Scotland's Screen Sectors – Economic Baseline

Report to the Screen Sector Unit Project Board by Olsberg•SPI

8th December, 2017

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1. EXECUTIVE SUMMARY

1.1. About this Report

This report is delivered to the Scottish Screen Sector Unit Project Board by Olsberg•SPI, and will address:

- The economic impact of the screen sectors in Scotland;
- The skills situation for these sectors in Scotland;
- SPI's analysis of key market Trends for Scotland;
- The opportunity which could be unlocked; and,
- Recommendations for data collection to improve future analyses.

1.2. Economic Impact

Our analysis identified 487 separate businesses operating in Scotland during 2016; they were responsible for £189 million in turnover, and 1,503 FTEs in direct employment. Of these, TV production was the largest element by company count, turnover, and employment.

Non-Scottish domiciled cinema chains were added to this sample, bringing the total turnover to £294 million, with 2,333 FTEs of direct employment.

	Business Count	Turnover	GVA	Employment
TV Production	214	£130,748,198	£54,222,913	918
Film Production	204	£40,359,286	£23,685,000	384
Exhibition	7[1]	£112,626,374	£36,228,740	923
Post-Production	49	£8,443,881	£5,590,000	82
Distribution[2]	13	£2,174,683	£1,381,986	26
Total	487	£294,352,421	£121,108,639	2,333

NB: columns may not sum due to rounding

Data from the Creative Scotland Screen Commission and Pact identified the scale of film and TV production in Scotland; as our analysis of company turnover could not be guaranteed to include this, a range of 50-100% was taken to estimate the amount of this production spend which should be added to our bottom-up sample. Adding the impacts estimated through this production generates a total industry value of £340-435 million for 2016 (including both production spend and turnover), generating £147-202 million of GVA, and employing 2,850-3,980 total FTEs.[3]

1.3. Skills

Skills data from Scotland are relatively limited, with the most recent data sources coming from Creative Skillset's 2014 Workforce Survey and 2015 Employment Survey respectively. These align relatively well with our work above, and with extracts from the Labour Force Survey,

[1] Total does not include film exhibitors with Scottish screens, but which are not domiciled in Scotland

[2] Due to small sample size, Film and TV Distribution is treated as a single sector

[3] Due to data availability issues, it has not proven possible to reconcile the two parts of this, production spend and company turnover; as these impact in different ways, they are – for the most part – clearly separated in the remainder of this Report

which showed 2,600 people worked in the TV sector in Scotland during 2016, and 2,800 in Film and Video.

The various data, combined with our industry consultations, underline that there are a number of areas of skills deficit in Scotland, though various incentives such as NFTS Scotland are underway to address these.

1.4. Trends

Our research has identified various key trends in the broader global screen sectors, which investment within Scotland could help the country to leverage. Key among these is the growth of episodic content – in particular high-end TV productions – with significant global demand, and increased production in the UK as a whole driven by the introduction of the HETV Tax Relief.

Newer digital platforms – particularly Netflix and Amazon Prime – have been a key part of this growth trend in recent years. Despite this, such data as are available tend to show that growth is occurring in more traditional markets of late – particularly the US and Canada – while emerging markets like China have slowed down somewhat.

1.5. The Opportunity for Scotland

Our analysis has identified three major opportunities for Scotland over the medium term:

- The continuing growth of TV drama production, in particular the way returning productions can underpin the development of a sustainable industry;
- Increased PSB spending within Scotland, from the new BBC Scotland channel, increased BBC network spending, and the geographic dispersal of other PSB investments; and,
- The building of a new Permanent Production Facility in the Central Belt.

Taken together, our analysis is that such opportunities – properly supported by the Scottish public sector – could lead to between £165-210 million of additional spend per annum. This would generate 2,035-2,590 FTEs of additional employment within the Scottish screen sectors over the medium term.

2. INTRODUCTION

2.1. About this Document

This document represents the final report of Olsberg•SPI's Economic Baseline work for the Screen Unit Project Board. It reports back against the following areas:

- The economic impact of the screen sectors in Scotland, in Employment, Turnover, and GVA terms, broken down as far as the data allow;
- The present skills situation in Scotland, leveraging primary research in the various sub-sectors;
- SPI's analysis of key market Trends for Scotland;
- The opportunity for Scotland, arising from these market trends, and how the Screen Sector Leadership Group could act to support these; and,
- Future data requirements to assist with analysing immediate needs and ongoing impacts.

2.2. Limitations of this Data

It is worth noting that there are various limitations to this data, which the reader should be aware of before continuing.

As we have used two approaches, one of which has a partial, high-level dataset, a ranged approach has had to be used to identify likely GVA, turnover, and jobs impacts in Scotland. This reflect the fact that though we have worked to avoid any element of double-counting, the data we have had to use has not always been sufficiently granular to avoid this entirely.

This being the case, the lower end figure contains a 50% discount to the top end figures for non-company production spend, which consultation work suggests should be more than sufficient to avoid double counting.

Our approach has been driven by the difficulty of drawing specifically-Scottish data out of the UK-wide data sources which exist. While these are comprehensive and authoritative, identifying the national and regional impacts from these is challenging, necessitating a different approach.

2.3. Methodology

In order to analyse the scale of the sector in Scotland, a number of different methodologies have been used:

- A granular analysis of companies identified as operating in the sectors of interest in Scotland was undertaken, this is used as the backbone of our work;
- On top of this, data on production spend were procured from the Creative Scotland Screen Commission and Pact, and used to identify non-permanent employees and production spend which didn't flow through Scottish companies;
- For skills, we have relied on consultations and existing data, predominantly from Work Foundation and Creative Skillset; and,
- Our trend data is built on a variety of global datasets, the core of which are from the BFI and MPA.

3. ECONOMIC IMPACT

Our analysis – built from an analysis of Scottish-registered companies which were operating in 2016 – is based on a sample of 487 separate businesses, who were responsible for £189 million in turnover, and 1,503 in direct employment.

Including the estimated impact of Scottish cinema exhibition from non-Scottish domiciled cinema chains, the total impact is estimated at £294 million turnover, with 2,333 FTEs of direct employment.

Overall, TV production was the largest part of our sample, by company count, turnover, and employment.

	Business Count	Turnover	GVA	Employment
TV Production	214	£130,748,198	£54,222,913	918
Film Production	204	£40,359,286	£23,685,000	384
Exhibition	7[4]	£112,626,374	£36,228,740	923
Post-Production	49	£8,443,881	£5,590,000	82
Distribution[5]	13	£2,174,683	£1,381,986	26
Total	487	£294,352,421	£121,108,639	2,333

Source: Olsberg•SPI analysis of data from Companies House, D&B, BFI, and BBC
NB: columns may not sum due to rounding

To complete this picture, we have estimated FTE freelancers in the sector, using production spend data from the Creative Scotland Screen Commission and Pact. In doing this, a range has to be taking, owing to the likelihood of some of this production spend already having been captured in our analysis of company accounts. This suggests between 508 and 1645 FTEs of freelance employment operated in Scotland during 2016, generating an additional turnover of £45-140 million, and GVA of £26-80 million.

This implies a total value of £340-435 million for 2016 (including both production spend and turnover), generating £147-202 million of GVA, and employing 2,850-3,980 total FTEs.

[4] Total does not include film exhibitors with Scottish screens, but which are not domiciled in Scotland
[5] Due to small sample size, Film and TV Distribution is treated as a single sector

3.1. Television Production

3.1.1. Production Companies

Postcode Area	Business Count	Turnover	GVA	Employment
Glasgow	124	£100,931,817	£37,173,913	701
Inverness	8	£10,100,814	£4,659,000	36
Edinburgh	25	£6,708,307	£4,140,000	61
Outer Hebrides	7	£2,999,255	£2,001,000	29
Aberdeen	4	£2,068,451	£1,380,000	20
Kilmarnock	12	£1,928,195	£1,242,000	18
Dundee	4	£1,877,193	£897,000	13
Paisley	10	£1,532,265	£1,035,000	15
Motherwell	6	£723,960	£483,000	7
Falkirk	4	£583,701	£315,000	5
Perth	4	£466,858	£345,000	5
Dumfries and Galloway	3	£413,691	£276,000	4
Kirkcaldy	2	£310,268	£207,000	3
Lerwick	1	£103,423	£69,000	1
Total	214	£130,748,198	£54,222,913	918

Source: Olsberg•SPI analysis of data from Companies House, D&B, and BBC

The Television Production sector is the largest single component of the sample studied for this project; this is reflective of the presence of several large broadcasters in Scotland, including STV and BBC Scotland.[6]

STV are the single largest production company within the sample, but there are a range of others – including IWC, World Productions, and Blazing Griffin (who also work in animation and games) – who have registered primarily as TV production companies. The largest cluster of these firms is in Glasgow, which is responsible for just over 80% of Scotland's TV turnover, and 76% of direct employment.

The average TV production company in Scotland turned over £509,190 in 2016, employing an average 3.75 people in the process. These figures are skewed significantly by STV however – discounting their impact, average turnover falls to £328,868, with 2.75 employees per firm.

3.1.2. Production Freelancers

As with the film production segment of the market, freelancers are a key part of the television production market, and as such we have looked to identify their contribution to the sector. Here, the overlapping of data is even more of a challenge, as we have to use three sources – Pact's 2017 Census, the Creative Scotland Screen Commission, and our Companies House sample – and it is again unclear where these crossover.

[6] STV were identified in our original sample, but the BBC were not – a separate analysis of BBC accounts has been undertaken to add both BBC Scotland and BBC Alba to our Companies House/D&B sample; this figure will represent only BBC internal turnover, as their production spend figures are not reported – the Pact/O&O figures are used to fill this gap

As such, we estimate that in 2016 there were between 450-1,525 FTEs in employment in Scotland, representing £35.5-121 million in Turnover, and £20.5-70 million in GVA.[7]

3.2. Film

3.2.1. Production Companies

Postcode Area	Business Count	Turnover	GVA	Employment
Glasgow	80	£17,325,816	£10,015,000	167
Edinburgh	58	£10,760,542	£6,533,000	105
Motherwell	12	£1,861,609	£1,167,000	18
Paisley	11	£2,458,406	£1,068,000	17
Aberdeen	10	£2,378,721	£1,467,000	23
Kilmarnock	5	£827,381	£522,000	8
Perth	5	£713,327	£453,000	7
Dundee	4	£413,692	£261,000	4
Falkirk	4	£620,536	£369,000	6
Kirkcaldy	4	£827,382	£483,000	8
Dumfries and Galloway	3	£517,113	£315,000	5
Galashiels	3	£620,535	£354,000	6
Inverness	2	£413,690	£276,000	4
Wick	2	£517,113	£348,000	5
Outer Hebrides	1	£103,423	£54,000	1
Total	204	£40,359,286	£23,685,000	384

Source: Olsberg•SPI analysis of data from Companies House and D&B

Film production is a large element of the Scottish industry, and is relatively well spread around the country. Elements of this activity happened in almost all postcode areas in Scotland during 2016 – Lerwick being the exception – though the focus was in Glasgow and Edinburgh.

This being said, the average film business represented by the sample is both small and with a relatively low turnover. In 2016, the average turnover was £197,840, with £116,103 of GVA created by the mean business; the largest business in the sample had 30 permanent employees, and a turnover of £2 million.

As film production is a highly cyclical business, in another year, the numbers presented could be very different, as many smaller film production companies will not be able to put a new project into production on an annual basis, and will likely be doing work to either prepare for a new production or sell one which has already been made.

3.2.2. Production Freelancers

Freelancers play a critical role in the production process, and given the approach we have taken for the above dataset – which estimates permanent employees – many will not have been included. A separate sample was therefore drawn from data provided by the Creative Scotland Screen Commission, using production multipliers we have established during work on the wider UK film sector.

[7] FTE numbers are different to the Pact/O&O figures due to the use of different multipliers, as production spend generates a greater GVA and FTE volume than company turnover

This implies that between 60-122 FTEs were employed on film production in Scotland during 2016, with production spend generating £9.7-19.4 million in Turnover, and £5.3-10.6 million in GVA.[8]

3.3. Exhibition

Postcode Area	Business Count	Turnover	GVA	Employment
Edinburgh	5	£7,152,536	£2,070,000	86
Glasgow	1	£103,423	£69,000	1
Aberdeen	1	£620,535	£414,000	6
Total	7*	£7,876,494	£2,553,000	93

Source: Olsberg•SPI analysis of data from Companies House, D&B, and the BFI
*Only Scottish-domiciled businesses counted; many of these will include multiple cinemas within a single business

Scottish-based companies operating in the exhibition sector represent a small percentage of the total, and as such we have estimated the value of exhibition in cinemas owned by companies based outside of Scotland.

Assuming that all multiplex cinemas in Scotland – as counted in the BFI Statistical Yearbook 2017 – are non-Scottish owned, we used this number to estimate the Scottish turnover of multiplexes in the UK, by taking a ratio of Scottish screens to total screens in the UK, and applying this to a value for Box Office and sales of concessions identified in the Yearbook. To this, we added non-multiplex screens which did not appear in the SIC-code analysis noted above, leveraging research from Creative Scotland into the shape of the Scottish Exhibition sector.

Applying UK-wide GVA and employment multipliers for the exhibition sector, this leads us to conclude that total turnover for cinemas in Scotland in 2016 was £112 million, generating £36.2 million GVA, and 923 total FTE employees.

3.4. Facilities, Post-Production, and VFX[9]

Postcode Area	Business Count	Turnover	GVA	Employment
Edinburgh	15	£2,999,259	£1,968,000	29
Glasgow	19	£2,792,413	£1,865,000	27
Paisley	5	£930,804	£621,000	9
Dundee	2	£517,113	£338,000	5
Inverness	1	£206,845	£108,000	2
Perth	1	£206,845	£138,000	2
Falkirk	1	£206,845	£138,000	2
Wick	1	£206,845	£138,000	2
Kirkcaldy	2	£170,066	£138,000	2
Kilmarnock	1	£103,423	£69,000	1
Motherwell	1	£103,423	£69,000	1
Total	49	£8,443,881	£5,590,000	82

Source: Olsberg•SPI analysis of data from Companies House and D&B

[8] As it is likely that some of this will have been counted in the company sample, a 50% weighting is applied to the bottom range of the calculated data
[9] These sectors are all represented by Screen Facilities Scotland, and in reflection of this division within the Scottish market, have been grouped together for the purposes of this report

As with other parts of the sector in Scotland, Glasgow is responsible for the most businesses in the wider facilities sector, though Edinburgh has the highest turnover in the Scottish facilities sector.[10]

This part of the sector has a significantly lower than average turnover (£172,325) than the rest of the Scottish sector, which is unusual when compared to the rest of the industry in the UK. Consultees have noted, that much of the industry in Scotland is under-capitalised, and that there is a frequent churn in companies and workers, as businesses go bust and reform, which helps to explain this.

3.5. Distribution

Postcode Area	Business Count	Turnover	GVA	Employment
Glasgow	4	£1,064,176	£691,986	11
Edinburgh	2	£206,846	£138,000	2
Paisley	2	£206,846	£123,000	2
Dundee	2	£386,546	£222,000	8
Kilmarnock	1	£103,423	£69,000	1
Aberdeen	1	£103,423	£69,000	1
Perth	1	£103,423	£69,000	1
Total	13	£2,174,683	£1,381,986	26

Source: Olsberg•SPI analysis of data from Companies House and D&B

Although film and TV broadcasting are separate businesses, given the small sample size, we have merged them together for the purpose of this analysis. As with the exhibition sector, this will understate activity related to Scotland, as larger Scottish productions are likely to be distributed by London-based companies – turnover related to this activity should be reflected in these company accounts, though.

The average company in the Scottish distribution market is very small, with £167,283 in turnover for 2016, and 2 permanent employees. The majority of this activity occurs in Glasgow, with Dundee representing the next largest market hub, though all are small parts of the overall UK market.

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[10] A single large business was also identified in Inverness (Cairnstar), but as this could not be verified as a SIC mis-coding, it was manually removed from the sample

4. SKILLS

This skills section uses the most up-to-date information on the situation in Scotland, but unfortunately much of this is from 2015 or earlier. This is reflective of the fact that UK-level data do not always break down cleanly into the nations and regions, and that research on skills has not been reliably undertaken in recent years. Historically, Creative Skillset took a lead role in generating such data, but a change in direction by the organisation has left something of a gap.

4.1. Film and Television

Creative Skillset's 2015 Employment Survey and 2014 Workforce Survey are the most up-to-date data sources we have access to for this study.[11]

The first of these datasets – the 2015 Employment Survey – estimated that 11% of the total media workforce in the sectors considered (TV, Radio, Post-Production, Film, Animation, VFX, and Games) were based in Scotland.[12] This implies that around 16,000 people in Scotland work across that tranche of creative industries, though it is wider than the list of industries studied for this report.

As our findings above note, there were between 2,850-3,980 FTEs operating in the Scottish film and TV sectors during 2016. This is relatively well aligned with data extracted from the Labour Force Survey, which suggests that there are 2,600 people working in the TV sector who live in Scotland, with 2,800 in the Film and Video sector.

Assuming a certain amount travel around the UK and wider world for work, while basing themselves in Scotland, and that others – either by choice or circumstance – work less than full time (both well recognised factors in the sector), these figures are not contradictory.

Data from the 2014 Workforce Survey suggest that upskilling within the Scottish screen sector is a significant barrier to progression – 60% of Scottish respondents noted experiencing trouble progressing due to limited training.[13] This aligns with the freelance nature of the sector, which makes upskilling hard across the UK and wider global industry. However, the announcement of NFTS' Scottish branch (below) should significantly assist with this, given the large percentage of the present Scottish workforce which its published objectives suggest it will assist.

4.1.1. Animation

A recent review of the Scottish Animation Sector undertaken by BOP concluded that the vast majority of animation companies in Scotland are 2-3 person companies, either working in TV or providing third-party services to suppliers. The review concluded that the sector had high-quality talent, but struggled to retain this, with many finding they were forced to move to London and the South of England in order to get reliable work.

As a result of this brain drain, and of the limitations of animation sector education in Scotland, this report highlights a number of key skills gaps, focusing on five:

- Pipeline-ready talent, reflecting the fact that graduates from Scottish animation courses are often unprepared for real-world work;

[11] Work Foundation recently undertook a study into the UK film workforce, which also leveraged these datasets; a request was made for further data from their work pertaining to Scotland, but unfortunately due to the terms of the data licence under which they were provided the underlying dataset, they were unable to provide this

[12] *2015 Employment Survey*, Creative Skillset (March 2016)

[13] *2014 Workforce Survey*, Creative Skillset (2014)

- Producers, reflecting the lack of corporate strength within the sector, which means that existing producers can't financially support training of new-entrants;
- Writers and Directors, where there is no specific training course for animation other than in London;
- An understanding of how to develop, retain, and sell IP; and,
- Opportunities and skills for pitching and selling work.[14]

Many of these are issues we find across the creative industries, but given the quality of the Scottish animation industry, they present an acute problem for ensuring sustainable growth.

4.2. Facilities, Post-Production, and VFX

No specific data sources have been identified which outline the skills status or needs of the facilities, post-production, and VFX sectors in Scotland.

Clearly, the potential investment in Pentland will represent a sea change for the studio facilities side of the sector, which will lead to investment from further facilities providers setting up on the site.

Consultations in the post-production and VFX sector underlines that many companies operating in these industries are smaller, weakly-capitalised, 2-3 person firms with frequent churn and company failures. This is suggestive of a skills base which is focused on generalist, rather than specialist, skills, though further research would be needed to underline the specific skills base in this element of the market.

4.3. Opening of NFTS Scotland

While the limited data which are available strongly suggest that there are skills deficits in Scotland, it is clear that there are moves underway which will address these. Any future skills plan needs to be cognisant of such changes, and ensure that it is aligned with them, working together for the broader growth of the sector.

The recent announcement that the National Film and Television School is to open a hub in the BBC Scotland offices at Pacific Quay from January 2018 is likely to provide a significant boost for the sector.[15] The school's announcement of this opening highlights that the hub will focus on the specific needs of the Scottish screen sectors, including short CPD and three-month certificate courses. Projected numbers of students are 400 per year – 100 full-time, 50 part-time, and 250 on CPD courses – with 1,500 students expected to take courses in the first five years.

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[14] Review of the Scottish Animation Sector, BOP Consulting (March 2017)

[15] Nicola Sturgeon Announces Funding to Open World Leading Film, Television, and Games Hub at BBC HQ in Scotland, NFTS (25th August, 2017)

5. CONTEXT AND TRENDS

5.1. UK and Scottish Context

5.1.1. A new BBC Scotland

The BBC has announced a new channel for Scotland, to launch in August 2018 – this will have an annual budget of £30 million, and comes at the same time as the corporation has announced a separate increase in Scottish commissioning by £20 million per year.

Spending by this service has begun already, reflecting the need for the channel to have a slate of productions in place by the launch of the channel, and as such productions companies in Scotland are already benefitting from this decision. Given the impact which stable spending by national broadcasters has had in other markets – notably Wales, where S4C and the BBC's prior spending built the skills base now being used by larger productions – this offers a significant opportunity for the Scottish production market.

5.1.2. Kamasa Commission

A recent report from Olsberg•SPI for Pact – *The State of the UK Independent Film Sector* – underlined the difficulties faced by the indie film production sector in the UK. This showed the difficulties in which these productions and production companies face, from both structural changes such as digital disruption and competition for the audience, and cyclical changes such as the global financial crisis. These have impacted the value of films during the pre-production, production, and release phases, making it difficult to generate funds to put into projects, and inhibiting the holding and leveraging of IP.

As a result of this report, the BFI have put together a commission – led by Zygi Kamasa, the CEO of Lionsgate – to investigate the issues raised by SPI's analysis, and propose solutions. This is expected to report later in the year.

In the meantime, Pact have proposed an expansion of the Film Tax Relief for productions in the £2-10m bracket to 40%, though it is unclear that this will be a final recommendation from the commission.

5.1.3. Loss of Creative Europe funding

A further challenge for the broader UK film sector will be the loss of access to the EU's Creative Europe fund, which provides support for the development and distribution of film productions to companies in Europe.[16] 16 Scottish projects ranging from individual productions to support for film education, online platforms, and festivals received support from Creative Europe between 2014 and 2016.

The future relationship between the UK and pan-European funders such as Creative Europe will be determined through Brexit negotiations, but any loss of access to this – if uncompensated by national funding – has the potential to cause significant challenges to the UK production sector.

5.1.4. UK Government CI Focus

As part of the UK national government's export focus post-Brexit, the creative industries have been prioritised as one of five key export sectors – film and television content and services are included as sub-sectors within this. The exact impact of this in terms of interventions are

[16] Creative Europe operates in a broader market than the EU, including third party members such as Bosnia and Herzegovina, and Ukraine

unclear at this stage, but they are likely to offer significant opportunities for Scotland when announced.

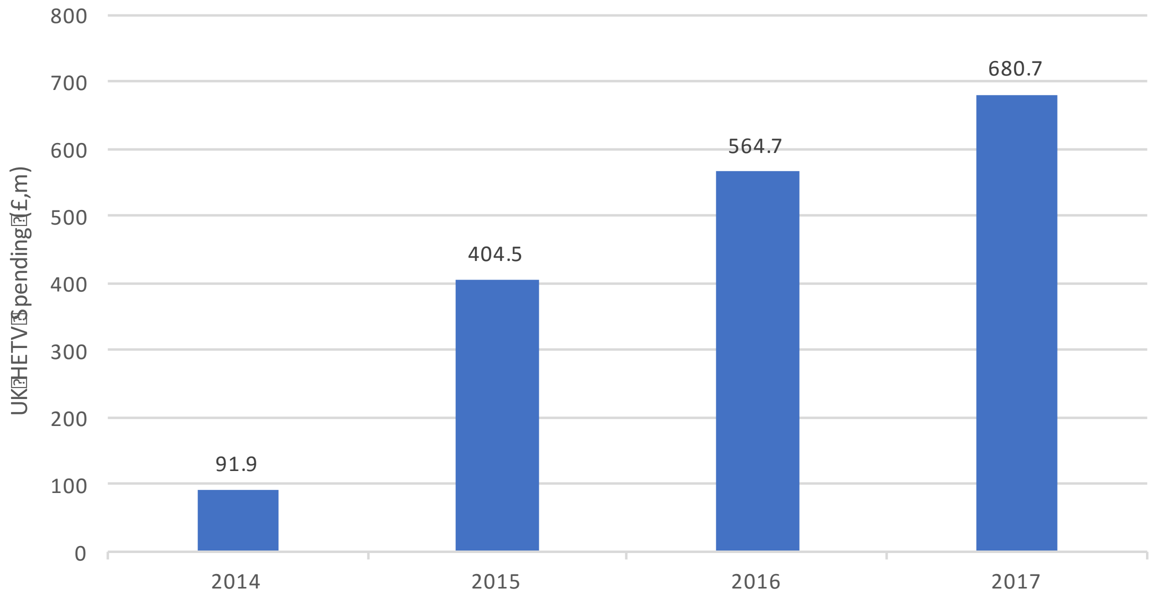
Given the announcements in other sectors – exemplified by university research and development funding – it may be anticipated that further funding will be provided to support this aim, potentially replacing any lost funding if access to Creative Europe is broken.

5.2. Key Trends

5.2.1. Growth of HETV

HETV – defined for the purposes of the UK's tax relief as that produced for more than £1 million per broadcast hour – has been one of the largest growth elements in the global entertainment market during the last decade. This reflects audience demand for high-quality, episodic content, and can generate significant benefits for a location which hosts such a production, as the role of *Game of Thrones* in underpinning the growth of the Northern Irish sector underlines.

Within the UK, the introduction of the HETV Tax Relief has had a transformative impact, drawing back productions previously lost to other parts of the market. In doing so, the HETV market in the UK has grown from £91.9 million in the year to June 2014 to £680.7 million in the year to June 2017.[17]

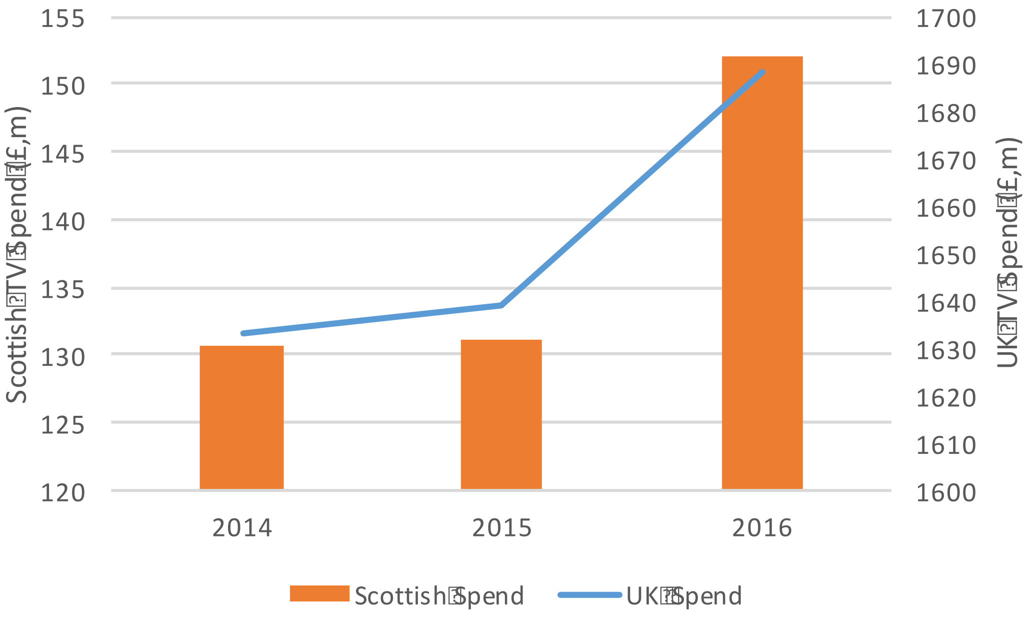


Source: BFI

Scotland's engagement with this market to date has been relatively limited – only one returning HETV production (*Outlander*) shoots in Scotland at this point in time, though others (including *In Plain Sight* and *The Loch*) have shot there in the past year. In general, however, consultations suggest that Scotland has fallen behind in this market.

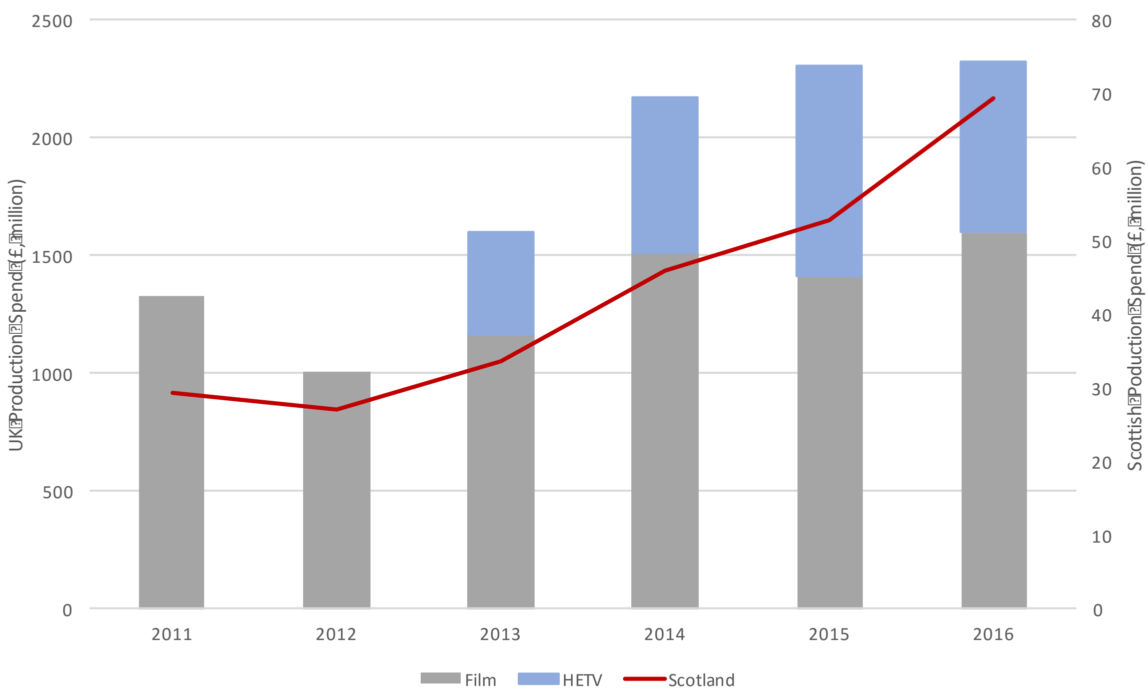
[17] British film, high-end television programmes, animation television programmes, children's television programmes and video games certification January-June (H1) 2017, BFI RSU (3rd August, 2017)

5.2.2. Film and TV Production



Source: Olsberg•SPI analysis of data from the Pact and O&O; 'UK Spend' relates to primary commissions from broadcasters, 'Scottish Spend' is the amount of this primary spend being undertaken in Scotland through independent producers (direct broadcaster spend is not available)

Scotland's share of production spend from the wider UK TV sector appears to be growing. Data from Pact's annual census began reporting nations and regions spend from 2015 (2014 data), at which point Scotland received 8% of UK broadcasters' original commissioning spend. This has now grown to 9% in the most recent dataset.



Source: Olsberg•SPI analysis of data from Creative Scotland and the BFI
NB: as Creative Scotland data cannot disaggregate film and HETV spend, a blended UK-wide approach is the best comparison

Compared to the Wider UK, Scottish Film and HETV production has grown at a reasonably strong rate in recent years. Within the TV sector, the introduction of the HETR has been a significant driver in this space, as has the growth in the market for such content on a worldwide basis.

In film production market, spend has grown at a compound annual growth rate of around 12% since 2012.[18] This being said, there is a significant underlying weakness in the UK independent production sector, though one which we anticipate projects such as Scotland's FOCUS will start to address.[19]

This notwithstanding, the weakness in present infrastructure in Scotland – including a permanent studio facility for weather cover – impacts the ability of the country to attract production.

5.2.3. How Scotland Compares to the Wider UK

In the TV sector, these data suggest a relatively healthy role for the Scottish production sector. At 9% of original production spend in 2016 – up from 8% in both 2014 and 2015 – the Pact

[18] Given recent cuts to Scottish local authorities, which have heavily impacted production tracking, there is a strong possibility that this figure has been undercounted; data from http://www.creativescotland.com/what-we-do/latest-news/archive/2017/09/record-69-4m-spend-on-film-and-tv-production, with an estimate of HETV derived from consultations deducted from these spend figures
[19] This issue is explored in a report SPI have recently written for Pact, *The State of the UK Independent Film Production Sector*, which fully analyses structural and cyclical changes in the UK's independent film production sector during the last decade

dataset shows this element of the production sector at or above the benchmark of 8% aimed for in official publications.

The film and HETV elements of production spend – combined due to the nature of the datasets – also appear to be growing faster than the wider UK over the past few years. In this instance though, this growth is from around 2.2% in 2011 to 4.3% in 2016.

5.2.4. Role of New Digital Entrants

As part of the TV, the role of Video on Demand providers in the market has been increasing significantly. The major US providers have been spending increasing amounts on the production of original content, with Netflix scheduled to spend $6 billion this year, increasing this in the future; and Apple recently announcing that it will spend $1 billion per year.[20, 21] In addition to this, the Chinese VoD market is growing first, and is projected to reach $30 billion in turnover by 2022, four times the present size of the vast Chinese theatrical sector, and is also beginning to spend heavily on original production.

While there is always the potential for this trend to falter – not least due to the opaque finances and debt-heavy balance sheets of many of these providers – the opportunity offered by this projection spend for a location such as Scotland is significant. This is underlined by the VoD-related nature of Scotland's current returning HETV production, *Outlander*.

The impact of this on the production sector is still debated, but anecdotal evidence strongly suggests that companies successfully attracting production spend from VoD platforms will get more immediate revenues, but not have the ability to share downstream. This reflects the fact that whereas for traditional TV – where production companies will get a partial licence fee from broadcasters and have to pre-sell to make the gap, but hold onto international and secondary rights – in the digital space, platforms prefer to buy all global primary and downstream rights.[22] *The Crown* exemplifies this, with available data suggesting that Netflix paid £5 million per episode, where the cost had the BBC acquired the production – as originally expected – would have been around £3.5 million, with Left Bank securing further revenues through international and secondary platform sales.

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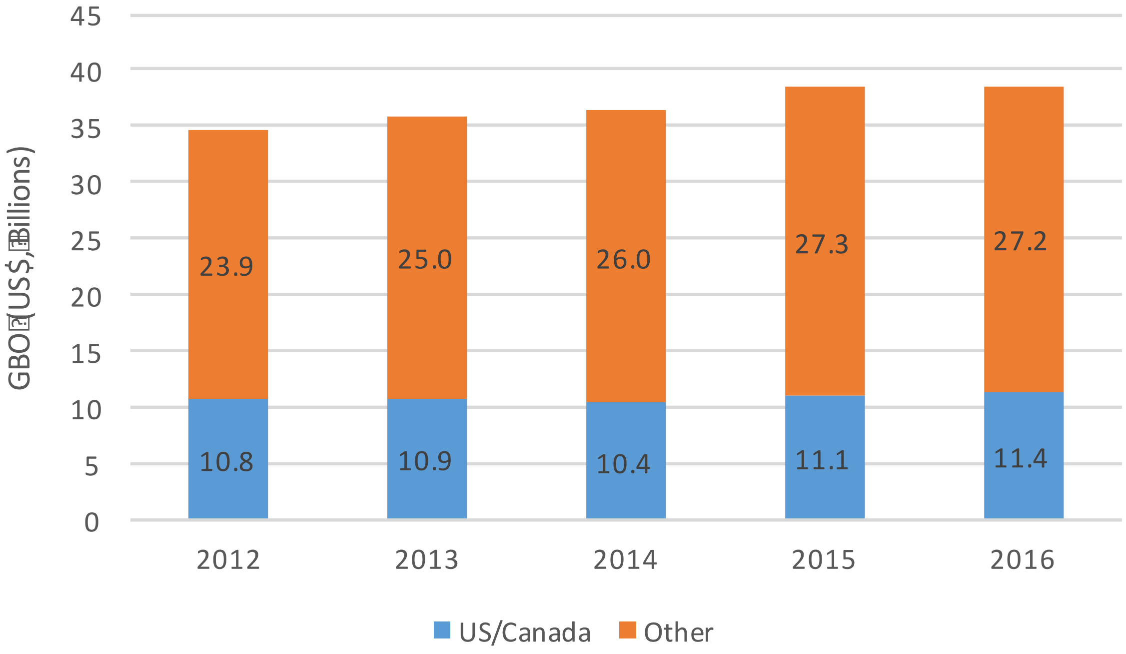
[20] Netflix is spending $6 billion on content this year and 'a lot more' in future, CEO says, Michelle Castillo (31st May, 2017)

[21] Apple is reportedly investing $1 billion in original video content, Thuy Ong (16th August, 2017)

[22] This is not possible in the domestic TV space, as the Terms of Trade rules set out in the Communications Act (2003) only allow PSBs to acquire the first-run domestic rights, and as such formats, international sales, and secondary windows remain the property of the production company

5.2.5. Growth of Geographic Markets for Film and TV



Source: Olsberg•SPI analysis of data from the MPA

Data from the Motion Picture of America show a marginal growth of 1% in global box office revenues in 2016 over 2015 – this is largely a result of spending in the US and Canadian markets, while international markets fell, particularly in China.[23] Despite this, China is expected to be the largest growth territory for content over the next decade, not least due to the growth of its own Netflix-like platforms, which consultations suggest will grow to $30 billion in turnover on their own by 2022.

This trend may present an opportunity for Scottish content – these platforms are already acquiring first-run content in the same way US-owned providers do. However, the question has to be raised about how far outside of their own area such providers will go – while UK content, especially *Sherlock* and *Downton Abbey*, is highly popular in China, historically the Chinese authorities have been very strict on international investment by their domestic companies. This is reflected in the quota rules for international films in Chinese cinemas – these cap inbound productions at 34 per year (20 regular, and 14 IMAX or 3D), and while at present no such quotas exist for other platforms, relying on China as a market feels inadvisable.[24]

Both China and other emerging markets tend to be well supplied with their own content, with large production sectors in other locations like India. Our most recent analysis of where UK content travels underlines this – even with the growth of these markets, Europe continues to be the most important purchaser for much UK content, with only the highest-end or most established content breaking out in other markets.[25]

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[23] Chinese Box Office data are not re-produced here, as they are considered unreliable
[24] The Chinese government has also cracked down on Sina Weibo and ACFun's streaming services of late, underlining the insecure nature of this marketplace
[25] The Cultural and Audience Contributions of the UK's Screen Sectors, Olsberg•SPI (November 2015)

6. THE OPPORTUNITY FOR SCOTLAND

6.1. Most Significant Opportunities

6.1.1. TV Drama Production

The production of HETV content – which is predominantly TV drama – is a major growth opportunity for the Scottish market. Aside from being the fastest-growing element of the overall production market at the present moment, the benefit of a returning show is significant, as this can underpin the development of the entire production sector. This has been seen in both Northern Ireland and Wales, where government interventions have specifically supported such programming.

With the current spending plans of the VoD providers suggesting ongoing large-scale spending on original content – which will predominantly be episodic, as a result of how they generate revenue – there is significant potential for Scotland in this section of the market.

The exact scale of this potential opportunity is difficult to judge, given the limited data available in the sector, but consultations and analysis of the present Scottish situation in terms of skills and facilities suggests a possible present additional spend of £35-50 million is possible. This would represent one additional production on top of *Outlander*, but could be expanded further on the opening of a new screen facility.

6.1.2. Public Service Broadcasting

In other markets – notably Wales – production spending by local broadcasters has formed a strong baseline upon which higher-end productions have later built. The introduction of a new BBC Scotland channel could therefore be leveraged in a similar way in Scotland, depending on the kind of productions which the service invests in. Alignment with broader screen sector policy in Scotland is therefore desirable to ensure strategic coherence, and maximise value.

Initial spending for the service has been put at £30 million per year, which we assume will all be spent on the production of programmes in Scotland, whether directly or indirectly. The expansion of the sector through the work of the BBC may well lead companies to attract other PSB spending, whether from the BBC at a national level or Channel 4, or the commercial channels including ITV and Sky. This is also valued at £30 million, reflecting the £20 million already committed for network BBC programme production in Scotland, and a conservative £10 million estimate for other PSB and commercial production spend.

6.1.3. Building of a Permanent Production Facility

Underpinning many of the opportunities which Scotland is likely to have over the next few years will be the building of the studios at Pentland (or elsewhere, should this fall through). A privately-financed endeavour, this will provide space for the industry in the Central Belt to grow and – given the present lack of dedicated production space in many parts of the UK – should allow Scotland to attract film and TV projects from around the country.

Such a facility will largely support inward investment productions, both in the Film and TV sector, where the lack of such a studio has caused problems in the past. It may also, however, help to get larger UK productions to film in Scotland.

The scale of this opportunity is very difficult to estimate, given the range of variables which affect it. There is a strong chance of displacement from other elements of the sector, and the nature and scale of skills gaps within Scotland (as well as the potential loss of EU skills) all have the ability to undermine this.

As a result, we propose a relatively conservative five-year estimate that such a facility would attract a further HETV programme to Scotland at £35-50 million per series, and a similar range in film spend. This reflects the growth in these sectors in the wider UK production markets, and the potential such a facility would open up in Scotland for location shooting when it comes online.

Post-production and VFX tend to operate independently to these sectors, but in order to generate a potential value a ratio approach has to be undertaken. This leads us to a value of £8-10 million annual spend resulting from these other elements.

6.2. Critical Actions to Support These

6.2.1. Strategic Coherence

The successful conclusion of the present process is possibly the most important step the Scottish public sector can take to ensure the sustainable growth of the sector. Recent steps – including the introduction of the FOCUS programme, the new BBC Scotland, and NFTS Scotland – provide a strong base for industry growth, if they are followed through.

In other parts of the UK, not least Wales and Northern Ireland, there has been a significant degree of strategic coherence in how each element of a similar plan builds toward the desired outcome.[26] The generation of such a coherent plan would be a major step towards success for Scotland.

This is of particular importance to leveraging any additional BBC spend on drama into the HETV drama space, reflecting what has been done in Wales. In other markets, this is something which has been undertaken jointly by the public sector and industrial stakeholders, and would serve to underpin all of the key opportunities noted above.

6.2.2. Skills Audit

The data we have gathered as part of this study underline the limited state of much skills data within the Scottish Screen Sectors. Even where a study has been undertaken, as it has in the animation sector, its skills conclusions are relatively vague, and as such it is apparent a specific skills audit of the sectors in Scotland is required to identify the current status and needs of the sector.

This should be followed by investment, if appropriate, to close identified gaps. Such an action is critical to underpin all areas of opportunity, as without sufficient skills provision companies will be unable to act on potential projects when they arrive. Given their oversight role, the public sector is best positioned to lead on this.

[26] Original Welsh Context set out in *The Heart of Digital Wales*, Hargreaves I. (undated); later analysis in *Television Drama Production in Wales*, Centre for the Study of Media and Culture in Small Nations (2015) and from consultations conducted by Olsberg SPI

Sufficient skills are vital to ensure that any additional production spend remains in Scotland, and a lack of skills has been noted as an element which can undermine infrastructure and incentive spending in other markets.[27]

6.2.3. Business Training

As other papers on the Scottish creative sectors have noted, business skills are a key challenge in maximising the values of the Scottish screen sector, and is a skills gap which needs closing.[28] FOCUS potentially provides a starting point for this, given the fact that business planning is needed to maximise this, though it may be desirable to have a separate programme in operation.

This element is of particular importance to support domestic production companies operating in the film, TV, and animation sectors, not least in allowing them to leverage the opportunities of PSB production spend into a wider platform for growth. Ideally, it would be led by industry, with the support of the public sector.

6.2.4. Development Funding

The weak capitalisation of production companies operating in the Scottish screen industries impacts their ability to develop projects, which can then be taken to production companies for funding. This is a critical process, as such development is necessary to ensure the quality of productions, which will help to attract funding – including potentially from major international platforms – and maximise the IP value accruing to the Scottish production company.[29]

Funding support to maximise such value is a common way for public agencies to intervene, and would be a good way to support other interventions presently being undertaken. This is of value to support the business training element above, not least in the animation sector where development times are long, and capitalisation is very weak.[30] This would be of particular value to the PSB opportunity, as allowing Scottish companies to take developed projects to these broadcasters will help to maximise the chances of production spending being leveraged in Scotland.

6.2.5. Production Attraction Funding

Production attraction funding is also a regular strategy for building the production sector, and has been used in other parts of the UK – such as Wales and Yorkshire – as a key part of their sector expansion plans. While Scotland already provides an amount of funding to attract productions, this is relatively small by international standards, and could usefully serve to be expanded.

Published figures for these production funds - £30 million over 5 years for Wales, and £15 million over four years for Yorkshire – provide a suggestion as to the scale required. Such funding models tend not to operate on the basis of a published rate of investment, but rather provide ad-hoc funding, with individual negotiations for each attracted production.[31] Both of

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[27] Impact Analysis of Fiscal Incentive Schemes Supporting Film and Audiovisual Production in Europe, European Audiovisual Observatory (2014)

[28] Evidence of this has been drawn from consultations

[29] *Enterprise Funding: Program Review & Future Options*, Screen Australia and Australian Government Discussion Paper (2013)

[30] Building Sustainable Film Businesses, The Challenges for Industry and Government, Olsberg•SPI (2012)

[31] http://pinewoodpictures.com/funding/ and http://www.screenyorkshire.co.uk/screen-yorkshire-secures-additional-7-5-million/

these operate on top of the UK's creative sector tax reliefs, which at 25% are comparable with other European incentives.[32]

Such production attraction funding will be targeted in particular at inbound productions, with a particular focus on TV drama production, and the opportunity offered by a new studio facility.

6.3. Evidence of Market Failure and Rationale for Public Investment

It has been reflected by previous agencies (notably the former-UK Film Council) that cultural products are a public good of great value to society, and that the market tends to under-produce them without public intervention.[33] These market failure rationales have been accepted by UK government and the European Commission.

This paper highlighted six key areas of market failure for the film sector, which are equally applicable across the screen industries:

- Screen content is a public good, in that it influences the zeitgeist, and the identity of a nation, but this culture is dominated by Hollywood;
- Such content produces positive externalities on the arts, the wider cultural sector, the development of technology, and transferrable creative skills;
- Creative content is not homogeneous – such projects are inherently prototypes, and are subject to hit dynamics. Spreading the risk of this requires the production of 'slates', but few companies have the capital to achieve this;
- A further function of this is that the industry is not characterised by perfect information, and the success of much content cannot be identified until release;
- Freedom of entry and exit does not exist, particularly in an English-language market which is dominated by a small number of major players for both film and TV; and,
- The production and service sectors are characterised by a wide number of small films, none of which have, or can reasonably be expected to develop, critical mass.

Within the Scottish context, there are two particular issues which this study has identified – the small scale, and fragile nature of companies operating across the sector; and the limited range of culturally-Scottish production, particularly on Television. Both of them are highly significant, and in many ways they are mutually reinforcing, as small companies cannot develop content of interest to major broadcasters or companies, and the lack of Scottish content (particularly drama) tends towards keeping companies small.

6.3.1. Small scale of companies

The data we have identified demonstrates the small, weakly-capitalised nature of many of the companies operating in the Scottish sector. The average company in the sample had a 2016 turnover of £369,299, and 3 permanent employees; this is a figure skewed by a small number of large companies. In the film production segment, this falls to £197,840 turnover and less than 2 permanent employees, while in TV (excluding STV), this is only marginally healthier at £328,868 and 2.75 permanent employees.

Within the market, this creates a challenge, as such firms tend to supply a small oligopoly of buyers, whether in the film or television industry. As an example, for episodic content, there

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[32] These average 20-25%, with Ireland operating the highest headline rate at 32%

[33] Rationale for Actions to Assist UK Film, UK Film Council (2004) p. 23; we are aware that this is a relatively old paper, but it has underpinned the UK's investment in the sector for a long time. Consultations suggest that revisions to the Market Failure evidence are being undertaken at the moment, though it is unclear when these will be available

are probably six major UK-wide content-buyers – BBC, Sky, Channel 4, ITV/STV, Netflix, and Amazon – and much the same can be said for film. In such a market, smaller firms are at a substantial disadvantage to the purchasers, and can struggle to have sufficient capital to generate the original IP which will allow them to benefit from the production of their content.

Such weakness is common in the global film and TV production market, which is often characterised by a minimally-capitalised, cottage industry type approach. In the film sector, this has been exacerbated by structural change in the industry which means that the value of content is increasingly heavily discounted at the financing stage, as the volume of content available has increased over the last decade, while DVD sales (historically an important source of revenue) have collapsed.

TV drama tends to suffer more as a result of limited spend by domestic companies, which has in other parts of the market allowed firms to grow in scale and pick up international commissions. Scotland does better in areas like documentary, though these have a much lower propensity to travel, and thus return less value on any IP held by the production company.

While a number of market interventions – including the UK-wide Terms of Trade for PSBs, and the Shared Service Centre model – aim to rectify this, it continues to be a challenge for the success of the sector.

6.3.2. Insufficiency of Scottish-originated Programming

From a cultural perspective, the ongoing lack of Scottish-focused content – including drama and factual – on mainstream television can be seen to inhibit public welfare. This is reflected in the higher-than-expected viewing figures for BBC Alba, which gathers a higher audience than speaks the language in which it broadcasts. Such an audience is attracted by a range of programming which describes Scotland, and which tends not to be seen on other services.

The exact reasons for this insufficiency is unclear, but consultees have highlighted that a significant proportion of BBC production in Scotland tends to be documentary-focused. Often, this looks at the wider UK, rather than just Scotland, for example through history programmes. Furthermore, whereas historically Scotland had significant drama production – exemplified by *Monarch of the Glen* or *Taggart* – in recent years this has been minimal to non-existent.

This supply-side challenge also generates problems throughout the sector, impacting into the sustainability of facilities and supply companies, many of whom will not be able to grow or indeed become sustainable without reliable production spend.

6.3.3. Rationale for Intervention

In its 2005 *Review of the television production sector*, Ofcom outlined the various rationales for intervention in this element of the screen sectors. While undertaken on a UK-wide basis, and for just a single element of the market this report describes, this remains a useful model for public intervention in the screen sectors, as it clearly outlines the modes of market failure in this industry. These include:

- *Promoting innovation, creativity, and risk taking;*
- *Increasing competition, raising quality, and reducing costs;*
- *Increasing range and diversity, in terms of programming genres and geography;*
- *Providing an alternative source of new on- and off-screen talent as well as helping to develop a skilled workforce;*

- *Making it easier for new channels to enter the market, thereby contributing to viewer choice;*
- *Increasing employment in different parts of the UK, and in places which lack a major in-house production presence, thereby contributing to dispersal of production around the UK; and,*
- *Creating a base for international success.*[34]

Within the Scottish context, many of these still hold – without public intervention, the market has failed to generate either the scale or diversity of content which would stand as a public ideal, and in many cases the industry remains highly metrocentric, which is a characteristic of this industry.

This being the case, the expansion of an industry with clear public and cultural value benefits within Scotland, and the generation of culturally-Scottish content as a result, stands as the major rationale for public intervention in the sector.

6.4. Potential Impact of Each Opportunity

Based on the financial impacts our analysis has suggested for the key opportunities the potential impact of interventions after five years is estimated to be the following:[35]

	Low Scenario			**High Scenario**		
	Spend (£, m)	GVA (£, m)	FTEs	Spend (£, m)	GVA (£, m)	FTEs
TV Drama Production	35	20.2	440	50	28.8	630
Public Service Broadcasting	60	34.6	755	60	34.6	755
Building a Permanent Production Facility	70	39.3	840	100	56.2	1,205
Total	***165***	***94.1***	***2,035***	***210***	***119.7***	***2,590***

Source: Olsberg•SPI; NB: FTE numbers rounded to the nearest 5

Within this, VFX and post-production will represent £8.1-£10.4 million of this spend, and 125-155 FTEs respectively; this is drawn out in reflection of the separate skillset which this would require.

6.5. Overall Impact for Scotland

Data from the Scottish Government show that in 2016, Scotland's total national GVA was £130.6 billion, and that in the period April 2016-March 2017, 2,595,500 individuals were in employment in Scotland. Given the total employment and GVA identified in this study, this suggests that the screen sectors in Scotland were worth between 0.096-0.138% of Scotland's GVA for 2016, and 0.094-0.138% of Scotland's employment.

The most recent Creative Industries Economic Estimates, using data for 2014, show that overall the Film, TV, Video, Radio, and Photography sector of the economy had a GVA of £10.8 billion

[34] Review of television production sector – Project terms of reference, Ofcom (11th May, 2005)
[35] VFX and Post-Production are included as a complimentary element to linear production and studio facilities; this is separately considered as a reflection of the way the sector works, but is not considered a guaranteed element of production spend

in that year. This represented 0.58% of the UK economy at that point, suggesting that Scotland has a much smaller screen sector than the UK average.

7. FUTURE DATA REQUIREMENTS

Our analysis suggests that two key pieces of data are required to build on this analysis:

- A clear picture of the turnover of Scottish production companies and companies operating in Scotland, which addresses the data challenges we currently face and ensures that no double-counting occurs; and,
- An unambiguous map of the skills presently available within the Scottish production sector, allowing for planning based on future growth and demand scenarios.

None of the available data allows for this in the ideal form, though this baseline should present a solid basis for initial development and discussion, in advance of unambiguous data being developed.

8. APPENDIX 1 – METHODOLOGY FOR ECONOMIC CONTRIBUTION ELEMENT

8.1. Company Data

In order to identify the company impact figures used in this document, we first sourced a list of companies registered in Scotland from Companies House. This was filtered for those whose primary sectoral SIC was one of the following:

- 59111 – Motion Picture Production Activities
- 59113 – TV Programme Production Activities
- 59120 - Motion picture, video and television programme post-production activities
- 59131 - Motion picture distribution activities
- 59133 - Television programme distribution activities
- 59140 - Motion picture projection activities

Further analysis was undertaken on this list to remove dormant or struck-off companies, and those which were obviously Special Purpose Vehicles for a production. It is assumed that revenues associated with these SPVs will be captured through their parent companies, who will be within the SICs above – as such, double-counting is avoided.

Data were then procured from Ortus Consulting's UK company database for the firms on this list, which provided us with:

- The turnover of these companies in 2016;
- Their GVA, which was related to turnover using a sectoral multiplier; and,
- Their direct employment

As our SIC evaluation had left a small number of companies who were not coded in these SICs out, and left in one major company which was in the wrong SIC, these data were then manually filtered, with missing companies' data added.

In the case of the BBC, an analysis of their accounts was undertaken to identify attributable production spend in Scotland (less that spent through production companies, and therefore already counted). This was added to the list, as companies in the Glasgow and Inverness (for BBC Alba, given the predominant location of their production spend) areas respectively.

8.2. Freelancer Data

As this approach did not count production spend controlled from outside Scotland, nor did it adequately address the question of freelancers, further work was taken on data from Pact's 2017 Census and the Creative Scotland Screen Commission to close this gap.

We analysed the GVA and FTE outcomes of the spend identified using multipliers established for our BFI Economic Impact study, generating a band of possible impacts. This was used as the data sources we had on production spend were too high-level to adequately establish if the production spend studied was already captured in our company sample.

In order to avoid double counting, a range between 50% and 100% of the total was applied to this; we identified the 50% bottom end of this range through a secondary analysis of our consultations, as this is the amount of production we feel confident is not captured by the company analysis. This 50% value was separately applied to film and TV production spend, reflecting the different spend patterns seen in these, leading to the ranges identified. Multipliers for this were established – as for the projections (below) – through the work on company turnover and GVA data which was procured.

8.3. Projections

Forward projections built on the current impact work; this leveraged work undertaken in relation to the impact of the UK's screen sector tax credits, reflecting that this element of the research describes production spend rather than turnover. As a result of our approach, these projections are in 2016 pounds, with no correction for inflation use.

9. APPENDIX 2 – FULL LABOUR FORCE SURVEY DATA

This page shows our full dataset gathered from the Labour Force Survey, breaking down regional trends in the SIC codes of interest to the study.

	Scotland	North East	North West	Yorkshire and Humberside	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Northern Ireland
59.11 Motion picture, video and TV programme production activities	47%	0%	16%	40%	16%	34%	45%	43%	48%	74%	14%	0%
59.12 Motion picture, video and TV programme post-production activities	1%	0%	3%	9%	8%	26%	9%	8%	7%	10%	3%	12%
59.13 Motion picture, video and TV programme distribution activities	0%	0%	8%	9%	26%	8%	5%	1%	14%	3%	8%	25%
59.14 Motion picture projection activities	11%	100%	48%	24%	24%	9%	8%	5%	5%	11%	25%	0%
60.20 TV programming and broadcasting activities	41%	0%	25%	17%	26%	23%	32%	44%	25%	2%	50%	63%