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August 2023

A review of the challenges facing UK independent film and the impact of tax relief support

A report for Pact

prepared by Oliver & Ohlbaum Associates Ltd

O&O

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Summary

UK independent film production is widely recognised as bringing important cultural, social and economic benefits. Independent film reflects life across the UK through culturally specific stories and local talent, exposes international audiences to UK culture and values, and provides a foundation of a thriving and highly skilled UK screen sector workforce. This report lays out the challenges for UK independent film production, the positive impact of the tax relief to date, and how this needs to be updated to address the remaining market failure.

Market failure in the provision and production of film originally led to the introduction of tax relief support schemes starting in 1992. These have proven hugely successful, supporting investment levels in UK independent film to rise from £244 million in 2007 to a peak of £372 million in 2016.[1] However, while film tax relief (FTR) has been proven as policy tool and has been emulated internationally, its level has fallen behind market realities and urgently needs updating for domestic independent film at low- to mid-budget levels, given increasing evidence of market failure and slowdown since the 2016 peak. Our key findings are set out below.

The UK independent film sector is important and is under pressure

Levels of investment in UK independent film have fallen in real terms since 2015, and it is becoming increasingly difficult to close financing or to fully realise a film's creative ambitions. This situation has only been accelerated and exacerbated by the Covid-19 pandemic.

- **Independent film has social and cultural importance:** The availability of UK independent films plays an important role in representing UK culture, values, and stories on screens nationwide. Independent films are a bedrock of UK talent development with 73 per cent of senior UK production professionals having prior experience from independent British film projects.[2]

- **The financing of UK independent films is complex and exposed to market forces:** Indie film funding is complex as it necessarily relies on a wide mix of financing sources and revenue streams, as well as long timelines from initial development to distribution, when revenues are finally realised. This funding structure can make indie films particularly at risk from small shocks – such as changes in market conditions, shifts in investor sentiment, or unexpected production issues – relative to TV or bigger budget films, especially with indie films having less certainty in distribution and a greater reliance on piecemeal external finance.

  All of this can create challenges in trying to attract new investment to fund and start production on projects. Independent film financing is an inherently risky endeavour as well – not least because gross revenues must significantly exceed a film's budget to enter profit (by as much as 5-6x a film's budget under a normal cinema release model) due to the costs and commissions taken at each stage of the value chain from cinemas' share of ticket revenues through to sales and finance fees. This further heightens the impact of any market changes and projects can quickly become untenable given financiers' and distributors' risk appetites. UK independent producer activity is also disincentivised by being at the bottom of recoupment flows so producers rarely receive profit returns or the deferred portion of their production fees, with the aim that an occasional hit will offset the majority of projects where they mainly only recover costs. They must also deal with risks or obstacles during financing, such as often needing to engage with first-time film investors, which can be unreliable.

  All of these factors make the tax relief incredibly important to the financing of UK independent films and make their ongoing viability particularly exposed to broader changes in the market affecting the value of film revenue

[1] BFI Statistical Yearbook. Domestic films and Co-productions (excludes inward investment UK films)

[2] British Screen Advisory Council, Local Heroes and Inbetweeners: The Contribution of the Independent British Feature Film Sector to the UK Audiovisual Production Industry, 2019

flows, most notably in box office and TV value. The weakening of these revenue streams goes beyond the impact of Covid-19 – although it accelerated many ongoing trends – with the shortening of cinema release windows, diminished ability to secure wide distribution amid competition with bigger budget films, and pressure on broadcaster budgets all leading to a continued slowdown in independent film revenues.

- **The market has undergone significant recent changes in several areas, creating uncertainties for potential independent film financiers:** The pandemic negatively impacted audiences' attitudes towards cinema attendance and, although this has been recovering, older audiences have been slowest to return – particularly relevant for independent film as they are a key audience for adult dramas. Global economic factors are driving an increase in the costs of labour and materials as well as continued shortages in the supply chain. Production costs have also increased due to the continued implementation of Covid-19 safety measures and associated insurance and are yet to recalibrate. Public production fund budgets are also under pressure, particularly in the UK where BBC Film and Film4 budgets have declined in real terms since 2016 despite Film4's significant budget increase around this time as part of a new commercial strategy. Available production funding support from the BFI dropped recently amid weakening National Lottery grants.

  UK independent film makers are potentially more at risk from these changes than their equivalents in other European markets. In the UK, independent domestic films compete more directly with US films due to the shared language, overlapping talent pool, and similar narrative styles. As such, UK films have a less assured commercial space and opportunity in the domestic market compared to European counterparts in their homes markets, and for smaller independent films this is critical as domestic distribution and performance usually underpins a large portion of financing and drives international sales interest. This can make the UK independent sector more 'feast-or-famine' and risky than in other parts of the world.

- **Independent film production spend has decreased, leading to a downward cycle with declining box office share:** Investment in UK independent domestic films and co-productions fell from a high in 2016, especially during the pandemic while production activity was paused, and has not since recovered back to the same levels. This decline in spend is even greater in real terms, and recent years may have been boosted by the backlog of production restarting post-pandemic which could lead to a continued decline in the near-term as this slows again. Similarly, the box office market share of UK independent films has fallen considerably in recent years both in the UK and globally, whereas UK studio and American releases have grown their respective shares, perhaps driven by declining production activity and reduced ability to secure distribution relative to bigger budget films. This, in turn, may cause a reduction in future investment and a downward spiral of fewer UK independent film releases in UK cinemas and lower returns.

- **The availability of UK independent films on TV channels and VOD services is also challenged:** The provision of film on major television channels has been steadily decreasing; this has been particularly marked on the five main PSB channels. This gap is not being bridged by the major SVOD players, as such services play a complementary and differentiated role in the market and their business model means that their catalogues have a high share of US content as well as content from other international territories, and while they invest in UK content to engage UK audiences, they are less specialised in UK independent film However, availability on TV and VOD services is important to independent films, both through licensing payments as a source of value and as a route-to-market to help engage a broad audience through wider availability.

The tax relief system has clearly benefited the sector, but the UK risks falling behind

While the existing tax relief system has had a demonstrably positive impact, it now needs to be updated to address the remaining market failure and ensure the UK does not fall behind other territories.

- **The tax reliefs have had a positive impact in stimulating investment into UK independent film production:** Investment into incremental productions, which would not have happened without tax relief, brings additional revenue to the Exchequer in the form of increased payroll taxes, VAT and additional taxes from indirect and induced tax impacts. In the case of UK independent film, producers underlined that tax credits are vital to all independent film financing and that most films could not have gone ahead without it. The existing Film Tax Relief scheme is set at a 25 per cent rate on up to 80 per cent of a film's total budget (i.e. tax relief worth up to maximum of 20 per cent of the budget) and is available to all film projects qualifying as a UK production, via the BFI cultural test, and intended for theatrical release. This rate was designed back in 2007 to help film financing with market challenges at the time and drive growth, and has been successful, but market dynamics have continued to change – as evidenced by the reversal of past growth trends – hence why this rate now needs to be reviewed to ensure it is providing appropriate support to UK independent filmmaking.

- **We conducted a series of interviews which highlighted the positive impact of the credits, however they also illustrate the challenges and precariousness of independent production:** We looked at multiple film projects that received tax relief support, and which represent a cross-section of the successful and innovative films that have been produced with the help of this additional funding. The independent producers behind these projects, shared their experiences in accessing the tax reliefs, other public funding schemes, and their views on the future of the independent film sector.

  The producers that we interviewed all stressed how vital the tax reliefs are in enabling productions to go ahead. However, new market pressures such as international competition and cost inflation and production resource shortages may be adding to the existing challenges for UK independent film production.

- **The film tax relief rate in the UK is now lower than similar schemes supporting domestic productions in many other major territories:** Following the UK's example, a range of other territories also introduced fiscal incentives. Overall, we find that the UK has a relatively low rate of relief and that its tax relief system now exists in a highly competitive, global production landscape. Various territories have raised their tax relief rates during the pandemic and intend to keep them higher to attract inward investment and build a hub. Looking at the range of international approaches has allowed us to identify reasonable alternative rates to model for an expanded and modernised UK approach targeting UK independent film.

- **The UK tax relief system is a proven and successful tool and should now be updated to optimise support for UK independent film:** The UK tax relief system should be adjusted to combat market failure, and ensure it continues to have a positive impact on the sector and the UK creative industries more generally, whilst also creating a positive tax return for the Exchequer.

The value of the relief could be adjusted to generate a more positive outcome

We have modelled the impact of increasing film tax relief to either 30 per cent or 40 per cent, while maintaining the current eligibility and administration rules. We find that raising the rate to 40 per cent could result in an increase in spend on UK indie films from 2024 reaching £402 million by 2032, compared to a current estimated spend of £338 million in 2022. A 30 per cent rate could meaningfully slow the rate of decline compared to the status quo of 25 per cent, which we forecast would see investment fall to £284 million by 2032, but still results in spend slightly below existing levels by 2032.

The significant growth is from new productions that otherwise would not get made ('incremental productions') and this offsets the continued decline in existing ('anyway') productions. Taking the rate of incremental productions being made under the current 25 per cent tax relief as our baseline, we assume that the number of incremental productions would rise proportionately to an increase in the level of the tax credit as follows:

Incremental production spend additionality rate	**Domestic films**		**Co-productions**	
	% incremental spend growth vs. 25% credit	Overall additionality rate*	% incremental spend growth vs. 25% credit	Overall additionality rate*
25% FTR rate, status quo (or 33.3% AVEC)[3]	n/a	46%	n/a	100%
30% FTR rate (or 40.0% AVEC)	+20%	51%	+20%	100%
40% FTR rate (or 53.3% AVEC)	+60%	58%	+60%	100%

The results of our assessment of the annual average net tax impact to the Exchequer, under existing and enhanced relief rates for UK independent film, between 2024 and 2032 are as follows:

Tax relief levels	**Net Exchequer impact** (£ million, average 2024-2032)	
	Direct impact only	**Full impact**
25% FTR rate, status quo (or 33.3% AVEC)	11	59
30% FTR rate (or 40.0% AVEC)	3	58
40% FTR rate (or 53.3% AVEC)	(23)	50

Enhanced relief rates provide a lower net return due to the increased cost of providing the relief, but in doing so significantly increase production levels – and both the 30 per cent and 40 per cent rates also still provide net positive impact to the Exchequer compared to the baseline of no tax relief. The spillover benefits from increased film production, such as in tourism, would increase these net benefits even further.

Film productions in the UK span a range of budgets with different types of funding sources and models, but some are more challenged than others so there could be a case to target enhanced support at a specific budget range to maximise benefits at optimised cost to the Exchequer. Up to the top level for independent film, which is budgets of about £15 million, extra support is vital to address commercial market challenges with financing and pre-sales becoming increasingly difficult to secure from the international market, and the competition for major talent leading to significant cost inflation. Independent productions above the £15 million mark are rarer, and most UK films above this level are inward investment projects – typically with US studio support – so are less exposed to external financing issues. At the other end at lower budget levels, UK independent films are slightly less dependent on tax relief support on average, though this differs considerably by project, as their financing picture is less challenged.

We modelled the net tax impact of an enhanced relief rate across different budgets to pinpoint the optimal budget range to target to maximise the economic benefits. At an enhanced FTR rate of 40 per cent (equivalent to an AVEC rate of 53.3 per cent), the net impact is estimated to be positive on average for UK films with budgets over £1.1 million, and net negative below. This suggests the optimal budget range to target with enhanced support is between about £1 million to £15 million.

[3] Screen Business

Introduction

1 Introduction

The business model for UK independent filmmaking has come under increasing pressure in recent years. While the existing Film Tax Relief (FTR), implemented in 2007, continues to support production, the ability of UK film producers to secure financing for new projects is being severely impacted by long-developing market factors and trends, many of which accelerated over the pandemic. This has led to a decline in provision and investment, and a persistence of market failure in the independent sector – which is a foundational layer of the UK's burgeoning screen economy. In this context, we have been commissioned by Pact to produce a report on the state of the UK independent film production sector, assessing its social, cultural and economic contribution across the UK, and considering how best to support it in the coming years.

1.1 Background

The UK has a strong history of independent filmmaking, from stalwarts of UK culture such as *The Queen, Trainspotting,* and *Bend It like Beckham* through to more recent successes such as *The Favourite* and *Aftersun*. Independent films cover most film productions based in the UK, except those produced by the big US film studios which bring production of blockbusters to the UK attracted by our talent, support schemes, and sector capabilities.

However, there has been a long-term market failure in UK independent film. The Film Tax Relief was first introduced in 2007 to promote the sustainable production of British films. It has supported the continued growth of the film industry in the UK over the last fifteen years, and is one of the most efficient and reliable financing tools available to producers as it is easy to use, quick, and has become integral to finance plans across the sector.

Recent market and wider economic trends – including production cost inflation, a tougher theatrical environment, and resource shortages among rising demand for talent, IP, and production capabilities – have all created new and growing pressures on the sector which have exacerbated this market failure. The British Film Institute (BFI) Commission on UK Independent Film report in 2017/18 raised questions around the sustainability of the industry. Around the same time, reports on the independent film sector for Pact, the British Screen Advisory Council (now British Screen Forum), and the Institute for Creative and Cultural Entrepreneurship at Goldsmiths University all highlighted the important contribution of the independent film sector to talent development and the wider UK audiovisual economy, but flagged similar issues around its ongoing viability amid challenging market conditions.

Since then, the outlook for the independent sector has worsened. This is perhaps most evident in UK independent films' share of domestic box office takings, a key revenue source and a forebearer of value in later windows, which has fallen by almost 50 per cent from 2018-2019 to 2021-2022. In contrast, the total production sector has maintained strong growth – with total UK spend on film and high-end TV (HETV) production reaching a record £6.27bn in 2022, driven by inward investment and projects for global SVOD services. The overall health of this ecosystem may falter if the independent sector, and the opportunities it provides to develop UK talent and crews to serve this rising international demand, begins to diminish more rapidly.

The Covid-19 pandemic further exacerbated these stresses on the UK independent film sector, not least due to the halt in production activities and increased costs of safeguarding measures and insurance when production restarted. In response to this disruption, the Government introduced temporary targeted support for the sector including the Film and Television Production Restart Scheme and the Culture Recovery Fund. Several industry figures at the time, including leading producers and the CEO of the BFI, remarked on the positive impact that these funds had on the sector and why they were so desperately needed.

However, beyond this temporary impact, the pandemic also hastened the development of many pre-existing market challenges, particularly around theatrical value which has affected financiers' risk appetite and willingness to invest in original independent projects. These recent developments have permanent implications for the independent film market and were explored in the BFI's Economic Review of UK Independent Film, published in 2022, which found that there are 'ongoing risks to the sustainability of the sector'.

1.2 Existing approaches to supporting UK independent film

UK originated film has been the subject of regulatory intervention for more than three decades, illustrating the long need to support UK film production due to its economic value and the presence of market failure, with the first tax relief system implemented in 1992.

The 1992 Finance Act introduced a write-off of production costs over a three-year period after completion for qualifying film, expected to be worth 4 to 8 per cent of a film's budget. This was updated in 1997 to an immediate, full tax write-off of production expenditure in the year of production after it was deemed that the previous support was too low to stimulate investment decisions. This accelerated support was targeted at low- to mid-budget films, with budgets under £15 million, to target funding where it was most needed. After this scheme, the existing Film Tax Relief (FTR) was introduced in 2007 to continue to encourage projects that would have otherwise not been made and support sustainability in UK film production.

The current FTR rate is 25 per cent of qualifying UK expenditure on up to 80 per cent of the film's total production budget (including pre- and post-production) – therefore the maximum possible relief is equivalent to 20 per cent of a film's budget. Tax relief is available either as a deduction on taxable profits if the project is profitable or as a payable tax credit, though the latter is the usual redemption method given the low profitability of indie films and historic corporation tax rates. All UK films are eligible for FTR, regardless of budget level, providing that:

- They qualify as British via the cultural test administered by the BFI, or as an official co-production
- They are intended for theatrical release in cinemas
- At least 10 per cent of the film's budget is UK expenditure

FTR has remained in place since 2007 with a few small adjustments – relaxing the qualifying UK expenditure limit in 2014 (from 25 per cent to 10 per cent) and merging separate rates for budgetary bands in 2015 (the relief rate for films with a budget over £20 million was increased from 20 percent to 25 per cent, while lower budget films had their cap on applicable relief reduced from 100 percent of UK expenditure to the current 80 per cent). These changes made FTR more attractive to inward investment but slightly weakened the value of relief to lower budget independent films, many of which are filmed entirely in the UK.

In the March 2023 Budget, it was announced that the screen tax credits were to be reformed. The current rebate of 25 per cent will be changed to a new "expenditure credit" of 34 per cent from January 2024, which is expected to represent a 0.5 per cent real-terms increase in the level of the tax relief only. The expenditure credits will be calculated directly from qualifying expenditure instead of being an adjustment to the company's taxable profit as under the existing regime. Known as the Audio-Visual Expenditure Credit (AVEC), the new system will be modelled on government's existing Research and Development Expenditure Credits. It is also understood that this model will retain the 80 per cent cap on qualifying expenditure in the current relief structure. The government will publish draft legislation for the reforms in July 2023.

The tax relief system is complemented by direct funding schemes for production and development. This network of disparate funds provides direct funding to projects that are less likely to receive viable financing from the commercial market even with the support of the FTR (such as films involving new talent). These support bodies can be categorised into:

- **Public Service Broadcasters (PSBs):** the BBC and Channel 4, through BBC Film and Film 4 respectively
- **National Lottery distributing bodies:** the British Film Institute and national agencies (e.g. Screen Scotland, Northern Ireland Screen Fund, and Ffilm Cymru Wales Development)
- **Other public funds:** various schemes, often funded by lottery grants or Government support via other agencies, which provide more targeted funding and development support (e.g. within a particular region, discipline, or micro-budget level), such as Shore Script, The Film Fund, iFeatures, Breakout, and the West Midlands Production Fund.

Other support schemes exist outside of direct production funding. These fulfil separate purposes, either focusing on different market issues or time-limited funds responding to recent events:

- **Distribution schemes:** targeted support to assist the marketing and release of smaller films, innovative distribution strategies, audience outreach programs, and exhibition initiatives with the aim of increasing audience access and participation. Includes the BFI Audience Projects Fund and Film Audience Network
- **Covid-response schemes:** to compensate producers and exhibitors for costs incurred from coronavirus abandonment, delays to production activities, or closure of venues. Includes the Film and Television Production Restart Scheme and Culture Recovery Fund for Independent Cinema
- **New domestic schemes to replace EU funds:** the screen sector is navigating changes since the UK has left the EU, particularly the end of UK access to the Creative Europe MEDIA programme which granted the UK roughly over €10 million per year. The Government launched the UK Global Screen Fund to offset this, and it was extended for another three years in 2022 with funding of about £7 million per year. The UK Global Screen Fund does not fund domestic productions directly, instead focusing on supporting international activity – particularly distribution, development, and co-productions (where the UK is a minority party).

1.3 The scope of this report

In this report, we aim to provide a clear picture of the UK independent film sector and its market context, with a focus on levels of provision and production spend. The core areas of this report cover:

- The state of UK independent film and the challenges that producers are facing, including:
    - Importance of independent film to the wider screen economy
    - Financing processes
    - Media landscape trends
    - Specific pressures on the film industry
- Trends in UK independent film output, revenues, and production spend
- An assessment of the economic value of independent film supported by the FTR
- Potential relief scheme adjustments, based on the market challenges and fiscal incentives, to improve support for the UK film sector

The findings in this report are based on a variety of research – including industry datasets, existing published reports on the independent sector, quantitative models of future economic value, and interviews with a range of active stakeholders from within the UK independent sector.

We conclude that further improvements to film tax relief, targeted at budget ranges typically occupied by independent film, could be significant to ensure the financing and production of UK independent films remains viable – thus ensuring that it can continue to play its vital role in developing UK talent and crews, which supports the wider production sector, and representing UK culture on screens both here and globally.

1.4 The definition of UK Independent Film in the report

There are various sources of information on the film sector, and the classifications used to segment and define the market can vary across them. Our analysis draws primarily on data from the BFI and related reporting such as Screen Business, so we used definitions are in line with their classifications. These include:

- **Domestic film:** a UK film made by a UK production company that is produced wholly or partly in the UK.
- **Independent film:** a film made by an independent production company or group of independent production companies
  - in contrast to a **US studio film** that is produced wholly or in part by a major US studio – Disney, NBCU, Paramount, Sony or Warner Bros.
- **Inward investment UK production:** a film substantially financed, controlled or produced by companies from outside the UK (including US studios and non-UK independent parties), but which is partly made in the UK and qualifies as British under the cultural test administered by the BFI.
- **Co-production:** a film produced by partners from multiple countries – a UK co-production involves a UK production company and other country partners usually under the terms of a bilateral co-production agreement (though can also be outside these), whereas inward investment co-productions do not feature a UK producer but qualify as British under the cultural test administered by the BFI.

In this report, UK independent film refers to productions that qualify as both 'domestic' and 'independent' according to the above definitions. This includes UK co-productions, except for those featuring non-independent production partners.

Co-productions represent a relatively small component of UK independent activity – 12 per cent of UK independent films that started production in 2019[4] – but are usually slightly bigger projects on average. The research in this report largely refers to UK independent film as a whole, however some of the drivers and challenges facing UK co-productions are unique and are identified separately where relevant.

It is important to note that some UK independent films may be distributed by major US studios or their subsidiary labels in some territories. For example, a studio may acquire rights to an independent film after it has been made if it has particularly strong prospects. These projects are still deemed to be independent, as US studios were not involved in their production, and could be taken as a sign of the strength and attractiveness of the final film.

1.5 About O&O

O&O is a leading independent advisor to the media, entertainment and sport sectors, with complementary practice areas across policy, strategy, investment, and commercial advisory. We have an in-depth understanding of the competitive dynamics of the UK's film and TV, radio and audio, news and online sectors, having been a leading advisor to the independent production sector for over two decades.

O&O has worked for all the 'super-indies' and many other leading players in the production sector, as well as providing support for numerous transactions – both buy and sell side. O&O has supported Pact through the development of the UK Terms of Trade, conducted the annual Pact Census for over ten years, and worked alongside Pact on the BBC's proposals to extend the exclusive BBC iPlayer window. O&O has developed production strategies for major broadcast groups, reviewed the business plan of a major UK PSB film financier, and advised global SVOD,

[4] BFI, Film and high-end television programme production in the UK: full-year 2022

US Studios and major broadcasters on content demand and supply trends in European audiovisual markets and local content regulation.

Most recently O&O has been commissioned by Ofcom to support its 'Call for evidence: Public service broadcasters and the UK production sector'. Other relevant work for Ofcom includes a review of drivers of PSB content investment, and contributions to three previous PSB reviews. O&O has also supported DCMS on assessing the BBC's distinctiveness and market impact as part of the last Charter Renewal process. Other work relating to the film sector includes several pieces of work covering topics such as territoriality of rights, market sizing to support major mergers in the production sector, and examining the role of independent production and distribution within the audiovisual sector value chain.

Long-standing challenges for UK independent film

2 Long-standing challenges for UK independent film

The production of UK independent films delivers against a variety of cultural, social and economic policy goals, but this activity is increasingly under pressure due to wider trends in the audiovisual space and specific challenges within the film value chain, which are affecting the independent financing model. In this part we explore each of these challenges in turn to see how independent film contributes benefits across the UK, and in what ways it is under threat.

2.1 The benefits provided by UK independent film are at risk if the challenges to the sector are not addressed

UK independent films provide value to society on multiple fronts across both their production, which supports skills development and delivers economic benefits across the nation, and engagement with audiences, showcasing culturally resonant stories and championing a diverse range of voices and experiences. We briefly consider each of these benefits in turn below.

2.1.1 Independent film has social and cultural importance

The availability of UK independent films plays an important role in representing UK culture, values and stories on screens nationwide. There is a clear audience demand for British stories – in a BFI study, 84 per cent of adults agreed that British films are an important part of British culture, and most felt that too few of the films shown in the UK were British [5]. Independent film output serves a lot of this demand, and without this provision the presence of UK-specific stories would be considerably weaker – both on domestic screens and internationally, where British film hits (such as *The King's Speech, Trainspotting, Aftersun*) add to the UK's global cultural relevance and soft power.

UK independent films also give a voice to people typically under-represented on screens across the nations and regions through a wide variety of output covering different life experiences, socio-economic classes, accents, and local issues. The UK has a strong history in this regard with the British New Wave largely emerging from films based on working class life in Northern England; and Bradford became the first ever UNESCO City of Film in 2009.

These films do not just give communities the opportunity to see themselves reflected on screen, but also raise their profile and enable connections with wider audiences across the UK. Audiences find UK independent films thought-provoking and that they are a good route to engaging with difficult societal topics. Research in the UK from 2022 revealed that 77 per cent of adults say films have changed their view on important issues (such as climate change, racial equality, and women's rights) and over half say they have learnt about a societal issue that they were previously unaware of.[6] Beyond direct audience engagement, independent films also deliver wider cultural value and positive wellbeing effects to society by bringing attention to parts of British history or lived experiences, such as *Bend It Like Beckham* which is widely thought to have played a role in increasing female participation in football.

While entertainment understandably remains the key reason that audiences go to the cinema, one of the next most significant contributing factors is wanting to watch a film to learn more about the world around us.[7] Independent

[5] BFI, Opening Our Eyes: How film contributes to the culture of the UK, 2011
[6] Mastercard *Impact of film* Survey 2022. Independent research company Fly Research questioned 7,000 adults across seven countries in May 2022
[7] Ibid

films are particularly well placed to serve cultural purposes by highlighting specific, culturally resonant UK stories and taking creative risks to dive into marginal, often unseen, topics.

A robust British film landscape also contributes to a strong cinema ecosystem, which in turn is an important route to engaging young audiences and creating communal experiences. While UK TV viewing among young adults has continued to decline in favour of other media, 16-34 year olds are still the biggest group of cinema goers (42 per cent of the total in 2022)[8] and the most frequent cinema visitors. Young audiences have positive feelings towards British and independent films – with the latter described as Interesting, Unique, Good, Original, or New – and over 70 per cent see cinema as a social event[9] and local cinemas as an important contributor to their local community culture. This point about the social, communal experience of cinema has been particularly important lately, playing a part in combatting social isolation and improving mental health after the pandemic, when such opportunities were limited.

2.1.2 UK independent film is a vital incubator of talent across both on- and off-screen roles

Independent filmmaking in the UK has been a key platform for the development of local talent and skills across the production workforce, contributing significantly to making the UK a global leader in screen production and an attractive space for overseas investment in big budget projects. This incubation effect happens across all roles in independent film, from above-the-line talent (e.g. directors, producers, actors, and writers) to production crew in various departments (such as technical, craft, post-production, and management roles).

On the former, independent film has launched the careers of many British actors and directors, such as John Boyega who starred in the latest *Star Wars* trilogy a few years after making his debut in UK indie sci-fi *Attack the Block* (backed by Film4 and UK Film Council), and continues to raise the profile of UK talent helping them to feature in larger budget productions. A study by Alma Economics on found that lower budget UK films – from £0.5m to £15m which is the range that independent film usually occupies – are substantially more effective at launching emerging talent than larger budget films, which typically have US studio involvement. It is estimated that between 2010 and 2021, 77 directors and 208 producers made their feature film debut in UK films with £0.5m-£15m budgets and subsequently went on to be involved in further UK film productions.[10]

For production crew, independent film productions create opportunities to develop skills on set and build experience. While training also plays a role in skills development, in the production sector a significant proportion of learning happens on-the-job which makes lower budget, smaller projects particularly important for crew to build skills during the earlier stages of their career. The shorter, one-off nature of independent film projects also makes them a good platform for crew to take their first step into more senior roles and progress their careers. In 2019, the British Screen Advisory Council (now British Screen Forum) found that 73 per cent of senior professionals working in the UK production industry, across film and high-end TV, had at least one prior credit in an independent British film.[11]

Talent incubation associated with domestic film is a foundational layer of the UK's production industry with resources increasingly being shared across film and high-end TV, thus enabling the growth of inward activity. Ben Roberts, the Chief Executive of the BFI, recently highlighted this stating "the UK independent film sector is also an integral part of the wider screen ecosystem through its role as an incubator of talent, both on and behind the camera. Craft and technical skills developed through working on independent film feed the success of the UK screen sectors in making bigger budget films and high-end television productions".[12] Furthermore, independent film plays a key

[8] BFI, Watching Films in the UK: How Often, How Many, and How?, 2023
[9] BIFA, Under 30s and Film, 2019
[10] Alma Economics, Measuring the spillover benefits of UK independent films, 2023
[11] British Screen Advisory Council, Local Heroes and Inbetweeners, 2019
[12] BFI, Press Release: The BFI Response to the Economic Review of UK independent Film, 2022

role in addressing the ongoing skills gap and crew shortage issues in the sector as identified in the *BFI Skills Review 2022*, which are impacting productions and economic growth across the market.

Further information on the incubator effect of independent film, as well as an assessment of the positive economic value that it generates from subsequent production activity, can be found in *Measuring the spillover benefits of UK independent films* – a recent report by Alma Economics commissioned by Pact.

2.1.3 The UK independent film sector is a significant economic contributor

Independent film production contributes to the UK economy via the direct value of production activities and further network value generated through supply chains and employee spending. These economic impacts were studied in detail in the 2021 Screen Business report published by the BFI.

Domestic independent film production activities in the UK across 2016-2019 generated approximately:

- 7,300 full-time equivalent jobs per year
- Employee compensation of £240m per year
- £380m gross value added to the UK economy per year
- £90m tax revenue from income tax and national insurance contributions per year[13]

However, the value created by the independent film sector extends beyond production and into all parts of the UK film economy, which are supported by independent film companies' content output, development of skills and talent, and influence in driving interest in film. The most direct impact is on the exhibition sector, which in 2019 generated £728 million GVA, employing 15,000 people.[14] More broadly, the total UK film economy – including the production of international films in the UK, distribution activities, and the value of UK film on TV, video on-demand (VOD) services, and physical media – supported 69,000 full-time jobs, £5.0bn GVA, and £1.2bn tax revenue per year.[15] While a significant portion of these benefits are directly associated with inward investment UK films, independent films are crucial to retaining a healthy, diverse mix of films in the market, which helps to drive consumer interest, reach a wider audience base, attract moviegoers to cinemas, and ultimately aid the development and sustainability of the whole sector.

The UK film sector also delivers wider economic value in adjacent sectors, particularly in attracting tourism into the UK, merchandise sales in various forms (as well as developing and strengthening British IP) and generating indirect value by promoting the UK's brand and reputation internationally. Independent films contribute significantly to these value drivers through their strong focus on British stories, people, ideas, and locations – particular the latter with two-thirds of tourists saying that their decision to visit the UK was influenced by seeing British locations in film and TV.[16] These spillover economic impacts from the total UK film sector supported a further 52,000 jobs, £2.7bn GVA, and £0.7bn in tax revenue by themselves in 2019.

Furthermore, this focus on the impact of the film sector by itself may still underestimate the influence of the independent film sector – its contribution to skills and talent development has helped to underpin the rapid growth of HETV production, which surpassed film in terms of UK spend for the first time in 2022.[17]

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[13] Oliver & Ohlbaum estimates based on data and inputs available in Screen Business, 2021
[14] BFI, Screen Business, 2021
[15] Ibid
[16] UK Global Screen Fund, International perceptions of and engagement with UK screen content
[17] BFI, Film and high-end television programme production in the UK: full-year 2022

The Screen Business report also estimated the return on investment of the FTR for the UK economy, in terms of GVA, as about £8 for every pound of tax relief spent.

2.2 The financing of independent films is complex and exposed to market forces

Indie film funding is complex as it necessarily relies on a wide mix of financing sources and revenue streams, as well as long timelines from initial development to distribution when revenues are finally realised. This funding structure can make indie films particularly at risk from small shocks – such as changes in market conditions, shifts in investor sentiment, or unexpected production issues – relative to TV or bigger budget films, especially with indie films having less certainty in distribution and a greater reliance on piecemeal external finance.

Producing an independent film often involves a delicate balancing act between various contributors, including investors, producers and sales agents. Each of these parties has different priorities and objectives, and ensuring that everyone's needs are met can be a complex and challenging process. The stakeholders involved in getting an independent film to production usually include:

- **Producer:** manages the process of creating the film across all phases. Typically involved from the very start when the project is developed and subsequently co-ordinates fundraising, securing talent, building the package to go to market, bringing in a sales agent, and manages the production, shooting, and delivery of the film itself. Budgets can include a producer fee and overhead of about 5-10 per cent, but a significant portion of this is frequently deferred to help close financing.

- **Distributors:** acquire the rights to exploit a film in a specific territory, either before or during production (pre-sale) or after the film is finished (acquisition), and subsequently manage the film's release. Deals usually involve a minimum guarantee (an upfront, advance payment against expected value) and take into account distributors' costs to market the film, a distributor commission on revenue for each media type (up to 30-40 per cent) after their guarantee is recouped, and interest on their advance.

- **Sales agent:** engaged by producers to represent and sell a film to distributors. This process first involves the agent making estimates of the film's value in different territories (both high-case 'asks' and low-case 'takes', with the latter defining a project's viability) based on the involved talent, performance benchmarks from similar films, and present state of market demand. If viable, the agent then takes the film package to multiple film markets to try to close pre-sales in order to secure financing for the project. Sales agents typically make a 10-20 per cent fee on secured sales and recover their sales expenses.

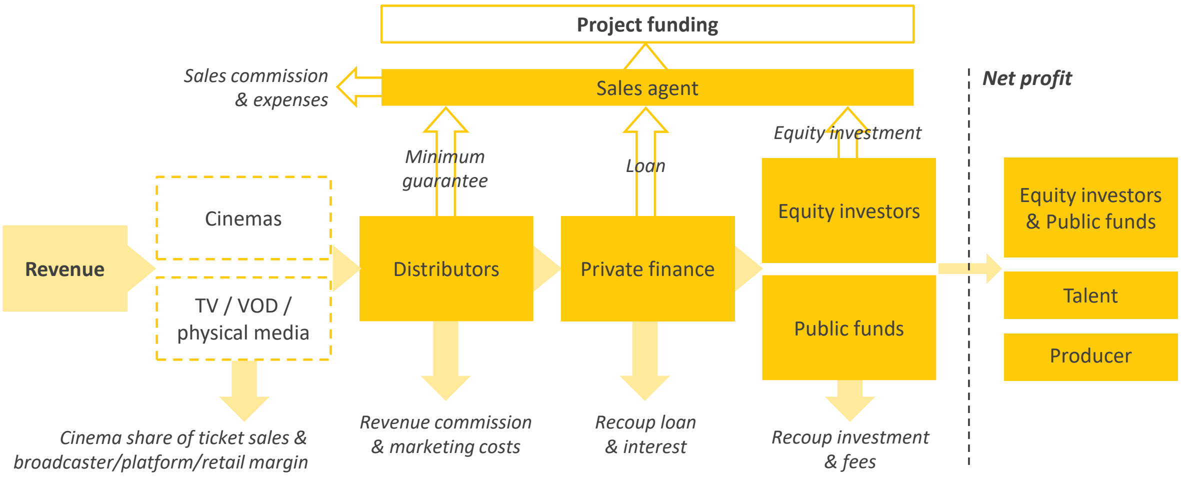
- **Equity investors:** commercial investors, from angel investors to hedge funds, which contribute funds to a project in return for a permanent share of the eventual rights value. Equity investors take on significant risk – recouping behind loan finance and after distributors' commission on revenue – and as such negotiate for a premium share of back-end value and for fees within the budget to hedge their risk. Investors may choose to fully fund a project, based on expected value of distributor sales, or part-fund for a share of value.

- **Public funds:** public subsidy and broadcast funders (e.g. BFI, Film4, BBC Film) which can take 'softer' equity positions on eligible projects – i.e. they receive returns and generally recoup their investment behind other investors – and, in the case of BBC Film and Film4, usually retain some UK broadcast rights. Also a key source of development financing for new ideas and projects. These funds are important to the production of more difficult projects as their role in the market allows them to take riskier positions in finance plans, which purely commercial parties would not occupy. Some public support does not take any recoupment, but these are rare so tax credits (which also take no recoupment) are critical to the ongoing commercial viability of film.

- **Private / gap finance:** loans towards a production – taken out against unsold territories to cover the remaining gap in the finance plan, or to cashflow other finance streams (e.g. distributor pre-sales or tax reliefs). These financiers, often specialist private firms (e.g. Head Gear Films) rather than banks, charge interest on loans and recoup before any other partner but they take no underlying rights or profit position once repaid. Finance was traditionally used to cover gaps of around 10-15 per cent of a film's budget where needed, but this has grown to 20-25 per cent recently given current difficulties securing funding. Separately, projects also incur revenue collection fees of about 1 per cent, usually through an independent agent.

Figure 1 summarises the position and role of each of these stakeholders in the value chain for a typical UK independent film.

Figure 1: Indicative value chain for independent film financing, with flow of funding and revenue



In reality, the lines between these parties are blurred, with larger companies active across a mix of production, distribution, sales and financing (via self-funding) in particular. However, all of these elements tend to play a role in the traditional financing process of independent films with budgets below £15 million – with a producer developing a project and a sales team taking it to market and helping to secure production finance through a mixture of distributor pre-sales, equity investment, public funds, and bank finance.

The exact scale and balance of this mix of finance sources, as well as associated recoupment structures and fees, varies by project and is dependent on final negotiations. In every case though, all investors need to fully recoup their investment, and any fees or expenses paid, before a film can enter net profit and begin to deliver value on IP rights. Up to one half of IP value can generally be retained for producers and talent, with the other half of net profit participation going to equity investors, though again this can vary significantly by project. Independent producers usually need to commit a significant portion of their share of IP value to key talent to secure their participation, especially for globally recognised names who can drive international sales interest, which reduces their effective IP position. Regardless, the majority of independent films do not enter net profit so producers usually see no returns on their IP position, and often do not receive a production fee as it is deferred until the project enters profit.

While the mix of finance sources described above applies to typical independent projects, some other financing models also exist. Most simply represent a variation on this mixture so that one source dominates (e.g. financed fully by an equity investor if confident in the project before pre-sales activity, or a small project financed solely by public funds to support new talent). Co-productions rely on the same mixed funding processes, but with each partner usually responsible for rights in their own territory. An SVOD funding model has emerged lately too where these services pay for worldwide rights or key territories, but in most of these cases SVOD services acquire the finished film at market – rather than boarding the project early and contributing to the financing process before production

– although this may be changing with some services beginning to get involved in the process earlier, mainly around very big budget original features. Alternative release models are also gaining some traction, such as premium 'day-and-date' VOD releases rather than the usual cinema exclusivity; these are generally financed in the same manner, just with distributors subsequently exploiting their rights in different ways to optimise value.

Regardless of this variability though, three elements are common across all independent film financing models:

- **Financing decisions are generally based on a typical release model regardless of final distribution:** financing from commercial partners to enter production is based on expected rights value, such as sales agent estimates, which usually assume a typical distribution model for a project of its scale (i.e. an exclusive theatrical window followed by DVD/TV/VOD exploitation) – so all projects are susceptible to changes in typical revenues across the market, as it affects the expected revenues that investors estimate will be returned from the project, regardless of whether their final release method is slightly different

- **Predicting individual film performance is extremely difficult, so investment is based on average market returns:** estimating exactly how a specific film will perform many years before it is produced and released, when funding decisions need to be made, is close to impossible and involves significant uncertainty. Hence financiers base their decisions on the average expected return from a project, reflecting their view of the market outlook and any factors adding to the uncertainty around performance and returns

- **Tax credits play a vital role in the financing 'jigsaw' and are a de facto element in any film's funding**: without tax credits, most independent film projects would not be able to secure enough financing to cover their budgets so would not be commercially viable.

This multi-source, heavily risk-based approach to financing film production is in contrast to processes across other formats such as TV, where many productions are funded primarily by the domestic or global commissioner with financing costs, producer fees and core distribution included. Part of this is due to the one-off nature of most independent film projects, compared to TV or blockbusters where returning IP is more common – this creates extra risk within independent film, but also contributes to it being such a good incubator for new talent and skills development by providing smaller assignments which are suitable for crew to take the first step into more senior roles. A lack of guaranteed routes-to-market for independent film across the windowing chain in advance of production adds further uncertainty as well, relative to TV production where the commissioner will broadcast the content on their own services.

Furthermore, various factors in the film financing process make it particularly susceptible to external market changes and create challenges in trying to attract new investment to fund and start production on projects, including:

- **Gross revenues must significantly exceed the production budget to enter net profit**, potentially up to a factor of 5-6x under a traditional theatrical model, given the number of intermediaries. Independent film revenues are discounted by cinemas' share of ticket sales (about 50-70 per cent of gross), distributors' marketing costs and revenue share, sales costs and fees, financing costs, and any commissions/margins on other release platforms – which all cut into potential returns to investors and the producer. As such, any perceived downturn in market opportunity and revenue streams – or increase to production costs – can significantly reduce the likelihood of entering profit, and tip investors' perceived risk to unpalatable levels.

- **Films are very long duration projects from development to recoupment, creating further revenue uncertainty and requiring larger expected returns to justify the commitment for third-parties.** Independent films can take around five years or more from development to initial release, dependent on funding complexity, and multiple years thereafter to realise value through sequential release windows (e.g. cinema release, followed by premium rental, first pay TV/VOD, and second TV windows). This adds further uncertainty around resultant revenue flows and access to routes-to-market, especially where distribution partners are not in place from the outset. Often the only guaranteed income flows into projects are tax reliefs, and softer public funding on certain projects (though public funds usually expect to take a position in returns in exchange for investment).

- **Film investment returns are very hit-driven,** particularly for independent film where smaller releases often make losses but can very occasionally cut through and make big returns. Habitual investors therefore fund a slate of films to increase their chances of securing at least one hit. However, if their appetite to invest reduces thus narrowing their potential slate, they may withdraw from films entirely as the lower likelihood of a hit increases their risk. Furthermore, investors require a significant share of value, and premium back-end rights positions, to ensure they benefit sufficiently from hits to cover losses elsewhere. This can leave gaps in recoupments plans that only tax reliefs or public funds can fill (see *The King's Speech* case study).

Case study: The King's Speech

The King's Speech is a 2010 UK independent historical drama directed by Tom Hooper, in which Colin Firth plays the future King George VI coping with a stammer. With an £8.2 million budget, and despite a strong performance benchmark to compare to in *The Queen* (2006) which took $126 million in the box office worldwide,[18] it was passed over for financing by both Film4 and the BBC and eventually seeded only as the result of a £1m investment from the UK Film Council (a public funder, predecessor to the BFI Film Fund). Iain Canning, one of the film's producers, said it "wouldn't have been made without the UK Film Council" as "they occupied a place within the finance plan that nobody wanted to inhabit". His sentiments were supported by another producer, Emile Sherman, who stated that "without government subsidy around the world, films like The King's Speech wouldn't get made".[19] The film went on to earn £419 million at the global box office and remains the best performing UK independent film ever.[20]

- **Production budgets can rarely be reduced to match potential funding if producers are struggling to close financing,** due to underlying costs pressures and, more importantly, the attractiveness of the package. Reducing a project's budget requires significant changes to the script ambition or above-the-line talent (e.g. director, actors) which in turn makes the package less marketable upfront and reduces international sales interest, undermining any existing pre-sales arrangements and ability to secure funding at the same level – thus leaving the producer 'back at square one' in terms of funding and talent casting. Producers are attuned to market rates on budgets and funding levels for a given project, and only pitch films at a level that gives them the best chance of working from both ends.

- **Independent producer activity is disincentivised by being at the bottom of recoupment flows and dealing with risk/issues during financing,** for example producers often engage with first-time film investors (as established players work at higher budgets and in-house projects) but uncertainties tend to exist around their financial security or willingness to invest which can result in restarting the financing process many times, causing delays. Producers also frequently need to defer a significant portion of their overhead and producer fee (i.e. margin on production) to make the risk balance and finance plan viable; this fee is usually not received unless the film enters significant net profit after all investors have recouped, which is rare.

All of these factors make the tax relief incredibly important to the financing of all UK independent films, and make their ongoing viability particularly susceptible to broader changes in the market and the value of film revenue flows.

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[18] The International Film Business: A Market Guide Beyond Hollywood, Angus Finney, 2015
[19] BBC, Oscars 2011: Film Council basks in King's Speech glory, 2011
[20] BFI Statistical Yearbook, 2019/2020

2.3 The market has undergone significant recent changes in several areas, creating uncertainties for potential independent film financiers

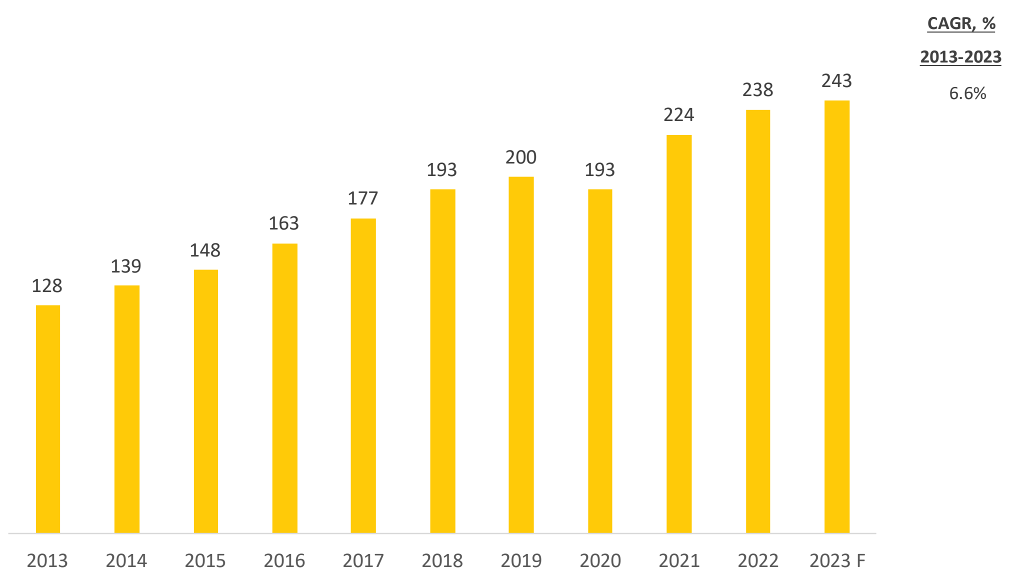
The outlook for independent films is under increasing pressure from long-term trends, in the wider audiovisual sector and the film market itself, and from accelerated market developments driven by the pandemic. These may reduce the expected performance of certain film projects, and certainly increase market uncertainty which affects distributors' and investors' risk appetite and willingness to invest in independent film. We cover each area of market changes, which are generally making it more difficult for producers to finance and greenlight productions, below.

2.3.1 Long-term macro-factors in the wider UK audiovisual market

The dynamics of the overall UK audiovisual market, from viewing behaviour to competition between services, have changed significantly over the past decade – while these macro-trends have enhanced consumer choice and driven investment into production via overseas content, the increasing globalisation of content also presents challenges to existing business models, which may begin to curtail choice and investment in certain areas, particularly domestic film, over time.

Perhaps the most notable change in the sector has been the rapid rise of SVOD services, first through services like Netflix and Amazon Prime Video gaining significant market share by offering a new means of accessing extensive catalogues of content, and subsequently growing investment in original programmes. The launch of major new SVOD services by US studios (e.g. Disney+, Paramount+) more recently has continued this growth trend and intensified competition around original content, driving overall global content spending up to $238bn in 2022 (**Figure 2**). While US scripted series remain key for the major SVOD services due to their general popularity and global scalability, budgets are now branching out to other genres and international commissions to drive subscriptions in different territories.

Figure 2: Global content spend, TV and film, 2013-2023 (F), $ billion



Source: Ampere Markets - Content, Oliver & Ohlbaum analysis

Meanwhile, video sharing platforms like YouTube and TikTok have grown as distribution routes, for both professional and user-generated AV content, and increased the popularity of short-form video content. This has led to a shift in overall viewing habits as consumers, and younger demographics in particular, have transitioned towards watching online, on-demand, and on smaller screens.

On the other hand, changing viewing behaviour has affected revenues for established commercial TV broadcasters. TV advertising revenues, which drive the majority of commercial content commissioning activity, fell from £5.0 billion in 2015 to £4.6 billion in 2021,[21] reflecting a long-term slowdown which was temporarily exacerbated by the economic impact of Covid-19. The growth of broadcaster VOD advertising has not yet offset this loss, with total broadcaster revenues from advertising down in real terms from £5.2 billion in 2015 to £4.8 billion in 2021 including VOD.[22] BBC licence fee funding has also declined from £2.5 billion to £2.4 billion over the same timeframe.[21] Broadcaster content budgets are being stretched as a result, especially after taking inflation of production costs into consideration, forcing them to make difficult decisions about which types of content to prioritise to protect audiences, output volume, and returns.

This overarching trend is particularly important for the British production space. First, UK broadcasters are key supporters of UK independent film – in terms of providing production finance and in secondary rights value through purchasing films for TV broadcast and for their VOD players. BBC Film and Film4, associated with the BBC and Channel 4 respectively, are two of the largest public funders of independent film in the UK. These film units invest and take creative risks on films the commercial market is less likely to support, such as projects from new filmmakers or based on difficult issues where the commercial opportunity is less clear. Film4 has a blended slate backing both new filmmakers and more commercially skewing projects by established filmmakers. Between 2011 and 2021, BBC Films and Film4 invested in 11 per cent of all UK independent films, with these titles accounting for nearly 20 per cent of overall spend on independent film at £888m.[23] However, funding from these sources has been relatively flat since 2016 – because broadcaster budgets are under pressure, leading to a re-prioritisation of spend across their activities, and public film funds rarely see significant return on investments, especially where they are supporting riskier projects or new filmmakers and due to taking softer positions in recoupment flows on eligible projects – and are unlikely to return to growth as things stand. This outlook is similar for the other significant public funder in the UK – the BFI – which recently announced a £7 million per year decrease in production and development support in their new 10-year strategy due to a decline in National Lottery funding.

Secondly, broadcasters are traditionally the biggest investors for UK independent production companies within TV, and this remains the case despite current trends.[24] However, broadcasters are having to invest to transition consumers and advertisers towards digital over time, as well as recovering from the pandemic and current economic turbulence. This may influence broadcaster spend on UK film over time, as well as its ability to find space on screens, as they re-prioritise squeezed budgets to support the transition of their core business. Tangentially, a notable number of UK independent film producers are also active in TV production, which is usually much more profitable and underpins the overall health of the company enabling them to take on the risk associated with film projects. Reduced broadcaster TV commissioning therefore also affects the overall health the production landscape for film as well, though many TV producers are offsetting losses in local commissioning by increasing their activity with international buyers. The activity of global services and local content commissioners as such are complementary, and maintaining a healthy ecosystem for both will be vital to ensure consumer value, the UK production sector, and delivery of policy goals remains robust.

[21] AA/WARC Advertising Expenditure Report; TV spots and sponsorship revenue
[22] AA/WARC Advertising Expenditure Report; adjusted for CPI from 2015
[23] British Film Institute Response to: OFCOM consultation Small Screen: Big Debate, 2021
[24] Oliver & Ohlbaum, Pact TV Production Census 2022

2.3.2 Trends in the film sector are putting pressure on budgets and traditional value

There has been a decline in the traditional sources of film value over the past few years which has weakened commercial financing available for independent films and put pressure on the film industry to find new ways to generate revenue and engage with audiences. Several factors have put pressure on film revenues across the value chain, including competition from new content services alongside changes to audience behaviour and expectations around content availability, which we will cover in turn here.

Box office revenue from a theatrical cinema release, both domestic and in international territories, continues to be the primary source of value for most independent films, representing a significant portion of overall gross revenues. A cinema release is also critical in driving the value of secondary window rights, by building awareness through the theatrical marketing campaign and establishing a film's credibility and prestige, which can make it more attractive to distributors in other markets and TV/VOD content buyers. In addition, producers and talent can benefit from a film's box office presence establishing their reputation.

However, the theatrical landscape is evolving, resulting in depressed values for independent films over their lifetime.

First, it has generally become more difficult for independent films to secure access to cinema screens, with blockbusters and existing IP taking a large share of box office takings and cinema activity. BFI figures showed that blockbuster sequels and spin-offs made up nine of the top 10 biggest films at the UK and Ireland box office last year, and the US studios typically negotiate strong guarantees around the volume and prominence of screenings of their films in exhibitor agreements. While this acts to serve the high demand for this content, it limits the exposure and revenue opportunity for lower budget features – as well as consumers' ability to see them – even though they serve the aforementioned policy goals around cultural and skills value.

Cinemas are under pressure as well, and this has developed much faster since the pandemic as we will discuss later. Cinema admissions were relatively stable pre-pandemic, but the dominance of US studio output at the box office has created a reliance on their output, which could affect distribution negotiations and create a significant downside risk for the exhibition sector if the studios move their films out of cinemas and exclusively onto their own VOD services. The ongoing health of the global cinema sector, and its ability to screen a wide range of content, is of course vital to the independent sector in terms of direct revenue and enhancing the visibility of individual films.

Theatrical release periods are shortening and windows across the value chain are converging, such as VOD releases happening simultaneously with rental and TV windows. This flows from the business models of, and current strong competition between, global SVOD platforms and integrated US Studios. On the one hand, the rise of global streaming platforms has created new opportunities for independent and international films to reach a larger global audience through earlier high-profile VOD releases, with some films embracing 'day-and-date' VOD releases (either via premium rental or SVOD services). On the other hand, the convergence of windows reduces the amount of time to generate box office revenues and build word-of-mouth and limits distributors' ability to maximise value from each sequential window separately, which could affect long-tail revenues. One area of concern for larger independent films would be if an initial VOD release diminishes the value usually held in later windows, i.e. first pay TV or non-premium VOD. Shortened theatrical windows may also be affecting film selection and scheduling in cinemas as it could drive an increased number of blockbuster showings to optimise ticket sales within the restricted period of exclusivity; in a survey of cinemas in 2021, 45 per cent of respondents said that reduced windows impacted their programmes.[25]

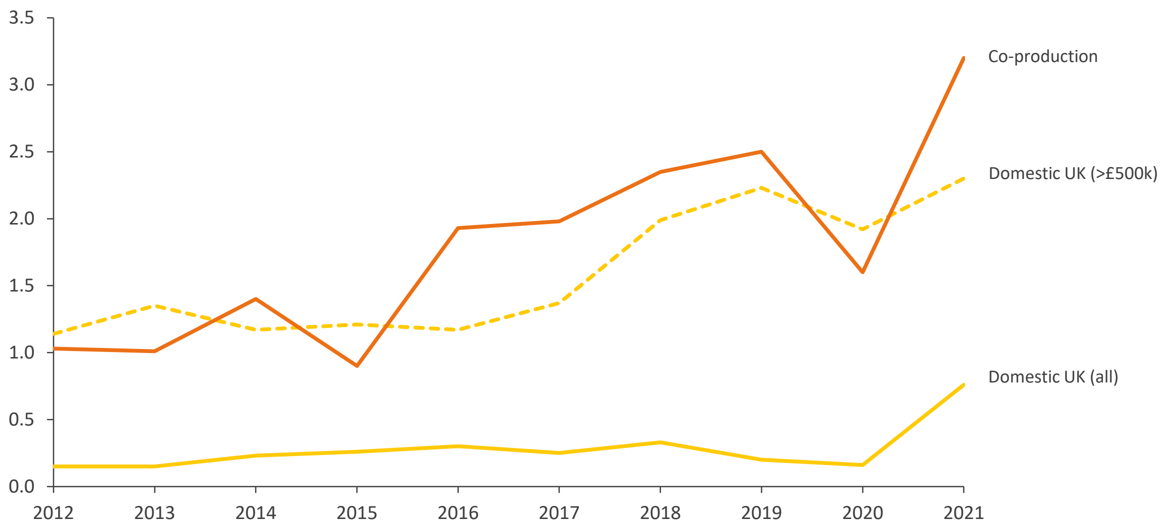
[25] The continuing impact of Covid-19, Independent Cinema Office, 2021

A report by Olsberg SPI for Pact found that there was a decline in the international market value of a UK independent film of about 50 per cent on average from 2007 to 2015,[26] largely due to weakening secondary rights value – both due to the factors above and the long-term slowdown in physical media and TV sales, which have not been fully compensated by growth in digital video. Highly cautious international buyers are offering lower guarantees and acquiring fewer films as a response to an overall global decline in the value of later window rights, particularly as the cost of marketing films rises ever higher.

Distributors are also increasingly cautious around the theatrical prospects of certain films given difficulties launching films and securing screens for wider releases. As such, the market is more focused on surer packages (e.g. genre films, or films with globally recognised talent) and other types of projects are much more difficult to finance. This has led to slight gap in the level of challenges across budget levels, with 'mid-ranged' independent films ($4-8 million) facing greater difficulty finding finance than larger films ($10-$15 million) with clearer commercial prospects or lower budgets which can rely more on domestic partners.

The independent film sector has also faced significant cost pressures over the past decade, which has compounded the weakening sales outlook and made bringing the two ends together to secure financing even more difficult. As **Figure 3** shows, the median budget for UK films roughly doubled between 2012 and 2021 across multiple categories of independent film – both domestic (especially if excluding smaller budget features below £500k) and co-productions. This has in part been driven by the dramatic increase in inward investment film production spend, rising from £669 million in 2012 to £1,742 million in the latest figures for 2022. This has generally led to inflation of budgets as productions compete for creative talent and production capabilities.

Figure 3: Median budgets of UK film productions by type, 2012-2021, £ million



Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

Furthermore, in recent years above-the-line talent (key creative personnel such as actors, directors, writers that are vital to any project) have become increasingly in demand for high-end television (HETV), which offers longer runtimes – thus strong job security and an opportunity to explore extended or more complicated stories. As a result, it has become increasingly difficult for independent filmmakers to compete for and secure globally-recognised talent which can drive international sales interest, especially as many HETV series are funded by global studios or SVOD services – which can afford TV budgets more akin to studio-backed film. This is of course beneficial for the exposure

[26] The State of the UK Independent Film Sector, Olsberg SPI, 2017

of this generation of UK talent and driving increased salaries for current UK crews as well, but care must be taken to address the challenges it creates for independent film, as that is where the next wave of UK talent and crews can cut their teeth.

The challenges facing independent films' ability to secure top talent are also being exacerbated by the market transitioning away from mid-budget features (i.e. $20-$60 million budget) – with US studios placing greater focus on big-budget blockbusters with greater theatrical certainty, affecting the traditional top-end range for independent films. This has led to a polarisation between high- and low- budgets, and limited the ability of producers to finance ambitious mid-range projects, thus leaving top talent and crews little space to grow in the independent sector after developing their craft there. As such, talent often now gets drawn to HETV to take the next step in terms of project size – this, again, is beneficial for the wider UK screen economy and talent market, but means that the independent sector sees little direct economic benefit from their contribution to UK talent and skills development, creating limited incentive to invest in independent film and skills – and this then contributes to the ongoing skills shortage issues.

Cost pressures also exist across two other areas – costs associated with developing new projects, and costs associated with sales and distribution.

Development funding – to pay for developing ideas, scripts and a film's initial package – has historically been, and continues to be, an issue given the high-risk nature of early-stage projects and the low likelihood of making returns (development funders usually see very little to no equity position, as this needs to be available to give a chance for finance plans to be viable). Most development funding therefore tends to derive from public funds which can take these creative risks to promote projects with public value, but these funds are limited, leading to fewer opportunities for talented writers and filmmakers to develop their skills and build careers. Competition with HETV has further stretched this area for independent producers, with fewer compelling scripts, ideas, and IP available and generally at higher costs due to acquisition activity in this area. As just one example, Netflix recently acquired the Roald Dahl Story Company, including rights to the author's catalogue, reportedly worth £370 million.[27]

Releasing and distributing films can be an expensive process, particularly for independent films. In order to attract audiences and generate revenue, independent films often require significant investment in marketing and promotion. This can include advertising campaigns, public relations efforts, and social media outreach, among other tactics. Most independent films also require a tour of festivals, both during the financing process to secure pre-sales and after production as a prerequisite to build their profile ahead of exhibitor negotiations to get a theatrical release. Festival appearances can be costly and time-consuming involving travel, accommodation, and time investment from key talent. The festival circuit process also lengthens the active marketing time of a project, which can sometimes be over a year from international premiere to eventual wider release in cinemas.

These marketing activity costs are increasing and this has been compounded by wider inflation, which is having a detrimental impact on many UK sales and distribution companies. Andy Mayson, co-CEO of Altitude Film Entertainment, told Screen Daily in late 2022 that "Paying MGs [minimum guarantees] and acquiring product has become 30% more expensive in the last year". Simon Crowe, managing director of SC Films International, also told the publication that the costs of attending the Rome Film festival and the American Film Market festival "are going to be 20% higher".[28] Distributors and sales agents need to consider these costs into their contractual arrangements, therefore any cost increases will negatively affect the value of their offers to independent producers.

[27] Roald Dahl's family scores £370m golden ticket in Netflix deal, Daily Mail, January 2022
[28] Screen Daily, 'Weak pound rattles UK indie sector as inward investment set to reap benefits', 2022

2.3.3 The pressures have been exacerbated by the pandemic and current economic conditions

The pandemic clearly had a large impact on cultural activities, both their production and exhibition in physical spaces which had to close. Cinema was no different in this regard – causing a significant short-term impact as well as accelerating ongoing trends in the sector as release models and audience behaviour changed rapidly in response.

BFI data on the UK 2022 box office showed total cinema admissions in the UK were 117 million across all films on release in 2022. This is up 59 per cent on 2021, but is still 33 per cent lower than 2019's pre-pandemic total of 176 million – a level which had been stable in the preceding years before the pandemic. Box office revenues show a similar story with gross UK box office takings of £904 million in 2021, significantly up on £307 million in 2020 and £542 million in 2021, but still 28 per cent below the pre-pandemic level of £1,254 million in 2019.[29]

While cinema admissions are recovering, as the content pipeline and audiences' willingness to be in communal spaces re-settles, this is taking time and the global box office is still expected to be below pre-pandemic levels in 2023.[30] This is creating long-term impacts on the sector, and in association the future outlook for independent film, on multiple fronts including:

- **Losses during the pandemic have affected the health of cinema businesses:** cinemas ran at losses during the pandemic and subsequent years, despite significant Government support through the Culture Recovery Fund, with operation costs greater than before if anything (due to costs of Covid safeguarding measures and inflation), while footfall and revenues have taken time to recover. This limits their ongoing financial strength and increases reliance on safer commercial products such as blockbusters. A 2021 report from the Independent Cinema Office revealed the scale of the challenge faced by the exhibition sector – a survey of the body's members, across independent cinemas (chain, charity and for-profit venues), as well as community venues, mixed arts venues and multiplex cinemas, found that 47 per cent of respondents were operating at a loss and unsure when they will return to profit.[31]

- **Older age groups have been more reluctant to return to cinemas, and some of this change in habits may be permanent:** audiences' attitudes towards cinema attendance have been impacted, with older audiences in particular slower to return to cinemas. The Film Distributors' Association's *Entertainment and Attitudes Tracker* found that those aged over 55 were more than three times less confident about returning to the cinema than young adults in 2021. Only 28 per cent of older adults had already or imminently returned to the cinema, half of the 57 per cent of young adults who had already returned. This has carried into 2022, with adults over 55 watching 61 per cent fewer films at out-of-home big screen venues relative to 2019, compared to 29 per cent less for 25-34s.[32] Older audiences are a key audience for independent films, which tend to skew older than blockbusters aimed at young adults, especially for adult dramas which already face more significant funding challenges than genre projects – so the slower return to cinemas in the older demographic is further affecting their viability.

- **There has been a post-pandemic step change in the reduction of standard theatrical windows:** the pandemic expedited the shortening of theatrical windows as US studios tested new release models while cinema openings were restricted and their strategies shifted towards supporting their own VOD positions. Between January and November 2022, two thirds of the 36 exclusive theatrical releases from Disney,

[29] The UK box office in 2022, BFI Research and Statistic Unit, February 2023
[30] Global box office will still fall short of pre-pandemic levels in 2023, says analyst Gower Street, ScreenDaily, December 2022
[31] The continuing impact of Covid-19, Independent Cinema Office, 2021
[32] Watching films in the UK: How often, how many, and how?, BFI, February 2023

Paramount, Universal and Warner Bros had a release window shorter than seven weeks.[33] This is in contrast to the length before the pandemic; in 2018, the average window was 19 weeks in Europe and 12.3 weeks in the USA. Overall, theatrical releases have shortened by over 10 weeks since 2012.[34] The role of cinemas and audience expectations around windows have implications for independent film models and investors' risk appetite, as discussed previously.

- **Disruption to production affected content pipelines and available production capacity:** the lag in the production pipeline created by the forced pause in activities during lockdown, and subsequent uncertainty in investment, also impacted cinemas by limiting the amount of content available, but this has recovered ahead of audiences. 381 films were released theatrically in the UK and Ireland in 2020, and 438 in 2021; this jumped up to 834 releases in 2022, above pre-pandemic numbers of 764 in 2019.[35] The backlog of production that re-started after lockdown also increased competition for studio capacity and production crew, playing a role in industry cost rises.

More recent economic factors have also affected the film production sector, with global economic factors driving an increase in the costs of labour and materials as well as continued shortages in the supply chain. Production costs have also increased due to the continued implementation of Covid safety measures and associated insurance. According to the *Economic review of independent film*, Covid protocols have reportedly added 10 to 20 per cent to production budgets for independent films with already tight and limited finances.[36] This has increased the budget for a project of the same scale over the last few years, making it ever more difficult to close financing with potential sales and revenue likely moving in the other direction over the same period.

2.3.4 The challenges for independent film are shared across Europe, but the UK sector is potentially more at risk

These challenges are not isolated to the UK sector; other European film territories have also experienced many of the same pandemic-induced challenges and share similar concerns about their respective indie sectors.

This was highlighted in the 2022 *Nostradamus Report*, an annual report published by the Göteborg Film Festival, which evaluates the state and outlook of the screen industries through interviews with a variety of industry stakeholders and experts. The report found that pressures on public investment and the emergence of all-rights deals, are affecting European funding models (which are necessarily different to the US due to much smaller domestic markets) and independent production's ability to monetise a film across platforms. While recognising the benefits of new streamer investment and the value of all-rights deals where appropriate, it concluded that "enabling the long-term sustainability of especially the independent production landscape is a challenge the industry must solve together"[37] across new approaches to public funding support, production models, and ways of working between consolidated US players and the independent sector.

Like the UK, EU countries have set up tax incentives to support their domestic screen sectors. These often complement wider public support for their film industries.

Many EU countries provide subsidies to cinemas to ensure that a diverse range of films are shown to audiences. For example, in France, the CNC provides funding to cinemas to support the distribution of French and European films. In Spain, the Ministry of Culture and Sport provides financial support to cinemas through the Film Support Fund

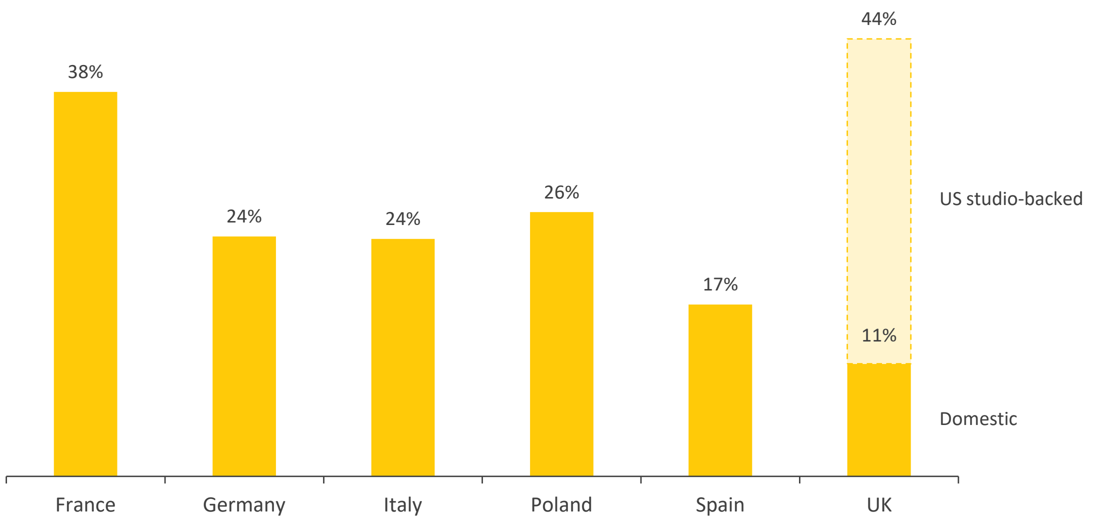
[33] Ampere Analysis: How are studios balancing theatrical exclusivity with early SVoD premieres? 2023
[34] European Audiovisual Observatory: The theatrical – TVOD window A sample analysis, 2019
[35] The UK box office in 2022, BFI Research and Statistic Unit, February 2023
[36] Alma Economics: An Economic review of independent film, 2022, p5
[37] Nostradamus Report: Imagining a Sustainable Industry, 2022

(Fondo de Apoyo al Cine). The fund provides subsidies for the promotion and distribution of Spanish films, as well as support for arthouse cinemas and film festivals. In addition, the Spanish Institute of Cinematography and Audiovisual Arts (ICAA) offers subsidies for the screening of Spanish films in international festivals. In Germany, the Federal Film Board (FFA) provides financial support to cinemas through its "Support for Cinema Program" (Kinoprogrammpreis). The program provides subsidies for the promotion and distribution of German films, as well as support for arthouse cinemas and film festivals. In addition, some German states, such as Berlin and Brandenburg, offer their own cinema subsidies to support local film culture.

Levies are also present in the European film financing ecosystem – while we do not suggest that this is an appropriate approach for the UK sector in this report, we note them here as part of the overall support for independent film in some other countries. Between 2010 and 2014, taxes and levies accounted for 42 per cent of the total income of European national and sub-national screen funds.[38] Many countries in the European Union have implemented film levies, which are fees or taxes charged on cinema tickets, DVD sales, or other forms of audiovisual distribution. In France, a 10.72 per cent tax is added to cinema tickets, and the revenue is used to support the film industry, including film production, distribution, and exhibition.[39] In addition, a levy is imposed on TV channels, broadcasters, and internet service providers to support the production and distribution of French films and TV shows. In Spain, a 10 per cent tax is charged on cinema tickets, which is used to support domestic film production.[40]

Furthermore, independent domestic films in many European markets are more culturally protected than in the UK, particularly due to language differences as well as talent and narrative arc and style. **Figure 4** shows that the market share of domestic films, excluding those backed and controlled by US studios (e.g. Avengers: Endgame, Jurassic World: Dominion), is significantly lower in the UK than other major European territories.

Figure 4: Market share of cinema admissions for films of national origin in select countries, 2017-2021, %



Note: UK studio-backed split based on box office data
The scale of US studio-backed films within the totals for other territories were not estimated, but these are less common compared to UK activity
Source: European Audiovisual Observatory, BFI, Oliver & Ohlbaum analysis

While US studio films still take a significant share of box office in all of these territories, especially where dubbing is commonplace and widely accepted (e.g. Spain, Germany), the strong performance of domestic films relative to the

[38] European Audiovisual Observatory: Public financing for film and television content, 2016
[39] Cineuropa: A new lease of life for the cinema tax credit
[40] PwC: Spain Value-added Tax

UK reflects that their national output can carve out and serve a complementary niche to US content more easily. Initiatives to support local releases in these territories, as mentioned above, also play a role.

On one hand, this benefits the international prospects of UK films, compared to other European domestic language content, due to language, recognisable talent and a more familiar narrative rhythm. However, it also means UK films have a less assured commercial space and opportunity in the domestic market, and for smaller independent films this is critical as domestic distribution and performance usually underpins a large portion of financing and drives international sales interest. This can make the UK independent sector more 'feast-or-famine' and risky than in other parts of the world – successful hits can become global phenomena while other films struggle to land domestically – which again affects investor's risk balance and willingness to invest.

Ultimately, European markets, and the UK, have to operate very differently to the US. The US has a very large domestic market, which allows for economies of scale in the production and distribution of content. This means that the cost of producing and distributing content can be spread across a larger audience, recouping a higher share of costs from the domestic market, and this scale helps its content to cut through internationally at an attractive rate relative to local films in other territories. In addition, the US has a strong position in the global media industry, with a large number of successful studios, networks, and streaming services. This allows them to negotiate lower distribution costs, making it more cost-effective to distribute content in the UK and other European markets than for local businesses.

2.4 The benefits generated by other public schemes are also supressed by these challenges to financing

As discussed in this sections 2.1 and 2.2, UK independent films serve multiple important policy aims and tax relief plays an increasingly important role in their viability due to difficulties in the financing process and ongoing market challenges.

Other public funding schemes are an important tool for supporting the film industry as well, but they alone are not a comprehensive solution to finance deficits and serve different purposes to tax relief. Firstly, several schemes only focus on specific stages of production, namely the development stages, and so these funds cannot be spread across the whole project. Later stages of production, such as post-production and distribution, require significant resources and funding, and without adequate financing, films may not be completed or may have to compromise to secure funding. Other areas of public funding support separate areas such as distribution and exhibitor initiatives, which may in turn be affected if challenges in financing independent films limits the quality, range, and broader audience awareness in the projects which they can support.

Public production fund budgets are also under pressure, BBC Film and Film4 budgets declined in real terms since 2016 (following a 66 per cent boost to the latter in 2015/16) while BFI announced a £7 million per year decline in funding plans this year, meaning support is stretched and trying to do more with less.

This can have a knock-on effect on the size and self-sustaining ability of the film industry as public funds have to make difficult decisions as available funds decline – e.g. either maintaining per-film funding levels while supporting fewer projects or spreading thinner investments across a similar range of films. Combined with the ongoing difficulties in the financing of independent films, with financial gaps growing as costs rise and sales value declines, the value and impact of public support may diminish.

This will limit the ability of the industry to generate revenue and reinvest in future productions, as well as potentially reducing the volume and range of creative UK output, thus impacting UK value and consumer choice. The BFI and public service broadcasters (PSBs) may seek to re-invest, but this can only go so far in supporting the film industry as their resources are limited and other finance partners tend to take priority in returns.

In this context, tax reliefs are ever more vital to independent financing – providing a guaranteed financial flow in softer return positions, which public funds will be less able to fill, as financing difficulties and gaps in independent finance plans continue to grow. New policies to support the independent film sector are best placed focusing on these financing challenges to bolster overall market viability and support the policy benefits delivered by public funds and independent film.

Gaps in provision and investment levels demonstrate market failure

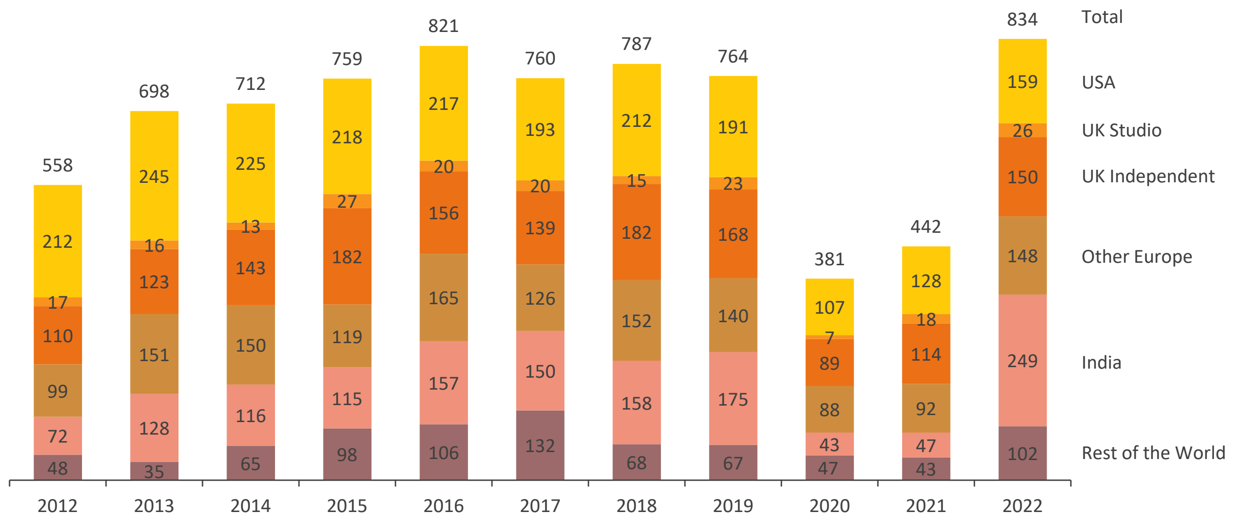
3 Gaps in provision and investment levels demonstrate market failure

While changes to market conditions take some time to affect output statistics in the film sector given the long multi-year timeframes from development to production and release, weakening domestic film provision is becoming evident in some places amid the starker effects of the pandemic and pointing to continued market failure. This is in contrast to the decade after the introduction of FTR in 2007, which saw growth in the UK sector, showcasing how tax relief support can drive the delivery of economic, audience, and policy value, when the level of relief is tailored to the market reality. In this section, we look at provision and spend levels in turn, as well as the associated revenue trends defining films' value in the market.

3.1 Historic indie film releases have been strong, but this hides a stark recent decline

As **Figure 5** shows, the number of UK independent theatrical releases grew to a peak of 182 in 2015 before remaining fairly consistent in the years before the pandemic with some outliers, up to 2019 when there were 168 independent releases. However, all film releases were badly affected by the Covid-19 pandemic. Theatrical releases of independent productions fell by 47 per cent between 2019 to 2020, from 168 releases to 89, the first time in a decade there have been under 100 independent theatrical releases in a year. Total release numbers recovered in 2022, but the number of UK independent films remained below 2018 and 2019 levels.

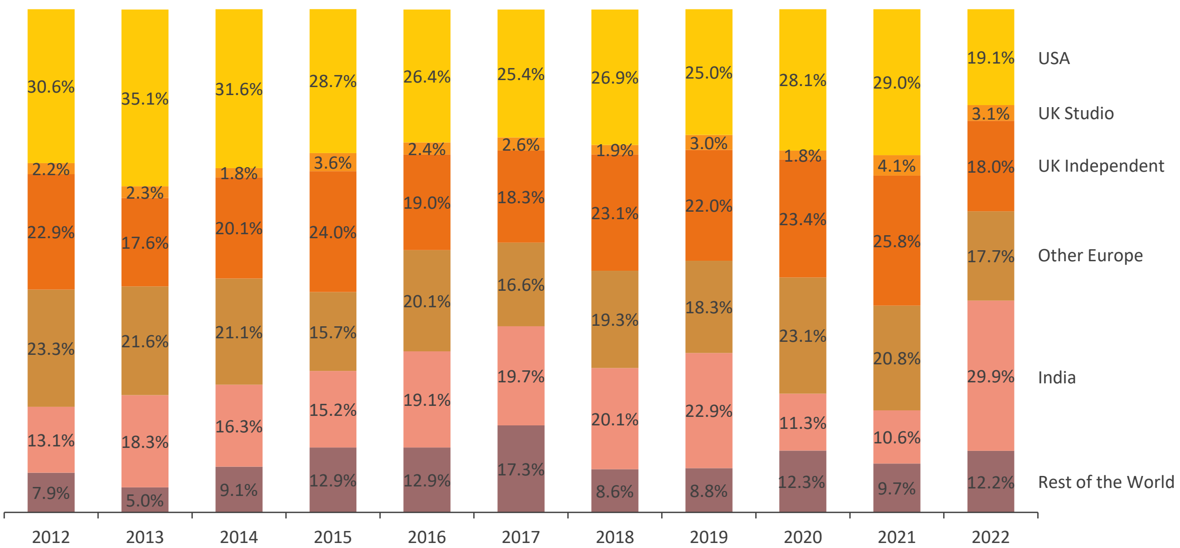
Figure 5: Country of origin of films released in the UK and Republic of Ireland, 2012-2022



Note: UK studio-backed means a film that was wholly or partly financed and controlled by a major US studio but which qualifies as British under the cultural test for film
Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

This output of independent films has held a relatively consistent share of films released annually in the UK, and this trended up slightly during the pandemic, as shown in **Figure 6**. In 2021, UK indie films represented 25.8 per cent of films released in the UK, the highest share across the past decade, in part due to the impact of the pandemic on US studio content pipelines and release strategies which potentially created more room for other content in cinemas. The share of UK indie films subsequently fell in 2022 to 18.0 per cent of theatrical releases, below pre-pandemic levels, due to an increased number of foreign films being released in UK cinemas.

Figure 6: Release share by country of origin, 2012-2022

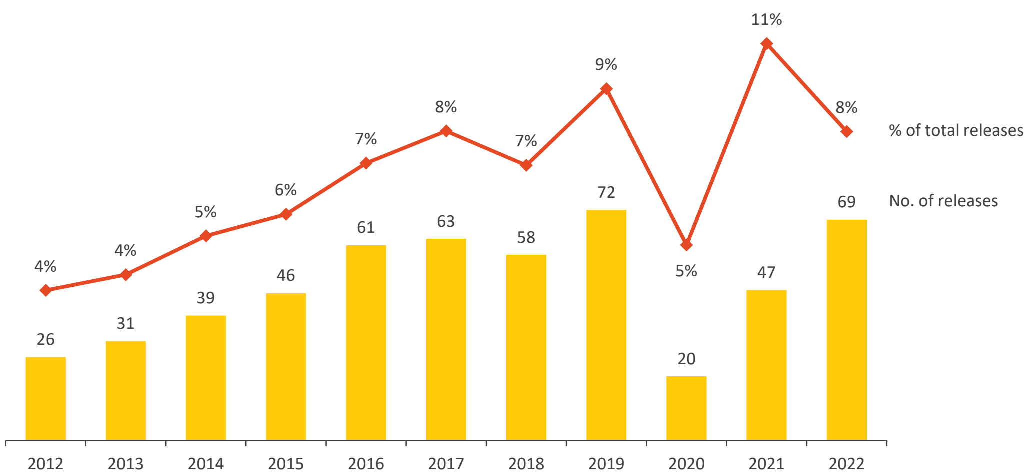


Note: UK studio-backed' means a film that was wholly or partly financed and controlled by a major US studio but which qualifies as British under the cultural test for film
Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

However, while this trend in share looks positive, the post-Covid landscape is less bright for UK independent film both in absolute release numbers and considering the underlying factors. The top distributors of UK indie film including Lionsgate, Universal, and StudioCanal were back to pre-pandemic activity levels in 2021, but the number of distributors releasing independent film is trending downwards. After the number of indie distributers rose from 71 to 75 between 2018 and 2019, the pandemic saw numbers fall to 54 in 2020 and – instead of bouncing back – reach the lowest level in several years of just 50 indie distributors in 2021. Specialist labels of UK-specific small releases are the most likely group to have been impacted.

The number of wide release films, defined here as titles which were screened at 500 cinemas or more at their widest point of release, is also increasing. These are usually US studio blockbusters which occupy a significant share of screens on release due to their commercial appeal, but it is important for other smaller titles to have screen time at cinemas. The number of wide release films has grown from 26 in 2012 to 69 by 2022, and their share of total film releases jumped from 3 per cent to 8 per cent in the same period (**Figure 7**).

Figure 7: Number and share of films with a widest point of release of 500 sites or more, 2012-2022



Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

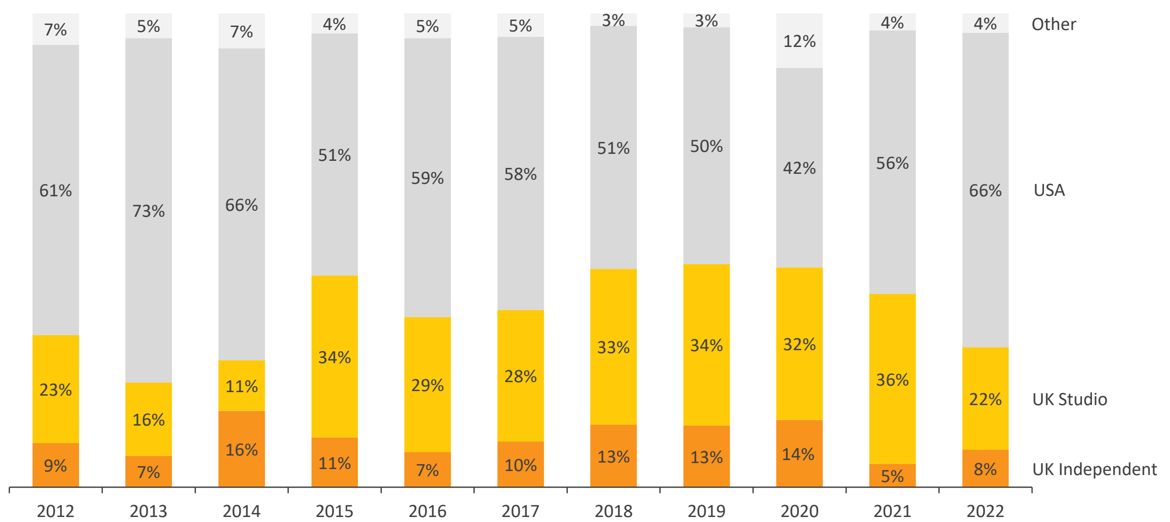
While this growth has in part been driven by the growth in the number of cinemas in the UK, from 918 sites in 2016 to 1,080 by 2019, it is also reflective the increased presence of big blockbusters in cinemas and a polarisation of film releases between nationwide distribution and smaller titles in a limited number of cinemas – with the share of mid-range releases (e.g. in 200-500 cinemas at their widest point of release), which mid-budget studio fare and top-end independent films traditionally occupied, falling away from 18 per cent of all releases in 2011 to 7 per cent in 2022. Ultimately, this is likely to make it more difficult for independent films to secure strong theatrical releases at existing investment levels, affecting their ability to build awareness, serve audiences and drive value – which in turn will impact box office performance, especially as seen in recent years.

3.2 UK independent films are being squeezed at the box office

While UK indie represents a sizable portion of releases; studio-backed films account for the majority of box-office and wide releases, with US and UK studio films taking a 92 per cent share of domestic box office in 2021.

As **Figure 8** shows, UK independent films have captured a fairly consistent share of the domestic market over the last decade, with some fluctuations as occasional hits create outliers, capturing between 6.6 and 16.1 per cent of the market. While overall the UK film share of the UK box office (UK studio and independent films combined) has remained stronger over time, capturing a high of 40 per cent of the UK box office in 2021, this is primarily driven by studio films, such as Marvel films made in UK & USA, whose production has been drawn to the UK by our ecosystem of skills and credits; not culturally specific indie films.

Figure 8: UK & Ireland box office share by country of origin, 2012-2022



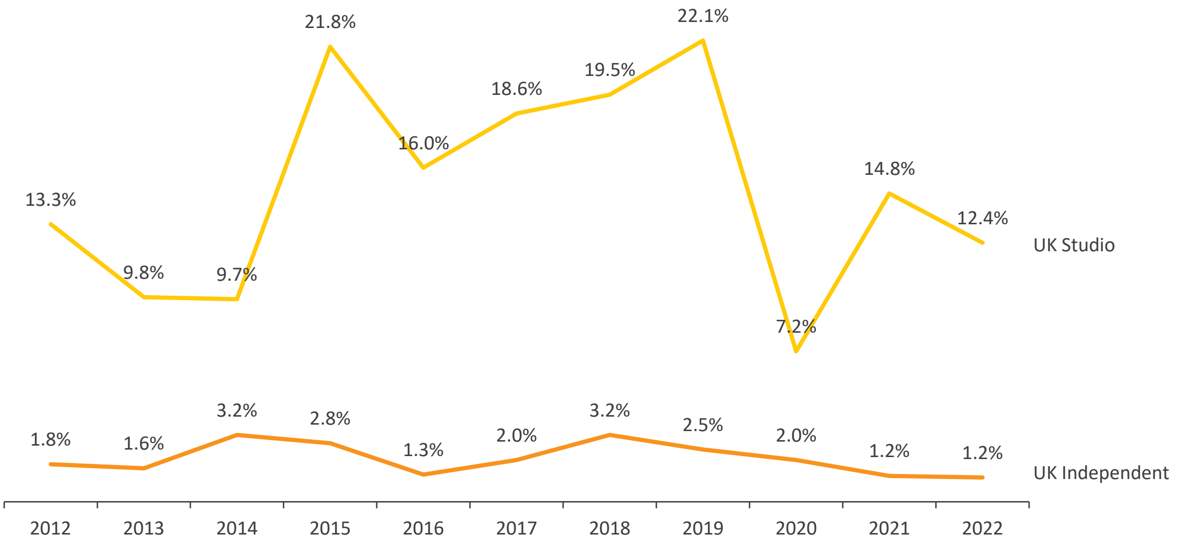
Note: UK studio-backed' means a film that was wholly or partly financed and controlled by a major US studio but which qualifies as British under the cultural test for film. The split of non-UK share, between US and Other countries of origin, in 2022 is unknown

Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

Of greater concern, however, is that post-pandemic the market share of UK independent films has fallen considerably, down to just 4.9 per cent in 2021 and 7.9 per cent in the latest numbers for 2022 (both beneath the 11 per cent average for UK independent across 2011 to 2019), whereas UK studio and American releases have generally grown their respective shares. As discussed before, UK independent films share of total releases remained stable in 2021, leading to a disparity with box office performance and a drop-off in value per film. It is not yet fully clear whether this is a temporary blip due to the pandemic and timing in the UK content pipeline, or if it is an early sign of a downturn for UK independent films due to market challenges.

In terms of the worldwide box office, UK film – both studio-backed and independent – had seen growing success before the pandemic. As seen in **Figure 9**, UK studio-backed film had grown its global share by eight percentage points, from 11 per cent of the worldwide box office across 2012-2014 to over 20 per cent in 2017-2019. Independent UK film has seen less growth, with fluctuations leading to a peak of 3.2 per cent in 2018 ahead of the pandemic.

Figure 9: UK film share of the global box office, 2012-2022



Note: 'UK studio-backed' means a film that was wholly or partly financed and controlled by a major US studio but which qualifies as British under the cultural test for film. We have rebased global box office shares in recent years to maintain consistency across the reporting period
Source: BFI Statistical Yearbook, Oliver & Ohlbaum analysis

However, UK films' worldwide performance in recent pandemic-affected years has shown a similar pattern to domestic box office. While UK studio-backed films quickly recovered slightly to a 14.8 per cent share of the worldwide box office in 2021, in line with pre-pandemic share, UK independent films have suffered and continued to decline to 1.2 per cent of the worldwide box office in 2022, its lowest share in the last decade (**Figure 9**).

The share of top 20 UK indie films each year had trended upwards pre-pandemic, rising from 8 per cent of total UK box office revenues in 2017 up to 11 per cent in 2019, before declining in line with the overall takings of UK indie films. The top 20 independent films have continued to increase their share of the total independent UK film box office though. In 2018 and 2019, the combined box office for the top 20 UK indie films accounted for 77 per cent and 87 per cent respectively of the total box office for all independent UK films. This rose to 92 per cent of the independent market by 2022. This means there is a very small amount of box office secured by the rest of the UK independent sector in recent years.

Smaller releases are also becoming slightly more dependent on opening weekends at the domestic box office; takings in the first weekend represented 39.1 per cent for films which finished with £0.2-£1.0 million UK box office in 2019 (up from 35.5 per cent in 2011) and 43.9 per cent for films below £0.2 million (up from 38.5 per cent). This reflects both the shortening of windows and challenges in securing cinema showings for smaller independent films amid competition across titles; also putting pressure on marketing campaigns to deliver value and awareness in a shorter period.

3.3 The availability of UK films on TV and VOD services is also under pressure

The distribution of UK films on mainstream TV services is vital to both the film industry, as a significant source of value in the windowing chain, and to UK audiences, providing widespread access to UK films at-home which the British public values. In a past study of UK adults, 59 per cent agreed that too few of the films shown in the UK are British thus highlighting the demand for this content.[41] Without a strong provision of UK film on TV and VOD services, independent films see fewer returns from broadcast licensing fees, weakening their financial position further, while consumer choice and ability to see British life reflected on screen is also diminished.

As explored in the following section, the prominence and volume of UK film output on TV and broadcaster services has diminished in recent years. This trend is partly related to the weakening state of independent film production, but has mainly been driven by changes in broadcaster strategies and spending priorities in response to market trends. While UK film provision on global SVOD services has grown, alongside the overall transition in consumer viewing time towards on-demand, these services play a complementary role in the market and it may not offset the decline on local broadcaster services, especially in terms of prominence given to UK film.

3.3.1 Overall film provision on mainstream TV is under pressure

Before the pandemic, the total volume of film on national television was steadily decreasing. A presence on high-reach TV broadcasters is important to the provision of independent film both for the licensing payments, which are a small but valuable part of film value and funding, and to help engage a broad audience through wider availability, especially for smaller films which may have been released in a limited number of cinemas.

As **Figure 10** shows, the number of films broadcast on the main five PSB channels (BBC One, BBC Two, ITV, Channel 4, Channel 5) – the highest reach channels in the UK – fell by over 50 per cent between 2012 and 2019. Similarly, there has been an overall decline in the proportion of programming time allotted to film during the period, with the average share for terrestrial channels as a whole decreasing from 10 per cent in 2012 to 5 per cent in 2019.[42] Despite this, the annual reach of films has remained broadly consistent over the past decade, showcasing continued demand for this content despite a fall in provision.[43]

Public service broadcasters are facing pressure due to flat revenues, which have decreased in real terms. While they are trying to maintain their delivery of public service content and services, the stretched content spend is putting a strain on their budgets. One area where PSBs have been protecting their investment is in key TV commissions, which are popular programmes that are essential to their public service remit. Films, in particular, have fared worse as a result of these pressures, as broadcasters prioritise TV commissions over film acquisitions. Film can also be more difficult to schedule than TV programmes due to their long, varying durations and stricter advertising break limitations.

Within this, the provision of UK films on PSBs also dropped between 2012 and 2017, though their share of PSB film transmissions increased over that time with PSBs cutting non-UK film content at a faster rate – potentially due to both public purpose and audience demand drivers. UK film volumes have since recovered, from 337 UK films in 2017 to 390 in 2019, and increased dramatically over the pandemic, up 34 per cent to 524 in 2020, as broadcasters relied on acquisitions to fill schedules while new productions were delayed.

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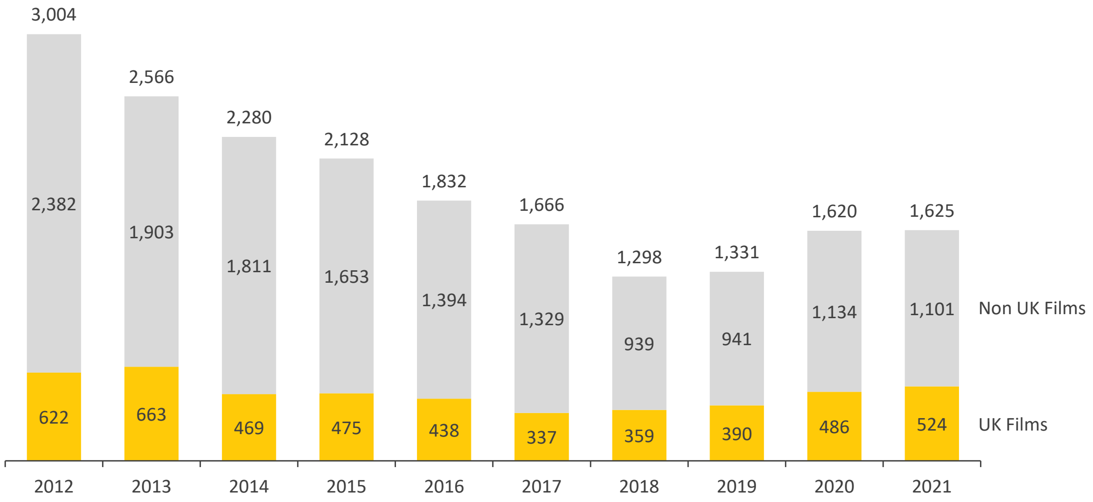
[41] BFI, Opening Our Eyes: How film contributes to the culture of the UK, 2011
[42] BFI Film on Television, 2021, p.06
[43] BFI Statistical Yearbook, 2021

Figure 10: Feature films broadcast on terrestrial television (PSB channels), 2012-2021



Note: Includes repeat broadcasts of individual titles. Split of UK/non-UK films has been estimated for 2010-2016 based on revised totals
Source: BFI Statistical Yearbook, Oliver and Ohlbaum analysis

The BBC has traditionally been the biggest contributor to the provision of UK films across the PSBs, accounting for 50-60 per cent of film transmissions across 2018 and 2019. This became ever more apparent over the pre-pandemic period with the number of UK film transmissions in decline between 2012 and 2019 on Channel 4 (32 per cent decrease) and ITV (39 per cent) – suggesting that the advertising-funded commercial PSBs find it more difficult to support UK film content while balancing an economically optimised mixed-genre network channel schedule. Although Channel 5's output of UK films increased dramatically from 17 transmissions in 2019 to 134 in 2020, this was likely due to the pandemic and much of these were historic releases – only 31 per cent of films on Channel 5 were from the last ten years, compared to 61 per cent on the BBC and 81 per cent on Channel 4.

However, this recent uptick in the raw volume of film provision, largely driven by the effects of the pandemic, hides a change in usage of UK film within the schedule. While the PSBs still provide important support for UK independent film, including the BBC British Film Premiers season late night on BBC Two, broadcasters are changing their overall mix to optimise budgets. This has seen Channel 4 regularly airing US and studio-backed films in their most prominent film slots (9pm on Saturday night) to optimise audiences and economics in competitive schedule slots and help to cross-fund PSB commissions. Many smaller films are now primarily acquired for PSB VOD services possibly in tandem with off-peak broadcasts – with the volume of films on main PSB channels falling by 33 per cent in peak between 2015 and 2022, compared to a decline of 12 per cent in daytime.[44] Arguably BVOD allows more specialist or niche content to find its audience, although being surfaced in menus and recommendations is likely important to attract potential viewers and support long-term demand.

Moreover, broadcasters are increasing their use of heritage and older titles to bolster their daytime output. In 2020 the overwhelming majority of films broadcast on the UK PSB channels were over 10 years old, and over 40 per cent of films broadcast on BBC Two (47 per cent), Channel 5 (46 per cent) and ITV (42 per cent) had been released theatrically at least 20 years before. On BBC Two in 2020, 41 per cent of films were over 50 years old. The broadcast of films under 5 years old fell considerably from 2019 to 2020, dropping 61 per cent on BBC 1, 22 per cent on Channel 5, and 20 per cent on BBC Two. This shift was related to the Covid-19 pandemic, as broadcasters needed to fill scheduling gaps with acquisitions and archive content at short notice and with limited spare budgets due to pauses

[44] Ofcom Media Nations, Oliver & Ohlbaum analysis

in production activity and a lack of live sports and entertainment programming. Older films in daytime also allowed the PSBs to engage and entertain older demographics at home during the pandemic period.

The provision of films on pay TV film channels (i.e. Sky Cinema) has been more consistent, at roughly 45,000 to 50,000 film transmissions per year from 2012 to 2020, as is to be expected from channels purely dedicated to airing films. Other multi-channels also contribute significantly to audience's access to films on TV – broadcasting 9,467 unique titles in 2020 across over 57,000 transmissions. These players contribute to film investment (especially Film4 and Sky, including via distributor sales and funding) and the breadth of films available on TV (with some multi-channels focusing on content less likely to have prominent slots on PSBs, e.g. horror on Legend), but are unlikely to give the same level of focus to recent UK films as PSBs primarily due to the importance of US studio agreements to pay channels, US ownership of some channels (e.g. Paramount Network), and lower multichannel budgets necessitating a skew towards older films.

The value of films to UK broadcasters was estimated to be £1,306 million in 2019, of which UK films represented around 22 per cent of value. However, the value of UK films is estimated to have dropped by 17 per cent between 2017 and 2019[45] suggesting reduced investment in the provision of UK films. This trend has been partly driven by PSB channel spend on all films which has dropped from £174 million in 2012 to £118 million in 2022 in nominal terms.[46]

3.3.2 SVOD is creating new content investment and consumer choice, but is less focused on UK films than the PSBs

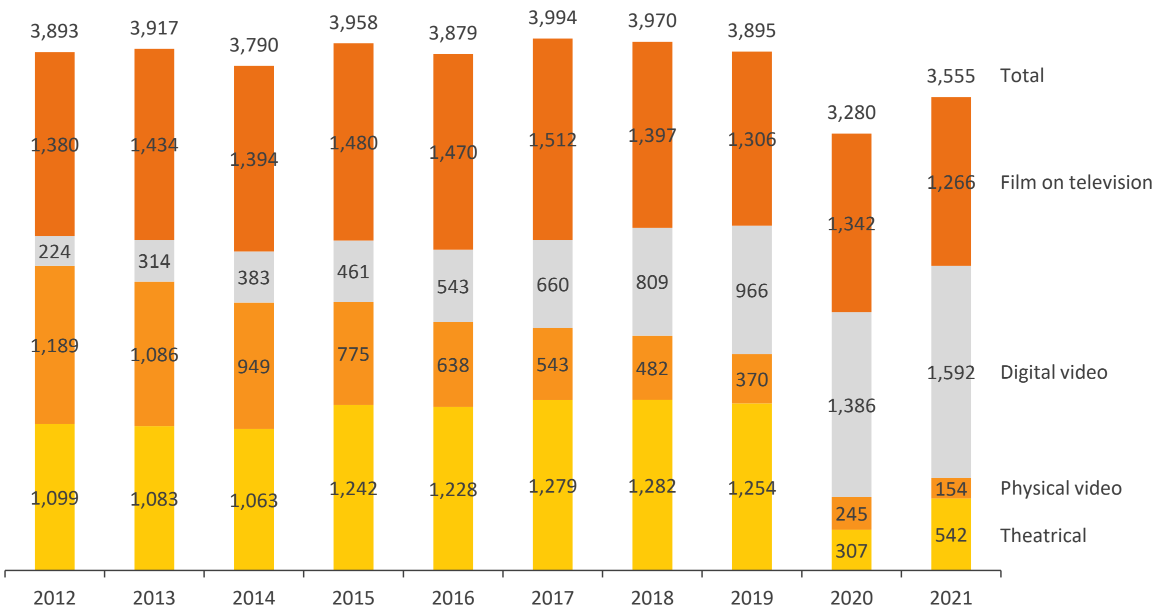
While revenues from film on TV and from physical video are in decline, digital video revenues have been rising dramatically, and this was the only segment to grow during the pandemic in 2020.

Figure 11, which shows aggregate film revenues between 2012 and 2021, highlights the severity of the impact of the Covid-19 pandemic on the UK filmed entertainment market. With the exception of digital video (covering transactional VOD film sales and film's share of SVOD value), gross revenues in 2020 were down across all revenue streams compared with 2012, with the overall market still 9 per cent smaller than at the start of the period in 2021. This data shows a continuation of existing trends in the relative values of the market's component sectors. In particular, the shift from the consumption of physical video to digital video has been a constant throughout the period: aggregate physical video revenues decreased by 87 per cent between 2012 and 2021 while digital video revenues increased by 611 per cent.

It is important to note, however, that the above trend covers all films and the situation for UK independent films may be different. In a review of the economics of independent film, Alma Economics found that "inflation-adjusted revenues for the independent film sector in the UK have consistently declined through the previous decade" and that growth from digital media "have not been enough to reverse the wider trend of decline" in other revenue streams.[47]

[45] BFI Statistical Yearbook, 2020. Television values are based on a model developed by Ampere Analysis. Values are estimated by dividing broadcaster revenues (from subscriptions, advertising spend and licence fee share) by the percentage of content spend attributed to film.
[46] Ofcom, Media Nations 2022
[47] Alma Economics, An Economic Review of UK Independent Film

Figure 11: Gross film revenues in the UK, all platforms, 2012-2021, £ million



Note: *Film on television' covers terrestrial, pay TV and other multi-channel TV. On-demand television-based services are included within the digital video total*

Source: *BFI Statistical Yearbook, Oliver & Ohlbaum analysis*

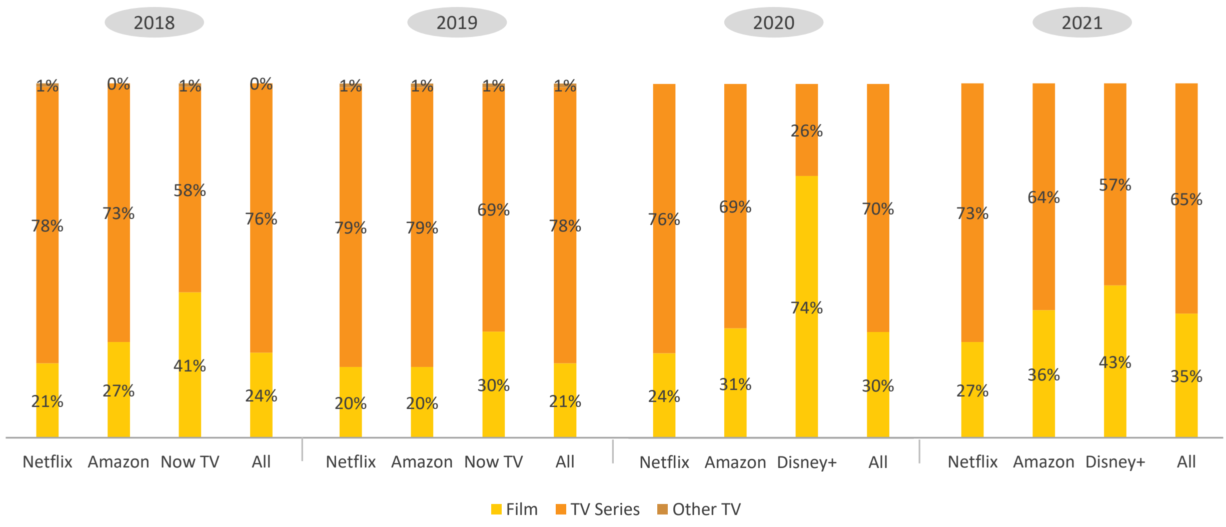
Digital video revenue growth has been particularly driven by the rapid uptake of SVOD services. According to Ofcom research in 2022, 19.2 million households subscribe to one SVOD platform, representing 67 per cent of UK households, up from just 24 per cent of households in 2015. Within these platforms, global services are most prominent. Netflix remains the largest SVOD provider in the UK, with 17.1 million households (60 per cent) subscribing, followed by Amazon Prime Video (46 per cent) and Disney+ (23 per cent). Overlap between the three most popular services (Netflix, Amazon Prime Video and Disney+) is significant, with 5.2 million households subscribing to all three[48].

As **Figure 12** shows, film plays a key part of these services' value for audiences. In 2020 film accounted for 30 per cent of viewing by UK audiences on UK SVOD. Interestingly, before the pandemic, films' share of viewing on SVOD had begun to slowly decrease – representing only 21 per cent of viewing in 2019. This could be related to the growth in consumer demand for HETV content, and rising global SVOD investment. But this seems to have changed during the pandemic when overall SVOD usage rose dramatically and audiences explored the depths of SVOD catalogues (where film generally holds more archive value than TV) while locked down at home. It may also be the case that, as some new productions were delayed, SVOD providers turned to film acquisitions to refresh their catalogues and keep subscribers entertained.

In general, film provision by SVOD services has been beneficial for UK film and led to investment in new UK independent films, often via festival acquisitions after they have been greenlit or finished production; this activity includes a wide variety of films such as *His House*, *Been So Long*, *Get Duked!*, and *The Dig*. However, the catalogues of these services tend to specialise in offering audiences a wide choice of US and other international content, alongside some local commissions and acquisitions, as they play a distinct and complementary role to the UK PSBs.

[48] Ofcom Media Nations, 2022

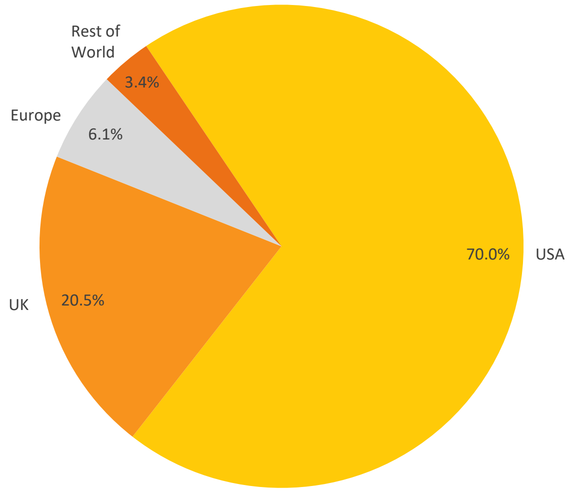
Figure 12: Share of viewing by type of content on UK SVOD platforms, 2018-2021



Note: Titles are categorised according to the platform's metadata. 'TV series/other' includes episodic programming as well as non-film one-off titles such as stand-up specials. 'Total' refers to the overall share of viewing on Netflix, Amazon Prime Video and Now TV (2018-2019) or Disney + (2020-2021)
Source: BFI Statistical Yearbook, Oliver and Ohlbaum analysis

As **Figure 13** shows, UK films represented 20.5 per cent of popular films on leading SVOD services in the UK in 2021, while US films accounted for 70.0 per cent. This presence of UK films becomes smaller in comparison to the full breadth of titles in SVOD catalogues, with UK films representing just 8.8 per cent of all films available from these providers in 2020. The concentration of US titles differs considerably between platforms, making up 42 per cent of available Netflix films and 95 per cent of films available on Disney+. The UK was the second most common nationality for film titles on Amazon Prime Video (11 per cent) and Disney+ (1 per cent, equal with Canada) though, and the third most common on Netflix (5.5 per cent) after India.[49]

Figure 13: Proportion of top films in leading SVOD platform catalogues by country of origin, 2021



Note: SVOD platforms covered are Amazon Prime, Netflix, and Disney+. 'Top films' are defined as films which had an average audience over 300,000 users in 2021
Source: BFI Statistical Yearbook, Oliver and Ohlbaum analysis

[49] BFI Statistical Yearbook 2021

Comparatively, UK content makes up a much higher proportion of PSB channels and BVOD catalogues. UK films represented 30 per cent of all film transmissions on the main PSB channels.[50] Total UK-made programming (not broken down into film as data is not available) made up 77 per cent of hours on BBC iPlayer, 58 per cent on ITVX, 59 per cent on Channel 4 VOD, and 68 per cent on My5 in 2022. BritBox, which was due to be folded into ITVX when the new service launched in late 2022, had the highest proportion of UK-made content in 2022 (83 per cent).[51]

TVOD (Transactional Video on Demand) is another distribution channel for films and TV shows, and it has become increasingly important for both independent and major studios in recent years. TVOD involves viewers renting or purchasing individual titles, typically through online marketplaces such as Amazon Prime or Apple TV. This can be a valuable revenue stream for content owners, as they receive a share of the revenue from each rental or purchase. However, the overall market revenue potential for TVOD is generally lower than that of SVOD, as viewers are paying for individual titles rather than a recurring subscription, and had remained relatively flat at about £250-£300 million revenue per year from 2015 before the pandemic.[52]

During the Covid-19 pandemic, TVOD became an important option for independent films with smaller box office releases, as many cinemas were closed or operating at reduced capacity. Day-and-date releases, where a film is released simultaneously in theatres and on TVOD, have become more common among smaller films in order to reach wider audiences and make up for lost revenue from cinema screenings. The growth of TVOD revenues in pandemic years, up to £345 million in 2020, may be weighted towards US films though after studios adopted high price premium video-on-demand (PVOD) distribution for some blockbusters while cinemas were under restrictions.

Since then, major studios have continued to release some films on TVOD platforms as part of their PVOD strategy, though this activity has reduced after the pandemic, amid a re-prioritisation of theatrical distribution, leading to a normalisation of TVOD revenues back to previous levels (£270 million in 2021).[53]

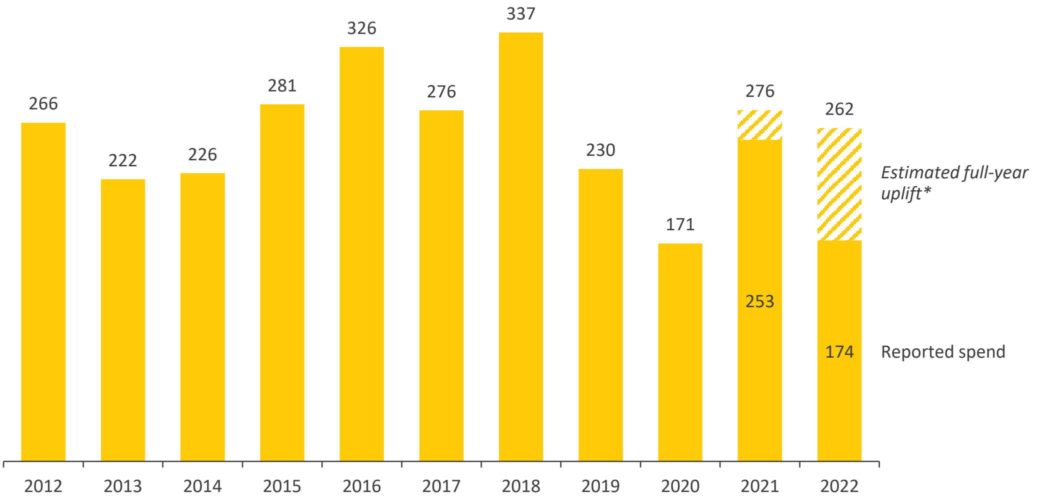
3.4 Independent film production spend has declined

The BFI's most recent statistics for 2022 showed a 31 per cent decrease on spend on independent UK filmmaking from 2021, totalling £174 million in 2022, down from £253 million in 2021. However, this does not account for the time-lag in production spend reporting, which means 2021 and 2022 numbers will increase slightly as data on extra features becomes available, as shown in **Figure 14**.

Investment and production spending on domestic independent films in the UK generally grew slightly before the pandemic, with natural fluctuations dependent on changes in the production pipeline, from £207 million in 2011 to peaks of £326 million and £337 million in 2016 and 2018. Spend understandably fell around the pandemic, and is estimated to have partly recovered in 2021 and 2022 back to the lower end of spending levels seen in 2015-2018. This flat level between 2015 and 2022 in nominal terms is reflective of continued investment, but represents a significant real-terms decline (especially in the context of production cost pressures) and may hide a worrying potential for a continued decline if the partial recovery in 2021 and 2022 was driven by productions that were delayed by the pandemic and pushed back. If this second factor holds true, we may expect the final 2022 spend figure to be lower than expected and for 2023 onwards to be even lower once the production backlog is cleared.

[50] BFI Statistical Yearbook, 2021
[51] Ofcom, Media Nations 2023
[52] BFI Statistical Yearbook, 2021
[53] BFI Statistical Yearbook, 2022

Figure 14: UK spend on domestic independent films by start year of principal photography, 2012-2022

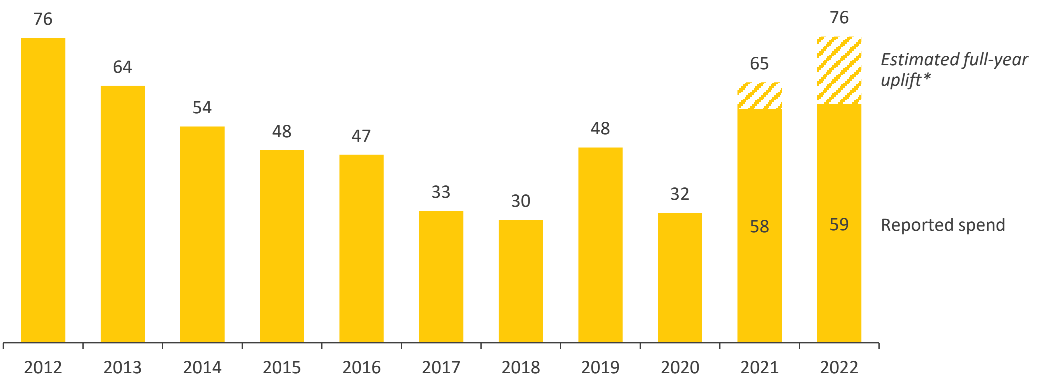


Note: **Spend data for films can take two to three years after production to flow through and be reported, hence latest figures are often revised upwards. We have estimated this adjustment for 2021 and 2022 based on uplifts seen in the reporting of prior years*
Source: *BFI statistical releases, Oliver and Ohlbaum analysis*

Independent co-production spend in the UK shows a slightly different trend, with activity decreasing over the past decade until 2021 and 2022 where it is estimated to have risen back to its peak in 2012 of £76 million (**Figure 15**). This has likely been driven in part by foreign co-production partners (esp. from the US) being attracted to the UK, and co-productions spending a greater portion of budgets in the UK, due to the weakening of the pound. It may also reflect UK producers requiring co-production partners more than previously, to achieve viable finance plans for ambitious projects given the challenges in securing finance and investment, leading to a transfer of spend from domestic films.

In total, independent film spend across both domestic and co-production is therefore at slightly lower levels – an estimated £338 million in 2022 compared to £372 million in 2016 – albeit with increased costs, leading to fewer or less ambitious films, and more going into international co-productions, which risk having their 'Britishness' diluted.

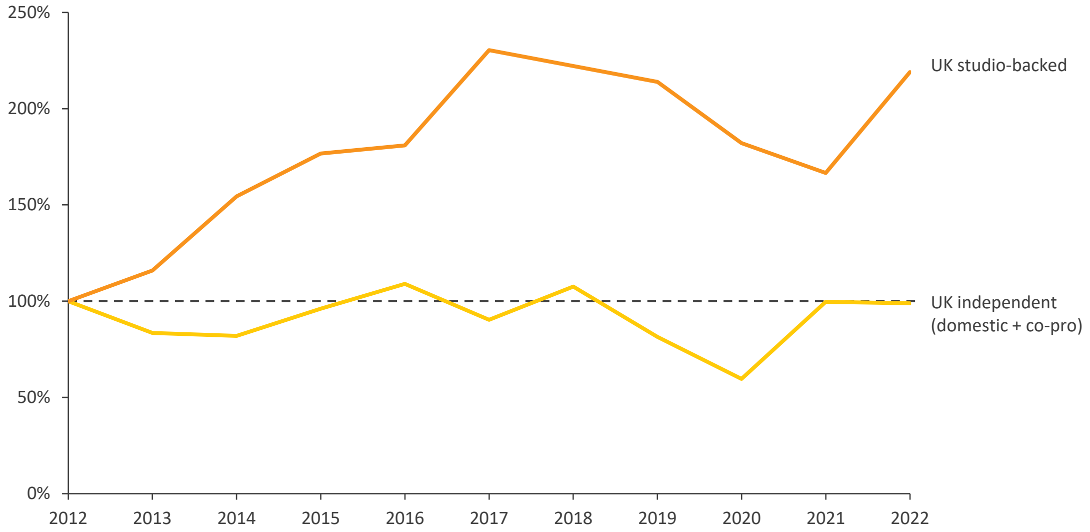
Figure 15: UK spend on independent co-production films by start year of principal photography, 2012-2022



Note: **Spend data for films can take two to three years after production to flow through and be reported, hence latest figures are often revised upwards. We have estimated this adjustment for 2021 and 2022 based on uplifts seen in the reporting of prior years*
Source: *BFI statistical releases, Oliver and Ohlbaum analysis*

As shown in **Figure 16**, this spend picture for independent UK film is very different to US studio-backed films produced in the UK. The UK spend of US studio films more than doubled between 2012 and 2017, before remaining steady with the exception of an expected fall during the pandemic followed by a quick recovery in 2022 – reaching an estimated £1,430 million.

Figure 16: Change in UK spend indexed to 2012 by start year of principal photography, 2012-2022



*Note: *Spend data for films can take two to three years after production to flow through and be reported, hence latest figures are often revised upwards. We have estimated this adjustment for 2021 and 2022 based on uplifts seen in the reporting of prior years*
Source: BFI statistical releases, Oliver and Ohlbaum analysis

This may even underplay the growth in recent years as it does not include long-form single episode projects certified as HETV, typically including big titles commissioned by SVODs, which are marketed as films but never intended for theatrical release (e.g. *Enola Holmes 2* for Netflix). Total UK spend on film could be 50 per cent higher in 2022 when adjusting to include long-form single HETV; this increase is likely to disproportionately favour US inward investment projects.

Finally, the challenges to UK independent film investment are also evident in the spend and number of productions across budget levels. The number of domestic independent films with budgets of £5 million or more has shown little change from 14 films in 2014 to 13 in 2022; budgets of £2-£5 million show a similar picture. This suggests the limited-to-zero growth in independent film investment is affecting all budget levels, and that few projects are able to source the larger budgets which are now usually necessary to generate international sales and distribution interest – this may be partly driving the recent decline in UK independent films' performance at the global box office (seen previously in **Figure 9**).

The impact of the existing film tax credit

4 The impact of the existing film tax credit

Our examination of market challenges and provision levels over previous sections provide a clear view of the ongoing market failure affecting independent film production, especially in relation to the rest of the market. In this part, we assess the impact of FTR and net tax benefit to the Exchequer, providing a full view of the economic impact of existing interventions.

4.1 The current tax credit regime has supported investment in UK film

As discussed in Section 1.2, there has been a long history of intervention by the Government in the UK film sector via tax relief schemes to support production. The 'Section 42 relief' was introduced in 1992, followed by a 'Section 48 relief' scheme in 1997, which improved relief rates and focused on films under a £15 million level with the aim of boosting both the number of British films being made, and the British economy via film exports. The scheme was subsequently updated in 2007 to its current form, with FTR offering a 25 per cent relief rate on qualifying UK expenditure up to 80 per cent of a film's budget.

The exact impact of these measures is difficult to isolate precisely from industry figures across this full timeframe, due to changing data definitions, the impact of other factors (especially the strength of the pound in relation to inward investment), and the regular presence of outliers (due to being a hit-driven business). However, the broad overarching picture is clear.

Production spend on UK independent films grew from £60 million in 1994 to £342 million in 2005 after the initial arrival of tax reliefs in the UK.[54] This growth driven by the tax relief support led to increased investment into the development of UK production capabilities and skills over the same period. Growth was again re-ignited in the sector following the introduction of FTR in 2007, with investment growing from £265 million in 2007 to £357 million in 2015.[55] Investment in UK independent film spend has since flattened and by 2022 sits below this peak, as discussed previously. It is worth noting that this slowdown is in nominal terms; when accounting for the inflation in production costs, it represents a significant decline since 2015 (adjusting for CPI, 2022 estimated spend would be £278 million at 2015 equivalent prices – roughly £80 million lower than 2015).[56]

Perhaps the more significant impact of FTR over the past decade though has been on inward investment trends. UK spend on US studio-backed films, which constitute the vast majority of inward investment spend, has grown from £582 million in 2007 to £1,400 million in 2019 before the pandemic, more than doubling between 2012 and 2019. On the other hand, independent film showed little change (**Figure 16**). Recent growth in inward investment is even greater if accounting for long-form single HETV productions.

In this regard, the wider sector is clearly benefitting from the impact of FTR on US studio-backed films – bringing significant amounts of spend into the UK production market, which would be at risk of moving elsewhere without the tax relief and the strength of the UK audiovisual ecosystem. While maintaining a competitive rate and value of relief relative to schemes in other territories is important to attract outside spend, the strong trend in inward investment film spend towards big budget features suggests that it is at an appropriate level to draw investment into the UK alongside the UK's strength in skills and production capabilities.

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[54] UK Film Council, Statistical Yearbook, 2010
[55] BFI, Statistical Yearbook, 2017
[56] BFI Statistical Yearbook, ONS, Oliver & Ohlbaum analysis

Therefore, our assessment of the net tax impact of FTR below, and in the following sections, focuses on the independent film sector for the following reasons:

- There is market failure in independent production, with investment levels in decline over recent years whereas inward investment spend has remained stronger as discussed above, so it is the area where tax relief support levels are most in need of review

- Cost liabilities to the Exchequer of providing tax relief to the independent sector is much lower than for inward investment films, where total spend is much higher as the same relief rate applies to both – we estimate that tax relief for US studio-backed films which started filming in 2019 cost about £250 million, compared to £42 million for independent film

- A flat increase in tax relief across the whole sector, including for major US studio-backed films, could contribute to cost inflation by increasing competition for local talent and capabilities from inward investment, hence not mitigating the challenges driving market failure in UK independent film

Any extra tax relief support for the UK film sector would therefore be best targeted at independent film which generally operates at lower budget ranges, where there is market failure and significant ongoing challenges, to optimise the benefits and returns from limited public funds. This will then support independent UK film's role in sustaining an innovative and highly skilled ecosystem, which is necessary to attract ongoing investment to the UK. We analyse the potential impact of enhanced relief rates for the independent film sector in section 5, alongside appropriate budget ranges to target, however in this section we first assess the impact of the current FTR scheme to show how it presently supports investment and delivers value to the Exchequer.

4.2 We calculated the net tax impact for the Exchequer of the current FTR regime in respect to UK independent film production

To estimate the net impact of the film tax credit so far, we have considered two categories of production:

1. **Anyway productions**: these are productions that would take place in the UK irrespective of the tax relief. From the Exchequer's perspective, the tax reliefs received by these productions are a loss, since there is minimal incremental business in the UK to offset the credit

2. **Incremental productions**: these are the productions that would not have happened if the tax relief did not exist. Whilst the Exchequer pays the tax relief for these productions as well, they provide additional tax revenue that offsets the costs of the credit. This comes in the form of direct tax revenues from increased production, VAT and corporation tax revenue from 'hits' (i.e. these tax areas are mainly driven by productions that become breakout successes and generate additional taxes from secondary exploitation), additional production activity generated by talent incubation, and indirect and induced tax impacts

Based on its primary research, Screen Business reports that the additionality rate of the film tax relief for domestic film was 46 per cent.[57] This means that 54 per cent of UK domestic film production spend is on Anyway productions and 46 per cent is on Incremental productions. The additionality rate for inward investment films was found to be 100 per cent (while UK skills and capabilities play a vital role in attracting inward investment, other markets with competitive tax credits do have good resources so the credit in the UK remains necessary to compete, alongside sustaining the strength of our sector). Following discussions with producers, we have assumed this 100 per cent rate

[57] Olsberg SPI with Nordicity, Screen Business, 2021

is applicable to co-productions given the ability of international co-production partners to move spend and production to other territories more easily based on available tax reliefs.

We have assumed that these additionality rates have grown over time, after the introduction of FTR in 2007 and its subsequent impact reached equilibrium, and more recently as rising costs and financing challenges have continued to impact the viability of Anyway productions thus making them more reliant on the tax relief. An Oxford Economics study in 2012 estimated that the additionality rate for UK film production was 71 per cent,[58] compared to 92 per cent in 2017 to 2019 (weighted across domestic and inward investment activity) in the latest Screen Business report.[57]

It is important to note however that an additionality rate of 46 per cent may underestimate the importance of the tax relief to domestic independent film. During our interviews with independent producers, we did not find any examples of Anyway productions and all participants referred to tax relief as a vital contribution to funding – without which their recent projects would not have happened. We would also expect growth in this rate since 2019 due to recent cost inflation and market challenges. However, as no new research was undertaken specifically on additionality rates, we have assumed that 46 per cent is still applicable for our tax assessment – this means that the resultant net tax impacts below are likely to be conservative beyond 2019.

Higher additionality rates would indicate that more spend is Incremental, i.e. would not have happened without tax relief, thus delivering greater incremental tax returns to the Exchequer and lowering the losses from providing tax relief to Anyway productions.

To calculate the impact on the Exchequer, the first step is to understand the cost of the tax relief. From our interviews with producers, we learned that we should assume an effective average tax relief of 23 per cent of UK qualifying expenditure – as not all films utilise the full UK allowance and some costs may not qualify as core expenditure for FTR (such as insurance and contingencies). For domestic independent film, which are often fully filmed and produced in the UK, this becomes 18-19 per cent of the total production budget after accounting for the 80 per cent FTR budget cap.

Incremental productions provide positive tax contributions to the Exchequer in multiple ways:

1. **Tax income on salaries for talent and crew:** We assume that 55 per cent of qualifying expenditure goes towards salaries in a typical independent film production on average, based on interviews with active producers and comparisons to benchmarks across the wider production sector. The effective average tax rate – covering income tax, NIC, and VAT from employee consumption – on employee compensation in the production sector is 37 per cent.[59]

2. **Additional tax income on hits:** Film production is in part a hit driven business, with revenue and sales largely concentrated around the top performers. This generates tax income in two primary ways:

    a) **VAT on consumer sales:** Sales of films via cinema exhibition, physical media, digital video, and TV subscriptions in the UK incur a VAT charge. BFI reports the sales value attributable to all UK films across these different streams, which we further segment based on box office share as an indicator of relative film value. We assume an effective VAT rate of 17 per cent[60]

[58] Oxford Economics, The Economic Impact of the UK Film Industry, 2012
[59] For 2019 which we assume still to be applicable; Olsberg SPI with Nordicity, Screen Business, 2021
[60] As per retail VAT inputs in the Screen Business report for 2017 to 2019

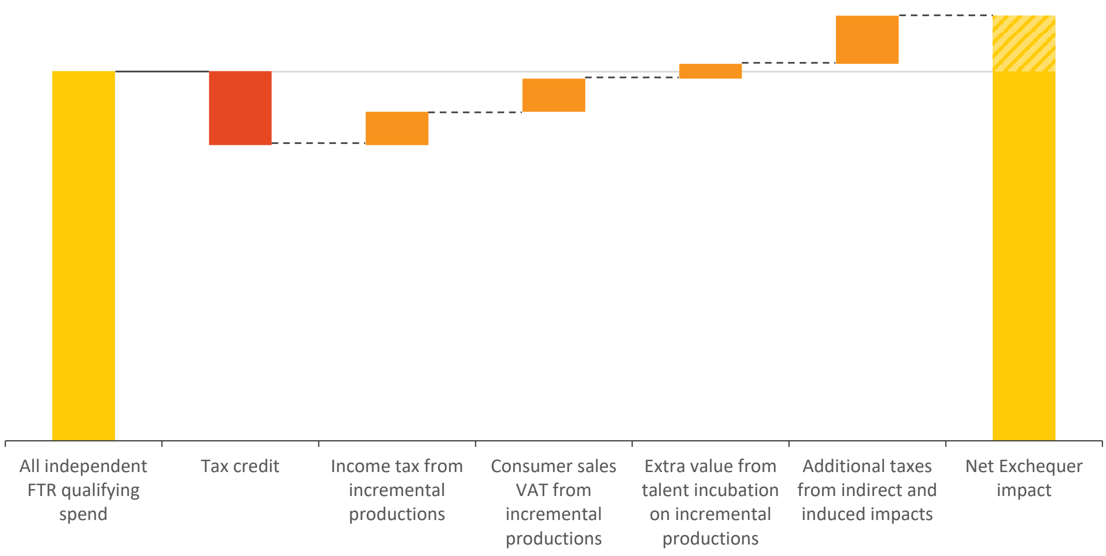
b) **Corporation tax on increased profits:** Significant film hits can generate production net profits, but in reality this is highly unlikely given market challenges and the low priority position of producers in recoupment flows. Production also usually takes place through special purpose vehicles which can offset any corporation tax against tax credits. Screen Business estimated a zero per cent corporation tax rate on production activity based on a review of Companies House filings, which we also apply here resulting in zero corporation tax returns under all scenarios

3. **Extra activity from talent incubation:** Independent films play a significant role in developing UK talent, which drives additional production activity in the UK. Alma Economics estimated that independent films in the £0.5 to £15 million budget range generate an additional 20 per cent production activity, with implied direct tax income via employee compensation, by developing the profile of UK talent who subsequently progress onto bigger UK productions[61]

4. **Additional taxes from indirect and induced tax impacts:** Indirect impacts are those on upstream suppliers of production companies (e.g., transport, catering) that receive additional business as a result of the Incremental production. This can result in additional employment and therefore income tax, VAT on any sales and corporation tax on increased profits. Induced impacts refer to VAT revenue generated by increased spending of employees, driven by the extra employment and income created by direct and induced impacts of incremental production across the value chain. We have applied the Oxford Economics assumption that the UK film industry has an indirect and induced tax impact of 2.0x, derived from a survey of firms in the UK film industry on their direct activity and how much they spend in the supply chain.[62] This multiplier is applied to the direct economic value generated via incremental salaries and profits.

Figure 17 illustrates how the cost of the tax reliefs can net off against these benefits to the Exchequer, to provide an overall positive impact.

Figure 17: Conceptual illustration of approach to estimating net tax impact of tax reliefs



[61] Alma Economics, An Economic Review of UK Independent Film, 2022
[62] Oxford Economics, Economic Contribution of the UK Film Industry, September 2012

Our estimated quantification of these costs and benefits to the Exchequer is set out in **Table 1** below – demonstrating that credits had a positive impact on the Exchequer both pre- and post-pandemic. There are, of course, also the societal and cultural benefits that come from supporting UK independent film production – these non-monetary benefits were estimated by Alma Economics to be worth about 4 to 5 per cent of independent film production spend (roughly £7 million per year based on incremental spend across 2020 to 2022). This is not shown in the illustration below, but is a key argument for the intervention in the first place and comes on top of this Exchequer impact.

Table 1: Summary of the modelled tax impact of FTR from independent film, yearly average

Average of FTR tax impact (£ million)	**2017 to 2019**	**2020 to 2022**
Exchequer cost		
Qualifying expenditure (£ million)	318	294
Cost to the Exchequer (£ million)	(61)	(57)
Additional taxes from incremental productions		
1. Tax income on salaries	33	34
2a. VAT on consumer sales	22	16
2b. Corporation tax on profits	-	-
3. Extra activity from talent incubation	7	7
4. Indirect and induced taxes	40	41
Total	94	93
Net impact		
1. Direct income tax only	(27)	(23)
2. Direct income tax, VAT & talent incubation	1	(1)
3. Full impact	41	40

4.3 Beyond these, there are many wider economic effects of the tax reliefs

The calculations above reflect the direct, indirect, and induced economic impacts of FTR within the independent sector, but there are also broader spillover benefits which could be considered as well[63]. The BFI Screen Business report found that FTR supported 68,930 full-time jobs and GVA of £4,976 million in 2019, of which 45,460 jobs and £2,362 million GVA was through production activities. Spillover benefits from the UK film sector – including the value of film-related screen tourism, merchandise sales, and UK brand promotion – delivered a further 51,720 jobs and £2,709 GVA in 2019, an uplift of 45 to 55 per cent on economic benefits.

While US studio-backed blockbusters made in the UK may play a greater role in some of these areas, the cultural specificity of many lower budget UK releases – and their ability to become hits at the global box office – could deliver

[63] Indirect and induced impacts include employment, employment compensation in the supply chain, and re-spending of employment income. Spillover impacts include screen tourism, merchandise sales, UK brand promotion and esports in the video games sector.

higher spillover benefits on a per-pound production spend basis. Tourism in particular, one of the largest areas of spillover value, is likely to benefit greatly from these titles with independent films such as *The Favourite* and *Living* drawing on the UK's locations, images, and history – perhaps attracting more film-related tourism than some big US titles made in the UK (e.g. *The Lion King (2019)*).

Although we have not undertaken a thorough analysis of UK independent film spillover benefits in this study, a quick estimate of its scale using an uplift factor derived from above (i.e. assuming the proportional economic uplift of 45-55 per cent applies equally to independent film) would suggest that independent film production may have delivered additional tax revenue of up to £40 million per year across 2020 to 2022 via spillover benefits. This could increase the full net tax impact from £40 million to £80 million per year.

Crucially, FTR also fosters talent development and the creation of intellectual property. Some productions receiving the tax relief have been hugely successful and have led to the development of brands, from one-off cultural touchstones such as *Shaun of the Dead* to returning IP such as the *Nativity* film series. Films can also generate soft power and national branding impacts – underlined by the utilisation of UK film content in the UK Government's GREAT campaign to promote the UK.[64]

4.4 It is also worth considering the approaches to fiscal incentives taken in other countries

Challenges to funding domestic independent film are not unique to the UK. There are many other countries where independent film faces challenges. Many of these saw the success of AV tax credits in the UK and introduced their own systems. However, many have introduced higher rates over time, recognising ongoing challenges to investment in the sector.

International comparison of fiscal incentives

UK	**Film Tax relief: 25%**			
Australia	Producer Offset: **40%** (feature film) **30%** (non-feature film)	Location Offset **16.5%**, plus **access** to a Location Incentive Fund	PDV (post, digital and visual effects production) Offset **30%**	
France	French productions (CICA): **25%**	Foreign productions (TRIP): **30%** (**40%** for fiction with min. VFX spend in France)		
Ireland	Section 481: **32%**	Regional uplift (outside Dublin/Wicklow and Cork City and County): extra **2%** **(2023)**		

[64] https://greatcampaign.com/campaigns/page/2/

Canada	Canadian Film or Video Production Tax Credit (CPTC): **25%** labour expenditure credit (may not exceed 60% cost of production) Film or Video Production Services Tax Credit (PSTC): 16% qualifying Canadian labour expenditures	Regions; British Colombia: **35%** basic credit; **16%** digital animation, VFX and post-production, no per-project cap	Regions; Ontario: **35%** labour expenditures (additional 10% for a regional Ontario production); higher rate for first-time productions (**40%** of the labour expenditures for the first $240,000); **18%** on labour expenditures for digital animation and VFX	Quebec: **20%** cash back on all expenditure (Quebec residents), **16%** enhancement on labour for digital animation Co-production: **28%** eligible labour costs up to 50% production costs (17.5% effective tax credit rate), 8% bonus for eligible labour up to 50% production costs for French language films and children's programmes and for digital animation Production services: 20% all-spend Quebec production costs, bonus of **16%** labour costs for computer animation
New Zealand	New Zealand Screen Production Grant (NZSPG): **40%**, with an Additional Grant available			
Spain	National level: **30%**	Regions- Canary Islands: **50%**	Regions – Navarre: **35%** (**40%** for animation)	Regions – Bizkaia: up to **70%** (60% with over half expenses in Bizkaia and a 10% uplift if Basque is the source language)
Italy	National level: **40%**			
Greece	National level: **40%**			
Belgium	**40-45%** of eligible Belgian expenses	**25-30%** of total qualifying expenses in the European Economic Area.		
Saudi Arabia	National level: **40%**			

Policy options: targeted enhancement of the UK film tax credit

5 Policy options: targeted enhancement of the UK film tax credit

As we have seen in previous sections, the provision of UK independent films are valued by audiences and hold cultural importance to wider society – but there is clear evidence of continuing market failure amid increasingly difficult market conditions to secure adequate funding for films.

More support is needed to prevent a decline of UK filmmaking; those with lower budgets and the presence of UK culture are particularly at risk both on screens domestically and worldwide. Without appropriate support, the decline of the independent sector could also see fewer development opportunities for new talent and crews, which feed the wider production market, putting the strength of the UK's overall, market leading production sector at risk.

These were all motivating factors for introducing the existing FTR in 2007, alongside attracting inward investment from overseas. Tax relief is a proven tool to incentivise investment and has clearly made a positive contribution to addressing some of the market failure, by directly aiding financing difficulties, leading to the UK's approach being copied internationally. However, while international investment remains strong, challenges persist across independent film financing, and the latter now requires more support.

Throughout the remainder of this part, we consider what steps might best address the remaining market failure in UK independent film through a targeted enhancement of the film tax credit.

5.1 The tax relief regime could be updated to better support UK independent film and tackle market failure

The tax relief system could be adjusted to have a larger positive impact on the production of UK domestic film, considering the unmet individual consumer and societal demand, whilst also creating a positive tax return for the Exchequer. We have modelled the impact of increasing film tax relief to either 30 per cent or 40 per cent, in comparison to the existing 25 per cent.

As discussed in the introduction, we have framed our analysis of the tax impact around the existing FTR system and associated rates, but it is equally applicable to the recently announced plans to reform tax relief support into an Audio-Visual Expenditure Credit (AVEC) system from 2024. The planned AVEC relief rate of 34 per cent, which is taxable unlike FTR support, is assumed to be worth the equivalent of 25.5 per cent under the current FTR system after accounting for corporation tax (at a nominal rate of 25 per cent in line with the increase this tax year). Therefore, while we refer to FTR rates in our assessment below for simplicity, our analysis of the net tax impact of FTR with a 25 per cent rate is roughly the same as it would be under the AVEC proposals with a 34 per cent relief rate, and our analysis of 30 per cent and 40 per cent FTR rates are equivalent to the net tax impact that could be achieved under AVEC with 40.0 per cent and 53.3 per cent rates respectively.[65]

Building on the approach set out in Section 4.2, we forecasted expected Anyway and Incremental UK production spend for all UK independent film, both domestic and co-productions. For the status quo, where the 25 per cent tax relief rate continues with no changes, we assumed that:

- Anyway spend on UK independent film will decline at the rate observed before the tax reliefs were introduced – the same assumption is used for our alternative rate scenarios

[65] Assuming that a 25 per cent corporation tax is applicable in the future against expenditure credits

- Incremental spend will remain flat as the impact of FTR has reached equilibrium with no further growth expected.

For all scenarios, we assumed that the tax credits keep the current set of eligibility criteria and administration rules, including the requirement that the credits can only be applied to either 80 per cent of the total production budget or the UK qualifying spend (whichever is lower). If the Government decided to consult on changing any aspects of the tax credit eligibility criteria and/or administration rules, our forecasts could be updated to reflect the proposed changes the Government is looking to implement, including the audio-visual expenditure credits, given that the proposed 34 per cent headline rate represents a similar effective value to the existing FTR rate as discussed above.

Taking the rate of Incremental productions under the current 25 per cent tax relief as our baseline, we assume that the number of Incremental productions would rise proportionately to an increase in the level of the tax credit above 25 per cent, as per the following table:

Table 2: Additionality rate assumptions under increased FTR rates

Incremental production spend additionality rate	**Domestic films**		**Co-productions**	
	% incremental spend growth vs. 25% credit	Overall additionality rate*	% incremental spend growth vs. 25% credit	Overall additionality rate*
25% FTR rate, status quo (or 33.3% AVEC)[66]	n/a	46%	n/a	100%
30% FTR rate (or 40.0% AVEC)	+20%	51%	+20%	100%
40% FTR rate (or 53.3% AVEC)	+60%	58%	+60%	100%

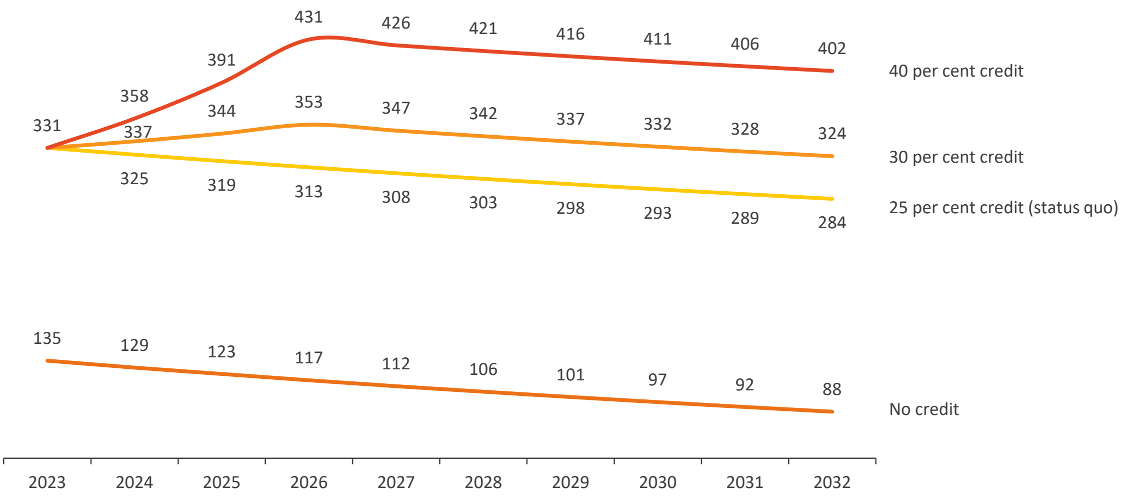
*Note: *at current levels of 'anyway productions' spend*

We have assumed the new credits are implemented from 2024 and that it takes three years for the growth in Incremental productions to reach equilibrium. The results of our forecasts on future independent film production spend are presented in **Figure 18**.

If the current tax credit regime had not been implemented, we estimate that UK production spend on independent film would be 60 per cent lower by 2023. This is because all Incremental productions created since the introduction of the tax credits would never have been made, including the vast majority of UK co-productions supported by international partners. We forecast that the remaining Anyway production spend would have continued to decline from 2015 to 2023 at the rate observed prior to the introduction of the tax credits. By 2032, we forecast that production spend in a regime with no tax credits would be 70 per cent lower than the status quo and 80 per cent lower than the regime with a 40 per cent tax credit.

[66] Screen Business

Figure 18: Forecast UK production spend on UK independent films under different tax credit rates, 2023 – 2032



Source: Oliver & Ohlbaum forecasts

With no enhancements to the current tax reliefs, we forecast that UK production spend on independent film will fall from £331 million in 2023 to £284 million by 2032. As shown in **Figure 18**, increasing the tax reliefs for both schemes could offset the decline in Anyway productions by incentivising investment into UK film and generating additional Incremental productions. We have assumed that the increased tax reliefs take three years to reach maturity, after which Incremental productions remain flat at a constant rate while Anyway productions continue to decline. This mirrors the trend we observed following implementation of recent tax credits in other production areas.

By increasing the tax relief to 30 per cent, we forecast that UK production spend will still decline to lower than current levels by 2032. However, increasing the tax relief to 40 per cent could increase UK production spend to £402 million by 2032. The significant growth is from new Incremental productions that otherwise would not get made and this is offsetting the continued decline in Anyway productions.

To estimate the net impact of increasing the film tax relief rate on the Exchequer, we have used the same set of assumptions from section 4.2:

- There is a cost from paying out the tax relief for both Anyway and Incremental productions
- There are four types of tax benefits from Incremental productions: taxes from employee compensation relating to talent and crew, tax revenue further income from hits (VAT on consumer sales, and corporation taxes on profits which we continue to assume be zero during the period for reasons previously discussed), extra production activity from talent incubation, and indirect and induced taxes from downstream suppliers

The results of our assessment of the annual average net tax impact to the Exchequer, under different relief rates between 2024 and 2032, are as follows:

Table 3: Forecast future tax impact of different tax relief rates from independent film, 2024 – 2032

Tax relief levels	Net Exchequer impact (£ million, average 2024-2032)	
	Direct impact only	Full impact
25% FTR rate, status quo (or 33.3% AVEC)	11	59
30% FTR rate (or 40.0% AVEC)	3	58
40% FTR rate (or 53.3% AVEC)	(23)	50

The increased credits are forecast to provide a lower net return to the Exchequer than the existing credit because the increased cost of providing the credit is forecast to be slightly higher than the additional tax revenue provided by the additional Incremental productions. However, we forecast that both the 30 per cent and 40 per cent credits provide net positive impact to the Exchequer compared to the baseline of no tax relief, and the increased credit and associated additional support for the sector will bring with it increased wider benefits to society. Even when excluding indirect and induced tax impacts across the wider economy, an enhancement to 30 per cent is still net positive over the period.

As we have seen throughout the report, beyond the financial benefits associated with increased production of independent film, and their spillover benefits, there are a range of societal benefits. These will include: increased visibility of British culture and communities both domestically and overseas, strengthening of consumer choice and value, greater talent development opportunities to help combat skill shortages in the sector and attract ongoing inward investment, expanding the benefits generated by other public funds which support UK film activities, and incentivising investment by producers across the nation which will contribute to government initiatives such as Levelling Up.

5.2 Enhanced relief support might be best targeted at a specific budget range

Film productions in the UK span a range of budgets with different types of funding sources and models across them, but some are more challenged than others. As previously discussed, US studio-backed films in the UK occupy a different position, and have displayed a healthier investment trend over the past decade, compared to lower budget UK films which are overwhelmingly independent film and facing severe challenges in the market – hence our assessment of a targeted enhancement to film tax relief is focused on the latter.

However, within UK independent filmmaking there also exists different budget levels and project scopes, and there is a case to be made to target a specific budget range within this to maximise the benefits to the Exchequer, production sector, and wider society at optimised cost.

5.2.1 Market failure in financing, and thus the need for enhanced support, is greatest at mid- to high-budget levels within independent film

The maximum budget for UK independent film typically sits at around the £15 million, such as *The Favourite* with a reported budget just below this at around £12 million (or $15 million).[67] At this level, projects typically require support from co-production partners, and always need to generate significant commercial international interest (usually for large pre-sales, or to create interest from streamers) to underpin funding. Major, globally-recognised

[67] Forbes, 'The Favourite' Is The Year's Most Ironic Oscar Season Hit, 2019

talent is required to be able to generate this interest. Due to this, independent films at higher budget levels are exposed to both the market challenges in securing financing or pre-sales, and the increased competition for major talent which is also increasing costs. These projects are hence an appropriate candidate for enhanced support. Above the £15 million mark, independent producers can rarely fund projects and most productions are inward investment films – usually backed by US studios which have the resources to better deal with market challenges, and are less exposed to external financing issues, as evidenced by the continued strong trend in inward investment film production spend in the UK. Therefore, £15 million can be seen as an appropriate top end for any enhancement.

Independent films at lower budget levels share some of these challenges, plus the real-terms thinning of public funds on which projects at this level can be more reliant, especially those featuring new talent. However, beyond a certain range, these films become less dependent on film tax relief as their financing picture is generally less piecemeal and less complicated than at mid- to high- budgets for independent film. Below budgets of £2 million, independent films are typically not as reliant on the international market and significant pre-sales to secure funding, and in turn may have smaller gaps to close as they do not need major on-screen talent to build this overseas interest. At even lower budgets, below £0.5 million, films can often be funded by a single private entity, many do not receive a theatrical release, and may go ahead as planned even without tax relief support (e.g. which may be the case for some short film projects if they are not purely commercial endeavours).

The existing film tax relief support of course remains vital to many projects at these lower budget levels in independent film. However, the positive impact of an enhancement to the tax relief rate at these budgets may be limited, relative to mid- to high- budget levels discussed above, by their lower dependency on FTR – which reduces the extra production activity and positive economic benefits that could be generated by an increased relief rate.

5.2.2 We modelled the net tax impact by budget to pinpoint the optimal targeted range

In order to identify the targeted budget range at which enhanced support would deliver the greatest economic benefit at optimised cost to the Exchequer, we have split our assessment of the net tax impact across different budget bands. This is based on the same methodology as in section 5.1, utilising revenue and spend data by budget from the BFI and with the additional assumption that additionality rates vary by budget – from 20 per cent for film productions with budgets less than £0.5 million, up to 60 per cent for budgets over £5 million – due to the differing financing landscape and challenges as described in section 5.2.1.

Table 4 shows the results of our tax impact model by budget range.

Table 4: Forecast future tax impact of different tax relief rates by budget range, 2024 – 2032

Budget ranges	Total net Exchequer impact (£m, average 2024-32)			Impact per £m production spend (£m, average 2024-32)		
	25% FTR	30% FTR	40% FTR	25% FTR	30% FTR	40% FTR
Less than £0.5 million	(0)	(1)	(2)	(0.01)	(0.03)	(0.09)
£0.5 – 1.9 million	4	3	1	0.09	0.07	0.02
£2.0 – 4.9 million	11	10	6	0.13	0.11	0.05
More than £5.0 million	45	46	45	0.28	0.26	0.21
Total	***59***	***58***	***50***	***0.20***	***0.17***	***0.12***

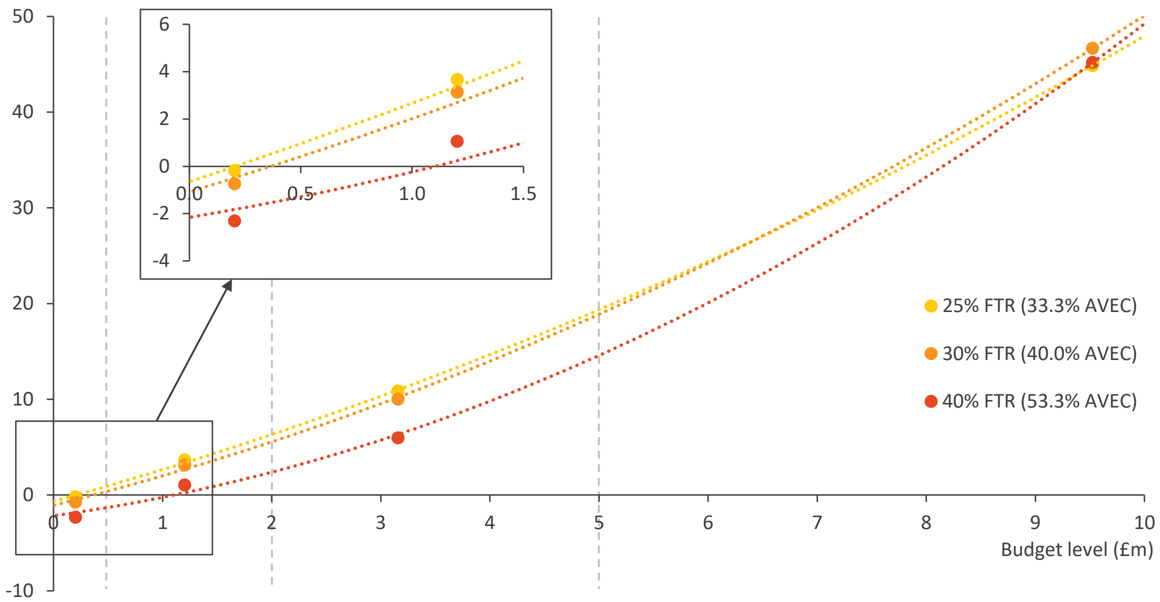
Note: these estimates are applicable to equivalent AVEC rates of 33.3%, 40.0%, and 53.3% respectively

On average, the net tax impact is smallest at low budgets and greatest at higher budgets with production activity, consumer sales revenue, and talent incubation activity differing across each. The total net impact from productions with budgets of over £5 million remains equally strong at enhanced rates up to 40 per cent FTR due to the increase in production spend which it drives.

The boundary between positive and negative economic net impact sits between less than £0.5 million and £0.5 – 1.9 million budget ranges, with the former remaining negative across all tested relief rates (albeit only very marginally at 25 per cent FTR) and the latter remaining positive. To pinpoint this boundary further, we have plotted the results in Table 4 against the average budget within each budget range and extrapolated between them to identify where the average net tax impact becomes negative.

The results of these extrapolations, and the budget at which the average net tax impact is zero, are shown in **Figure 19**. At an enhanced FTR rate of 40 per cent (equivalent to an AVEC rate of 53.3 per cent), the net impact is estimated to be negative up to budgets of £1.1 million and positive thereafter for budgets above £1.1 million. At an enhanced FTR rate of 30 per cent (equivalent to an AVEC rate of 40.0 per cent), the net impact is positive for budgets of £0.4 million and over.

Figure 19: Net tax impact to the exchequer (y-axis, £m) by average budget (x-axis, £m), 2024 – 2032



Source: Oliver and Ohlbaum analysis

This suggests that the optimal range to target with an enhanced FTR rate of 40 per cent (or 53.3 per cent for AVEC) to support UK independent film would start at about £1 million, and go up to £15 million as per section 5.2.1, to maximise the positive economic impact while minimising costs to the Exchequer. However, consideration could be taken whether to enhance support for smaller budget bands as well to ensure the widest possible range of production in the UK is maintained given that the net negative economic impact, production activity, and potential costs of providing tax relief at this end is small relative to the economic benefits and scale at mid- to high- budgets up to £15 million. If this is considered, it may still be necessary to exclude particular types of productions below a budget of £1 million though that are less affected by tax relief support, such as passion projects, to optimise the use of limited public funds.

5.3 Interviews with independent producers supported the case for a targeted enhancement to the tax relief rate

During our interviews with UK independent producers and sales agents, we heard many reasons from those ‘on the ground’ why an expanded credit would be particularly valuable to the sector. One of the primary points raised was that an increased tax credit would give financiers more confidence in the value chain. Financiers are more willing to risk money if they feel someone else is taking that risk too. This in turn could expedite the process of fully funding a project, as third-party financiers would come on board more quickly, and the funding gap that needs bridging could be lower. We heard that there is considerable caution among buyers and distributors, which have resorted to pulling back and ‘playing safe’, looking to tried and tested genres. However, this does not reflect audience appetites. Audiences want projects that are fresh and original, and do not conform to defined genre categorisations. The recent commercial and overwhelming critical success of seven-time Oscar winning independent film *Everything Everywhere All At Once* was brought up during interviews as an example of the kind of successful genre-bending works that can be encouraged by an enhanced credit.

Increased credits could also be put towards securing major UK talent of international calibre; an asset for filmmakers that has become increasingly challenging to secure given intense competition and cost inflation. However, having globally recognisable UK talent involved in a project can be very beneficial in terms of international sales, and box office performance.

Producers also commented that they felt an updated tax credit would support the production of a consistent flow of commercially successful UK films by UK independent companies, with meaningful and continuing asset value.