining had been left open, so no definition was offered of what was meant by sustainable.

As set out in its Memorandum of Association, the functions of the UK Film Council offered some insight into how the government perceived sustainability. The responsibilities of the UK Film Council included:

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43 There were persistent rumours that the government had wanted to merge the BFI into the new structure, but had retreated from its plans following resistance from prominent BFI supporters.

44 Paper A from the first board meeting of the UK Film Council, November 1999
‘... supporting, encouraging, promoting and marketing film, television and audiovisual production of all kinds in the United Kingdom by attracting filmmakers to carry out production within the United Kingdom. Helping to ensure an adequate skill supply. Facilitating exports and inward investment. Helping to develop the audience for film.’

The UK Film Council’s first public statement of its overall industrial and cultural aims and objectives was published in May 2000, titled ‘Towards a Sustainable UK Film Industry’. The use of the word ‘towards’ was particularly revealing as it appeared to echo, whether consciously or not, the phrase popularised by Brundtland’s UN report, ‘Our Common Future’ with its hint of the possibility of perpetual deferral.

‘Towards a Sustainable UK Film Industry’ opened with a statement that: ‘The UK Film Council is proposing a series of major new initiatives as a first stage towards creating a sustainable and entrepreneurial British film industry. This will involve the rapid restructuring of public support for film to encourage the development, production and export of a more consistent flow of films that attract audiences in the UK and all over the world.’

Sustainability was defined as a series of outcomes focused on audiences, made possible by carefully targeted ‘public support’. This was in sharp contrast to the use of sustainable as meaning an industry that was capable of surviving without any public support. It proposed a series of new funds supported by Lottery money and grant-in-aid, together with a new set of strategic interventions.

This theme was picked up in Sir Alan Parker’s landmark speech, ‘Building a Sustainable UK Film Industry’, delivered on 5 November 2002 at the British Academy of Film and Television Arts (BAFTA).

Sir Alan argued that: ‘We need to abandon forever the “little England” vision of a UK industry comprised of small British film companies delivering parochial British films. That, I suspect, is what many people think of when they talk of a “sustainable” British film industry. Well, it’s time for a reality check.

46 Ibid, executive summary. The online document has been edited since its original publication with the insertion of UK in front of the name of the organisation which was then still called the Film Council.
47 See Chapter 3 for details
Chapter 2:  
A Sustainable Film Industry?

That “British” film industry never existed, and in the brutal age of global capitalism, it never will... We have to stop worrying about the nationality of money. We want to encourage investment into our film industry from anywhere in the world – without tearing up the roots of cultural film production.48

The argument that the health of the UK industry needed to be measured in global terms was complemented by the idea of, ‘...reinventing the UK as a “film hub” – a creative core. A film hub, which is a natural destination for international investment. A film hub, which is a natural supplier of skills and services to the global film market. A film hub, which consistently creates British films that attract worldwide distribution and large audiences, while still using subsidy to support cultural production and new talent’.49

The hub was an idea which had originated in transport policy but which had increasingly been used to describe cities, regions and nations.50 For the UK Film Council, the hub concept would become an overarching theme: ‘Our goal is to help make the UK a global hub for film in the digital age, with the world’s most imaginative, diverse and vibrant film culture, underpinned by a flourishing, competitive film industry’.51

In laying out a vision for a British film industry freed from the shackles of decades of parochialism, Parker also sought to move the policy debate from a focus on supply-side funding to an audience-driven approach. This was complemented by a focus on skills and the industrial infrastructure:

‘To be clear, if we are going to make that vision of the hub a reality, we need three key ingredients:

Number One. Distribution – that means an industry that is led by distribution. Production led by distribution, not the other way round. Pull, not push. Robust, UK-based distributors and sales agents with a serious appetite for investing in British films and helping to make them a success all around the world. We have to stop defining success by how well British films perform in Milton Keynes. This is a big world – really successful British films like Notting Hill can make up to 85% of their revenues outside the UK.

49 Ibid
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Number Two. Skills – the best-equipped, most highly-skilled, most flexible film workforce in the world.

Number Three. Infrastructure – state-of-the-art studios and post-production companies, complemented by outstanding service companies operating at every level of the international film business.⁵²

The switch of emphasis from push to pull proved controversial. Pact described the proposals as ‘radical changes’ which ‘need to be discussed in detail to ensure the whole UK film industry can contribute to the ambition to have a sustainable film industry.’⁵³

Other sectors of the industry welcomed the speech, notably the distribution sector.⁵⁴

Parker’s speech presaged detailed policy work by the UK Film Council on distribution, including proposals for a tax relief targeted at the sector. However, these were rejected by government because it was not sufficiently persuaded there were classic market failures involved in distribution.⁵⁵ But the UK Film Council was able to use Lottery resources to introduce a £1 million a year scheme to support P&A (prints and advertising) costs to help the distribution of specialised films in the UK.⁵⁶

The dominance of Rupert Murdoch’s Sky was another issue which was addressed in the wake of Parker’s emphasis on distribution. Sky’s rivals, such as the cable company NTL, had consistently complained about the market power exercised by the company.⁵⁷ As a consequence, it was the subject of two significant competition cases, both of which involved film – one in 2002 involving the Office of Fair Trading, and one which began in 2007 and which involved Ofcom and the Competition Commission.⁵⁸ The UK Film Council also raised with Ofcom concerns about the dominance of BSkyB in the pay-TV window, following representations made by independent distributors alleging that they were unable to secure access

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⁵³ Op cit
⁵⁴ There was hostile reaction from people attending an ‘independent film parliment’ at the Cambridge Film Festival in 2003: http://www.guardian.co.uk/film/2003/jul/18/artstfeatures
⁵⁵ See memorandum submitted to the culture, media and sport select committee, ‘Is there a British film industry?’ http://www.publications.parliament.uk/pa/cm200203/cmselect/cmcmmeds/667/3061009.htm
⁵⁶ See Chapter 3
⁵⁷ For a definition of specialised film, see http://www.bfi.org.uk/film-industry/lottery-funding-distribution/specialised-films
⁵⁸ In January 2006, NTL merged with Virgin Mobile to create Virgin Media
⁵⁹ For the 2002 investigation, see http://web.archive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/media/0f623.pdf; and for the ongoing investigation, see http://media.Ofcom.org.uk/2007/03/20/market-investigation-into-the-pay-tv-industry/
to the pay-TV window on Sky. However, Ofcom said that it could not act unless there was an official complaint – and no distributor came forward with such a complaint. The UK Film Council also made representations in its submission to the 2003 culture, media and sport select committee inquiry, ‘Is there a British film industry?’.

The committee’s conclusion was that: ‘It is unclear to us how BSkyB can be required to pay equal prices for Hollywood blockbusters and smaller British films, as they represent different commercial prospects. We would, however, welcome support for the British film industry from BSkyB as a wise long-term investment in content which must be in that company’s interest.’

In 2007, the communications regulator Ofcom opened a major investigation into the pay-TV market in response to a complaint from BT, Virgin Media, Setanta and Top-TV.\(^5\) In its submissions to this investigation, the UK Film Council continued to make the case that the lack of access to the pay-TV television platform by independent distributors was an impediment to the sustainability of the UK industry.\(^6\)

The issue of the contribution that the broadcasters could make to the sustainability of British films also became a matter of debate in relation to the 2003 Communications Bill. The draft bill published by the government made no reference to film. But following representations made by the UK Film Council and other film stakeholders, the joint scrutiny committee examining the bill, which was chaired by Lord Puttnam, recommended that, ‘the Government, the ITC and the Film Council explore with broadcasters the current relationship between the broadcasting and film industries, and the role that Ofcom might play in fostering and furthering the contribution of broadcasters to that relationship.’\(^6\)

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See also submission in relation to Ofcom consultation on BSkyB’s Picnic proposal: [http://stakeholders.ofcom.org.uk/binaries/consultations/market_invest_paytv/responses/UKFilmCouncil.pdf](http://stakeholders.ofcom.org.uk/binaries/consultations/market_invest_paytv/responses/UKFilmCouncil.pdf)


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**Case Study 1: Digital Television**

The impact of multi-channel television, particularly in Europe and Asia, has been significant in changing consumer behaviour.

Multi-channel television had begun in nascent form in the UK in the mid-1980s, but it took some years to make a real impact on the market. A turning point came on 11 December 1989, when a rocket took off from a clearing in a South American jungle. The Ariane was carrying a satellite which two months later would start broadcasting Sky TV and scores of other television channels to homes across Europe. It was the beginning of the multi-channel revolution.

Few would have predicted that 22 years later, Sky would have 10 million home subscribers in the UK and revenues of £5.9 billion – 165% the size of the BBC. It spent an estimated £272 million on buying film rights in 2009.

Meanwhile, Ofcom reported that the combined viewing share of the five main public service broadcasting channels in all homes fell by 18.7% between 2004 and 2009, as a result of competitive pressures from multi-channel services. By 2009 the share was 58%, down from almost 100% 25 years earlier. With the fragmentation of audiences came a fragmentation of revenues.

By 2010 there were 7,200 television channels across Europe.

The adoption of digital technology by the BBC, Sky and eventually by all television channels led to such innovations as the streaming platform BBC iPlayer and its equivalents on other services, and the personal video recorder which allowed for digital playback and recording of programmes. The effect of this was to disrupt conventional linear viewing patterns; in 2009, the age group with the highest relative consumption of recorded TV was 25-34 year olds, at 8.7% of all viewing.
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In discussion with the UK Film Council, the government eventually agreed to the insertion of wording relating to film in the bill. As a consequence, when the Communications Act received royal assent in July 2003, Clause 264 specified that the licensed public service broadcasters (ITV, Channel 4 and Channel 5) could, in part, fulfil their public service remit if they ensured that ‘cultural activity in the United Kingdom, and its diversity, are reflected, supported and stimulated by the representation in those services (taken together) of drama, comedy and music, by the inclusion of feature films in those services and by the treatment of other visual and performing arts’.

In practice, the poorly phrased clause proved ineffectual. In discussion with the UK Film Council, Ofcom argued that the clause meant that it could intervene only to question the decision of any broadcaster which significantly cut its commitment to film in the UK. It had no powers to force broadcasters to increase their commitment to film. It also argued that it had no powers over film in the round, because films were a form of co-production which lay beyond its powers.

The relationship between film and broadcasting was pursued mainly through the bilateral discussions which the UK Film Council, Pact and other stakeholders held with the public service broadcasters.

In 2004, almost a year after the Act was published, the UK Film Council’s second three-year plan prioritised the relationship with broadcasters as central to securing economic growth and stimulating a strong and lively film culture. Fiscal policy and anti-piracy measures were identified as other major priorities.

The plan laid out a second series of interventions including promoting diversity and inclusion, strengthening skills development, reviewing co-production partnerships and the certification of British films, and helping to champion media literacy. The BFI continued to receive the bulk of the grant-in-aid (£16 million), predominantly to support the National Film Theatre (NFT) and the BFI National Archive; the Premiere Fund and the Development Fund were cut by 20% each, to £10 million a year and £4 million a year respectively, to allow scope, among other things, for an allocation of £8 million a year to distribution and exhibition, and £6.5 million a year to a new Film Skills Fund.

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64 Ibid, p.7-9, for details of policy priorities and funding priorities
The creation of the Film Skills Fund reflected one of the key themes developed by Sir Alan Parker in his speech of November 2002. It was shaped by the work undertaken by the Film Skills Group, chaired by Stewart Till, deputy chair of the UK Film Council and of Skillset (the Sector Skills Council for the audiovisual industries).65

The origins of the work went back to the 1998 Film Policy Review report ‘A Bigger Picture’ which had recommended the establishment of a new voluntary Skills Investment Fund managed by Skillset and financed by a voluntary levy on film productions shot in the UK.

In 2001, the UK Film Council had established a training fund supported by £1 million a year from the National Lottery, to invest in two priority areas identified in the Film Policy Review:

- Training for scriptwriters, script editors and development executives; and
- Training for producers, business executives and distributors.

The work of the Film Skills Group led to publication of ‘A Bigger Future: The UK Film Skills Strategy’ in September 2003.66 This strategy, said to be the most comprehensive plan for training produced for film anywhere in the world, focused on four areas:

- Careers information, advice and guidance;
- Further, higher and postgraduate education;
- New entrants, professional and company development; and
- Collecting and analysing information.

Among the key recommendations was the creation of a network of screen academies, which would include the NFTS and would be centres of excellence specialising in training of direct relevance to the film industry. This network also included a ground-breaking initiative, the Film Business Academy. For the first time in the UK, it would offer full- and part-time specialist masters courses in film business and a customised executive film MBA, based at the Cass Business School in the City of London.67

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65 The group that oversaw the report was known as the Film Skills Group; the Film Skills Action Group was then charged with addressing the needs identified in the report
67 For a full list of the screen academies, see www.bfi.org.uk/documents/skillset_press_release.doc; for an analysis of the history of the Film Business Academy, see ‘The Film Business Academy: Cooperation in a Public Sector Joint Venture’, Robert Cheek, unpublished MBA Thesis for Cass Business School
The implementation of the strategy was led by Skillset with the guidance of a new film skills strategy committee, made up of representatives from the UK Film Council, Skillset and the film industry. It was financed by a combination of Lottery funding and other public money, including some from Europe, and the Skills Investment Fund.

Following the May 2005 general election, James Purnell was appointed minister for the creative industries and tourism. Shortly after his appointment, Purnell announced an ‘MOT of film policy’ in which he asked the UK Film Council ‘to look at film policy to see if there is more that we can do to develop an integrated strategy for British film.’

Purnell set out four areas for the UK Film Council to consider:

- How to attract big budget films to the UK;
- How to support UK production;
- How to improve distribution; and
- Whether more should be done for cultural film.

The UK Film Council responded with a comprehensive policy paper which was not published by the government. Under the leadership of Stewart Till, who had taken over as chair from Sir Alan Parker in August 2005, the UK Film Council had set out a large number of policy options for further consideration by government, covering production, distribution and film culture.

Among the options recommended for detailed study were:

- Changes to the terms of trade with broadcasters (BSkyB as well as the public service broadcasters);
- Using public funds to provide producers with a corridor of equity for their films when money was recouped;
- Public support for sales agents;
- A time-limited levy on box office receipts to help finance anti-piracy efforts;
- A network of national schools film clubs; and
- A joined-up strategy for UK film archives covering storage, preservation and access.
Some of these ideas – including the equity corridor for producers, the network of film clubs and the strategy for archives – would subsequently be taken forward by government, while others were discarded. At the request of government, the paper looked at the option of creating ‘a statutory redistributive levy to support the production and/or distribution and/or exhibition of British films’. It identified a series of questions which would need to be answered before any decision on whether to pursue such a levy was taken, but it remained silent on whether such a levy was actually desirable or not.

In the Cabinet reshuffle of May 2006, James Purnell was replaced by Shaun Woodward. As with many reshuffles, the momentum generated by the previous minister was lost and most of the MOT proposals were stalled.

By the time that the UK Film Council published its third three-year plan ‘Film in the Digital Age’, in April 2007, its focus on sustainability had diminished. The government seemed to be looking at policy in a different way, too. The impact of changing consumer behaviour wrought by digital technology had become the centre of attention. This was about to usher in the most radical period of change for the film sector since the introduction of sound. The challenges this presented for those developing film policy were equally immense.
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During the 1980s and early 1990s, public finance for film had been in short supply. The withdrawal of capital allowances and the abolition of the Eady Levy led to a significant reduction in the amount of public support available for feature film production.\(^6\) Support for production would be the focus of the most significant changes in the years ahead.

In 1994, the government made Lottery funding available for film, as part of a broader support strategy for the arts and heritage, and from 1995, the arts councils in the four UK nations became its designated Lottery distributors for film. ACE operated the largest scheme, using independent assessors – producers or industry figures – which started up in April 1995.\(^7\)

From January 1997 onwards, an ACE-created Film Advisory Panel, drawn from across the different parts of the industry (production, finance, distribution and exhibition), made recommendations on applications for funding.\(^8\) The BFI also assessed and commented on all individual projects. Another advisory panel convened by the London Film and Video Development Agency looked at low budget films, shorts and films with a specific regional dimension. Its recommendations were passed to ACE to make the final decisions.

As well as films for cinema, ACE supported artists’ film and video; it also co-funded films with BSF through the Greenlight Fund, which received a one-off allocation of £10 million of Lottery funding (initially £5 million for three films, with a second award of £5 million after a review) for production between 1996 and 1998.

ACE’s aims in funding production were to ‘enhance the quality range and number of British films, and to help establish a more secure future for all engaged in making them.’\(^9\)

Between September 1995 and August 1999, ACE invested £47.8 million of Lottery funds in 68 films for the cinema.\(^10\) They included *True Blue*, set around the Oxford and Cambridge boat race (the second film it supported and in which it invested £1 million), *Hilary and Jackie*, an Oscar\(^\circ\) nominated film about the cellist Jacqueline du Pré, and *Whatever Happened...*
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to Harold Smith ?, in which a retired Yorkshireman discovers he has psychic  
and kinetic powers, and accidentally kills three pensioners by stopping  
their pacemakers.  

ACE’s track record of recoupment was poor – perhaps because additionality  
was the most important factor in assessing proposals for funding,  
rather than recoupment, which pushed straightforward commercial  
considerations to the background. ACE had a few popular successes –  
Billy Elliot, about a coalminer’s son who becomes a ballet dancer and  
Shooting Fish, a comedy involving a deception by two con men, both  
reached a sizeable audience. A Room for Romeo Brass, Love is the Devil,  
and Love and Death on Long Island all achieved festival success, being  
selected for Un Certain Regard at Cannes. 

As well as support for single projects, Lottery money was also used to  
support a system of film franchises. The original idea for these had  
emerged from the Middleton Committee report on film finance. The aim  
was that, by awarding sums of Lottery money over a period of years to  
external consortia, industry-led structures would be created on a big  
enough scale to lever in private finance, and to secure output deals with  
distribution companies. These consortia would draw down Lottery money  
on a project-by-project basis, with ACE having final approval over each  
investment – although this was a function of legislation that both ACE and  
film franchise holders would have preferred to bypass.  

ACE hired Spectrum Strategy Consultants to develop a set of proposals  
for consultation with the industry and these, in turn, resulted in a set of  
guidelines for applicants. The objective was to ‘award franchises to  
companies which can demonstrate an ability to raise private sector  
partnership funding and plan for exploitation, recoupment and their own  
growth within the sector’.  

The focus on raising private finance, distribution and growth meant that  
the funding was being directed to achieve a set of economic objectives,  
even if these were ultimately simply a means of achieving the broader aim,  
as required by Lottery legislation, of delivering public benefit. It was  
engineered as a strategic approach which tried to bring production and  
distribution together, in marked contrast to the project-by-project approach

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74 See Chapter 1  
75 ‘National Lottery – Award of film production franchises to commercial companies, guidelines for applicants’, op.cit., p.3
to the funding of single films which many people thought lacked significant creative or commercial ambition.

Thirty-seven companies applied for a film franchise, and on 15 May 1997, ACE announced the award of three:

- The Film Consortium, which consisted of Greenpoint Films, Parallax Films, Scala Productions, Skreba Films and Virgin Cinemas, was awarded £33.55 million;
- Pathé Pictures, a subsidiary of the venerable French cinema company, was awarded £33.12 million;
- DNA Films, owned and managed by Duncan Kenworthy and Andrew Macdonald, was awarded £29 million.

The recoupment from franchise films, including the Film Consortium’s *Hideous Kinky* and *Land Girls*, as well as Pathé’s *An Ideal Husband* was significantly better than that on the individual films that ACE had backed. In September 1999, ACE reported that it had recouped 44% of its awards to franchise films – a figure that challenges the common perception that the franchises were a failure.

There was widespread criticism of ACE’s low level of returns from its investment in single films. While most of its films achieved some form of theatrical distribution, this was often insignificant and brief. Aside from its support for production, ACE only supported exhibition through its capital scheme.

The ACE Capital Lottery programme invested some £36 million in 48 film-related capital projects, and another £4 million in four projects combining film and broadcasting.

There were three strands to this capital investment. Firstly, the period from 1994-2000 saw a rapid increase in the number of independent cinemas operating in the UK, with 21 projects receiving a total of £12 million. Major new projects supported by ACE included the four-screen Showroom cinema in Sheffield, which received £3.4 million for a total project costing £5 million. Commercial cinema operator City Screen secured a number of grants, the largest being £2.4 million towards a four-screen cinema in York.
The company also secured grants of £577,000 and £693,000 for two screen cinemas in Exeter and Stratford-upon-Avon. Mainline Pictures received £708,000 for a two-screen cinema in Winchester.

The period also saw the upgrading and refurbishment of major regional cinemas supported by the BFI and the English Regional Arts Boards with £1.4 million going to Nottingham Broadway and £1.2 million invested in Manchester Cornerhouse.

Secondly, ACE invested substantially in the BFI, with £14.6 million awarded to build the IMAX Cinema at Waterloo in central London and further grants for equipment to BFI Production, as well as a feasibility study exploring the relocation of the NFT.

Finally, ACE supported training through a number of different projects. The NFTS received a capital grant of £1.1 million, and support for independent training providers included grants of £700,000 for London’s Team Pictures and £100,000 for Newcastle’s Amber Associates towards new equipment and studio facilities.

In some cases this investment was later supplemented through the Arts for Everyone programme. High-profile recipients included Hi8us Projects which secured £98,000 from the Capital programme in 1995 and was then rewarded with a further £200,000 from Arts for Everyone in 1998, towards a partnership with Channel 4 which saw the completion of three films for television, including the BAFTA award-winning Nightshift.

Plans for further new schemes supporting development and distribution had not been implemented by the time that the UK Film Council became the Lottery distributor for film in April 2000.76

The creation of the UK Film Council provided the opportunity to look afresh at the entire investment strategy for Lottery money, above and beyond production, with the exception of the franchises which had been legally contracted for six years.

As the UK Film Council’s chairman Alan Parker noted in his introduction to the organisation’s first consultation on Lottery strategy, ‘for the first time

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76 Ninety-three per cent of ACE’s films received distribution, according to a paper produced by the advisory panel, National Lottery Funding Strategy for Film (October 1999)
both educational activities and the economic and industrial imperatives for film are to be reviewed and harnessed together.\textsuperscript{77}

The UK Film Council and the DCMS had agreed that the grant-in-aid should continue to be used ‘mainly, but not entirely, for cultural purposes’.\textsuperscript{78} Most of this funding was to be delegated to the BFI, with a proportion going to regional bodies for onward distribution. One exception to the cultural focus of grants, was the money allocated to finance the BFC.

The UK Film Council created three new production funds drawing on dedicated Lottery support:

- The Premiere Fund, allocated a budget of £10 million a year over three years ‘to facilitate the production of popular mainstream films’;

- The New Cinema Fund, given a budget of £5 million a year over three years ‘to back radical and innovative filmmakers, most especially new talent, and to explore new electronic production technologies’;

- The Development Fund, allocated a budget of £5 million a year over three years ‘to support the development of a stream of high quality, innovative and commercially attractive films’. (The creation of the Development Fund was a response to a widespread perception that this was the riskiest part of film activity.)\textsuperscript{79}

By creating three funds, the UK Film Council was able to introduce a more targeted approach to Lottery support. A single individual was appointed to run each fund – Robert Jones (Premiere Fund) and Paul Triibits (New Cinema Fund) — both independent producers — and Jenny Borgars, formerly of BSF’s development fund. They were empowered to make their own investment decisions, subject to the ratification of a production finance committee chaired by chief executive John Woodward.

\textsuperscript{77} ‘Film Council – A work in progress, A consultation on Lottery strategy as part of overall support for film’, p.2 [Film Council, no date.]

\textsuperscript{78} Ibid, p.11

\textsuperscript{79} ACE had carried out work examining the desirability of providing support for distribution and development.
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Case Study 2: Bloody Sunday (Paul Greengrass, 2002)

Bloody Sunday was cited by UK Film Council chairman Sir Alan Parker, as one of a select number of productions that exemplified the organisation’s mission to create ‘distinctively British film’ and his vision for a sustainable UK industry.

The Granada Film production, backed by a total of £300,000 from the New Cinema Fund in 2001, was originally intended as a television film and was screened on ITV just four days after its Sundance Festival film premiere.

It had a powerful cultural impact, reinvigorating a national debate at a critical time in the history of Northern Ireland and the UK.

Bloody Sunday also figures as one of the most impressive case studies in career development: the film helped to launch a glittering international career for its director Paul Greengrass, who went on to helm The Bourne Supremacy and The Bourne Ultimatum, and the BAFTA-winning and Oscar®-nominated United 93.

The film also proved a turning point in the career of star James Nesbitt, taking him beyond his previous comedic roles into serious drama.

International distribution and recognition was a specific demand from Parker and Bloody Sunday delivered both, winning the 2002 Golden Bear in Berlin and the 2003 World Cinema Award at Sundance, among numerous other festival prizes around the world. It also won best single drama among five awards at the 2003 BAFTA Television Awards.
In addition, a Training Fund was created with a budget of £1 million a year ‘to support a massive expansion in training for scriptwriters and development executives, and a tightly targeted programme to train business executives, producers and distributors operating in the international markets.'

One of the initiatives was a project awarded to Hi8us Projects after competitive tender, aimed at supporting filmmaking for young people. First Light was a programme with a budget of £1 million a year ‘to resource hundreds of low-budget short films, offering children the opportunity to learn about filmmaking and display their talents.’

The UK Film Council’s support for film through discretionary schemes became even more important in the wake of Channel 4’s decision in 2002, under then chief executive Mark Thompson, to reduce the budget of its filmmaking offshoot FilmFour from £30 million to £10 million, and to close its distribution and international sales arms. By 2009, Channel 4’s budget for production had fallen to £8 million a year, and it was not until 2010, spurred by the success of *Slumdog Millionaire*, that the channel’s budget received a significant increase, to £15 million.

The bulk of the BBC’s investment in independent film was for production. In 2000, the director general of the BBC Greg Dyke, inspired by the impact of FilmFour, announced plans to create a dedicated BBC Films Unit. The budget of BBC Films was raised from £8 million to £10 million a year in 2007, as part of a funding settlement made under its new charter which commenced in January of that year. In February 2006, the BBC and the UK Film Council signed a memorandum of understanding which, as well as covering the production and acquisition of films, also covered policy areas including shorts, media literacy and the promotion of film via BBC services.

However, one of the most notable features of the first tranche of funding schemes announced by the UK Film Council was that it did not include any support for distribution and exhibition. Following the recommendations of the 1998 Film Policy Review, ACE had consulted on a scheme to support distribution using Lottery funds, but had not implemented it.

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80 Ibid
81 Ibid
82 http://www.guardian.co.uk/mediatheque/2002/jul/09/broadcasting.filminews
83 http://www.guardian.co.uk/media/2006/apr/03/mondaymediasection.broadcasting
Case Study 3: Short Films

In a review for the UK Film Council in 2009, the consultancy Northern Alliance noted a decline in the earnings and impact of short films over the previous decade. The average short film was then generating just £160 in revenues, in large part because of the lack of interest they attracted from broadcasters.

However, the UK Film Council saw short film not only as a valuable tool for talent development but also as a format that might flourish in a digital age. Over the last decade, short-form content has been finding increased audiences, if not yet significant revenues, on digital platforms such as YouTube.

The New Cinema Fund backed four short film schemes, each with a focus on digital production:

- Digital Shorts worked with regional screen agencies to support short films using digital technology;
- Digital Shorts Plus/Digital Nation developed emerging talent from Digital Shorts and funded 12 films a year;
- The Completion Fund supported the financing of promising projects; and
- Cinema Extreme, launched in 2002 in partnership with Film4, funded the work of distinctive filmmakers.

According to the Northern Alliance report, the four schemes invested £5.9 million in more than 800 short films between 2001 and 2009.

The long-term impact of the funds has been clearest so far in the field of talent development, and a more participatory film culture through screenings at festivals.

Notable successes in short film have included an Oscar® for best short film for Andrea Arnold’s 2003 Cinema Extreme project Wasp, and award-winning projects for future successful features directors Duane Hopkins and Jens Jonsson. In an early digital experiment, the New Cinema Fund made Bille Eltringham’s This is Not a Love Song available for digital download, which generated such high demand that computer servers were briefly unable to cope.

While few short films, apart from those made by animation houses, Aardman and Pixar, have really made an impact on the mainstream, there have been signs of an emerging commercial role for shorts. New digital platforms and a growing demand for mobile content are increasingly offering opportunities for short film investment to bear fruit.
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The UK Film Council began discussions with representatives of the
distribution sector to determine the best way to provide Lottery funding
to support it. The discussions raised a number of issues, such as the
perceived lack of access to the Sky platform which distributors claimed
had a significant detrimental impact on their financial viability.

The position of the exhibition sector was more complex. Representatives
of the major chains, as well as a number of other parties, argued that
there was no need to subsidise exhibition. Concerns were expressed by the
Cinema Exhibitors’ Association (CEA) that provision of public support – by
whatever means – to the ‘subsidised cinema sector’ would be unfair to
‘commercial exhibitors’.85

At this point, neither the distribution nor exhibition sectors were
represented on the board of the UK Film Council.

To help address this policy hiatus, the UK Film Council commissioned the
consultancy firm KPMG to undertake a study to help inform a specialised
distribution and exhibition strategy (SDES). The SDES had four main strands:

• A cinema fund, totalling £14 million over four years, which aimed
to increase access to, and broaden audiences for, specialised films
through investment in new cinemas, new screens, refurbishment
and/or equipment;
• A digital fund, totalling £1 million over four years, to help fund the
cost of digital equipment to support non-theatrical exhibition;
• A selective P&A fund totalling £1 million;
• A cinema education fund totalling £1 million a year operating
across the UK.

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85 Letter from John Wilkinson, chief executive of the CEA, to Dr C.P. Sandbank, DTI, 9 February 2001
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The strategy would be managed through a new distribution and exhibition department. However, over time the funds would undergo significant refinement – largely as the consequence of the burgeoning impact of digital technologies.

During this period, digital technologies had begun to make their impact felt on the film industry but in an unpredictable way. DVD, the most profitable medium for distribution was, of course, a digital format and had enjoyed a decade of unbroken success since the mid-1990s. In the first years of the new millennium, digital technologies were increasingly used in production and post-production. Ever more sophisticated digital effects were being created, especially in the UK, which was at the leading edge of this technology.

In the passage from analogue to digital, it was in the areas of film distribution and exhibition that the most significant challenges were to be found. Although the distribution sector reaped most of the benefit from the introduction of digital projectors — because the costs of making digital copies of a film were significantly lower than striking traditional 35mm prints — it was the exhibitors who were faced with the prospect of paying for the equipment as it would be installed in their cinemas. Exhibitors might benefit from the prospect of more flexible programming patterns, as audiences surely would, but the financial rewards of that were uncertain.

Without agreement on a business model for investment, the financial benefits that digital offered to distributors would not materialise. It appeared to be an example of ‘market failure’, in which the market alone could not deliver the full range of potential financial and related benefits.\textsuperscript{86} Equally, there was a need to try to make specialised films more available in a digital era.

To address this stalemate, the UK Film Council’s distribution and exhibition department, headed by Pete Buckingham, created the idea of the Digital Screen Network (DSN). At its heart, the DSN was based on a trade-off: in return for public subsidy to help finance the cost of digital projectors, participating exhibitors would agree to play a number of ‘specialised’ films in their auditoria. The money was provided from a capital fund for film,

\textsuperscript{86} At this point the Virtual Print Fee (VPF), under which a third party pays up front for the equipment and the costs are recouped over time (largely by a fee levied on the digital copies of films created by distributors, but also by payments from exhibitors) was not yet in use. For an explanation of the VPF, see \url{http://www.eddf.net/eddf_docs/vpf_o-a_200710.pdf}. In time, doubts were raised as to how viable the VPF model was anyway for specialised film distribution and exhibition.
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held by ACE but delegated to the UK Film Council for this specific purpose. A public tender resulted in Arts Alliance being awarded a contract to deliver and install the projectors.

In what was the first initiative of its kind in the world, around 240 screens across the UK were equipped with digital projectors. The £12 million scheme was widely acknowledged to have had a catalytic effect in helping to ensure that the UK took a leading position in the international conversion to digital projection. The advent of 3D was a key driver, but between 2005 and 2009 the percentage of specialised films as a percentage of total releases also rose steadily, from 55% to 69%.87

Alongside its support for exhibition, the UK Film Council had introduced funding for distribution, principally in the shape of a scheme, initially worth £2 million per year (later increased to £4 million), which was designed to support the prints and advertising (P&A) costs of specialised films.

The UK Film Council also continued to refine its support for production. In 2004, it reduced the amount of money available for production to £8 million a year, and for development to £4 million. In 2010, it decided to simplify its funding structure and reduce its overhead by creating a single Film Fund, under the leadership of Tanya Segrath, which focused on the pursuit of creative excellence and had a budget of £15 million a year.

Case Study 4: The King’s Speech (Tom Hooper, 2010)

Released in 2010, The King’s Speech was the quintessential breakout hit that the UK film industry had been seeking since the turn of the century.

It ticked virtually every policy box and was not tainted by any debate about whether it was ‘really British’ which had dogged previous blockbuster hits, notably the Harry Potter franchise.

The irony, of course, was that the hit arrived just as the incoming Coalition Government decided to close the UK Film Council, which had supported both the development and the production of the film. The ironic timing echoed ACE’s success with Billy Elliot, which was released just before its film production responsibilities were removed.

‘The King’s Speech represents a great validation for the UK film industry as a whole and an amazing legacy for the UK Film Council,’ Tanya Seghatchian, head of the UK Film Council’s Film Fund, said.

The film had been awarded £1 million from the Premiere Fund, giving the UK Film Council a net profit position as high as 34% in the film which has so far earned around £260 million ($415 million) worldwide.

The King’s Speech started out as a stage play by David Seidler, which was picked up by Bedlam Productions’ co-founder Gareth Unwin and posted through Australian actor Geoffrey Rush’s door.

Rush was joined by a cast including Colin Firth and Helena Bonham Carter; Tom Hooper’s direction helped create the perfect cinematic chemistry.

The film was acquired by The Weinstein Company from sales agents See-Saw Films and Bedlam Pictures for the US — where it earned close to £90 million ($140 million) — and major territories including Germany, France and China.

The King’s Speech was also a critical success, earning a 95% rating from critics on popular website Rotten Tomatoes.

The film won a plethora of awards, including Oscars® for best picture, best director (Hooper), best actor (Firth) and best original screenplay (Seidler); it picked up seven BAFTA awards in 2011, including best film, outstanding British film, best actor (Firth), best supporting actor (Rush), best supporting actress (Bonham Carter), best original screenplay (Seidler), and best music (Alexandre Desplat).

The King’s Speech could have been the moment of alchemy that the UK Film Council was seeking but it came too late.
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Beyond the UK Film Council, the relationship between the public purse and support for production had become increasingly fraught.

Tax breaks for production had first been introduced in 1992 with a three-year write-off (Section 42) and then a one-year write-off (Section 48) in 1997, shortly after the Labour Government was elected.\(^8\) The latter was restricted to films costing £15 million or less and was introduced as a temporary measure which applied to production and acquisition expenditure incurred before July 2000. It was extended twice, in 1999 and 2001, to apply to costs incurred before July 2005. Writing off the costs in the first year, as opposed to over three years, enabled a more significant benefit to be delivered to the production. This was especially important for independent producers, since the legal and financing costs associated with securing Section 42 relief for independent films were usually disproportionate to the actual benefits.

To finance independent films, producers are usually obliged to license the rights to their films to a distributor in the UK and overseas – a practice known as pre-selling rights. The money promised by distributors is used to help finance the film, often with a bank delivering the actual cash flow secured against the contracts – and sometimes also with the help of money from a bank to cover any shortfall. As a consequence, unless a film is very successful, the producer sees relatively little return as most of the profits flow to the distributors and other investors. To limit financial liability, individual film productions are usually made by companies set up solely to make the film – so-called special purpose vehicles (SPVs).

The capacity of film producers to make use of tax breaks which involved a write-off of profits over time was very limited, because they usually had little or no taxable income within that timeframe. In order to work round this, a mechanism known as sale and leaseback (also used in other industries such as oil and gas pipeline construction which require heavy capital investment), was created to enable third parties to access the reliefs.

An HM Revenue and Customs manual explains how sale and leaseback for film works in broad terms:
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‘The schemes enable third-party investors to defer their tax liabilities for up to 15 years in return for making an investment in films. Broadly the schemes work by the investor incurring expenditure on the acquisition (or production) of the master version of a film and then leasing (or licensing) the film back to the film producer or a distributor for up to 15 years, with the lease rentals (or licence fees) providing an income stream which is spread over this period. The investor obtains the benefit of a relievable loss through the accelerated deduction, which it uses to shelter other income and gains from tax.’

As with other complicated financial instruments which were much in vogue during the first half of the decade, the complexity of such schemes meant that they were open to widespread manipulation and abuse. The government was repeatedly compelled to legislate to close loopholes in relation to the statutory reliefs for film which had facilitated tax avoidance. Between 2000 and 2005, there were 11 pieces of anti-avoidance legislation in relation to claims for tax relief on films. The government also acted against non-statutory mechanisms for supporting film production based on Generally Accepted Accounting Principles (GAAP), although this was an attack on such schemes across the board – including their use in forestry and carbon trading.

On 10 February 2004, the Treasury moved, with immediate effect, against the increasing use of GAAP schemes for film production which it believed had come to be used as a means of tax avoidance. It announced that legislation would be brought forward to address tax avoidance schemes which exploited relief for trading losses through partnerships. There was an outcry from much of the independent film production sector, film financiers and film bodies. Around 40 films were said to be affected, among which were Tulip Fever directed by John Madden, The Libertine starring Johnny Depp, and The Constant Gardener which was supported by the UK Film Council.

The UK Film Council and much of the production sector argued that some transitional relief should be provided for films most at risk of collapse. But Dawn Primarolo, the paymaster general, remained unyielding and no such relief was provided. Some of these films did indeed collapse, but many did not.

89 http://www.hmrc.gov.uk/manuals/bmmanuals/bm56405.htm
90 Some of this legislation was directed at non-statutory reliefs; See ‘Reform of Film Tax Reliefs’ (op cit.) p 13
91 See http://www.hmrc.gov.uk/manuals/bmmanuals/BM56535.htm for a detailed description of the schemes based on GAAP which were used for film production
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What later became apparent was that, because of avoidance activity, the costs of the statutory reliefs Section 42 and Section 48 alone far exceeded the amount that the government had allocated for them. In some cases, there was so-called double-dipping in which relief was claimed twice. In the financial year 2005-06, for example, the two reliefs together cost £560 million, far in excess of the sum that the government had estimated for them.93 No figures were provided on the cost of the GAAP schemes for film.

The stubborn persistence of schemes primarily designed to enable tax avoidance through Sections 42 and 48 meant that the government had become firmly persuaded of the need to introduce a new tax scheme.

Mindful that Section 48 was due to expire in 2005, the Inland Revenue began an evaluation of its impact in late 2002. One of the policy intentions behind the relief had been to help secure change in the structure of the industry and significantly reduce the dependence on public support. It was apparent that this had not been achieved, even though the relief had fulfilled other policy objectives such as stimulating the production of British films and creating employment and investment opportunities in the film industry.

The UK Film Council and some industry voices argued that, to bring about structural change, it was worth exploring whether a mechanism could be created that allowed tax relief for P&A costs relating to the release of a film at the cinema. It also argued that, since a significant proportion of British films did not secure a theatrical release, it might be desirable to create a ‘distribution lock’ whereby only films with a theatrical distributor attached to them would be eligible for tax relief. The government, in response, said that any support for P&A would represent ‘deadweight’ – since, for the most part, a distributor was able to calibrate fairly precisely the amount of money it would spend on P&A according to the perceived viability of the finished film – and that the willingness of distributors to take risks on British films would not therefore be significantly enhanced by the availability of a tax relief.

The idea of a ‘distribution lock’ proved more attractive, but the practicalities of creating rigorous legal definitions in relation to the intention to distribute a film at the cinema proved impossible to surmount, and this, together with staunch opposition from most of the production sector, meant that the proposal ran into the sand.

93 http://www.parliament.the-stationery-office.co.uk/pa/cm200506/cmhansrd/vo060227/text/60227w84.htm
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But the government remained determined to craft a new relief that was not dependent on sale and leaseback structures – which had provided such opportunities for abuse – and to find a solution which delivered benefits directly to producers rather than to financiers and other third parties. It rejected arguments in favour of a transferable credit, which would be available to outside investors, saying that this simply ran the risk of allowing third parties to access the credit principally for their own benefit. Equally, it was determined to introduce a credit which gave relief only on expenditure incurred in the UK (the ‘UK spend’), and not on the entire film which had been the case under the previous regime. This was designed to prevent overseas producers making a film in the UK, but spending only a very low percentage of the budget here – as little as 20% – and claiming tax relief on 100% of the film costs.

The eventual solution was a film tax credit which was designed specifically to allow the benefits to flow directly to film producers. The principal features of the relief were that it:

‘...is provided directly to a Film Production Company (FPC) and is not available to those whose involvement in film-making is restricted to providing finance; is available to an FPC making culturally British films, intended to be shown in cinemas, where at least 25% of the total qualifying production expenditure is incurred on filming activities which take place within the UK’.

To ensure compliance with the European Commission’s rules on state aid, a cultural test was introduced to determine whether a film should qualify as British or not. This was based on a system in which points were accrued according to whether certain elements of the film were British. The test is made up of four sections: cultural content, cultural contribution, cultural hubs and cultural practitioners. A film needed to score 16 out of a possible 31 points subject to a golden points rule. Two tax reliefs – one for films costing £20 million or less, and one for films costing more than £20 million – were introduced, with the former offering a slightly higher level of benefit. A new rule, under which goods and services had to be ‘used or consumed’ in the UK to qualify for relief meant that its effectiveness for co-productions was limited.

94 http://www.hmrc.gov.uk/films/reliefs.htm
95 http://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-film
96 http://www.bfi.org.uk/film-industry/british-certification-tax-relief/about-tax-relief
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The new tax relief was introduced on 1 January 2007. After four years of operation it has been judged a success by both government and the production sector. There have been almost no attempts to manipulate the relief for the purposes of tax avoidance. However, the number of co-productions declined significantly because of the structure of the new relief. As a consequence, new treaties that had been negotiated with South Africa and India among others, as well as existing treaties, were arguably under utilised.

Alongside the statutory relief for film, some production companies continued to make use of the Enterprise Investment Scheme (EIS), which was designed to help small, higher-risk companies to raise finance by offering tax relief for investors. However, the relatively low ceiling on individual contributions to an EIS scheme meant that, to be eligible, a film production would require a large number of small investors, making it impractical for the sector.

Several billion pounds of public money had gone to support film production in the UK during the first decade of the 21st century. That money had produced little in the way of measurable structural change in the industry. But the flow of both independent and studio-backed British films to audiences was much more consistent than it had been during the 1990s, particularly as the decade progressed and the impact of restructured Lottery funding under the UK Film Council, coupled with the new film tax credit, became apparent.

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98 http://www.hmrc.gov.uk/eis/
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**Case Study 5: Screen Heritage UK**

In 2007, culture secretary James Purnell announced that the UK Film Council would be responsible for a £25 million Lottery-funded scheme to support the preservation and public use of the national and regional screen archives.

This became the Screen Heritage UK programme, led on behalf of the UK Film Council by the BFI, under director Amanda Nevill. The programme ran alongside the £2.7 million Digital Film Archive Fund (DFAF) which operated between 2008 and 2010, and was tasked with enabling and increasing public access to regional screen archives.

These schemes had an ambitious scope, covering the digitisation and restoration of the BFI National Archive and regional archives – some of which were seriously deteriorating – and with a remit to make more works available to the public.

There were major technical and skills challenges involved in digitisation and restoration, but the desire to make archives available as a public resource raised further issues, not least in unravelling rights ownership.

The 2005 release of a restored collection from the Mitchell and Kenyon film company, which showed scenes from Edwardian Britain, had demonstrated that there was potential public demand beyond academia. Its television screening attracted an audience of more than four million.

There were tangible results from the new funds. The DFAF, for example, supported 15 archive projects in the South West Screen region alone.

But the ambition of ‘access for all’ came with a big price tag, requiring the creation of digital and physical means to access content. In 2010, the secretary of state for culture, media and sport, Jeremy Hunt announced that the ‘delivering digital access’ element of the fund, aimed at creating a platform for a searchable database of content, was to be scrapped, saving £2.5 million.
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The political realignment that resulted from the government’s devolution agenda, following referenda in Scotland and Wales in 1997 and a parallel process in Northern Ireland in 1998 had a significant impact on the way in which film policy in the UK was formulated and delivered.

In England, it was the UK Film Council which led the reorganisation of the film landscape across the English regions. In the same way as the UK Film Council itself had been the product of a move to rationalise the landscape of film policy and delivery, so it now embarked on work to bring a much greater coherence to provision in the English regions. One of the main aims was to ensure that film policy and funding were focused on the needs of England as a whole, and not just central London. This was felt to be particularly important in the wake of the historical concentration of much of the film sector in London and nearby.99

This work was informed by a paper which the DCMS had produced in September 1999, titled ‘The Film Council and the Regions’. This paper identified a number of issues for debate, including the best way to achieve a balance between national and regional delivery, the best way for the UK Film Council and ACE to work together, and the case for closer liaison and co-operation between the existing regional delivery agencies.

In April 2000, the UK Film Council began a review of the patchwork landscape of support for film across England. Activities which were being supported at the time included screen commissions, production funds, organisations, film archives, regional cinemas, film societies and educational programmes. ACE, the BFI, Skillset and the English Regional Arts Boards were among the bodies involved in funding these activities. As has been noted by other commentators, there was a degree of ‘institutional tension’ in the relationship between the various bodies charged with delivery.100

At the time, the UK Film Council and the BFI were putting £3 million a year into regional activities in England, with further significant gearing on this investment from other public sector agencies, the European Union and the private sector.

99 The production and post-production sectors, for example, are heavily concentrated in locations in and around the capital, including Soho, Pinewood and Shepperton.
100 Nick Roden, ‘Connecting the regional and the global in the UK film industry’, Transnational Cinemas, Volume 1, No 2, 2010, p.147
A wide-ranging review led by the UK Film Council’s chief executive John Woodward and Carol Comley, deputy head of policy, involved a national seminar, a series of regional seminars and a call for written evidence.

The subsequent report, ‘Film in England: A Development Strategy for Film and the Moving Image in the English Regions’ recommended that:

‘The Film Council should establish a new Regional Investment Fund to ensure integrated planning for film in each of the nine English regions (as defined by Government Office and Regional Development Agency boundaries). This should facilitate the rapid establishment of an integrated regional film agency (or, where more effective, integrated planning across existing agencies) in each region with the capacity to determine its own industrial and cultural priorities for film and to express those priorities through a three-year “business plan” for the region which is supported by the Film Council.

Over the next three years, 2001/02-2003/04, the Film Council should in each year commit up to £3 million of new resources to the Regional Investment Fund to catalyse integrated regional planning, strengthen the existing regional infrastructure and to expand film activities.\textsuperscript{101}

The BFI should focus on its core educational remit, UK-wide service provision to the highest standards, on developing the J Paul Getty Conservation Centre at Berkhamsed into a state-of-the-art research and conservation centre and on developing a new national centre of excellence for film on London’s South Bank.’\textsuperscript{102}

These recommendations—along with seven others relating to issues including training provision in partnership with Skillset and support for capital investment in exhibition in partnership with ACE via the Arts Capital Programme—would form the backbone of the new Regional Investment Fund for England (RIFE) initiative, which became the means by which policy and funding were directed from the UK Film Council to the English regions.

\textsuperscript{101} This was in addition to the £3 million of existing funding
The recommendations contained in the ‘Film in England’ report required a number of significant changes to the way in which policy and funding were delivered. The most visible and challenging of these was the move to create nine regional screen agencies (RSAs) as a means of helping bring greater coherence to the landscape. This mirrored the creation by central government of nine regional development agencies, charged with creating sustainable economic growth across England.

The nine RSAs became the backbone of delivery to the English regions for a decade. 103
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Case Study 6: Regional Screen Agency EM Media

The UK’s regional screen agencies (RSAs) were set up from 2001 onwards as independent bodies, with a brief to help support sustainable media businesses and to build public access to film culture.

The RSAs were largely created on the foundations of existing national and regional film bodies, commissions and media development agencies.

Nine self-governing regional bodies (and three national agencies for Scotland, Wales and Northern Ireland) were set up to act as not-for-profit agencies delivering Lottery and grant-in-aid money allocated through the UK Film Council. Each took their own view on the broad brief set out by the UK Film Council.

EM Media, the agency covering the East Midlands (and, after 2010, all of the East of England), has been one of the most successful of these. It was founded in 2001, bringing together the East Midlands Screen Commission, the EMMI Production Fund, the film development unit of East Midlands Arts and the Midlands Media Training Consortium.

The agency has been particularly committed to talent development, working closely on projects with Skillset and other national and regional training agencies. This emphasis on development has delivered significant results in bringing local talent to national and international recognition.

It has co-financed more than 40 productions, including Shane Meadows’ BAFTA award-winning This Is England and Anton Corbijn’s Control which won the Carl Foreman Award at the 2007 BAFTAs.

EM Media helped to generate £179 million for the regional economy from film and other interests in games, television and interactive media.
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Case Study 7: Of Time and the City (Terence Davies, 2008)

Terence Davies’ deeply personal documentary about his life in the Liverpool of the 1950s and 1960s was the product of an innovative regional initiative.

The Digital Departures micro-budget filmmaking project was set up as part of Liverpool’s tenure as European Capital of Culture in 2007, supported by regional agency North West Vision, the Liverpool Culture Company, the UK Film Council and the BBC.

One of its commissions was Of Time and the City, produced by Solon Papadopoulos and Roy Boulter. The film was given a budget of £250,000 for a digital shoot – the director’s first digital project – in 2008. As an auteur director, Davies is more feted on the international festival circuit than in his home country, thanks to his award-winning films such as Distant Voices, Still Lives (1988) and The Long Day Closes (1992).

It was an important part of the project that the film was given wide distribution nationally and internationally across a variety of digital platforms, including the UK Film Council’s Digital Screen Network. The BFI distributed the film, while the BBC took UK broadcast TV rights.

In 2008, the BFI was awarded £48,000 from the UK Film Council’s P&A Fund to support the film’s distribution and exhibition.

There was an ambitious vision for the idea of Digital Departures beyond the Capital of Culture celebrations; Tim Cagney, Head of UK Partnerships at the UK Film Council, suggested it could become ‘a dynamic model of micro-budget production that Liverpool can export across the world’.

Of Time and the City received considerable critical acclaim at festivals around the world and took $523,417 at the global box office. In retrospect, it may be seen as an important moment in the marriage of art film and digital production and distribution.
There was also a rationalisation of delivery agencies across the UK as a whole – though the UK Film Council remained at the heart of policy, as articulated in its ‘Working Together, Making A Difference’ document.\textsuperscript{104}

Even before devolution, the idea for a unified agency for the screen sector in Scotland had emerged from a report entitled ‘Scotland on Screen – the Development of the Film and Television Industry in Scotland’, commissioned in 1996 from the London-based consultancy Hydra Associates at the request of Michael Forsyth, secretary of state for Scotland.\textsuperscript{105} The report concluded that the splitting of public support for the screen industries in Scotland among a large number of different organisations was a significant impediment to the growth of the sector.

So although Scottish Screen was founded in 1997, it was actually the brainchild of the Conservative Government which had been in power in Westminster until April of that year. The new body was charged with developing a sustainable film production sector in Scotland, and with promoting and nurturing film culture.\textsuperscript{106}

Just as the UK Film Council had been designed to consolidate a number of disparate organisations delivering film policy and funding, so Scottish Screen was intended to bring about a rationalisation of policy and delivery in Scotland. An interim board was established under the chairmanship of Allan Shiach, a filmmaker and a former chair of the Scottish Film Council; he was succeeded in 1998 by James Lee, the former chairman of Goldcrest Films and Television. John Archer, a former head of music and arts at BBC Scotland, was the new body’s first chief executive.\textsuperscript{107}

Scottish Screen brought together the Scottish Film Council, the Scottish Film Production Fund, Scottish Screen Locations and Scottish Broadcast and Film Training. It initially also had responsibility for the Scottish Film Archive, which had been part of the Scottish Film Council, but this was transferred to the National Library of Scotland in 2007. At the outset, Scottish Screen received Lottery money from the Arts Council of Scotland, but from 2000 it became a Lottery distributor in its own right, with responsibility for distributing up to £3 million a year of funding in addition to the £2.6 million grant it was receiving from the Scottish Executive.


\textsuperscript{105} Hydra Associates (1996), ‘Scotland on Screen: The Development of the Film and Television Industry in Scotland’, Glasgow: Scott Stern Associates

\textsuperscript{106} ‘Scottish Screen, A Review’ by the Scottish Executive; http://www.scotland.gov.uk/Resources/Doc/46932/001777.pdf, p.9

\textsuperscript{107} For a detailed history of the genesis of Scottish Screen, see Chapter 5 of ‘Creative Industries Policy and Practice: A Study of BBC Scotland and Scottish Screen’, a doctoral thesis at the University of Glasgow by Lynne Alison Hibbert at http://theses.gla.ac.uk/683/01/2008hibbertphd.pdf
Funding support was made available for a wide range of activities from education, training and skills to investment in feature film production, shorts and cinemas. ¹⁰⁸

In addition to its funding activities, Scottish Screen also drove policy for film. It identified the need for a film studio in Scotland which would act as a driver for the development of the nation’s film infrastructure. Despite a number of feasibility studies being undertaken and intensive lobbying, efforts to secure public money for a studio failed and the project never materialised.

Scottish Screen’s effectiveness was the subject of intense debate within the Scottish film sector, the media and among politicians – but no consensus as to its impact emerged. In 2005 and 2006, two reports – the first from the Cultural Commission, the second from the Scottish Executive – concluded that the cultural and creative landscape in Scotland could benefit from further rationalisation. This led to the proposal that Scottish Screen and the Scottish Arts Council be merged into a new single body, Creative Scotland. ¹⁰⁹

After a prolonged gestation, Creative Scotland became the national development body for the arts, screen and creative industries on 1 July 2010. Its first chair was Sir Sandy Crombie, senior independent director of the Royal Bank of Scotland; its inaugural chief executive was Andrew Dixon, a former chief executive of Northern Arts.

As in England and Scotland, the organisation of film policy and funding in Wales underwent a series of structural changes which were designed to bring greater coherence to both strategy and delivery. But in contrast to Scotland, responsibility for film in Wales was not formally devolved from Westminster, despite the creation of the National Assembly for Wales which began sitting in 1999.

As in Scotland, a new body for film had been created prior to devolution. Sgrín Cymru Wales was set up in April 1997 as the main body for the development of film, television and new media in Wales, with both a cultural and an industrial remit. The driving forces behind its creation were the Welsh Development Agency, the Arts Council of Wales (ACW) and the Welsh broadcasters. Sgrín was an amalgamation of the Wales Film

¹⁰⁸ For a detailed study of the attempt to create a Scottish film studio, see Hibbert, Chapter 5, op cit.
http://www.scotland.gov.uk/Publications/2005/09/03191728173802 and Scotland's Culture', a report by the Scottish Executive
Council and Screen Wales. Its initial budget was £460,000. By 2006, the organisation had an annual turnover of £2 million and was also responsible for dispensing around £1 million of Lottery money for film. Among its funders were the Welsh Assembly Government and the UK Film Council.

As with Scottish Screen, there was extensive debate about the impact of Sgrin. A Welsh Assembly report on the creative industries in Wales in 2004 criticised Sgrin for being biased towards film at the expense of other sectors such as new media, and for a lack of clarity arising from its dual responsibilities for cultural and economic development.

The report proposed new arrangements for supporting the creative industries, including a £7 million Creative IP (Intellectual Property) Fund.  

The Film Agency for Wales was established in 2006, under the leadership of chair Peter Edwards, head of drama at ITV Wales, and chief executive Pauline Burt, who had previously worked in the film finance sector. Its remit is to ensure that the economic, cultural and educational aspects of film are effectively represented in Wales, the UK and the world, and it aims to ‘facilitate the emergence of a viable and sustainable Welsh film industry and to promote a vibrant and dynamic film culture.’ The Wales Screen Commission (a locations body) and the National Screen and Sound Archive of Wales (housed at the National Library of Wales in Aberystwyth) operate independently.

In Northern Ireland, the Northern Ireland Film Council received funding from the Department for Education from 1992, and in 1997 it was renamed the Northern Ireland Film Commission, with a particular brief to attract incoming production. It was subsequently renamed Northern Ireland Screen, with a remit to promote both the economic and cultural aspects of the screen sector, with backing from Invest NI, the Department of Culture, Arts and Leisure and the UK Film Council. It was delegated by the Arts Council of Northern Ireland to distribute Lottery funding for film in Northern Ireland.

The roots of the UK’s international film policy go back to the 1990 Downing Street seminar which led directly to the creation of the British Film Commission. “A Bigger Picture”, the 1998 report of the Film Policy

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110 Ibid
111 http://www.filmandtvnigeria.com/
112 http://www.northernirelandscreen.co.uk/sections/76/about-us.aspx
113 See Chapter 1
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Review, strongly reinforced the global nature of the film industry and the need for a policy which extended beyond the shores of the UK:

‘Film is an international business. Even if our plans to boost the domestic market have the major impact that we intend, receipts from overseas, in the form of export earnings and inward investment, will still be of crucial importance to the UK film economy. We need to build on our strengths in these areas by creating an environment that is attractive to foreign investors and supportive of British exporters.’

The British Film Commission’s original remit was to attract inward investment by promoting the UK as an international production centre for the film and television industries. The first British film commissioner, appointed in 1991, was Sydney Samuelson (later Sir Sydney). He was succeeded six years later by production executive Steve Norris, and in 2007 by Colin Brown, the former chair of Cinesite Europe.

When the UK Film Council was created, the British Film Commission was absorbed into the organisation although it retained its own brand identity. Inward investment from films such as the Batman and Harry Potter franchises provided a vital source of revenue for British film studios such as Pinewood, Shepperton and Leavesden. It also helped drive the development of a highly sophisticated digital effects and post-production sector, based in Soho and headed by companies including Framestore, Cinesite and The Moving Picture Company.

The combination of tax reliefs for incoming films, a sophisticated infrastructure, a highly skilled workforce, flexible labour laws and a commission specifically funded to attract productions to the UK proved highly effective in increasing the amount of inward investment. The value of UK spend from incoming films rose from £69 million in 1992 to £929 million in 2010.

On the recommendation of ‘A Bigger Picture’, a British Film Office was opened in Los Angeles in 1998 and was later rebranded as UK Film Council US. This was the most significant presence that a publicly funded UK film

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114 A Bigger Picture, op.cit., p.42
organisation had ever had in the States, and clearly signalled that the US was seen as a key partner, both in terms of inward investment and, more broadly, in terms of export and assistance with talent development.

In a further recognition that the international market for British films was an important source of revenue – with many successful British films earning far more abroad than in their home market – the UK Film Council also provided funding to help the export of British films, working closely with UK Trade and Investment (UKTI). Support was made available for export promotion, as well as for a UK Film Centre at the Cannes Film Festival. Meanwhile, the British Council’s film and television department made support available for the cultural promotion of British film.
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Case study 8: Film Centre in Cannes

Launched in 2003, the UK Film Centre at the Cannes Film Festival has become one of the highest-profile international initiatives, bringing together a variety of film bodies under a single umbrella.

The Centre was initially created by a partnership between the UK Film Council, the BFI, the British Council, producers’ group Pact, the nine English regional screen agencies under the Screen England banner, Scottish Screen, Sgrín Cymru Wales and the government’s Trade Partners UK.

Other agencies have since used the facility to promote their work, and the Centre – in a prime position in the international village – has also attracted commercial sponsors.

The Centre has served as a focus for promoting the UK industry at the world’s leading festival and market, and provided a meeting place with facilities for delegates, PR representatives and the media.

It has also served as a focal point for industry debate, hosting a strong programme of Q&A events and interviews as a service to delegates.

While the economic downturn has created financial challenges for the Centre, its importance was reiterated in plans made for Cannes 2011 when the BFI replaced the UK Film Council as the lead body for film. The BFI, Creative England, Creative Scotland and Film London/British Film Commission all planned to lead the Centre into a new era with a full programme.
The approach to co-production also represented an important element of international policy for film. Since the 1960s, the UK had put in place co-production treaties with a variety of countries in Europe, the Commonwealth and beyond. Filmmakers from different countries who made co-production arrangements under the auspices of the Council of Europe’s Convention on Cinematographic Co-Production were able to access one another’s subsidies on a multi-lateral basis. The UK signed its first bi-lateral co-production agreement with France in 1965. Further agreements with Australia, Canada, Germany, Italy, New Zealand and Norway followed. In 1993, the UK ratified the Convention and it came into force the following year.

In 2003, the DCMS, working closely with the UK Film Council, began a fundamental review of co-production. This work was prompted in part by a desire to refresh and renew the UK’s existing framework of co-production treaties, in particular with an eye to new opportunities for collaboration in the wake of globalisation. But it was also undertaken in response to concerns about a sharp rise in the level of minority co-productions – films for which a relatively small portion of the budget (sometimes 20% or less) was being spent in the UK yet for which, under the tax relief system as it then operated, the producers were able to claim 100% tax relief.

As a consequence of this review, new treaties were signed with India, Jamaica, Morocco and South Africa. Existing treaties with Germany, Italy and Norway were dropped, principally because these countries were already signed up to the Convention.

117 http://conventions.coe.int/Treaty/Treaty?iSession=24&iLanguage=fr&iNo=147&Cl=ENG
118 See Chapter 3
Case Study 9: The Constant Gardener (Fernando Meirelles, 2005)

The UK Film Council consultation on policy and funding priorities in March 2010 cited *The Constant Gardener*’s global takings as evidence that cinema was ‘probably the most widely enjoyed and cost-effective return that Lottery players see from their weekly contribution to the leading good causes’.

The Potboiler Productions film, produced by Simon Channing-Williams, received a total of £1.9 million from the UK Film Council Premiere Fund. The film took more than £50 million ($82.5 million) worldwide, including £21 million ($33.5 million) in North America, where it was released by Focus Features in August 2005.

Adapted by Jeffrey Caine from John Le Carré’s novel about corruption and corporate greed in Africa, the film’s storyline was clearly international. But the international context presented a challenge in qualifying for the UK tax relief. The Constant Gardener had a Brazilian director – Fernando Meirelles – and was to be shot on location in Kenya.

It was decided to position the film as a majority UK/minority German co-production. The two countries had a co-production agreement that allowed some flexibility for shoots outside the territories, and the structure allowed a degree of creative freedom and access to private finance alongside Lottery funds.

The Constant Gardener received 49 major award nominations and won 14. They included best supporting actress awards for Rachel Weisz at both the Oscars® and Golden Globes; best editing BAFTA and an Academy Award® nomination for Claire Simpson; Oscar® and BAFTA nominations for Caine’s adapted screenplay and Alberto Iglesias’ music; and Golden Globes and BAFTA nominations for director Meirelles.
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The Regional, National
and International Landscape

Changes to the tax system for film in 2006, in particular the removal of relief on the entire qualifying costs of the film – even if shot outside the UK – and the insertion of a clause that specified goods must be ‘used or consumed’ in the UK to qualify for relief, made co-production very much harder. As a consequence, the value of co-production declined from £97 million in 2005 to just £45 million in 2008.119

Festivals at home, notably those in London and Edinburgh, played a key role in placing the UK on the international map throughout the decade. In recognition of the capacity of festivals to create both a national and international profile for UK film culture and for the indigenous industry, in 2008 the UK Film Council created the Film Festivals Fund.

Case Study 10: Film Festivals Fund

In 2008, the UK Film Council launched a Film Festivals Fund. It distributed £740,000 a year in Lottery support for UK events over three years, and included an international strand which supported the development of the Edinburgh International Film Festival, to the tune of £1.88 million over three years.

While public funds had backed festivals for many years, the Film Festivals Fund was an attempt to create a clear strategy, with the aim of increasing audience access to a diverse range of festivals and ensuring that these events made a sustainable impact at home and abroad.

The dual business and cultural role of the fund was reflected in the choice of the first recipients. Seven festivals shared in the scheme, with an emphasis on diversity and innovation: the Birds Eye View Film Festival; British Silent Film Festival; Cinemagic World Screen Film and Television Festival for Young People; Deafest; Flatpack Festival; London International Animation Festival; and the Sheffield International Doc/Fest.

At an international level, the funding for the Edinburgh event was explicitly aimed at establishing its global reputation as a ‘festival of discovery’.

The impact of the fund as a strategic tool was limited by the fact that it coincided with a dramatic economic downturn. Private sponsorship for many events was harder to secure and public funding faced cuts, at the same time as Lottery funding was being redirected in part to the London 2012 Olympic Games.
Another important plank of international support was the European Commission’s MEDIA Programme which provided funding for development, distribution and training. The programme had been launched in 1991 to support the growth of the European audiovisual industry.120 The UK MEDIA Desk was housed at the Bfi during the 1990s until it was abolished on cost grounds. It was then reinstated at the UK Film Council in October 2001, operating alongside MEDIA antennae in Scotland and Wales.121

120 http://ec.europa.eu/culture/media/index_en.htm
121 http://www.mediadesluk.eu/
Chapter 5:  
Changing Business Models

In 2007, the UK Film Council published its third three-year plan, ‘Film in the Digital Age.’ The front of the plan carried a quote from the film *The Queen*, directed by Stephen Frears: ‘But I can see that the world has changed and one must modernise.’

The creation of the UK Film Council had, in itself, been an act of modernisation. Given the increasing amounts of public money supporting film, and the increasing complexity of the sector, the government believed there was a need to ensure that policy was created and delivered in a strategic, coherent and effective fashion.

Now it was imperative to focus on the new opportunities and challenges presented by the evolution of digital technologies and, in particular, the growth of the internet.

The UK Film Council knew it had to find strategic ways to address the realities of a more demand-driven business environment, expressed in a cliché of the time that we were entering a ‘Martini culture’, where in the words of the old advertisement consumers wanted film ‘any time, any place, anywhere’.

Film had, of course, already been through the first stirrings of change in the early 1980s when consumers began to rent, buy and record films on video. In the late 1990s consumers began to switch away from video to DVD – the first digital format to be embraced by film audiences.

There was a difference, however, between DVD and the emerging internet formats and platforms. Access to DVD was limited by shelf space, region codes and availability, and it could be restricted to the country where the rights had been sold. Although the DVD format was relatively easy prey for piracy, it still belonged in the same physical world as theatrical releases.

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Case Study 11: The Growth of DVD

The first signs of how digital change would affect the consumer were seen in the early 1980s with the arrival of video sales and rentals. Initially, home video compounded the general decline in cinema admissions across the world, particularly in those countries such as the UK where cinemas had suffered from years of underinvestment. In Europe, cinema admissions declined by 50% between 1975 and 1985, from 1.41 billion to 710 million. The video format enabled consumers to rent films once they were no longer showing in the cinemas, which they could then watch in their own homes at a time of their own choosing, rather than waiting for them to appear on television. After initial industry resistance, it became clear that video had created a new release ‘window’ and a valuable new source of revenue for film distributors and producers, just as television had done in the 1950s and 1960s.

But video tapes were a cumbersome technology which suffered from low quality reproduction and a lack of durability. When Digital Versatile Disc (DVD) players began to appear on the market in 1996, consumers across the world rapidly began to embrace them as a replacement for video.

The enthusiasm with which DVD was taken up was hardly surprising. The new digital format offered much greater convenience, including the ability to move swiftly and precisely to particular scenes on a disc. Above all, the picture quality was so superior that consumers were even willing to pay to replace films they already owned on VHS. As global household penetration increased, the cost of DVD hardware came down, leading to market domination. The revenues generated by rentals and sales of DVDs quickly outstripped even the peak achieved by video, with £2 billion spent in the UK in 2003.

The DVD format also allowed rightsholders to release large quantities of library material into the marketplace, many with ‘extras’ such as deleted scenes, interviews with directors and actors, and trailers.

The new format also had a significant cultural impact. As the authors of a recent study ‘Stories We Tell Ourselves: The Cultural Impact of UK Film 1946-2006’ put it: ‘The DVD re-issue market, in particular, has led to a revival of interest in works by British film directors whose cultural impact had initially been limited due to having only small releases followed by occasional television screenings.’

In 1999, the combined value of the retail and rental market for DVD/video in the UK was £1.33 billion; by 2004 it had risen to £4.04 billion, an increase of over 300%. However, by 2009 it had sunk to £3.48 billion, with all the signs being that it would continue to fall for some time to come.
The new universe of online distribution was much more challenging. The internet had no borders and a limitless number of files could be perfectly copied and distributed anywhere in the world.

The potential opportunities of the internet were obscured by the search for business models which would accommodate these new means of reaching audiences while at the same time maintaining traditional revenues.

From its inception, the UK Film Council alongside other agencies had attempted to take a broad view of these changes, looking at legal and technical ways of restricting copyright theft and infringement while encouraging innovation and the exploration of new models.

The most immediate and damaging effect of the changes wrought by the new media had been the rapid growth of film copyright theft and infringement, and the rise of file-sharing sites. Although the size of film files, and the time needed to download content, protected the industry to some degree (compared with the music business, say, which had been heavily affected by copyright infringement and theft), there was nonetheless a serious impact.

The film industry initially struggled to create legitimate legal alternatives to piracy. The problem was not only technical. The industry was also fully aware that digital services were eating away at their key non-theatrical revenues, notably the cash cow of DVD and television sales.

The first big digital policymaking challenge came just after the turn of the millennium with the arrival of digital projectors. Digital cinema promised improved quality (or at least print consistency), greater reach for films and more consumer choice – though the gap between theory and practice has proved a major challenge.

The Department of Trade and Industry (DTI) and the DCMS created an e-cinema group, which was largely focused on technical issues. As part of its work on specialised distribution and exhibition, in 2002 the UK Film Council published a study on e-cinema, looking at the potential that digital projectors offered for screening films in venues other than traditional cinemas.\(^\text{124}\)

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However, the creation of the Digital Screen Network by the UK Film Council in 2004 was the first significant public policy intervention in the UK, in the field of digital exhibition and of digital more generally. It served as a catalyst and helped to generate momentum in the commercial sector for the installation of digital projectors.¹²⁵

The policy was ostensibly about increased choice, linking the installation of projection equipment to agreements on the screening of specialised content, including British, foreign-language and classic films. However, it also served to test the potential for d-cinema (as it has come to be known) at a time when other countries were bogged down in disputes over standards and payment models.

In many ways, d-cinema has been the easiest of the digital challenges faced by policymakers, and in fact it soon became obvious that there were returns on investment for many exhibitors, for instance in premium price tickets for 3D and in event cinema (also known as alternative content), such as screenings of live opera performances or sporting events.

¹²⁵ See Chapter 4
Case Study 12: StreetDance 3D (Max Giwa and Dania Pasquini, 2010)

StreetDance 3D was one of the most successful films ever backed by the UK Film Council Premiere Fund.

The film was produced by Vertigo Films, in association with BBC Films, and directed by Max Giwa and Dania Pasquini. It went out on a record number of 3D screens in the UK, and beat off the challenge of two major Hollywood blockbusters – Robin Hood and Prince of Persia: The Sands of Time – to claim top spot in its opening weekend in the UK (and the biggest opening weekend of any film backed by the UK Film Council up to then).

There had been a significant element of risk in supporting the film: it was the UK’s first 3D feature film, and in May 2010 the format was still in its infancy as a proven revenue generator.

The film also appealed to a teenage demographic which had not been particularly well served by UK film. It featured young, untested film talent and a soundtrack of urban music which was then still up-and-coming.

StreetDance 3D was distributed by Vertigo in the UK, but the wealth of young UK talent proved to have an appeal outside the UK; Universal’s Protagonist label sold the film to almost 30 international markets. In total it took gross theatrical revenues of £26 million ($42 million) worldwide.
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Finding business models for the rapidly emerging means of accessing content online, however, soon proved a far tougher task, not least because consumer demand was running a long way ahead of the film industry’s ability to service it.

One immediate problem, which had already caused huge damage to the music industry, was that consumers could easily find, download and stream content illegally. Copyright infringement and theft (piracy) soon became a primary policy issue.

When the UK Film Council first addressed these issues, its principal concern was with illegal DVDs. In August 2003, in response to concerns raised by stakeholders and its board, it created an anti-piracy taskforce, chaired by Nigel Green, joint managing director of Entertainment Film Distributors.\textsuperscript{126} The taskforce comprised members from across the film sector, including Pact, the Film Distributors Association and the CEA, as well as from the DCMS.

The taskforce commissioned research from analyst Screen Digest to help inform the production of a major report ‘Film Theft in the UK’ which was published in December 2004.\textsuperscript{127} In Nigel Green’s foreword to the report, he said: ‘The pirate is often seen as a romantic hero figure, someone who steals but does so in an honourable and victimless way. The truth is very different. Film piracy is the single largest threat facing the UK film industry today.’\textsuperscript{128}

The report pointed to the increasing problem of physical copyright piracy and issued a warning about the likely impact of digital technology:

‘The problem of film theft is now growing at an alarming rate. In 2001, the number of illegal video products seized by the Federation Against Copyright Theft (FACT) was 314,000. This figure almost doubled in 2002 to 607,000 units, but in 2003 the total number of films seized rose to nearly 2 million units; a 223% increase on the previous year. Increasingly these problems are also transferring into the digital world by copying and file sharing on the net. This level of damage and loss to our industry is simply unsustainable.’\textsuperscript{129}

\textsuperscript{126} \url{http://www.screendaily.com/uk/film-council-unveils-anti-piracy-task-force/4014552.article}
\textsuperscript{127} \url{http://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/uk-film-council-film-theft-in-the-uk}
\textsuperscript{128} Ibid p.4
\textsuperscript{129} Ibid p.4
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The report set out a series of recommended actions to address this threat. These including making camcording in a cinema a criminal offence (since this was a common source of pirated films), introducing a comprehensive package of legislative reforms designed to curb the sale of pirated products at street markets and car boot sales, and the creation of measures to ensure that the take-up of broadband did not result in a rapid acceleration of online piracy.130

The process of making camcording a criminal offence was a long one; successive government ministers at the Home Office rebuffed the pressure to change the law, arguing that camcording was already covered by the Fraud Act 2006. Similarly, the case for tightening up the regulation of street markets, based on the success achieved by the so-called Kent Acts passed by trading standards authorities in that county, made little headway with government.131

The British Video Association (BVA) and FACT both maintained vigorous pressure on the government to take action,132 while lobbying groups such as the Alliance against IP Theft and the Creative Coalition also began to demand action.133

Debate was increasingly focused on the role of intellectual property in the digital sphere. In the analogue age, the value of intellectual property such as film, had been based in part on the difficulties of reproducing it without incurring significant costs. This conferred on it a form of scarcity value. However, once intellectual property like music or film became available in the form of digital files, it could be copied with ease and at virtually no cost.

Equally, it was much easier to distribute knowledge and information in a digital world, and many people, including some associated with the open source and creative commons movements, argued that these benefits outweighed the problems that arose for existing industries. They argued that copyright and intellectual property rules, and the forms of licensing which arose from them, were increasingly irrelevant in a digital era.

130 Ibid, p 7
132 http://www.bva.org.uk/copyright-and-ip/
133 http://www.allianceagainstiptheft.co.uk/, http://www.fact-uk.org.uk/
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The arrival of peer-to-peer (p2p) technologies, which depended on direct connections between computers rather than on a single server, facilitated the growth of online copyright infringement and theft. Since the days of video, copyright infringement had been a challenge. The illicit sale of DVDs at street markets had accelerated that challenge.

File-sharing services now allowed millions of users to access and download films from a wide variety of sites, infringing copyright as they did so. A detailed report published by Oxford Economics, commissioned by Respect for Film in March 2009, estimated that the UK audiovisual sector as a whole lost £526 million due to copyright theft in 2008. Of this, £235 million was attributed to online activity.134

Video streaming sites (such as YouTube) facilitated access to material that was in the public domain, for example archive material. But they also hosted significant amounts of material that infringed copyright, and rightsholders resorted to the courts in an attempt to secure financial compensation – not always with success.135 YouTube was dominated by user-generated content, and early attempts by rightsholders to generate revenues by making material available on the platform on a legal basis had not met with success.

Some consumers argued that as rightsholders were not supplying them with films via the internet in an accessible and convenient way, or at a fair price, they were driven to infringe copyright or steal content.

The continuing existence of a window of several months between cinema and DVD releases was also claimed by some as a contributing factor to piracy, with the average length of the theatrical window in the UK being 17 weeks and four days.

Given the pace of change, it was perhaps understandable that the full impact of these developments had not been foreseen by policymakers. A white paper, ‘The Future of the British Film Industry – Report of the Prime Minister’s Working Party’, published in 1976, concluded that:

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‘Cinemas are likely to remain the principal source of revenue for British films for some time to come and should remain an important source of revenue for at least a decade, both at home and abroad... the new audio-visual media are unlikely, of themselves, to make a significant impact on the commercial cinema, although there could be a greater effect on broadcast television; the cinema’s predominantly young audience is in our view unlikely to find home viewing an adequate substitute for an evening at the cinema.’

They were ultimately proved right, albeit for reasons which they had not foreseen, such as the unanticipated return of 3D to the cinema.

Twenty-one years later, a major review of film policy by the government noted that the ‘rapid developments in digital, satellite and cable TV mean that the market for quality audiovisual product is healthier than ever.’

The 2003 Communications Act, however, which dealt with electronic communications including telecoms, did not include the word internet in any of its 411 clauses.

But policymakers across the world quickly began to recognise that they needed to respond to the issues that this presented.

Just two years after the Communications Act was published, in the pre-budget report of December 2005, the Treasury, the DTI and the DCMS commissioned Andrew Gowers, a former editor of the Financial Times to undertake an independent review of intellectual property. The Labour Party manifesto had included a commitment to ‘modernise copyright and other forms of intellectual property so that they are appropriate for the digital age’. The government was now seeking to determine ‘whether improvements could be made and, as appropriate, make targeted and practical policy recommendations’.

Both the UK Film Council and the BFI made submissions to the consultation.

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Gowers’ report was published in December 2006. Among the recommendations affecting film were:

- Copyright exception for use in distance learning in education;
- A limited private copyright exception to allow ‘format shifting’;
- A proposal to make so-called orphan works – copyrighted works where the copyright owner cannot be contacted – legal;
- Trading standards officers given enforcement powers over copyright; and
- Encouragement for a voluntary system between internet service providers (ISPs) and rights holders to disbar those engaged in online piracy.

The last of those ideas was accompanied by a recommendation that the government should consider legislation if a voluntary scheme had not proven operationally successful by 2007. The failure of a voluntary approach would eventually lead to a series of clauses in the Digital Economy Bill, announced in 2009.

A recommendation on orphan works had been a particular objective of both the UK Film Council and the BFI. The BFI National Archives and other publicly owned archives around the UK contained thousands of works for which the copyright owner could not be identified. Under existing legislation it was illegal to make these works available and as a result, people who had contributed to their production or conservation costs were often deprived of access to them.

Despite the recommendation made by Gowers, no progress was made on orphan works, and the issue had to wait to be addressed in the government’s ‘Digital Britain’ report two years later. Likewise on the issue of copyright exceptions, despite two consultations by the UK Intellectual Property Office (part of the Department for Business, Innovation and Skills), no new exceptions had been enacted by the time the Labour Government left power in May 2010. There was also

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140 Ibid, pp. 6-8
141 In 2009, at the behest of government, a series of discussions were brokered by Ofcom between ISPs and rightsholders to create a memorandum of understanding around the issue of online infringement but these talks failed to result in any binding agreement.
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widespread opposition within the film industry to the idea of a format-shifting exception, because it was feared that it would interfere with decisions by commercial film companies as to how best to protect their products against illegal copying.

The UK Film Council’s digital initiatives also included the creation of an online service called FindAnyFilm. This was designed to direct consumers towards legitimate ways to watch movies in different media (including in the cinema and online) and thereby reduce piracy.143

Policies on tackling piracy were necessarily reactive and defensive, particularly given the industry’s belief that dealing with copyright theft was an essential first step in the building of digital business models.

There were, however, more proactive policy discussions aimed at harnessing the potential of the internet to improve the consumer experience and to create new choice and reach.

The UK Film Council’s three-year plan, ‘Film in the Digital Age’, identified five new policy priorities in addition to the existing ones:

- To work with public private sector partners to develop a corporate finance initiative to provide UK film companies with better access to corporate finance;
- To assist the creation of a BFI national film centre to help develop and enhance key regional film centres as cultural and creative hubs;
- To secure an improved overall financial commitment for British and specialised films from the UK public service broadcaster Channel 4;
- To put in place a UK-wide film and moving image education strategy;
- To foster and increase understanding and appreciation of film.144

With regard to the UK Film Centre, In October 2009, with the personal support of prime minister Gordon Brown, the Labour Government announced that it would make £45 million of capital available to the UK Film Council to help the BFI build a new national film centre on London’s South Bank. The centre was designed to replace the ageing BFI South Bank complex. However, in June 2010, the new Coalition Government withdrew all capital support for the project.

143 http://www.findanyfilm.com
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The other new funding priorities included increased support for inward investment, an allocation of money for market testing of films, and a network of digital film clubs for schools. 145 This network, known as FILMCLUB, was supported by a £11.4 million grant over three years from the Department for Children, Schools and Families (subsequently renamed the Department for Education).

The UK Film Council and the BFI brought together key education providers – the BFI itself, FILMCLUB, Film Education, First Light and Skillset – to help forge an overarching strategy, ‘Film: 21st Century Literacy, a strategy for film education across the UK’. 146 Given that these bodies alone were spending around £12 million a year on a wide variety of activities, the strategy was designed to ensure that there was a cohesive plan for film education across the UK – and that the value of film education as a means of helping people to understand film, especially in a digital age, was acknowledged more widely. It also built on the work of the media literacy task force, which had been led by the UK Film Council and chaired by Heather Rabbatts, with members including the BFI, the BBC and Channel 4. The task force had created a media literacy charter built on three pillars: cultural access, critical understanding and creative activity. All this activity was designed to ensure that film education responded to the changes brought about by the emergence of the online world.

The issue of access to finance had acquired increased urgency in a digital era as the shift in patterns of consumer demand was changing the underlying economics of film.

At the beginning of the decade, a DVD boom had substantially increased the value of film rights, but those values soon began to shrink. The fragmentation of television audiences into multiple digital channels reduced film audiences, and prices and DVD sales began to decline as online alternatives, both legal and illegal, took hold.

Demand was shifting in the direction of downloading and streaming, for which the industry was struggling to find a revenue model.

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145 Ibid, p.15
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By 2010, the value of DVD and television rights had declined so significantly that many people were describing the conventional business models for financing and distributing films as broken.

In the early part of the decade, the UK Film Council had held discussions with the European Investment Bank (EIB) and the European Investment Fund (EIF) about the possibility of creating a financing scheme which would benefit film, but the scope of the EIB in this sphere was limited to underwriting commitments made by other banks and no concrete proposals emerged.

In 2007, Vince Holden, head of production finance at the UK Film Council, led on creating a model called the Future Film Value Toolkit to consider ways in which declining revenues for the traditional business model of film might be countered by harnessing new revenue streams.147

The UK Film Council later examined a possible scheme to help provide debt financing for low-budget films, and engaged in detailed discussion with the European Commission, but its abolition killed off the prospect of any initiative.

The organisation also worked in partnership with the National Endowment for Science, Technology and the Arts (NESTA) on a programme called Take 12, which was designed to help small British film companies take advantage of opportunities for growth through digital distribution.

At the beginning of the decade, a view began to emerge that long-term strategies for film needed to be based on demand, rather than supply. The (misleadingly simplified) idea was that, in the digital age, the established tenet ‘content is king’ needed to be replaced by ‘the customer is king’.

What that often-repeated mantra got right was that the internet had created new relationships that put consumers in the driving seat. The future would be ‘on demand’. VOD was on the rise, even if the most notable early success in increasing access to content came from online DVD rental services like LOVEFiLM.

By the end of the decade, a number of services had begun to mature as streaming, download-to-own and digital rental services took hold. The implications for the film industry still remained unclear, further clouded – somewhat ironically – by the resilience of the theatrical sector.

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One development that had a significant impact on the business was that people began to bypass the old gatekeepers of marketing professionals and critics, and to share their opinions about a film directly with each other, even as they were watching it. Mobile phones and social networks, particularly Facebook and Twitter, also changed the way that people chose what to watch. The long-term cultural consequences of this were very hard to predict, other than that it would lead to a further erosion of the power and authority exercised by traditional media.

The implications for those shaping public policy around film remained opaque. That was also true for other developments.

Lower cost production equipment, coupled with cheap and often free means to distribute a film, for example, had decreased the cost of entry for filmmakers and a participatory, micro-trend was emerging outside the traditional structures.

There was also a growing radical voice that suggested that we were entering a cross-media or transmedia age, which would create new forms of multi-disciplinary narrative.

The fluidity and speed of digital change made it difficult to attain a clear fix on trends.

While the UK Film Council was implementing its ‘Film in the Digital Age’ plan, the government was engaging with a broad agenda for the digital industries. In 2008, it commissioned Lord Carter of Barnes, the minister for communications and broadcasting (and formerly chief executive of Ofcom), to produce ‘an action plan to secure the UK’s place at the forefront of innovation, investment and quality in the digital and communications industries’. This followed in the wake of a convergence think tank, launched in December 2007 by James Purnell, secretary of state at the DCMS, and John Hutton, his counterpart at the Department for Business, Enterprise and Regulatory Reform. This was designed to consider similar issues, but failed to maintain momentum after Purnell was moved in a Cabinet reshuffle a few weeks later.

A year before the launch of the ‘Digital Britain’ plan, the government had launched ‘Creative Britain’, the culmination of a programme of work commissioned by James Purnell when he was minister for the creative industries at the DCMS. 149 This had led to the allocation of funding for apprenticeships in the creative industries, a £10 million fund run by the Technology Strategy Board to support collaborative research and development ideas in the creative industries, and funding for an initiative to be run by the UK Film Council and ACE to develop a network of ‘mixed media centres’ (later known as cross-art-form venues) at independent cinemas around England. 150

The scope of the ‘Digital Britain’ study was much bigger and bolder, and represented a significant opportunity for film policymakers. The UK Film Council’s submission in response to Lord Carter’s interim report underlined the need for action both on enhancing access to the film (by legalising orphan works, for example), and for protecting the value of film copyrights by stemming online copyright infringement and theft.

The final ‘Digital Britain’ report set out a series of proposed measures to help the digital industries, including film, negotiate the transition to a fully digital era. 151 It was welcomed by both the UK Film Council and the BFI, with the latter particularly encouraged by proposals on orphan works and the support for film education.

Prompted by lobbying by rightsholders and others from across the film sector, the response of policymakers was to include a series of provisions in the Digital Economy Bill designed to significantly reduce online copyright infringement in the UK. 152 In the meantime, some argued that the use of other technologies such as cyberlockers would in any case render legislators increasingly impotent.

The Digital Economy Bill also included provisions which would have legalised the use of orphan works and allowed a system known as extended collective licensing to legalise the use of works for which the owners of some rights could not be identified. But under pressure from a

150 Ibid, pp. 7-9
152 Clauses 9-18 at http://www.legislation.gov.uk/uksi/2010/24/content. However, in November 2010 BT and Talk Talk were granted leave for a Judicial Review of these clauses.
lobby including representatives of a group of photographers, these were removed during the so-called wash-up period, in which the Bill was subject to extremely short debate in the House of Commons because of the imminence of a general election.\footnote{153}

In Autumn 2009, the UK Film Council began consultations on its fourth three-year plan which was designed to ensure that film policy continued to be supple and responsive to the changes which had been brought about by the digital revolution. The consultations were led by the new chair of the UK Film Council, Tim Bevan, co-chair of the independent film production company Working Title. Bevan had replaced Stewart Till, whose term of office had expired in July 2009.

In August 2009, at the request of the minister for film Siôn Simon, the UK Film Council and the BFI entered into discussions about a formal merger of the two organisations. The intention was to create an organisation with both a cultural and an economic remit so that public support for film was better co-ordinated, with more funding directed to frontline services. Both Bevan and Greg Dyke, chairman of the BFI, welcomed the announcement.

After an extensive process of consultation, the focus of the UK Film Council’s new three-year plan was titled ‘Digital Innovation and Creative Excellence’. Six areas of core activity were identified:

- Supporting British films and filmmakers;
- Nurturing skills and creative talent;
- Encouraging innovation for the digital age;
- Improving access to films for UK audiences;
- Conserving and making accessible the UK’s archival heritage; and
- Providing opportunities to learn about film.
Chapter 5:  
Changing Business Models

The plan introduced significant changes including the creation of a single fund to support film production with a budget of £15 million a year; an innovation fund to support experimentation across the value chain with a budget of £5 million a year; and additional funding to support the battle against copyright infringement and theft. At the same time, the UK Film Council also committed to cutting its own overheads by £2.2 million (20%) in response to pressure on government finances brought about by the recession. Bevan also set up a think tank, which he chaired and which comprised members drawn both from the UK Film Council and from the wider film industry, to examine ways in which public policy might help in building film companies of scale. The scarcity of such companies in the UK had been identified as a significant barrier to growth in Sir Alan Parker’s speech back in November 2002.

Meanwhile, discussions continued about a merger of the UK Film Council and the BFI, but no agreement had been reached by the time that the UK Film Council’s final three-year plan was published.

Ten years after the UK Film Council had launched, the landscape of film policy was more challenging than ever.
Conclusion

On 26 July 2010, Jeremy Hunt, the secretary of state for culture, media and sport, announced that the UK Film Council was to be abolished. There had been no prior consultation. Despite vociferous protests from across the UK film sector, and despite the best efforts of the UK Film Council itself, the government made it clear that the decision had been made and discussions would begin to determine which organisation, or organisations, would take over some or all of the functions of the UK Film Council.

There was, apparently, no clear plan as to what would happen to the policy and funding roles which the organisation had carried out. The UK Film Council’s latest three-year plan, Digital Innovation and Creative Excellence, unveiled just three months earlier, lay in tatters.

In November 2010, it was announced by creative industries minister Ed Vaizey that the BFI would become the lead organisation for film, that the British Film Commission would operate under the auspices of Film London and that a new organisation, Creative England, would be set up to replace the functions previously carried out by the Regional Screen Agencies.

The era that began with Chris Smith’s announcement of a review of film policy at Cannes in May 1997 had come to a close.

It was an era that saw a raft of film bodies brought together under the umbrella of a single, UK-wide lead organisation resulting in a series of ambitious policy interventions ranging from First Light to the Digital Screen Network. But it was also an era in which devolution resulted in new, and differing, forms of autonomy for film policy across the four nations which make up the UK.

What the Labour Government achieved was to bring a structural coherence to the delivery of policy and funding interventions which had not existed before for film in the UK. Beyond the provision of selective grant-in-aid funding and Lottery support, this also included important additions and revisions to the tax reliefs provided for indigenous film production. The vision underpinning the policy extended beyond the UK, to engagement with Europe, with the United States and with the film sector in many other parts of the world.
Conclusion

As such, film spearheaded the Labour Government’s commitment to the creative industries as both a driver of economic growth and a source of rich cultural, social and educational benefits. The government recognised that policy amounted to more than the sum total of funding interventions. Those interventions were underpinned by a series of strategies – some more successful than others – which were designed to help ensure that UK film built upon its rich heritage and prospered both commercially and culturally.

But most of all, it was an era which, principally because of the impact of the internet, saw an upheaval in the way in which the public accessed film. It was a period marked by the rise and subsequent decline of DVD, by the fragmentation of viewing across scores of television channels and the emergence of wide-scale copyright infringement via an increasing variety of online networks.

As the UK film sector digested the closure of the UK Film Council and reflected on the 10 years of policy which had been developed by, or alongside, that organisation only one thing seemed certain – that the changes which the internet had brought to film were really only just beginning. As a consequence, the opportunities and challenges for UK film policy over the next 10, 20, 30 years would be both greater and more complex, particularly given the challenges of the sharpest recession in modern times. On 1 April 2011, it was planned that the UK Film Council would be handed over to the receivers and the BFI would embark on its new role as ‘lead agency’ for film.