ANNEX A

CREATIVE SCOTLAND

ALBA | CHRUTHACHAIL

Strategic Outline Case for Intervention:

Production growth funding for Scotland

August 2015

Contents:
A – Exec Summary
B – Strategic Context
C – Evidence
D – Options
E – Economic, Cultural and Social Benefits
F – Recommendation

A Executive Summary

1. Vision/objectives

Creative Scotland and the Scottish Government's vision/objectives for the Scottish Screen sector are as follows:

- To generate the conditions necessary to position the screen sector at the heart of Scotland's economic and cultural life.

- To develop Scotland's reputation as a destination for international productions and co-productions because of its world-class talent, crews and facilities, ensuring Scotland is recognised as a film-friendly nation with unique landscapes and competitive incentives.

- To see growth in the number and diversity of film and filmmakers.

- To increase inward investment into the screen sector and the wider economy.

- To improve employment opportunities for the existing production sector and create opportunities for training and development with accompanying positive impacts on job creation and local communities.

2. Strategic Context

Scotland is home to great film festivals, superb locations and world class technical and creative talent. Scotland has a strong international reputation for film; our filmmakers and on and off-screen talent are highly-regarded and internationally-recognised.

In 2013, Creative Scotland commissioned BOP Consulting in partnership with Whetstone Group and Jonathan Olsberg to conduct a Film Sector Review which was published in January 2014. Key aims set out in the Review included a recommendation to encourage more international film and high-end television productions to establish themselves in Scotland through spend-related and other incentives. Although Scotland's screen sector has had some recent successes, it is generally accepted that Scotland needs to develop and produce more films (features, documentaries, animation and artists' films) each year in order for the production community to stabilise, grow and compete in a meaningful way on a national and international stage. A key recommendation from the Review included, within the constraints of state aid rules, 'to consider incentives to encourage production to come to Scotland. These **incentives should be spend-related and linked to the employment of Scotland-based crew**…" (p59).

The context for developing production growth funding rests in the strategic outcomes set out in: the Scottish Government's Economic Strategy and its Programme for Government; Creative Scotland's Film Sector Review; Creative Scotland's 10-Year Plan: *Unlocking Potential Embracing Ambition;* and Creative Scotland's Film Strategy 2014-17.

Proposals for a production growth fund directly address the key priorities in both the Programme for Government and the Economic Strategy which are as follows:

- **Creating more, better paid jobs in a strong, sustainable economy;**
- An economy where growth is underpinned by long-term sustainable investment in people, infrastructure and assets;
- An economy where growth is based on innovation, change and openness to new ways of doing things;
- A society that promotes inclusive growth and creates opportunity through a fair and inclusive jobs market and regional cohesion to provide economic opportunities across all of Scotland; and
- A country with an international outlook, open to trade, migration and new ideas.

3. Current Provision

Although there is a range of support available to the screen production sector, a production growth fund would cover a specific gap in the funding landscape and is viewed as an essential component to the overall screen offer in the context of the wider work to deliver a permanent screen studio for Scotland.

Creative Scotland currently offers a range of funding and support targeted at the screen production sector:

Project Development and Production Funding: £4m (lottery) recoupable equity funding per annum;

Screen Skills Fund Scotland: £1m (subject to evaluation), a newly introduced fund from April 2015 (SG money).

UK Tax Credit Advance Facility: £2m (subject to evaluation), a newly introduced fund from April 2015 (SG money, FTs).

Creative Scotland Locations Service (inc 'recce' funding): £200,000

Producer revenue entitlement scheme and recycling of development monies: similar to the BFI 'locked box' scheme, where producers are provided with a 'corridor' on any Creative Scotland recoupment from investment in a film.

Wider UK support is available from the **British Film Institute**, **Broadcasters, Creative Skillset** and the **UK Film and High End TV and Animation Tax Credit**.

4. Permanent Screen Studio

Securing a permanent screen studio for Scotland is a priority for the Scottish Government and its partners (Creative Scotland and Scottish Enterprise). Since 2013, a significant body of work has been undertaken to assess and develop options for the establishment of facilities that would facilitate productions of scale seeking to shoot in Scotland as well as provide support to Scottish productions. Negotiations are currently at a positive, but critical, juncture and any additional production funding will be a key element in delivering a successful outcome in this regard.

In 2013 the Scottish Government, Creative Scotland and Scottish Enterprise commissioned EKOS to undertake a feasibility and options appraisal for the development of a Scottish Film and TV Studio. In that report, published in March 2014, it stated that "in the absence of increased financial incentives to attract productions of scale, and on terms that are attractive for those international and national mobile productions, then it may be difficult to ensure the studio facility would remain competitive and sustainable".

A successful and flourishing studio forms an "important part of Scotland's overall offer in this market, **but must also be supported by a competitive offer in terms of incentives and support** (p26)".

Initial response from the sector to the recently introduced Screen Sector Skills Fund and the Tax Credit Advance Facility interventions has been broadly positive, but it is clear that a studio and a further incentive, such as a production growth fund, will complete the picture and place Scotland on an enviable footing to achieve the aims and ambitions of the sector, Creative Scotland and the Scottish Government.

5. Options

While acknowledging the difficult economic environment and constraints on and competition for public funds, the opportunity cost of establishing an incentive fund is a key factor in the evaluation of the options.

Our analysis has concluded that there are **three options**. In summary they are as follows:

Option one: Status Quo - to maintain the current funding and support mechanisms.

Impact: none. By maintaining existing funding, support and provision, there would be no significant increase in the number and scale of incoming productions. Other nations and territories will continue to remain more attractive than Scotland.

Risk: The ambition of the Scottish Government and its agencies will not be achieved. It is likely that the sector will not grow as desired. The level of incoming production and resulting inward investment into the economy will not increase significantly.

Option two: Mixed Model - to provide a mixed model of recoupable equity funding and/or loans on attractive terms, to incentivise incoming productions.

Impact: low. A mixed model may prove attractive to some larger, independently financed mobile productions, but would be unlikely to be taken up by the projects backed by the US studios or TV networks which we are aiming to attract.

Risk: The ambition of the Scottish Government and its public sector agencies is unlikely to be achieved. The recoupment or repayment terms and conditions are unlikely to be attractive to the larger incoming productions, which are usually backed by the US studios or larger US TV networks, who have expressed as much through confidential market research undertaken by Creative Scotland.

Option three: Production Growth Fund - to provide an incentive fund with no recoupment or repayment terms which would *ensure* that Scotland is seen as one of the most attractive territories to produce in and/or co-produce with.

Impact: high. Pure incentive, this option would provide the most user-friendly type of funding, with no recoupment or repayment terms. It would be attractive to all types of national and international mobile (i.e. incentive-seeking) productions. Our view is that there is a greater opportunity cost with this option as the impact on and benefits for Scotland's economy, crews and global reputation would be delivered *regardless of the performance of any film at the box office.*

Risk: This is a high opportunity and low risk option as it would provide the best opportunity to maximise the economic impact of greater production activity. It would also enhance the reputation of Scotland across the international screen production sector because Scotland would be seen as an attractive place to do business.

6. Recommendation
The recommendation is to disregard Option 1 and Option 2.

With reference to Option 1 - the risks of doing nothing will be both damaging to the economic health of Scotland's screen sector and to Scotland's national and international reputation as a nation with which to 'do business'. The absence of additional funding would also have a negative impact on the ability to grow and develop screen infrastructure both now and in the future as the current film studio proposal would be rejected by the SE Board and, on that basis, not able to be taken forward.

With reference to Option 2 – although a 'mixed model', with potential to acquire a return through recoupment, appears to be attractive from an affordability and sustainability point of view, our own market research across our key target investors, the US Studios and TV networks, is conclusive. These producers would not find this kind of funding attractive. Without an increase in such large scale US productions locating in Scotland, there would be no additional growth in the sector and the case for the studio would be negatively impacted as a commercial proposition as take up of such funds would be low.

It is our professional and market-informed view that **Option 3 would create the best possible conditions within which our screen sector can thrive; and realise our ambition to increase production, with the resulting significant impact on Scotland's economy**. It would also enhance Scotland's reputation as a nation that takes its screen sector seriously and understands the requirements of large-scale international productions who when, being given access to this funding, would have to guarantee a minimum spend of their budget in Scotland and on Scottish crews.

B Strategic Outline Case for Intervention: production growth funding for Scotland

1. Vision/objectives:

- To generate the conditions necessary to position the screen sector at the heart of Scotland's economic and cultural life.
- To develop Scotland's reputation as a destination for international productions and co-productions because of its world-class talent, crews and facilities, ensuring Scotland is recognised as a film-friendly nation with unique landscapes and competitive incentives.
- To see a growth in the number and diversity of film and filmmakers.
- To increase inward investment into the screen sector and the wider economy.

Additional production growth funding seeks to incubate and nurture the potential for a **creative cluster,** as related service companies and other creative business seek to benefit from the new activity, thus delivering secondary benefits for the wider economy. It would improve Scotland's **competitive edge** as a desirable destination for the production of international High-End TV drama, live action and animated feature film productions and co-production projects. It would enable Scotland to fully **capitalise on the opportunities and benefits** presented by the UK film and TV tax incentives (see next section). It would **provide year-round demand and employment opportunities** for Scotland's crew and the film and TV facilities and services sector through an increase in production activity; and in the event of a successful outcome on the studio facility for Scotland project, a key objective of additional production growth funding would be to **support and stimulate demand** for its utilisation whilst **stimulating further growth** in local and secondary businesses by providing a focal point for economic development around the studio facility (see Annex 1).

2. Strategic Context

Scotland is home to great film festivals, superb locations and world class technical and creative talent. Scotland has a strong international reputation for film; our filmmakers and both on and off-screen talent are highly-regarded and internationally recognised. There has been a steady output of films with some exciting recent successes.

In 2013, Creative Scotland commissioned BOP Consulting in partnership with Whetstone Group and Jonathan Olsberg to conduct a Film Sector Review which was published in January 2014. Key findings set out in the Review included a recommendation to encourage more international film and high-end television productions to come to Scotland through spend-related and other incentives. Although Scotland's screen sector has had some recent successes, it is generally accepted that Scotland needs to develop and produce more films (features, documentaries, animation and artists' films) each year in order for the production community to stabilise, grow and compete in a meaningful way.

A key recommendation from the Review included, within the constraints of state aid rules, 'to consider incentives to encourage production to come to Scotland. These **incentives should be spend-related and linked to the employment of Scotland-based crew**…" (p59).

The context for developing a production growth fund rests in the strategic outcomes set out in the Scottish Government's Economic Strategy and its Programme for Government, the Film Sector Review, Creative Scotland's 10-Year Plan: Unlocking Potential Embracing Ambition and the Film Strategy 2014-17.

Proposals for a production growth fund directly address the key priorities in both the Programme for Government and the Economic Strategy which are as follows:

- **Creating more, better paid jobs in a strong, sustainable economy**
- An economy where growth is underpinned by long-term sustainable investment in people, infrastructure and assets;
- An economy where growth is based on innovation, change and openness to new ways of doing things;
- A society that promotes inclusive growth and creates opportunity through a fair and inclusive jobs market and regional cohesion to provide economic opportunities across all of Scotland; and
- A country with an international outlook and focus, open to trade, migration and new ideas.

As highlighted in **Creative Scotland's Film Strategy** (published in October 2014), securing inward investment and working through co-production partners is a crucial factor in developing Scotland's reputation as a culturally and commercially successful filmmaking nation.

One of Creative Scotland's aims is to develop Scotland's reputation as a destination for international productions and co-productions because of its world-class talent, crews and facilities, ensuring Scotland is recognised as a film-friendly nation with unique landscapes and competitive incentives. Combined with that, the creation of a viable and sustainable permanent screen facility is a priority in order for Scotland to accommodate high-profile international projects, as well as properly support and serve Scotland's own productions. A Scottish studio would also support and serve connected companies such as picture and sound post-production facilities, and encourage the growth of digital companies, including, VFX companies, thereby increasing output and creating employment.

The recommendations of the **Economy, Energy and Tourism Committee** Inquiry into the economic impact of the film, TV and video industries, published on 31 March 2015 ("the EET Report"), reaffirmed the urgent need for a permanent screen facility for Scotland and asked Scottish Government to consider:

- **the wider benefits that a studio might provide and how it could support the surrounding infrastructure; and**

- **the help that it and its agencies can provide to ensure that the necessary infrastructure is in place to maximise the economic, cultural and heritage benefits for the indigenous films industry of a studio once developed**

Through our own market research and our analysis of the availability of funding for screen across Europe and beyond, we believe there is an economic imperative underpinning a requirement for production growth funding in Scotland. Such a fund would enhance Scotland's offer and capitalise on the growth opportunities for the screen sector. It is also worth noting that this is a *proven mechanism,* successfully used in other UK nations and regions, and abroad. Introducing the addition of production growth funding to the existing, highly-valued UK tax reliefs, will enable Scotland to compete more effectively for investment and co-production projects with other nations and regions of the UK that already have access to additional incentive funding.

C Evidence

There is currently capacity for growth in the film and TV facilities and production services sector in Scotland. Crews are under-utilised and are traveling outside Scotland in order to work as it is in other areas of the UK where there is a greater demand due to higher levels of productions. On the whole, skilled crew members would be more likely to prefer to stay in Scotland if there were comparable employment opportunities to enable them to do so.

Since the UK film tax relief system was improved in 2007, the UK has attracted considerable attention and business from around the world, particularly the US Studios. According to BFI data, 2014 saw the highest film production spend on record, with £1.47bn in total – a 35% increase on 2013. Inward investment spend increased 40% to reach £1.23bn. Total spend on film production in the UK for January to June 2015 was £594m and inward investment features contributed the highest UK spend with £518m. Spend in the UK on domestic features was £61m. Meanwhile, high-end television drama productions generated £615m in production spend in 2014 – the first full year of the high-end television (HETV) tax relief. Between January and June 2015, a total of 30 high-end TV programmes commenced principal photography with a spend in the UK of £279m. Recent evidence provided by the British Film Commission and BFI from early 2015, show that demand for UK studio space is unprecedented. See Annex 3 for BFI and BFC figures.

However, although large-scale productions frequently *consider* committing to filming in Scotland, with the exception of Outlander, all have decided to base production elsewhere in the UK. Outlander has to date **spent [redacted] in Scotland**. The reasons why such productions decide to base themselves elsewhere in the UK are complex and differ from region to region. For example, there is a consistent demand for the studio spaces in and around the South East because of their proximity to London and because of long-standing relationships. When we look to Wales, the West Midlands, Yorkshire and Northern Ireland, there are different reasons and incentives in place to attract productions. The key element which it is important to note for the purposes of this paper, is that, with the exception of the South East of England, *all* other nations and regions mentioned, offer higher levels of financial incentive than is currently available in Scotland.

Creative Scotland offers a Locations Service which promotes Scotland as a place to produce film and TV. The locations team leads on international engagement, marketing Scotland as a filming location at markets and festivals across the world.

Various studies, including the Film Sector Review, have recognised that Scotland has considerable potential as a world-class filmmaking centre but without its own production growth funding, it is the case that Scotland is losing business. For example, in 2014, Creative Scotland was aware of five major international projects with a total anticipated production spend of over £35m, which considered but then rejected Scotland as a location and/or production base) because more attractive incentives were available elsewhere in the UK.

As the location service needs to work on a confidential basis, we are unable to provide exact detail of the productions lost to other regions or the specific value of those individual productions.

Many administrations across the world now recognise the broad economic and cultural benefits of a healthy film sector[1] and have established financial incentives to secure large-scale production. This is particularly relevant when considering the impact of productions from the US Studios, For example the first four series of Game of Thrones have brought a direct economic benefit of an estimated £100m to the Northern Irish economy. This created the equivalent of more than **900 full-time and 5,700 part-time jobs**.[2] The production was attracted to Northern Ireland because of the studio and financial incentives on offer, this combination was not available elsewhere in the UK at that time.

Despite the lower level of productions in Scotland, the success of Outlander underlines the clear potential of the sector. Data from Creative Scotland show that in 2014, £48.5m was spent on production in Scotland, up from £33m in 2013 and £27m in 2012. We believe that such a jump in figures over the current period is largely due to '*Outlander* effect' and therefore provides a proof of concept; with a production facility and associated financial incentive Scotland would be in a significantly improved position to attract additional production

Film and television production is a major driver for expansion in the wider creative industries and healthy film production is key to developing this fast-growing sector. The UK's creative industries saw growth of almost 10% in 2013, three times that of the wider UK economy. The GVA of the creative industries reached £76.9bn in 2013, and accounted for 5% of the UK economy (there are no Scotland specific statistics available at this time)[3].

An indication from a recent Olsberg•SPI report on the economic impact of the UK's tax credits[4] show that for each pound of Film Tax Relief granted across the period 2006-07 to 2013-14, £12.49 in additional GVA was created through direct and multiplier effects. This equates to a taxation return of £3.74 in additional tax revenues for each pound of relief granted.

---

[1] 'Film' includes television drama throughout this paper and also includes animation as well as live action features

[2] *Royals visit set of highly acclaimed Game of Thrones*. Press release from Northern Ireland Office and The Rt Hon Theresa Villiers MP, 24th June, 2014. Accessed at https://www.gov.uk/government/news/royals-visit-set-of-highly-acclaimed-game-of-thrones

[3] "Creative Industries now worth £8.8m an hour to UK economy". DCMS press release, 13th January, 2015. https://www.gov.uk/government/news/creative-industries-now-worth-88-million-an-hour-to-uk-economy

[4] *Economic Contribution of the UK's Film, High-End TV, Video Game and Animation Programming Sectors*, February 2015

D Options

1 Background

It is important to note that *all* the UK nations and regions have the benefit of the UK Film, High End TV and Animation Tax Credit. Creative Scotland also has a £4m film fund which can be invested in productions that meet the published criteria up to a maximum of £500,000 by way of a recoupable equity investment ('soft money'). Broadcasters such as the BBC and Film4 offer a mixture of licence fee and equity investment and the BFI offers equity investment; these sources of funding are available to any UK production (including Scotland) which makes a successful application.

Unlike other nations and territories however, Scotland is currently unable to benefit in the same way because it does not offer an additional tax incentive, rebate scheme or other source of funding aimed at attracting productions to Scotland. In addition, it does not offer a persuasive financial package that encourages home-grown productions to *remain in Scotland*, rather than move to another territory where they are able to access additional funds. **It is this gap that it is proposed needs to be filled by the production growth fund** (see Annex 2 for details of comparable case studies/success stories).

The introduction of new production growth funding is considered by the public sector agencies that work with the film sector (Creative Scotland and Scottish Enterprise) and the production community, to be a pre-requisite for the long term success of a new permanent screen facility in Scotland. Without production growth funding (regardless of the success of the studio project), the ambition of Scotland's screen sector, the Scottish Government and its agencies, will not be realised. The evidence confirms that only three Scottish films with budgets above £500,000 were produced in 2014. Allowing for some annual fluctuation, this is in line with the previous five years, which saw 4 productions in 2013, seven in 2012, three in 2011, and five in 2010[5].

Scotland is an incredibly attractive destination in terms of locations. For example, a Scotland was recently voted as the world's best cinematic destination by USA Today. It is also the case that productions will come to Scotland in order to use a particular location *dictated by the script for the production*, **but they will, predominantly, only *establish* themselves in the territory where there is access to incentives**. Those productions may therefore come for a few days or a few weeks to shoot in Scotland, but they will return to their base or bases *where they spend the majority of their budgets*. The occasional use of Scottish physical locations for such inward investment productions is generally limited to modest location shoots (attracted by Scotland's iconic landscapes) involving minimal crew and expenditure, especially when compared to a production which could be established substantively in Scotland.

[5] *Review of the Film Sector in Scotland* Bop Consulting in partnership with Whetstone Group and Jonathan Olsberg for Creative Scotland. January 2014. Data on 2014 and 2013 sourced from Creative Scotland.

This is the opportunity that Scotland needs to grasp. To capitalise on existing funding opportunities, our locations, our crews, our talent and our infrastructure – production growth funding undoubtedly completes the picture that would establish Scotland as one of the most internationally competitive and attractive destinations for film and high end television production.

In turn, the resulting increase in production and the ability to draw productions to locate and establish themselves in Scotland will feed future success in the sector in terms of high-end mobile productions and the development of a vibrant and sustainable film sector in Scotland.

2 The Proposal

We have considered three options that are open to the public sector agencies, including the Scottish Government. These can be summarised briefly as: 1) do nothing; 2) 'mixed model' of loans and recoupable equity funding; and 3) non recoupable funding – pure incentive.

Option one: Status Quo - to maintain the current funding and support mechanisms. To continue to market and promote Scotland, nationally and internationally, on its current support/offer to incoming productions, i.e. locations and depth and experience of crew, the UK Tax Credits, Creative Scotland's recoupable equity funding and the other finance available in all UK nations and regions.

Impact: none. By maintaining existing funding, support and provision, there would be no significant increase in the number and scale of incoming productions. Other territories will remain more attractive than Scotland. More accurately, the impact may be worse than 'none'.

Risk: The ambition of the Scottish Government and its agencies will not be achieved. It is likely that the sector will not grow as desired. The level of incoming production and resulting inward investment into the economy will not increase significantly. **Scotland's reputation**, as an attractive destination for productions, at best, does not improve; more likely, it will result in an increasingly negative perception that Scotland is *not a viable place* to do business.

Option two: Mixed Model - to provide a mixed model of recoupable equity funding and/or loans on attractive terms, to incentivise incoming productions (to note, financials transactions could not be used as they have a very low risk profile, any potential return from a mixed model could not be guaranteed and would be dependent upon the success of the film/project at the box office or through international distribution, and any return would only be realised after a significant amount of time.

Impact: low. A mixed model may prove attractive to some larger independently financed mobile productions, but would be unlikely to be taken up by the projects backed by the US studios or TV networks. This model could make a return on an investment only or mixed investment and loan model, but any return would depend of the success of the film at the box office. The public sector is therefore risking low take up and low or no return. In addition, the conditions attached to such investment are less attractive to the target market, namely US Studios, than 'pure' incentive.

Risk: The ambition of the Scottish Government and its agencies is unlikely to be achieved. The recoupment or repayment elements are unlikely to be attractive to the larger incoming productions, which are usually backed by the US studios or larger US TV networks, who have expressed through confidential market research undertaken by Creative Scotland that these terms would not be attractive to them. There is evidence to suggest that funds that are set out following this model elsewhere in the UK are funding that they are not delivering fully on their ambitions and there is less take up of those funds than anticipated.

Option three: Production Growth Fund - to provide a fund with no recoupment or repayment terms, that would *ensure* that Scotland is seen as one of the most attractive territories to produce in and/or co-produce with. The fund would have clear conditions for access, for example, it would require spend and investment in Scotland and the employment of Scotland-based crews.

Impact: high. Pure incentive', this option would provide the most user-friendly type of funding, with no recoupment or repayment terms. It would be attractive to all types of national and international mobile (i.e. incentive-seeking) productions. Our view is that there is a greater opportunity cost with this option as the benefits would be delivered *regardless of the performance of any film at the box office.*

Risk: This is a high opportunity and low risk option as it would provide the best opportunity to maximise the economic impact of greater production activity. It would also enhance the reputation of Scotland across the international screen production sector because Scotland would improve its reputation as an attractive place to do business. A production growth Fund, in conjunction with a permanent screen facility and the wider package of funding and support available, would constitute the final crucial element to a high quality and accessible suite of support, resources and facilities that would firmly establish Scotland as the 'go to' place to make film. It should be noted however, that there are risks associated with the allocation of public funding to private sector initiatives at a time when the public sector is experiencing the impact of austerity. It is our view that a production growth fund, for a relatively modest outlay, would deliver significant economic benefits at the local and national level and that these benefits would offset the investment from the public sector (for example, Outlander).

3 Funding Options

It is our view that a production growth fund must be established if Scotland's screen sector is to flourish and in turn, make a meaningful and substantive contribution to Scotland's economic life both nationally and locally. In these straitened times it is clear that choices will need to be made about what are priority areas for public sector funding and where that funding can be sourced.

Although this paper makes the case for approval for additional Scottish Government funding to make this a reality, we have considered other options. We have identified a number of potential sources for funding which are considered below. These are, to reallocate funds from within Creative Scotland's existing budget, to use loans (Financial Transactions) or to resource using a one-off reallocation of existing SG and CS funding and thereafter potential new funding from the Scottish Government:

<u>a) Reallocate required funding from within Creative Scotland's existing budget:</u> Creative Scotland is resourced through two sources of income, Grant in Aid and National Lottery. It is not possible to utilise National Lottery Funds for a production growth fund because National Lottery funding has to **generate public benefit for the people of the UK and must be recoupable**. Unfortunately, the strong economic case that underpins our proposals for production growth funding, does not comply with the guidelines of what constitutes 'public benefit' in the terms and conditions for the appropriate allocation of lottery funding. This means Creative Scotland *must* set recoupment terms and net profit requirements for the allocation of funding from its existing Film Fund. As we have already established, these funds are generally not acceptable or attractive to international production companies, nor are they competitive within the UK or Europe because productions are able to source funds on better terms in other territories. [redacted]

Furthermore, Creative Scotland's non-ring-fenced, grant-in-aid funding of £33.4m for 2015-18 is committed to two areas of spend: fixed operational costs of £8m; and £25.4m towards the cost of the Regularly-Funded Portfolio (with a total regular funding budget of £33m). Creative Scotland made decisions on the 2015-18 Regularly-Funded Portfolio in Autumn 2014, and funded 119 organisations out of the 264 that applied. Any reduction in this budget over the course of these three years would have to be passed directly onto these organisations. This would inevitably result in reduction of activity, jobs losses and, in some cases, closures.

<u>b) Loans</u>: loan finance is used elsewhere in the United Kingdom but the evidence suggests that although this model is achieving some moderate successes in terms of successfully in attracting some international productions to make films there and use its studio facilities, it is only delivering partially on its ambitions. What is fundamental to the offers available elsewhere in the United Kingdom, however is that while the investment is framed as a loan to the production, the terms are flexible and therefore attractive (meaning that in terms of loan repayment, the position for the lender is well down the recoupment schedule and, if the production is not successful and revenues from exploitation of the production are limited, **ie that the loan may never be repaid. To note, this would not constitute default under the loan**). The conditions attached to accessing this funding are less directive and beneficial to the lender as the lender expects a return as a key outcome.

The Scottish Government has previously suggested that financial transactions could be used in this context, but loans on the terms required by financial transactions (i.e. guaranteed repayment and a return on investment) would not be fit for purpose in the context of attracting international productions to Scotland; there would be better financial offerings in other nations and territories, and they would not be taken up.

c) Combination of new SG funding and the reallocation of Creative Scotland funds and additional funding: it is recognised that these are extremely straitened times and that any allocation of resources is done in a context where organisations are facing reductions in budgets and, indeed, potential closures. Such is our certainty however, that a fund of this kind is crucial not only because it can underpin the future vitality of Scotland's screen sector but because of the wider benefits it can bring to communities across Scotland in terms of spend and job creation. CS is able to reallocate £1m of funding to 'seed' the growth fund but is flexible about when that funding can be used. We look to the SG to consider the long-term needs of the sector and its growth and commit to at least one years' funding in the first instance whilst the challenging economic environment that is engendered by the Spending Review is worked through. A robust evaluation part way through the two year fund will be able to demonstrate the success of this approach and will inform a follow-up approach for longer term support.

4 Timeline and considerations

The success of production growth funding is not dependent on the existence of a permanent studio facility in Scotland. It is our belief that the success of such a facility rests on the availability of the production growth funding however, regardless of the outcome for the studio facility, a new fund of this nature would have a powerful and significant impact on production across Scotland.

In the event that a new permanent screen studio for Scotland is established, however, the capacity in the screen sector will undoubtedly be increased. Although the new facility would be unlikely to be operating in the short term (whilst in the build phase), it is the case that there are enough unused large buildings capable of adaptation to meet demand ("pop up studios"). In the short-term, this would service a small, but significant, part of the potential. *Outlander* at Wardpark, Cumbernauld is a case in point

In this context, we propose a two-phase approach. Some funding should be made available *now* and during the Studio build, to maximise use of the existing pop-up studio capacity. When a new studio is in place, production growth funding should be at least maintained at a £1m level to accommodate sustaining levels of production.

The production growth funding will be established in a way that is **State Aid compliant** and we have sought initial advice from State Aid Unit colleagues and will continue to involve them.

Initial Period
Year One 2015/16: £750,000 (Scottish Government funding)
Year Two 2016/17: £1m (Creative Scotland funding)

Further period
Years Three to Six : to be determined.

E Economic, Cultural and Social Benefits of a Healthy Film Sector

The aims and objectives of introducing production growth funding alongside a permanent studio are ultimately to create the conditions necessary to create a healthy and diverse film sector.

Economic multiplier impacts from local, secondary and tertiary spend: by setting conditions on the recipients of the fund that a minimum spend of their budget is spent in Scotland and on Scottish crews as in order to maximise local, secondary and tertiary spend and minimise leakage from publicly-financed expenditures, it is important to have in place a highly skilled crew and comprehensively serviced local production sector.

Employment creation and skills development: increased levels of production also stimulates direct employment in the audio-visual industry including creative personnel (producers, directors, actors); financial and accounting (production accountants, line producers); technical crew (lighting, sound); craftspeople (plasterers, set dressers, wardrobe) and other specialist services (model makers); and at studios, post-production and other facilities.

The **increased experience of crew** working on films supported by production growth funding would also benefit the local industry who have access to the same talent, provided capacity limitations were avoided.

These are generally highly-skilled and mobile workers with higher average wages and consumption patterns[6]. There would be more opportunities for addressing issues of diversity, inequalities and inclusion.

One anticipated extra benefit would be the **reversal of current talent drain** and/or a healthy film sector would draw talent back to Scotland after productive overseas working bringing back additional expericene and skills for the benefit of the sector.

Small businesses development and economics of agglomeration: over the long term, a continually high level of production will help to create and/or retain a range of production and associated companies such as facilities providers, equipment services, post-production and VFX houses.

The inward investment benefits of money flowing into Scotland from international sources will contribute positively to the nation's balance of payments, as the production growth funding will leverage further investment from the Studio and other sources and link to Government's internationalisation agenda.

Screen induced tourism is a recognised and growing phenomenon. A recent study by Olsberg•SPI for Creative England in association with VisitEngland found clear evidence of how compelling a screen link can be for attracting tourists to a destination. The project estimated that a conservative value of international tourists specifically visiting filming locations in England, outside of London, to be in the range of £100-£140m in 2014. Given that screen content can also be powerful in convincing

[6] Department for Culture, Media and Sport UK, *Creative Industries Fact File* 2003

visitors that the UK is an attractive place to visit generally, even if they do not visit specific location, the overall value is likely to be higher[7].

Scotland is already known to be experiencing these benefits. *Outlander* has attracted tourists to the country, while levels of tourism to sites connected to *Braveheart, The Da Vinci Code* and *Skyfall* have seen visitor increases in each site ranging from 42% to 500% over the years[8]. Visit Scotland has long recognised the attraction of film locations as a driver for visitors to Scotland and as recently as July 2015, launched a 'Movie Map' of Scotland to enable visitors to navigate their way round some of Scotland's most iconic film locations (http://www.visitscotland.com/about/arts-culture/films/locations).

Essentially, the aims and objectives of introducing production growth funding, alongside a permanent studio facility are ultimately to create the conditions necessary to create a healthy and diverse film sector that brings accompanying economic benefits and creates jobs in Scotland.

As Outlander had proved, the opportunity presented by these large-scale productions, in terms of training and professional development, is considerable but is not achievable on the current level of production. **Series 1 of Outlander provided over 30 paid traineeships over 9 months** across the full range of craft and technical disciplines, this programme, **now replicated on Series 2, has a combined value of approximately £600,000, part funded by Outlander itself with match funding from Creative Skillset and Creative Scotland**.

The international profile of films also generates trade benefits derived from the positive images and "soft power" that commonly ensue from overseas business and political communities experiencing a country's positive messages from their screen content[9].

This soft power increases the ability of the country to have global impacts, with the British Council report showing that culture and the arts were the highest drivers of national attractiveness.

A thriving film industry also aids the development of a moving image culture, not only understanding film/television as a vehicle, but also as a tool for communicating, educating, innovating and artistic expression ("media literacy").

The heritage and legacy creation benefits have always been recognised and valued in Scotland and form an important part of the value delivered to its citizens and residents.

A healthy film sector is one which can better connect with its citizens, by supporting a range of productions for those with different interests[10]. Such a sector also provides, through the same mechanism, opportunities for a diverse range of voices,

---

[7] *Quantifying Film and Television Tourism in England*, March 2015
[8] *Tourism chiefs eye Outlander effect. Herald Scotland, 13th March, 2015* http://www.heraldscotland.com/news/home-news/tourism-chiefs-eye-outlander-effect.1426256645
[9] British Council, *As Others See Us*, 2014
[10] This will be demonstrated in our forthcoming report on the *Cultural and Audience Contributions of the UK's Film, HETV, Video Game, and Animation Programming Sectors*

including for minority cultures and native languages. In doing so, the sector can support talent development, with the crews involved in productions tending to be both better qualified and more mobile than the average for the economy.

F Financial and Management Arrangements

Studies show that the cost to governments of supporting additional production activity is more than outweighed by the economic benefits. Olsberg•SPI's recent report on the European fiscal incentive landscape found that "An immediate impact of the introduction of a fiscal incentive in most countries is an increase in production levels to a point where full (or almost full) capacity utilisation is reached". It also found that countries with fiscal incentive schemes tend to have larger film sectors, and above-average production sector growth. Meanwhile, the project found strong jobs growth in response to an introduction of an incentive[11].

In preparing for new production growth funding, a full cost/benefit analysis has been carried out (see Annexe 4), taking into account the amount of the likely fund expenditure and the added costs of administering the fund – against this would be measured an estimate of the likely financial and economic benefits that would result.

Funding awards would be made by Creative Scotland, which would manage and administer the funding, having the expertise and infrastructure already in place to do so. It currently handles an annual budget of approximately £4m of lottery funding for the development and production of independent national films as well as a £2m Tax Credit Advance Facility and a £1m Skills Fund.

Projects would be selected against a number of criteria, prioritising the benefits that would accrue to Scotland's screen sector economy – for example the amount of production expenditure, the length of the shoot, facilities used and crew engaged, and the potential tourism advantages.

Security arrangement would be put in place to ensure that productions meet the spend requirements and deliver the benefits to Scotland, such as a bond on feature films. There are no formal bond arrangements for High-end TV or Animation, other security arrangements would be put in place (currently used with un-bonded projects that CS are involve with) such as stricter cost controls and monitoring and structuring the payment schedule to ensure drawdown is in line with actually spend. We may also make the employment of a Scottish Line Producer to be a condition of funding.

There will be costs associated with administering the Production Growth Fund, both in additional external legal costs to contract the awards and internal Creative Scotland personnel costs to manage the fund, the main impact on personnel resources being the promotion, assessment, monitoring and evaluation of awards. It is estimated that combined these administration costs would be no greater than £50k per year of operation and would be deducted from the total amount of the fund in each year of operation. There will also be a resourcing impact on funding administration and business affairs functions and such impact would be need to be monitored and assessed during the operation of the fund and any real cost would also be deducted.

---

[11] *Impact analysis of fiscal incentive schemes supporting film and audiovisual production in Europe* Olsberg•SPI, published by the European Audiovisual Observatory, December 2014.

Risks to successful delivery could be that the fund is not utilised. Although we believe this is highly unlikely given the feedback we have received through our own market research, marketing the fund internationally in combination with the UK tax credits, Scotland's locations and skilled crews would mitigate this risk.

Monitoring and Evaluation

Creative Scotland monitors and evaluates its awards on a regular basis and further consideration will be given to monitoring and evaluating the outcomes of investments made through a production growth fund in Scotland against the aims and objectives set out at the start of this paper as the proposal is considered and an annual monitoring procedure mapped out at the start.

G Recommendations

It is our professional and market-informed view that the **Option 3 would create the best possible conditions within which our screen sector can thrive; and our ambition to increase production, with the resulting significant impact on Scotland's economy, can be achieved**. It would also enhance Scotland's reputation as a nation that takes its screen sector seriously and understands the requirements of large-scale international productions.

We propose that this production growth funding is named the Screen Production Growth Fund.

Annex 1

Scottish Studio and connected companies and business opportunities

The very nature of the climate in Scotland, as well as extremely short daylight hours, discourages location filming during the winter months. This essentially means that both Scottish crew and facilities companies experience a pronounced peak and trough in employment and income across the year.

Between November and March production is significantly reduced in Scotland and throughout this period crew in particular can migrate in search of work. This can potentially leave a gap in crew depth at the start of the Scottish shooting season.

The establishment of a studio would be a considerable leap toward a 12 month, year round sustainable industry. Using Outlander as an example, throughout their first season they scheduled their shoot for location filming throughout the spring/ summer months, moving into the stage to shoot over winter. This heralded a distinct shift in crew employment ensuring 300 crew members remained in employment over this traditionally difficult period.

Members of SFS (Screen Facilities Scotland) have expressed a continued and strong interest in studio progress. Several companies have expressed a desire to be informed of the potential location of a studio, with a view to relocating their companies close by.

This has been flagged to the FSDG and the Wardpark area is ripe for this type of relocation. Wardpark Industrial Estate is only at 70% capacity leaving 30% of the available industrial units available for use. There are also a number of large swathes of land nearby, capable of accommodating future development.

Without a studio facility, large scale filming tends to base in Scotland for short term location filming, however for production, deals are done with suppliers to accommodate the entire shoot. Therefore, although larger scale, the productions tend to import crew and technical consumables rather than developing new short term relationships locally.

This leaves our facilities companies somewhat vulnerable and in essence supplying shoots that are distinctly shorter term and lower in budget.

Essentially without a studio development and the encouragement for higher end, longer term productions our facilities and supplier’s growth is capped.

Annex 2

Comparable Case Studies/Success Stories

A number of comparable territories or regions offer funding to attract production and which has generated substantial benefits; note that all the UK nations and regions have the benefit of the UK film and High End TV tax credit, and Ireland has a higher tax credit, so the real need for Scotland is to introduce an additional financial offering in order to compete.

1. Northern Ireland has invested in *Game of Thrones* and *Dracula* through the Northern Ireland Screen Fund. According to Northern Ireland Screen's *Opening Doors* strategy, Large Scale Production Awards for Game of Thrones series one to four (including the pilot) and Universal's Dracula between 2010 and 2014 brought returns to Northern Ireland's economy of £102.2m from investment of £12.5m. The document reports a cost/return ratio of 8.21. Northern Ireland Screen's *Opening Doors* strategy notes: "The global market place remains extremely competitive and the High End Television Drama Tax Credit is applicable to the whole of the UK and not only Northern Ireland – the Northern Ireland Screen Fund remains Northern Ireland's main and critical differentiating factor". It also notes that the organisation "proposes to limit the Northern Ireland Screen Fund support for large scale production to the historical level of £3.2m per annum". Investments through the Northern Ireland Screen Fund are non-recoupable grants, whose objectives are focused on the economic multipliers associated with the investment rather than a traditional return on investment.

2 Wales The Welsh Government's Media Investment Budget, a £30m evergreen fund spread over an initial period of five years is targeted at for UK qualifying film and high-end television productions that shoot 50% of principal photography in Wales. Pinewood Pictures acts as a fund advisor[12]. According to a news story on its website, the Welsh Government will aim to invest on a commercial basis[13]. This investment is framed as a loan to the production, the terms of which are not detailed publicly, but which we understand are flexible in terms of interest rates and are not aggressive in terms of its the position in a production's recoupment schedule and net profit share, meaning that it is not unattractive to other financiers or the producers.

3 Ireland The Irish Film Board (**IFB**) offers funding for live-action international fiction feature films and TV drama. These are projects that originate and are managed from outside of Ireland and the IFB usually requires a 20:1 spend ratio (reducible in specifically agreed circumstances to 15:1) between admissible Irish expenditure and the IFB investment. According to information on its website, assessment by the IFB will be based primarily on consideration of the economic 'multiplier' effect of its funding, and of the opportunities for Irish personnel to be employed in key positions[14].

4 From 1 January 2015, Ireland's tax incentive "Section 481" for film and television has been enhanced. The rate of tax relief has been significantly

[12] Further details at http://pinewoodpictures.com/funding/

[13] Take Down unveiled as first film to receive funding from £30m Wales Media Investment Budget. News story on Welsh Government website, 2nd June, 2014.

[14] Further information: http://www.irishfilmboard.ie/funding_programmes/Fiction_International_Production/56.

increased and is now worth up to 32% of eligible Irish expenditure. The combination of a, Irish tax credit of 32% compared to the UK's 25% (effective from 1 April 2015, subject to state aid approval by the European Commission) and the IFB's non-recoupable investment make Ireland a very attractive destination for international productions and difficult for Scotland to compete against in a financial-only evaluation.

5 Yorkshire has the Yorkshire Content Fund for TV, film, video games and digital sectors in Yorkshire and the Humber. Managed by Screen Yorkshire it is the UK's largest regional investment fund, with £15m of investment from the European Regional Development Fund (ERDF). The fund can invest in excess of £1m in individual film or TV dramas that will be in production by December 2015. Investments are made on market rate commercial terms, with the intention that investment returns will produce a legacy fund to support content development and production in Yorkshire[15]; these are equity investments (meaning a contribution towards the budgeted cost of the production itself (not equity in the sense of shares in the company) made to SMEs which are recoupable out of revenues derived from the exploitation of the production, together with a share of net profits. The Screen Yorkshire investment has to be matched by a commercial investor and has to be recouped in a priority position in the recoupment schedule (ahead of so-called 'soft' money such as Creative Scotland's or the BFI's equity investments). The Yorkshire Content Fund is primarily intended to attract UK productions to Yorkshire and in terms of finance available in the UK landscape, if producers can make their productions work shooting or spending money in Yorkshire, then this is an attractive source of funding. What it is not primarily intended to do, because of the terms of the finance, is attract international High-End TV drama, feature film productions and co-production projects to Yorkshire.

6 The Isle of Man offers a Media Development Fund of £25m through Pinewood Pictures. A range of funding options is available through the fund, with Pinewood Pictures information outlining that employment of Isle of Man film workers and the use of ancillary Isle of Man services is a vital factor in consideration of applications. Use of Isle of Man facilities will make projects more attractive to the fund, though is not a pre-requisite.[16]

[15] Information from http://www.screenyorkshire.co.uk/funding
[16] Information from http://pinewoodpictures.com/funding/

Annex 3

British Film Commission and British Film Institute Figures

UK SCREEN
CONTENT GENERATE

film-and-other-scree
n-sector-production-i

Annex 4

Cost Benefit Analysis

Production Growth
Fund Financial Model_