

Screen Business

**How screen sector tax reliefs
power economic growth
across the UK**

Summary report

October 2018

Acknowledgements

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Olsberg·SPI

Andrew Barnes
Leon Forde
Aidan O'Hare
Jonathan Olsberg

Nordicity

Dustin Chodorowicz
Balvinder Chowdhary
Stephen Hignell

Blank Associates

Abigail Bowen

Members of the Project Steering Group

Neil Hatton,
UK Screen Alliance
Luke Hebblethwaite,
Ukie
Oli Hyatt,
Animation UK
Anna Mansi,
BFI Certification Unit
Emily Oyama,
Pact
Samantha Perahia,
British Film Commission
Sean Perkins
Harry Sagger
Andrew Smith,
Pinewood Studios

Members of the Screen Industry Research and Statistics Advisory Group

Hasan Bakshi
Charlie Bloye
Sue Bruce Smith
Andrew Chitty
James Duvall
Luke Hebblethwaite
Hana Lewis
Jonothan Neelands
Kate O'Connor
Emily Oyama
Faith Taylor
Gillian Youngs

BFI

Ian Cade
Carol Comley
Harriet Finney
Yvonne Harris
Emma Hewitt
Julia Lamaison
Nick Mason Pearson
Tina McFarling
Claire O'Brien
Jack Powell
Stephanie Redstone
Andrea Rintoul
Richard Shaw
Alex Tosta
Judy Wells
Darren Wood

Foreword

The UK is one of the best places in the world to make films, high-end TV programmes, video games and animations. I'm immensely proud of the support that the government gives to these industries, which is why I am delighted to welcome the BFI's report on the economic impacts of the UK's screen sector.

From TV shows like *The Crown*, to films like *Darkest Hour*, and animations like *Peppa Pig*, our creative industries are intrinsic to the rich cultural fabric of the UK. But they're also an important part of a dynamic and diversified economy, and a key component of our great, global trading nation.

That is why this government is committed to supporting our highly-skilled and innovative creative industries through creative sector tax reliefs. They have powered growth in the sector, helping to develop clusters of excellence across the UK like those in Dundee (video games) Cardiff (TV) and Church Fenton in North Yorkshire (film and TV).

In the last year alone over £850 million of support was provided – and since the reliefs were introduced they have benefitted 2,420 films, 310 high-end TV programmes, 480 video game productions, 145 animation productions and 75 children's TV programmes. Tens of thousands of jobs have been supported through these reliefs, and as this report shows they contribute billions of pounds to the UK economy.

I thank the BFI for its valiant efforts, not only in promoting the screen sectors, but also in improving its evidence base of the strong impact that they have on our economy.

I am confident that the creative industries will continue to grow, provide strong employment and be the face of British culture to the world in future years.



Rt Hon Philip Hammond MP
Chancellor of the Exchequer

This report demonstrates the huge value of the screen sector tax reliefs to both industry and the wider UK economy. For the first time ever, it sets out how film, video games and high-end, children's and animation television productions have flourished since their introduction - delivering nearly £8bn to the UK economy and generating over 137,000 jobs in 2016 alone, while driving further business for industries such as merchandising and tourism too. The reliefs are also of huge cultural importance - enabling talent across the screen sectors to produce the richest possible range of films, television programmes and video games, which create IP and are loved by audiences both at home and around the world.

The BFI commissioned *Screen Business* to provide the solid evidence of success needed to attract continued public and private investment in the screen industries. The analysis is based on best practice economic modelling to capture the sector's incredible value. It will empower policymakers at every level of local, national and UK-wide government to help create the best possible conditions for future growth - including through the maintenance of the screen sector tax reliefs.

The combination of these reliefs with our renowned and distinctive creativity, world-class skills and sophisticated facilities and infrastructure allow the sector to thrive. It is the BFI's mission to maintain and improve this globally competitive environment for the future. We will use the evidence *Screen Business* provides in order to do so as effectively as possible. This includes working with government and industry partners to support individuals with creative talent from any background through a programme of skills and training, building tomorrow's workforce, and investing in screen clusters across the nations and regions to grow production capacity.

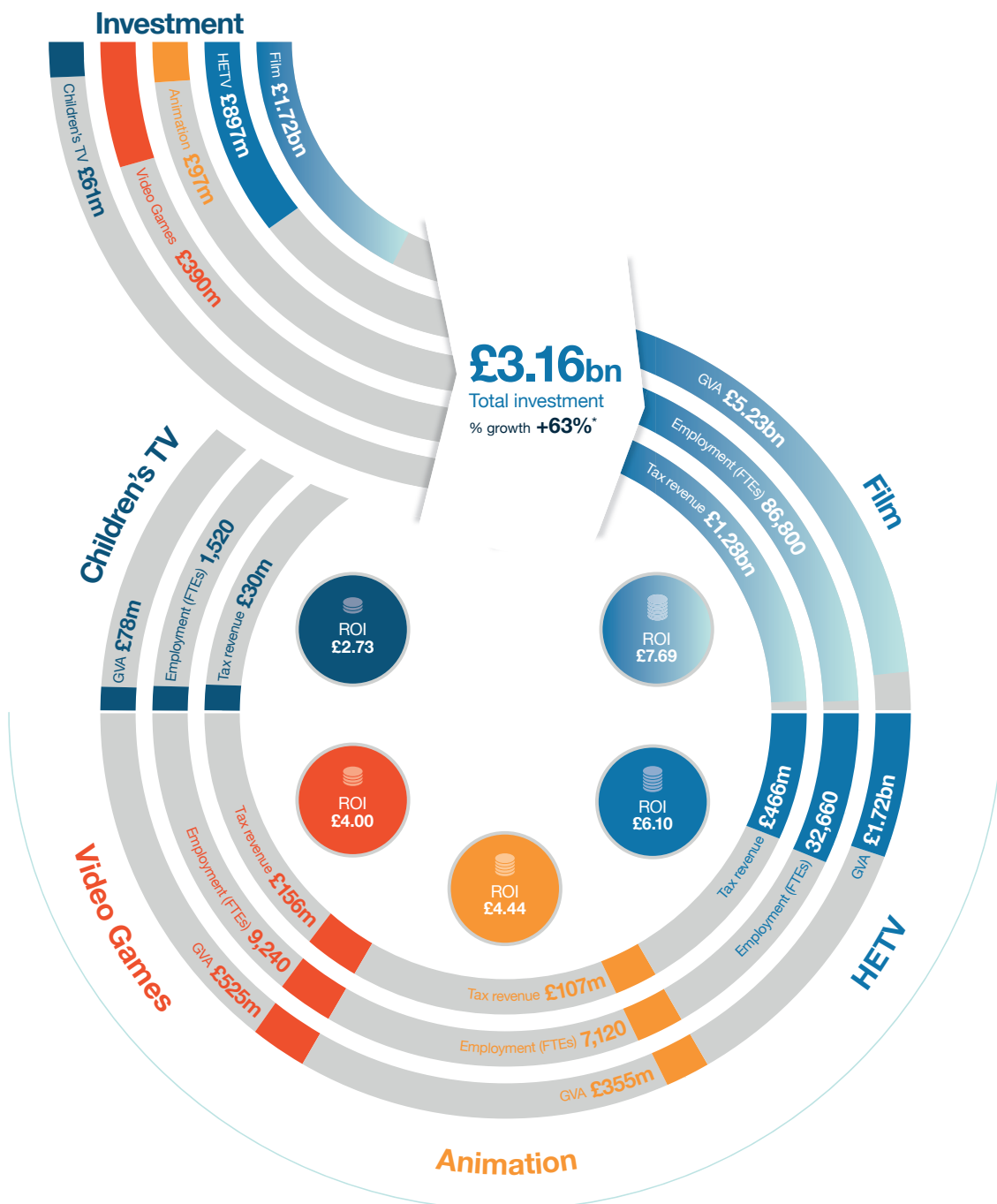
The screen sectors are a huge economic asset to the UK and support our screen talent to deliver content enjoyed worldwide. This report helps to prove so irrefutably. With the maintenance of the screen sector tax reliefs and continued investment in nurturing diverse creative talent, skills and infrastructure by both government and industry alike, we have every confidence they will remain so in future.



Amanda Nevill CBE
Chief Executive, BFI

Summary

Tax relief-supported impact in 2016



£7.91bn

Total GVA

% growth +73%*

£2.04bn

Tax Revenue

% growth +67%*

137,340

Employment FTE's

% growth +62%*

*Growth 2013-2016 for film, HETV and animation

Context

The background features a large orange area on the left and top. A large blue rectangle occupies the center-right. A white L-shaped element is positioned at the bottom-left, partially overlapping the blue rectangle. A dark blue triangle is located at the bottom-right corner of the blue rectangle.

The *Screen Business* study provides the first, comprehensive analysis of the impact of each of the screen sector tax reliefs currently in place in the UK. The work was undertaken by Olsberg•SPI with Nordicity and commissioned by the BFI through its National Lottery-supported Research and Statistics Fund. Its scope and objectives were agreed by a steering group of industry partners including the BFI, British Film Commission, UK Screen Alliance, Ukie, Pinewood Group and Pact. The report updates the previous analysis published in 2015 and takes a refreshed approach to the calculation of economic contribution by applying HM Treasury Green Book 2018 principles and best practice economic modelling to estimate accurately the impact of these important revenue generating tax reliefs to the economy, HM Government, investment in infrastructure and on employment.¹

The screen sector tax reliefs work, in combination with the skills base and infrastructure, to make the UK a competitive and stable workplace to develop and produce screen sector content. The Film Tax Relief (FTR) was introduced in 2007 and followed by the High-End Television Tax Relief (HETR) and the Animation Programme Tax Relief (ATR) in 2013, the Video Games Tax Relief (VGTR) in August 2014 and the Children's Television Tax Relief (CTR) in 2015. For the first time this report includes analysis of the impact of the VGTR and the CTR, and thus provides a unique and comprehensive picture of the total economic impact of UK production tax incentives for all screen sectors.²

This is also the first time the impact of the tax reliefs on the visual effects sector has been analysed. This sector, whilst not a direct recipient of its own tax relief, is a vital, creative element of the UK production value chain across film, High-End Television (HETV) and animation programmes in particular. The findings show how the incentives have contributed to growth of this sector in the UK which is held in high regard globally as a centre of technological innovation and skills excellence.

¹. The economic contribution of the UK's film, high-end TV and animation programming sectors, February 2015 which is available at bfi.org.uk/education-research/film-industry-statistics-research/reports/uk-film-economy

². Separate analyses of non-Tax Relief impacts in the Video Games and VFX sectors can be found in Appendices 1 and 3; an analysis of Animation within the Tax Reliefs can be found in Appendix 2 of the full report

Key Findings

2

The key findings of this analysis of the economic impact of the screen sector tax reliefs examines their contribution to:

- Production investment
- Jobs and employment
- Productivity
- Innovation
- The UK economy
- UK infrastructure and facilities
- Other benefits such as creation of talent and intellectual property, exports, merchandising, tourism and UK brand promotion

2.1 Delivering growth in production investment

Production spend is the rocket fuel of the screen industries. Investment in the development and creation of visual content, supported by the screen sector tax reliefs, drives the direct, indirect and induced and spillover impacts that are analysed in this report.

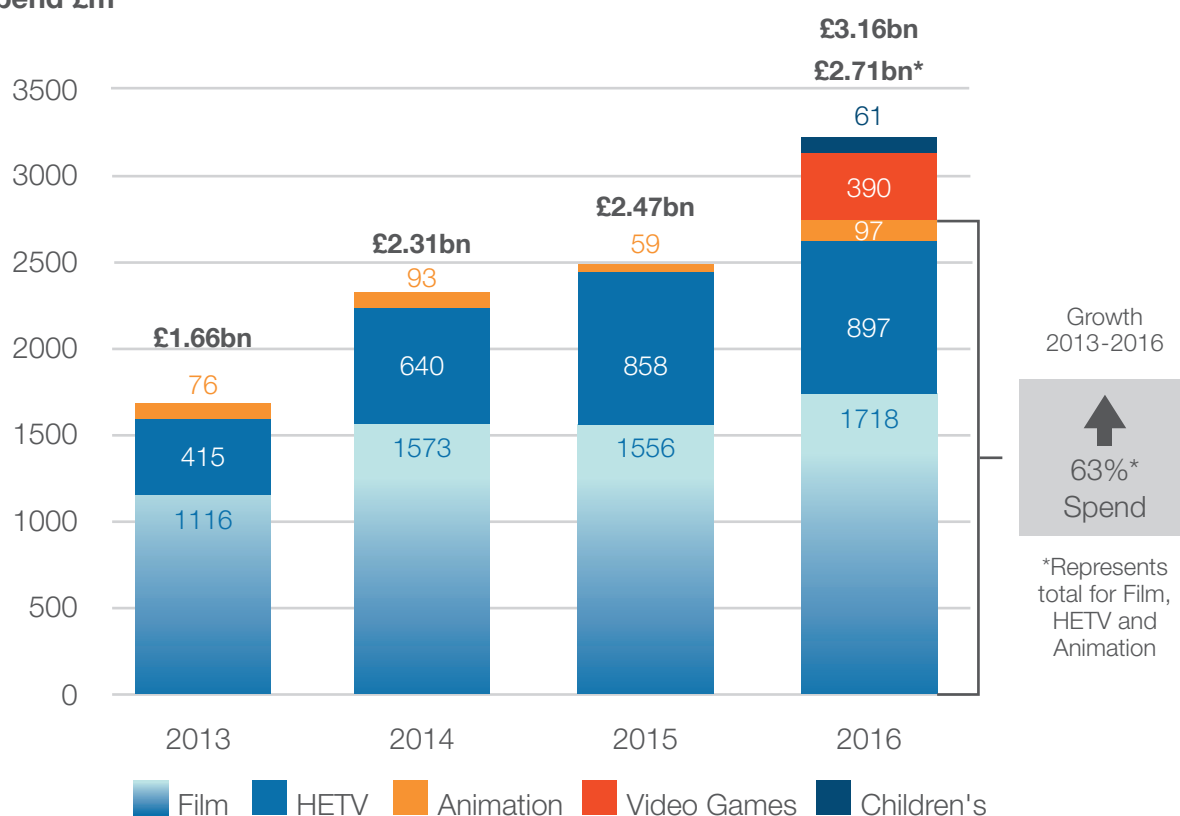
- Production supported by the UK screen sector tax reliefs, reached a record total of £3.16 billion in 2016. Film production represented 54% of this total, but there are strong contributions from HETV (28%) and video games (12%).
- The tax reliefs have encouraged consistent – and arguably sensational – growth, with a 63% increase in production investment in the last four years for the three sectors – film, HETV, and animation programmes – for which trend data is available.
- Since the introduction of film tax relief in 2007, UK production spend on film has increased to a new high of £1.72 billion in 2016, with an overall growth rate over the last four years of 47%.
- HETV production has also seen growth to £896.7 million in 2016, more than double the spend compared to the first year of the tax relief being operational (£415 million). The UK industry has leveraged the opportunity provided by the availability of the HETV to increase both the scale and volume of output including recent productions for Netflix and Amazon which have invested significant amounts in original UK content such as *The Crown* and *Outlander*.
- On a combined basis all five screen sectors attracted over £2 billion of inward investment from the US, EU and other markets in 2016, 66% of the total spend in 2016.³
- For film and high-end television, these increases in production investment have come both from repatriation of high-end television productions that would have been made elsewhere, in countries with tax relief structures, as well as inward investment from producers based outside the UK. Whilst the attraction of the UK is driven by its infrastructure, facilities, availability of skills, creative talent and diverse range of locations, the availability of the tax reliefs provides a competitive and targeted financial incentive.

3. For the HETV, ATR, VGTR and CTR sectors, statistics for inward investment also include UK co-productions.

- Domestic production in the film sector has also seen growth and at £298m in 2016 reached its highest recorded total, up 34% since 2013. With the repatriation factor, domestic HETV production supported by the tax reliefs has also grown, though at £342.6m, the data for 2016 is slightly below the high of £426.5m reported for the previous year.
- The VGTR had been operational only for one full year prior to the period covered by this study. Total development spend in the sector in 2016 was £1.25 billion, of which £389.9 million accessed tax relief. Inward investment is also a success story for the video games industry, and has accounted for around 27% of total spending on video games supported development since the tax relief was first introduced in 2014.
- The tax reliefs for animation and children's programmes supported production of £97.1 million and £61.0 million respectively in 2016, and whilst these are smaller sectors, the tax reliefs underpin their future economic sustainability. Animation in particular, supports a wide variety of screen sector activity across film (supported by the FTR), visual effects and video games (supported by the VGTR). The introduction of tax relief for children's television programme production has helped sustain a sector less proven commercially and which had been in decline prior to its introduction.

Figure 1 Growth in production investment, 2013-2016

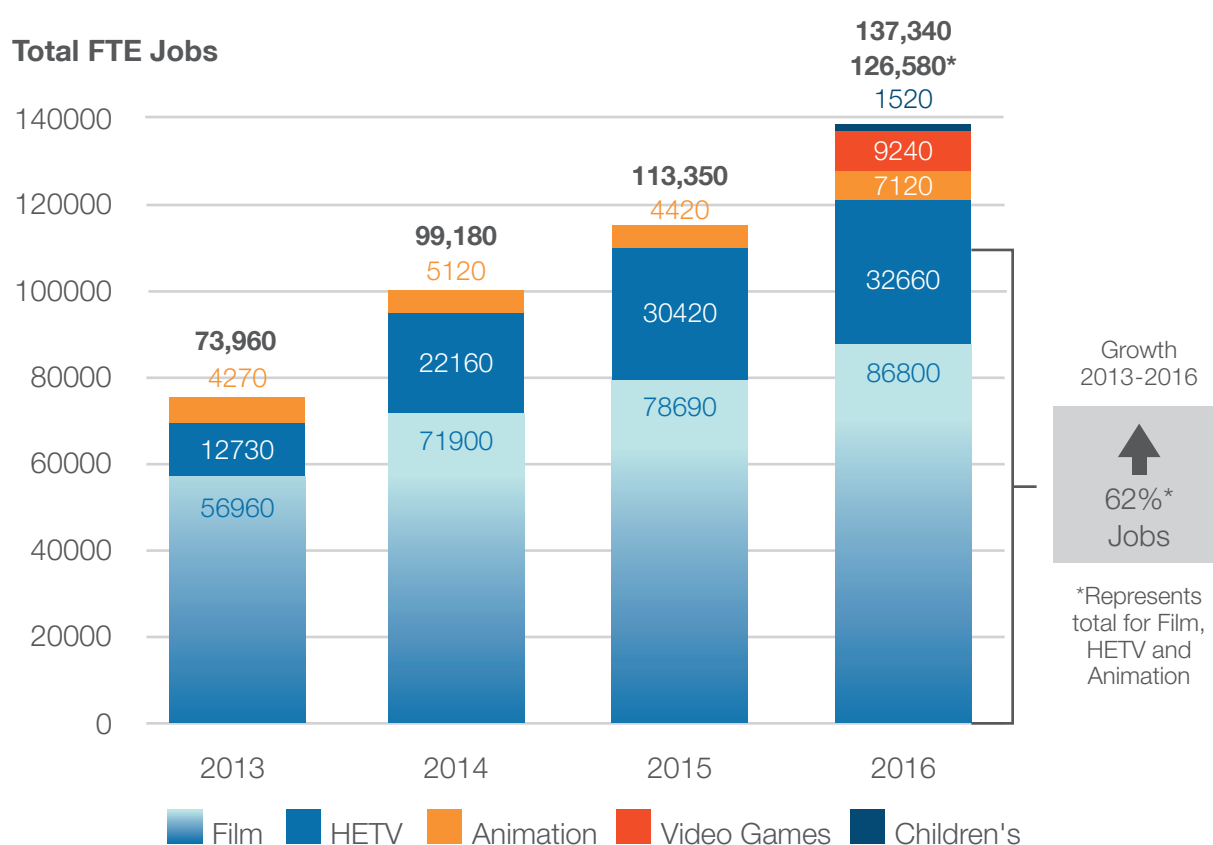
**Production/development
spend £m**



2.2 Growth in jobs and employment

- Screen sector production supported by the tax reliefs in 2016 (i.e. including direct, indirect, induced and spillover impacts) generated a total of 137,340 Full Time Equivalent (FTE) jobs, of which 100,410 FTEs were in the screen sector value chains (i.e. from direct, indirect and induced impacts).
- There has been consistent growth in the employment opportunities offered by the tax relief supported screen sectors. For the three sectors – film, HETV and animation programmes – for which there is available trend data, employment (including direct, indirect and induced impacts) reached 126,580 FTE's in 2016, an increase of 62% since 2013.

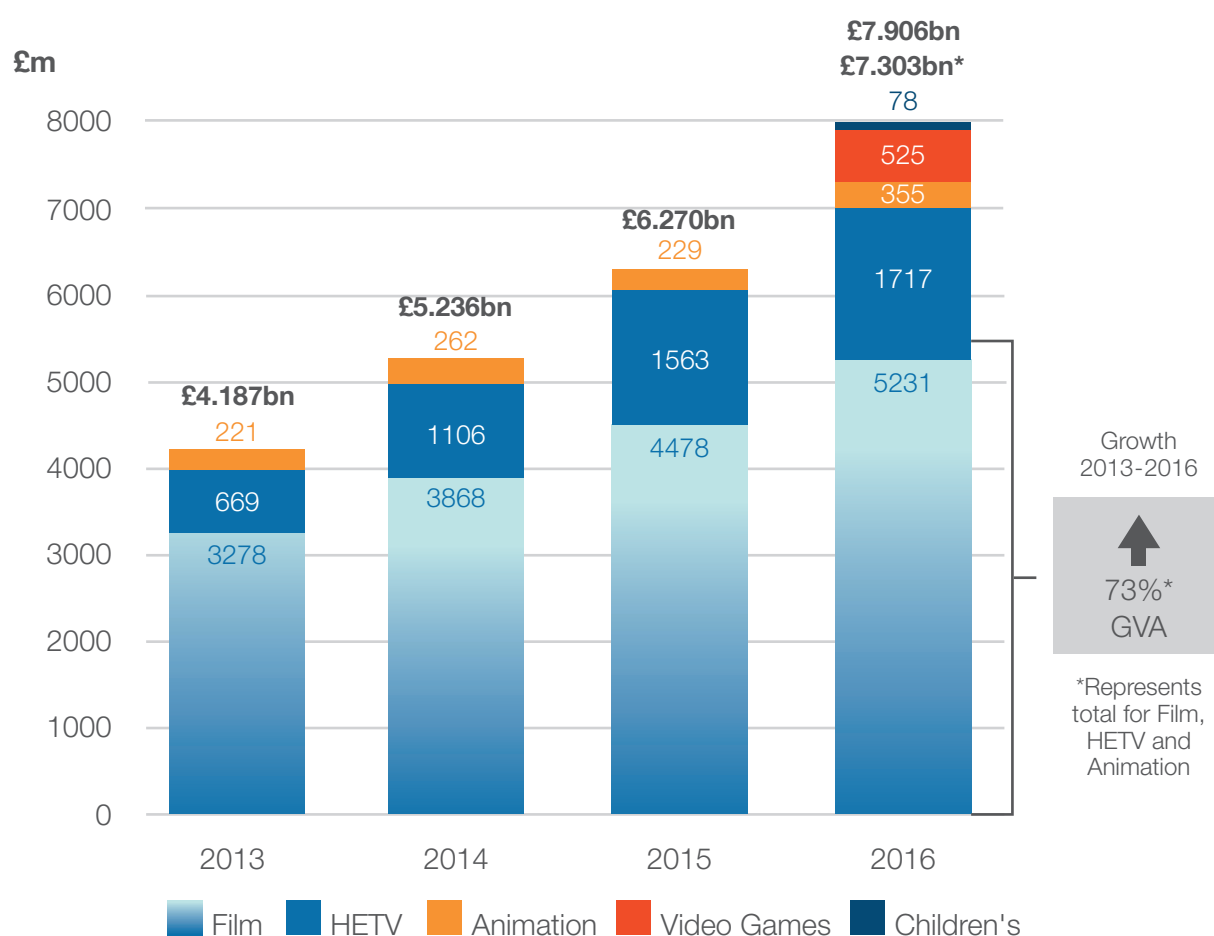
Figure 2 Growth in employment – overall economic impact (direct, indirect, induced and spillover impacts) 2013-2016



2.3 Growing the economy

- In 2016, taken together the tax relief supported screen sectors delivered a total of £7.91 billion in Gross Value Added (GVA) for the UK economy. Of this, £3.68 billion represents direct GVA; £2.63 billion comes from indirect and induced impacts (employment, labour compensation in the supply chain, and re-spending of employment income) and £1.59 billion comes from spillover impacts (inbound screen tourism, merchandise sales, UK brand promotion and esports).
- As with production spend, there is a strong growth story with overall GVA for the three sectors which had established tax reliefs between 2013 and 2016 (film, HETV and animation programmes) increasing by 73% from £4.19 billion to £7.30 billion.
- Together, production spend and its job creation led to the generation of major tax returns for HM Government, estimated for all tax relief screen sectors to be £2.04 billion in 2016 of which 50% was related to direct economic impact.
- Tax returns have also grown strongly over time. Total tax revenues for the three sectors which had tax reliefs between 2013 and 2016 grew by 67% from £1.11 billion to £1.86 billion during this four-year period.

Figure 3 Growth in Gross Value Added - overall economic impact (direct, indirect, induced and spillover impacts) 2013-2016



2.4 Delivering productivity

- In terms of productivity, the GVA-per-FTE generated across the tax relief supported screen sectors is higher than that for the economy as a whole. In 2016, average productivity per employee for the whole UK economy was £62,144, against an average for all the tax relief supported screen sectors of £75,600 per employee.
- Video games delivered the highest average productivity in 2016 at £83,804 per FTE. Visual effects, whilst not a sector with its own tax relief, also generates high productivity at £81,257 per FTE and delivered benefits across film, HETV, animation and children's programmes.

2.5 Delivering return on investment

- In terms of return on investment (RoI), in 2016 all of the screen sectors supported by tax reliefs returned a positive economic benefit. Due to its scale, this is highest for the film sector which returns £7.69 in GVA for every £1 of relief granted, an increase of 13% since 2009 and a new high for the industry.
- High-end television, video games and animation programmes returned £6.10, £4.00 and £4.44 in GVA respectively for every £1 of tax relief and even children's television – where the tax relief was introduced relatively recently in April 2015 to support production investment – returned £2.73 in GVA per £1 of tax relief in the first full year of operation.

Table 1 Annual GVA RoI, 2009-2016
(using updated methodology applied to previous years' data)

Annual ROI (£)	2009	2010	2011	2012	2013	2014	2015	2016
Film	£6.81	£6.71	£6.96	£7.43	£7.18	£7.13	£7.39	£7.69
High End TV					£5.55	£5.73	£5.81	£6.10
Animation					£4.50	£4.44	£4.60	£4.44
Video Games								£4.00
Children's								£2.73

2.6 Supporting innovation

- Innovation in the screen sector has been part of the reason that required this study to use a refreshed economic model. Advances in digital technology have driven structural change and innovation in the production, distribution and consumption of film, TV and video games.
- Innovation is also driven by technology and the capability of visual effects to digitally create moving images that make the seemingly impossible, possible. For the first time, this study identifies the VFX sector separately, as a different way of evaluating the benefits of the screen sector tax reliefs, exemplified by UK based productions such as *Star Wars: The Force Awakens*, *Paddington* and *Gravity*.

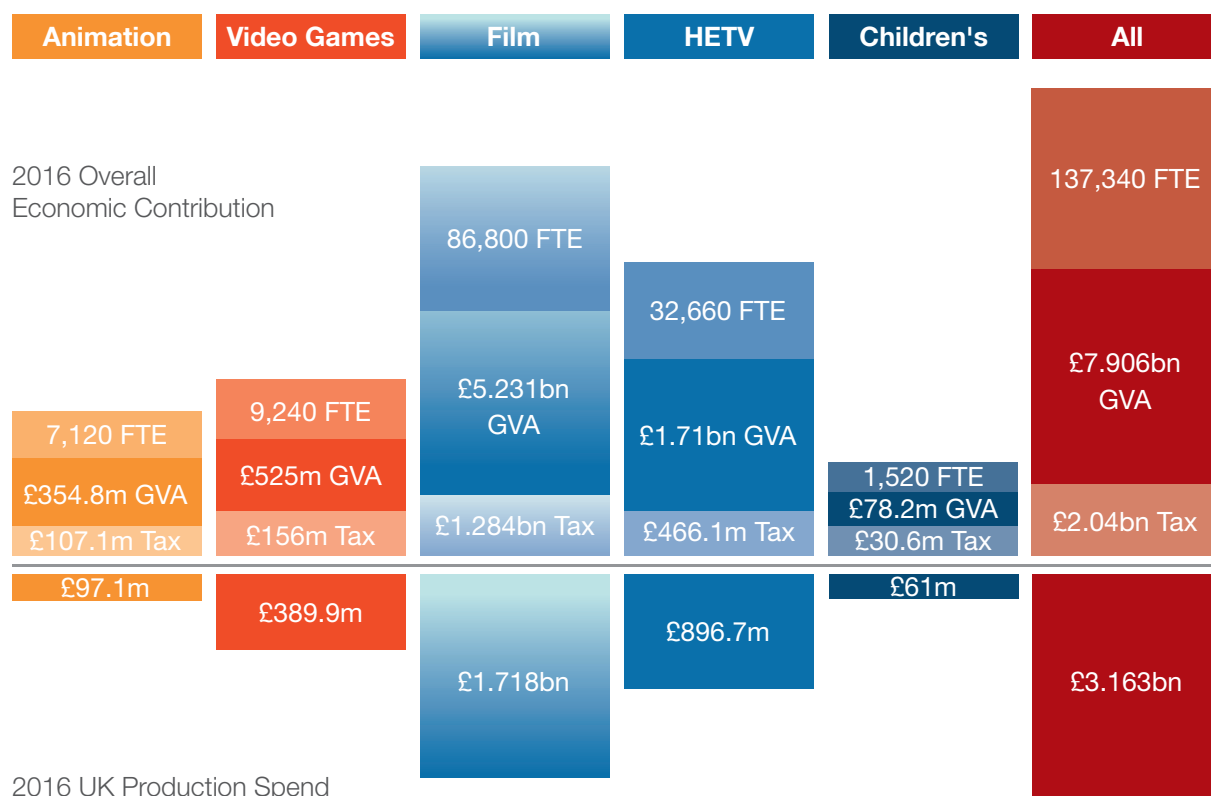
2.7 Growth in UK infrastructure and investment in the UK nations and regions

- Investor confidence in UK infrastructure and innovation – studios and facilities – has also been driven by the tax reliefs, with over £850 million publicly identified spend ongoing in the UK.
- Investment in facilities has spread from an established core in London and South East England to projects proposed around the UK and including new studio spaces such as Wolf near Cardiff, Pentland in Scotland, Church Fenton in Yorkshire and the Littlewoods building re-development project in Liverpool.
- In the video games sector, around £1.75 billion of corporate investment has been achieved since the introduction of the VGTR, which is spread across the country, reflecting the diverse locations in which UK video games companies are based.

2.8 Delivering wider elements of benefit

- Alongside the economic benefits, the tax reliefs deliver substantial talent and intellectual property (IP) benefits. Basing production in the UK, in HETV in particular, allows independent producers under the Terms of Trade to retain IP holdings in commissioned productions.
- Increased levels of indigenous production also contribute to a higher volume of recognisably British content being exported and available to audiences around the world. Not only does this originate from the adaptation of work by UK writers such as JK Rowling and Michael Bond but also from recognisably British characters such as James Bond, Dr Who and Horrid Henry.
- Spillover impacts – including merchandising, inbound tourism and UK brand promotion – are also part of the overall economic value delivered by the tax reliefs and are also significant in the revenues and jobs they generate. Spillover impacts generated just under 37,000 FTEs and delivered £1.59 billion GVA in 2016 from a range of productions from *Peppa Pig* to *Downton Abbey*.

Figure 4 Overall Economic Impact of Tax Relief Supported Content including spillover impacts, 2016



2.9 Key Findings by Sector

2.9.1 Film

- The 2007 introduction of FTR has stimulated steady growth in production expenditure in the UK reaching an all-time reported high of £1.72 billion in 2016.
- As a result of this production activity, the UK film sector is a substantial employer, directly generating 28,250 FTEs in 2016.⁴
- In 2016 the film industry directly contributed an estimated £2.46 billion to the UK's Gross Domestic Product in 2016, rising to £4.10 billion when indirect and induced impacts are also included.
- Including spillover impacts, in 2016, FTR-supported production generated an estimated 86,800 FTEs and £5.23 billion in GVA.
- FTR related expenditure can therefore be calculated to have delivered a return of £7.69 in GVA for each £1 in relief granted.⁵ Compared with estimates derived for previous years, this also represents the highest RoI delivered by FTR since 2009 (the period covered in this report).

2.9.2 High-End Television

- Like film, growth in tax relief supported HETV production expenditure has also been consistent since the introduction of HETR in 2013.
- Recent growth is a result of increased inward investment, with UK production revenue generated from global content providers such as Netflix and Amazon Video as well as growth in domestic production spend by UK broadcasters.
- HETV production supported by HETR generated 13,090 direct FTEs in 2016 and total employment of 26,670 FTEs when indirect and induced impacts are included.
- Across the screen sector value chain, HETV production supported by HETR generated £1.45 billion in total GVA for the UK economy.
- Tourism is a strong element of spillover impacts for HETV productions generating an additional 5,990 FTEs and £267.8 million in GVA for the economy, and bringing the overall economic contribution of HETV to 32,660 FTEs and £1.72 billion in GVA.

⁴. Statistical Yearbook 2018, BFI (2018)

⁵. Full details of this calculation can be found in Section 4 and Appendix 3 of the full report

2.9.3 Video Games

- Tax relief for the video games industry was introduced in April 2014, with a focus on supporting the continuing creation of UK made and culturally-focused games. The impact of the tax relief is still in its infancy with a substantial amount of games development occurring outside of the tax reliefs.⁶
- Video games development supported by the VGTR generated £389.9 million of expenditure in 2016.⁷
- This element of the sector supported 4,640 direct FTEs and generated £294.1 million in direct GVA.
- When indirect, induced and spillover impacts are included, the VGTR-supported development generated an estimated 9,240 FTEs and £525.0 million in GVA.
- RoI shows a strong result of £4.00 GVA for each £1 of tax relief.

2.9.4 Animation

- The UK has a strong tradition of animation with programmes supported by the specific animation tax relief such as *Peppa Pig* and *Bob the Builder* as well as animated films which have access through FTR such as *The Jungle Book*, *Paddington* and *The Snowman*.⁸
- Production expenditure supported by the ATR reached an estimated £97.1 million in 2016 an increase of 27% since its introduction in 2013.
- ATR-supported the generation of 1,550 direct FTEs in 2016, rising to 2,810 FTEs with the addition of indirect and induced impacts. The addition of spillover impacts, namely merchandising, brought the overall employment impact to 7,120 FTEs.
- With the inclusion of indirect and induced impacts, the total economic impact of ATR supported programmes generated £163.3 million in GVA in 2016. With the inclusion of spillover impacts, this overall economic contribution was £354.8 million in GVA.
- Despite its size, the production of ATR-supported programmes yielded a strong RoI of £4.44 in GVA for every £1 of tax relief in 2016.

2.9.5 Children's television

- The challenge of creating high quality, culturally relevant children's television in a changing video ecosystem was recognised with the introduction of CTR in April 2015.
- In 2016, the only full year of operation of the relief covered by this report, CTR supported £61.0 million of production investment.
- This investment supported an estimated 800 direct FTEs and generated £41.1 million in direct GVA.⁹
- Including indirect and induced impacts these figures increase to 1,520 FTEs and a total of £78.2 million in GVA.
- Despite the size of this sector, CTR delivered a positive RoI in its first full year of operation, generating £2.73 of GVA for every £1 of tax relief.

⁶ The wider impact of the video games sector is analysed in Appendix 1 of the full report

⁷ As a different model is used to analyse VGTR compared to the other tax reliefs, no comparison to prior years is possible

⁸ A full estimate of animation in the tax relief supported screen sectors as a whole is provided in Appendix 2 of the full report

⁹ Note that the recent introduction of CTR means that it is too soon to provide an accurate estimate of spillover impacts for children's television

2.9.6 Visual Effects (VFX)¹⁰

- In 2016 total VFX spend on tax relief supported productions was estimated to total £275.4 million.
- These data estimate that VFX accounts for 13.0% of FTR related spend, 5.6% of HETR expenditure and 1.3% of ATR spend.
- In turn this production investment as a whole is estimated to have generated a total economic impact of 6,120 FTEs and £315.1 million GVA.
- Including the indirect and induced impacts across the value chain and spillover impacts deriving from this VFX work, the overall economic contribution of VFX within the tax reliefs in 2016 was 12,720 FTEs and £773.9 million in GVA.

¹⁰. As this represents a restatement of the above with a focus on VFX production, it should not be added to the figures quoted for the individual tax reliefs

2.10 Notes on Methodology

- The analysis uses a bespoke economic impact model developed for this study, reflecting current best practice in economic impact modelling, aligning the study with current government evaluation methodology (HM Treasury Green Book 2018) and replacing the use of a strictly multiplier based approach which was used in the previous 2015 study.
- The new approach enables the analysis to model how each pound of production or development spend or sub-sector revenue i.e. 'output', is used to acquire 'inputs' such as labour, capital investment or other suppliers. The input-output (I-O) approach ensures there is temporal consistency between production spend statistics and the economic contribution that this spend generates. It also ensures that input data are not double counted – a risk when multipliers are applied – and also that the base data is correctly validated.
- The estimates of FTE labour compensation and GVA generated by film and HETV production have been updated through the application of a separate 'Job Creation Model' commissioned by the BFI, and to be published Autumn 2018.
- Additionality – the amount of spend related to the tax reliefs which would not have happened in their absence – has been updated on the basis of new primary research undertaken for this study, and for some parts of the value chain, such as film exhibition, has been reduced, revised or removed following feedback from HM Government.
- For each sector, the value of the core components relate only to those generated by the screen sector reliefs and do not represent all content produced, licensed, sold, viewed or exhibited in the UK.

Key Economic Findings

		Tax relief-supported impact					
		FTR	HETR	VGTR ⁵	ATR	CTR	Total
Direct economic impact ¹	Employment (FTEs)	28,250	13,090	4,640	1,550	800	48,330
	GVA (£m)	2,458.5	783.0	294.1	100.7	41.1	3,677.4
	Taxation (£m)	619.7	236.2	106.3	35.7	22.5	1,020.4
Total economic impact ²	Employment (FTEs)	60,240	26,670	9,170	2,810	1,520	100,410
	GVA (£m)	4,098.8	1,449.4	522.1	163.3	78.2	6,311.8
	Taxation (£m)	967.8	381.9	155.2	48.4	30.6	1,583.9
Overall economic contribution ³	Employment (FTEs)	86,800	32,660	9,240	7,120	1,520	137,340
	GVA (£m)	5,231.0	1,717.2	525.0	354.8	78.2	7,906.2
	Taxation (£m)	1,283.6	466.1	156.0	107.1	30.6	2,043.4
Return on investment ⁴	Economic (GVA per £ of tax relief)	7.69	6.10	4.00	4.44	2.73	–
	FTEs per £m tax relief	150	127	70	85	55	–

Notes:

1. Includes direct impact of production sub-sector and other value chain sub-sectors
2. Includes direct and multiplier impacts (i.e. indirect and induced impacts) for all value chain sub-sectors
3. Equal to sum of direct, indirect and induced impacts, and spillover impacts
4. Return on investment (RoI) data relate to returns per £ (GVA) or £m (FTEs) of tax relief granted; based on additional total economic impact + additional tourism spillovers
5. Full economic impact of the UK Video Games sector – including elements not applying or eligible for the VGTR – can be found in Appendix 1 of this report; this shows a total economic contribution, including spillovers, of 46,380 FTEs, with a GVA contribution of £2.82 billion

All data relate to 2016; GVA refers to gross value added; FTEs refers to full-time equivalent jobs; RoI not applicable for total column; no spillover impacts have been estimated for CTR due to a lack of data.





The full report is available at
bfi.org.uk/screenbusiness