A bigger picture

The report of the Film Policy Review Group
When we were asked by Chris Smith, the Secretary of State for Culture, Media and Sport, jointly to chair this, the most comprehensive review of film policy for many years, our first priority was to recruit a group of professionals who, in their “day jobs” were already key players in reinvigorating Britain’s film industry. They were already beginning to address the objectives that we had been set: how to produce, distribute and exhibit more British films to bigger and more diverse audiences.

The twelve people that we brought together on the main review group, along with the many others who served on our six specialist sub-groups and all those who submitted written and oral evidence, have brought a great wealth of experience and unswerving commitment to their task. We are extremely grateful to them all. The result has been a true collaboration between industry and Government, perhaps a model for other sectors of Britain’s flourishing creative economy. It represents the views of people who have brought Britain’s film industry to a state of health it has not known for many years. We believe it offers a solid platform for further growth and greater ambition.

In this report we have not sought to provide a short-term wave of a magic wand, but rather a logical series of interlocking proposals which will in time create a more robust and competitive industry – to the benefit of British audiences and the British economy.

Underpinning our proposals are four basic assumptions:

- Government and industry must continue to work together, so that each party can leverage the value of the other’s contribution;
- Encouraging production will not by itself deliver the outcome we want. The market needs better capitalised, broader-based companies able to integrate the processes of development, production and distribution;
- the only foundation for a secure future is a talented and skilled workforce and the only sure basis for the necessary skills is an industry committed, in every sector, to high quality and continuing training. But the seed-bed for such a future is a more lively and popular cinema culture, which fosters an informed and critically engaged audience;
- the film industry is global. Success in Britain depends upon a free flow of investment and talent in every aspect of the business, from development and production to exhibition and distribution.

We hope this report will be read not as a complete answer but as a first step, a signpost to ways in which Government and industry can work together to raise ambition, and help our films and our industry win a bigger share of a much bigger picture.

The Rt Hon Tom Clarke CBE MP
Stewart Till
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The aim of the review

The British film industry, in common with all our creative industries, has enormous potential. As recent successes show, our movies are capable, without compromising their individuality, of attracting huge audiences at home and abroad. These successes show that we have a real talent in this unique area where culture and commerce meet.

But at the moment our success is precarious. We do very well in some years and less well in others. We need to ratchet up our performance – our films still only have 23% of our own audience, while US films have 73%. We need to put the structures in place which will ensure that we can sustain and improve on our success year on year.

The Government believes that it has a role to play in helping to create a self-sustaining commercial film industry. In May 1997 Chris Smith, the Secretary of State for Culture, Media and Sport, set out six objectives for the British film industry:

Key Objectives

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

The strategic prescription

In 1997, cinema attendances were at their highest since 1974, and British films earned more than twice as much at the box office as in 1996. There are 1,000 more screens in the UK than ten years ago, and further investment is planned. Total UK consumer spend on feature films through all media went up by 29% between 1995 and 1996. But the industry has structural weaknesses which prevent it from reaching its full potential. A comparison of the structures of the US and UK industries demonstrates this.

The US industry is dominated by distribution-led, integrated structures, where the processes of development, production and distribution are financed and carried out by a single company. Such firms can use the revenues from distribution to finance production; they have the critical mass to attract finance; they are thus able to make bigger-budget films, write off failures and build up a library of rights.

By contrast, the UK industry is production-led and fragmented. The production process is separate from the distribution process which is dominated by big US companies. Production remains a "cottage industry": most producers have no close relationship with a distributor; cannot easily raise funds to finance development of a slate of films; and have to sell their rights in order to get their films distributed.

The undercapitalisation and lack of direct control with the market has a number of consequences for British producers. Typically they are less able to produce larger-budget films; they under-invest in research and development; and their marketing budgets are too small to have an impact. These weaknesses are magnified by the dominance of the US distributors in our market. They have a plentiful supply of their own movies and so have little incentive to promote relatively risky and low-budget British productions.

This report sets out a strategy for addressing these problems. Our recommendations cover five broad areas:

- the structure of the industry: we need to encourage the emergence of a distribution-led industrial process; better capitalised companies which can integrate production with distribution. We need a strong domestic distribution sector;
- the workforce: we need to ensure an adequate supply of appropriately skilled people. This will require a sustained increase in investment in training to deliver an improved strategy focusing on key areas;
- the films: we need to counteract the effect that industry fragmentation has had on the quality and commercial viability of our films;
- the audience: we need to encourage an increase in cinema-going, encourage the audience to see a wider range of films, and increase understanding and appreciation of film in the audience of the future;
- Britain and the world: we need to create an environment that is attractive to foreign investors and supportive of British exporters and to play a leading role in the commercial and creative development of the European film industry.

The action plan: a new partnership between industry and Government

This report commands the support of industry as well as Government. We will implement its recommendations together. With that in view the Government has invited the Film Policy Review Group, supplemented by further representatives from industry and public bodies, to form an Action Committee for a further year. This will help ensure that both industry and Government play their part, each to the benefit of the other. Such a partnership allows a radical and more strategic approach to securing the industry's future.

The film production sector has learnt that the long-term interest of individual firms may lie in collective action to address the needs of the sector as a whole, and has established voluntary arrangements for pooling funding for training. We propose to build on this by establishing an all-industry fund to benefit the whole industry – to improve the development, distribution, and marketing of British films, as well as their production.

Like the public support provided by the Arts Councils and other bodies,
this fund would seek to compensate for the market failures arising from the structure of the industry and be dedicated to measures to cure them. Contributions to the fund would be provided, on a voluntary basis, by all those who would stand to benefit from better developed, better marketed British films – exhibitors, distributors, video companies and broadcasters. Collected on this basis, a contribution of 0.5% of film-related turnover would, for example, raise around £15 million a year, which together with the public support available could help the industry to break out of the current vicious circle into a virtuous one. It will be for the Action Committee to develop detailed proposals for the fund in close consultation with the industry over the next few months.

The recommendations

The list which follows should be read in conjunction with the chart overhead, which sets out the timetable to which the recommendations will be delivered.

Transforming the structure of the industry

All-Industry Fund
Companies which exploit films should contribute to a voluntary all-industry fund that would benefit all the participants. This fund would boost the British film market by supporting development, distribution and generic promotion of film and cinema and related training initiatives. It would complement the producers’ training fund.

Lottery Support for Development and Distribution
A substantial proportion of Lottery funds for film should be used to support development and distribution. A main criterion for selecting projects should be previous successful track record, to encourage and reinforce commercial film-making. These funds should work together with the all-industry fund, to make the maximum impact in the marketplace.

Improving the Marketing of British Film

Film Marketing Agency
A private-sector Film Marketing Agency should be created to provide marketing expertise to the whole industry and raise the public profile of film and cinema.

The Department for Culture, Media and Sport (DCMS) should work with All Industry Marketing (AIM) and others to set up the Film Marketing Agency and to seek funding from private- and public-sector sources.

Audience Research
DCMS and AIM should collaborate on establishing a permanent audience research capability for use by the whole industry – a film industry equivalent of the Broadcasters’ Audience Research Board.

Maintaining the UK’s World-class Workforce

Skills Investment Fund
A new Skills Investment Fund should be created, replacing the current training levy. Voluntary contributions should be set at 0.3% of production costs up to £10 million and at 0.25% above £10 million.

New Training Strategy
Skilled should develop a new training strategy to encourage more commercially-focused films, to maintain high production values, and to promote standards and qualifications.

Public Funding Conditions

Public-sector benefits, such as funding for production, should be made conditional on contributing to a Skills Investment Fund.

The UK in the Global Marketplace

London Sales Market
An international sales market should be established in London. The Producers’ Alliance for Cinema and Television (FACT) should work with DCMS to research ways in which it could be developed.

Sales Agents’ Trade Body
A trade body for exporters should be set up, enabling the industry to access government export promotion support more effectively.

UK Film Office in Los Angeles
A UK Film Office should be established in Los Angeles, to help attract more productions to the UK and to build links between the UK industry and Hollywood.

European Support
European audiovisual support should be targeted on building up an integrated industry led by companies able to compete globally.

The Film Audience

Joint Education Initiative
There should be a new joint initiative by Government and industry to boost film education, especially in schools. The British Film Institute (BFI) will focus its strategy to give greater emphasis to access and understanding of the moving image.

The Supporting Infrastructure

New Definition for British film
The statutory definition of a British film for fiscal and economic purposes should be amended to make it more practical and user-friendly. In addition, a new definition of a culturally-British film should be introduced, to assist marketing and monitoring of performance.

Action Committee

The Film Policy Review Group with additional members should remain in existence for a further year, working with industry and Government to take forward this action plan.
## Action Plan

<table>
<thead>
<tr>
<th>Implementation dates</th>
<th>Government/Public Sector measures</th>
<th>Industry/Private Sector measures</th>
<th>To deliver specific objectives:</th>
</tr>
</thead>
<tbody>
<tr>
<td>by Sept 1998</td>
<td>first meeting of Action Committee</td>
<td>first meeting of Action Committee</td>
<td>to plan strategy for industry-led initiatives in particular</td>
</tr>
<tr>
<td></td>
<td>first meeting of Film Finance Forum</td>
<td>first meeting of Film Finance Forum</td>
<td>to improve communications between the industry and the City</td>
</tr>
<tr>
<td></td>
<td>industry agreement to contribute to new Skills Investment Fund</td>
<td>new training strategy developed</td>
<td>to provide funding required to implement new training strategy</td>
</tr>
<tr>
<td></td>
<td>film education group starts work</td>
<td>to meet training needs of a commercial industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Film Office established in Los Angeles</td>
<td>to develop a more cine-literate audience</td>
<td></td>
</tr>
<tr>
<td></td>
<td>new export trade body established</td>
<td>to encourage greater inward investment from the USA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>new qualifying criteria for fiscal incentives in place</td>
<td>to maximise revenues for British films from all markets</td>
<td></td>
</tr>
<tr>
<td>by end 1998</td>
<td>Skills Investment Fund mechanisms established, new training programmes begin</td>
<td>to encourage investment in British qualifying films</td>
<td></td>
</tr>
<tr>
<td></td>
<td>new British film definition for measuring success and marketing in place</td>
<td>to deliver the training priorities identified by the Review Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>develop an audience research capability for the industry</td>
<td>to help promote culturally British films</td>
<td></td>
</tr>
<tr>
<td></td>
<td>complete study on compiling film industry statistics</td>
<td>to increase the industry's understanding of the audience's preferences</td>
<td></td>
</tr>
<tr>
<td>by April 1999</td>
<td>new Arts Council of England strategy in place, including distribution and development schemes</td>
<td>to provide easier access to key industry statistics</td>
<td></td>
</tr>
<tr>
<td></td>
<td>pilot of all industry fund established</td>
<td>to encourage the development of integrated commercial structures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>film marketing body established</td>
<td>to encourage better development and distribution of more commercial British films</td>
<td></td>
</tr>
<tr>
<td></td>
<td>new £1 strategy in place including results of film education initiative</td>
<td>to raise profile of film in Britain through generic marketing initiatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>strategy for creation of London film market completed</td>
<td>to deliver improved film education/cine-literate programme</td>
<td></td>
</tr>
<tr>
<td>by April 2000</td>
<td>new joint-funded Government-industry strategy in place</td>
<td>to help boost overseas sales potential of British films</td>
<td></td>
</tr>
</tbody>
</table>
1.1 The British film industry has enormous potential. As recent successes show, our movies are capable, without compromising their individuality, of attracting huge audiences at home and abroad. These successes show that we have a real talent in this unique area where culture and commerce meet.

1.2 But at the moment our success is precarious. We do very well in some years and less well in others. We almost doubled our domestic market share between 1996 and 1997, but largely on the strength of two very successful films. We need to ratchet up our performance – our films still have only 23% of our own audience. And we need to put the structures in place which will ensure that we can sustain and improve on our success year on year.

1.3 The Government believes that it has a role to play in helping to create a self-sustaining commercial film industry. In May 1997 Chris Smith, the Secretary of State for Culture, Media and Sport, set out his six key objectives to achieve this:

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

1.4 At the same time the Secretary of State announced the creation of a top-level working group, led by Tom Clarke, the Minister for Film, and Stewart Till, President of International, PolyGram Filmed Entertainment, to translate these objectives into a detailed action plan for Government and industry to deliver. The aim was to develop a long-term, equal partnership between the private and public sectors to create the right environment for a successful industry and vibrant film culture, with both parties contributing because both stand to benefit.

1.5 Six specialised sub-groups, involving 55 leading practitioners from all the main sectors of the industry, were set up to advise the main group on the six objectives. Their conclusions, drawn from research and extensive consultation and discussion, provided the foundations of this report. Annex 1 lists the members of the Film Policy Review Group and the six sub-groups, and the main organisations consulted during the course of the Review.

1.6 This report focuses on the measures needed to build the infrastructure of a self-sustaining, commercial film industry, specifically cultural objectives were outside the remit of the review. Nevertheless, we believe that achieving our economic goal will lay the foundations of a healthy and diverse film culture, allowing a wide range of film-making, from the shoestring budget to the blockbuster, to flourish throughout the UK. Our analysis concentrates on England, but we hope this strategy will complement the strategies being taken forward in Scotland, Wales and Northern Ireland.
Introduction

2.1  Although there are welcome signs of recovery in the British film industry following the slump of the late eighties/early nineties, there are fundamental weaknesses in the industry’s structure that will impede its sustained growth. This chapter gives a brief overview of the industry in 1996 and highlights the specific problems that we have sought to address.

The British Film Industry in 1998

2.2  100 British productions and co-productions were made in 1997, together with 12 foreign films shot mainly or wholly in the UK, with a total production cost of £560 million. These levels were lower than 1996 when 128 films were produced at a cost of £741 million but well up on the all-time low of 1989 when just 30 films (costing £105 million) were produced.

Table 1: Film Production in the UK 1989 – 1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Films Produced</th>
<th>Investment (£m)</th>
<th>Investment (1997 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>30</td>
<td>104.7</td>
<td>140.4</td>
</tr>
<tr>
<td>1990</td>
<td>60</td>
<td>217.4</td>
<td>202.9</td>
</tr>
<tr>
<td>1991</td>
<td>59</td>
<td>243.2</td>
<td>275.9</td>
</tr>
<tr>
<td>1992</td>
<td>47</td>
<td>184.9</td>
<td>201.7</td>
</tr>
<tr>
<td>1993</td>
<td>67</td>
<td>224.1</td>
<td>244.8</td>
</tr>
<tr>
<td>1994</td>
<td>84</td>
<td>455.2</td>
<td>492.2</td>
</tr>
<tr>
<td>1995</td>
<td>78</td>
<td>402.4</td>
<td>425.5</td>
</tr>
<tr>
<td>1996</td>
<td>128</td>
<td>741.4</td>
<td>759.2</td>
</tr>
<tr>
<td>1997</td>
<td>112</td>
<td>560.0</td>
<td>560.0</td>
</tr>
</tbody>
</table>

(Source: BFI handbook, 1998; Screen Finance)

2.3  137 million people went to the cinema in the UK in 1997 – the largest number since 1974. Gross takings of £512 million were 16% higher than in 1996. British produced or co-produced films took a 21% share of box office – that is over £117 million, more than twice as much as in 1996 when they took around £56 million (15% of the total). At the beginning of 1998, The Full Monty became the biggest grossing film ever at the UK box office and both The Full Monty and Bean have grossed more than £250 million worldwide. Furthermore, sustained investment in more screens and better facilities has transformed the experience of going to the cinema. There are 1,000 more screens in the UK than ten years ago and all the major chains have extensive investment plans over the next few years.

2.4  Distribution in the UK is dominated by the five US majors (Buena Vista, Columbia, Fox, UP and Warner) which shared 78% of total UK box office between them in 1997 (including revenues from British films). Only two European distributors, Entertainment and PolyGram Filmed Entertainment, had a significant market share (6.7% and 8.9% respectively) taking the total market share of the “big seven” distributors to over 93%.

2.5  Total UK consumer expenditure on film-related products (i.e. cinema, video and TV) exceeded £1 billion in 1996, an increase of 29% over 1995. Rapid developments in digital, satellite and cable TV mean that the market for quality audiovisual product is healthier than ever. The video industry, too, recorded its highest ever income in 1996, compared with the previous year.

2.6  The international dimension is crucial. In 1996, UK companies’ overseas earnings from film distribution (cinema and TV) totalled £320 million, compared with the £56 million that British films took at the UK box office in that year. And in 1997, investment in wholly foreign films shot in the UK accounted for 39% of all UK production investment.

2.7  Distribution and cinema exhibition is highly internationalised. In 1996, the US studio majors were responsible for 78% of cinema and video sales, with 58% (by value) of all UK sales of film-related products. The US companies are also the dominant force in the TV and video industries.

2.8  The US model

The US model

2.8.1  The US film industry is dominated by high-cost, high-revenue ‘blockbusters’, which are often made by major studios. The success of a film is measured by its box office income, and the studios are able to recoup their high costs through a combination of theatrical, home video, television and ancillary sales.

2.8.2  The US film industry is also characterised by a high degree of vertical integration, with studios owning major distribution companies and sometimes even major cable and satellite operators. This allows them to control the distribution of their films and to maximise their returns.

2.8.3  The US film industry is also characterised by a high degree of market concentration, with a small number of major studios controlling the majority of the market.

2.8.4  The US film industry is also characterised by a high degree of financialisation, with a large amount of capital being invested in the industry, often through the use of leverage and derivatives.

2.9  Film-making is an expensive and risky business. Each film is a costly prototype, necessarily created without any certainty that a market exists for it. While the costs of making a film are incurred at the development/production stage, revenues from exhibition do not arise until much later and accrue first to the distributor, who takes significant fees before the costs of the film are recouped and it goes into ‘profit’, which may not be until long after its first release. Only where there are close links between the two processes can American one? It is illuminating to compare the structures of the two industries.

The underlying problems: comparison with the US model

2.7  As the preceding analysis shows, the US film industry is strikingly successful, both in its domestic market, where the majors take 85% of box office, and abroad. They share the same language advantage as the US, and our film-makers are acknowledged to be some of the most creative there are. Why does the British industry not perform as well? Misunderstanding the US market, delays in the development process, financial constraints, and a lack of vertical integration are all factors which limit the potential of the UK film industry.

2.8  The US film industry is dominated by high-cost, high-revenue ‘blockbusters’, which are often made by major studios. The success of a film is measured by its box office income, and the studios are able to recoup their high costs through a combination of theatrical, home video, television and ancillary sales.

2.9  Film-making is an expensive and risky business. Each film is a costly prototype, necessarily created without any certainty that a market exists for it. While the costs of making a film are incurred at the development/production stage, revenues from exhibition do not arise until much later and accrue first to the distributor, who takes significant fees before the costs of the film are recouped and it goes into ‘profit’, which may not be until long after its first release. Only where there are close links between the two processes can
2.10 The stability of such companies, together with the close links they embody between the research and development phase of the process. They are the ideal companies to develop an understanding of the market, and are able to develop a series of projects and write off those about which they are uncertain, or to continue developing a script until it is ready to go into production; instead they often rush into production because the decision is taken to release the film. Distribution of our distributors suffer from lack of critical mass, and, as a result, they are unable to provide large sums in promoting releases.

2.12 The undercapitalisation and lack of direct contact with the market has a number of consequences for British producers. Typically they are not able to produce the large budget films with the "A list" stars and special effects which are known to have the appeal to both at home and abroad. The average budget for the wholly British films produced in 1997 was less than £2.5m compared with over £15m for the overseas films made in the UK. They do not have access to the sophisticated audience research available to the majors. Nor do they have the resources to develop a series of projects and write off those about which they are uncertain, or to continue developing a script until it is ready to go into production; instead they often rush into production because the decision is taken to release the film. Distribution of our distributors suffer from lack of critical mass, and, as a result, they are unable to provide large sums in promoting releases.

2.13 The films
We need to react to the threat that the Government agenda — the focusing of Government support to achieve our strategic goals and the possible reduction of the tax relief. We set out a series of measures which we believe should have a significant impact on the performance of the industry, but the scale of what can be achieved will be greatly increased if the industry is to be supported by the Government agenda.

2.14 The strategic prescription
2.14.1 This report sets out a strategy for addressing these problems in the long term by taking measures to encourage the emergence of structures more like those of the US majors, and in the shorter term to improve the ability of our films to compete in the marketplace as it is now.

The structure
We need to encourage the emergence of a distribution-led industrial process. Firms capable of attracting large scale private investment, with greater critical mass and integration between production and distribution, on which we need to build a strong domestic distribution sector.

The workforce
We need to ensure an adequate supply of appropriately skilled people. This will require a sustained increase in investment in training to deliver an improved strategy focusing on key areas.

Delivering the strategy
2.15 The key areas which follow set out agendas for action for the industry and Government. There are a number of options for change on the Government agenda — the focusing of Government support to achieve our strategic goals and the possible reduction of the tax relief. We set out a series of measures which we believe should have a significant impact on the performance of the industry, but the scale of what can be achieved will be greatly increased if the industry is to be supported by the Government agenda.
arrangements by setting up an all-industry fund for purposes of benefit to the whole industry - the development, distribution and marketing of British films and related training. Like the public support, this fund would compensate for the market failures arising from the structure of the industry and be dedicated to measures to cure them. We therefore propose that all those who would stand to benefit from better developed, better marketed British films and generic marketing of cinema should contribute - i.e. exhibitors, distributors, video companies, and broadcasters. We estimate that a contribution of the order of 0.5% of film-related turnover would raise around £15m a year, which, together with the public support available, would provide the scale of leverage needed to break out of the current vicious circle into a virtuous one. As well as its direct benefits, we believe that such a fund would bring indirect benefits in demonstrating both to private sector investors and to the public sector the benefits of continued investment in the film industry.
3.1 The previous chapter explained how the present structure of the industry is constraining its performance, and in particular its ability to compete with the American majors in the domestic market. It is clear that the industry will not be able to provide audiences with a constant supply of commercially successful, characteristically British movies until it transforms its current fragmented structure into an effective integrated industrial process. We must be prepared for such a transformation to take a long time and it must be market led. We can however seek to create conditions favourable to it and to help move the market in the right direction by means of strategic use of public and private funds, investment incentives and active encouragement.

A new Public-Private Partnership

3.2 The European response to the domination of the US in their markets has usually been to target government support on production to boost the number of indigenous films for distribution. Until recently, this has been the usual approach in the UK too. The Arts Council of England’s film franchises were however the first step in a more strategic use of funds to encourage industry restructuring. They direct support towards groups of producers with critical mass and close links with distributors, which increase the likelihood of their long-term commercial success.

3.3 The four Arts Councils have already invested over £50 million of National Lottery funds in more than 160 films (including features, shorts and documentaries). The Arts Council of England has considered committing £10 million of Lottery money to film over the next three years, including funds to the franchises and for development and distribution schemes. We strongly endorse this approach, recommend that at least this level of funding be committed for the next three years, and urge the other Arts Councils to consider whether they wish to use Lottery funding in a similar way. We further recommend that the Arts Council of England’s development of the existing franchises should pay particular attention to encouraging the emergence of sustainable structures. We also recommend that they should look to build on the franchises in two ways: by broadening their support, as already planned, to the development and distribution processes as well as production; and by continuing to use that support specifically to promote the emergence of those more robust industrial structures.

Proposal:
Funding levels for Lottery support to film should be maintained and a significant amount reallocated from production to development and distribution.

3.4 Specifically, we recommend that the Lottery budget for development should in part be used to fund a new scheme which would encourage the growth of successful film companies by making available to the industry funding of at least £20 million a year. We recommend that, within the review of the machinery for providing office performance achieved by the applicants in distributing earlier qualifying films, with limits applied to ensure a reasonable spread of funding across the industry. The distributor would have to match the Lottery funding with at least an equal amount of their own resources. Normal public funding rules would be respected, especially the need to ensure that public monies do not substitute for private investment. The Arts Council of England’s investment would be repaid from earned revenues under industry terms.

3.5 We further recommend that the budget for distribution should be used both to encourage the major distributors to pick up more British films and to develop more competitive British distribution arrangements in the longer term.

Proposal:
a scheme to support the distribution of qualifying films. This scheme would help distributors to invest more in prints and advertising for British films and encourage all distributors, including the US majors, to distribute more British films. Support under this scheme should take into account the box office performance achieved by the applicants in distributing earlier qualifying films, with limits applied to ensure a reasonable spread of funding across the industry. The distributor would have to match the Lottery funding with at least 2048 of 0.38 the amount of their own resources, especially the need to ensure that public monies do not substitute for private investment. The Arts Council of England’s investment would be repaid from earned revenues under industry terms.

3.6 Existing schemes, such as British Screen Finance, the Arts Council’s other Lottery funding, including the proposed Alpha Fund which would have a specifically cultural remit, and regional funds will complement these proposals. These schemes will also have a continuing role in providing the “nursery slopes” on which new film makers can learn their craft. We recommend that, within the review of the machinery for providing Government support to film (as outlined in paragraph 8.11), DCMS should further consider this issue of a development path for film makers.

Pooling industry resources

3.7 For these proposals to make any real difference in an industry with annual value across all media in the UK estimated at more than £3 billion, significant sums of money will have to be invested in them. The Arts Council of England’s current plans envisage around £3 million from the Lottery for the new distribution and development schemes. We urge the Arts Council of England to consider whether a higher sum can be provided for these purposes. But whatever the level of Lottery investment, if these funds are to have an impact, they will need to be added to considerably by industry contributions. In total, we believe that a fund of the order of £20 million a year would make a real difference.
Proposals: An All-Industry Fund

At element of the audiovisual industry that stand to gain from the development of better British films distributed more effectively should contribute to an all-industry fund. We propose that those companies that make money from the exploitation of British films — that is, exhibitors, distributors, video companies and broadcasters — make a voluntary contribution to this fund, which could work with Lottery money to support development, distribution and generic marketing and promotion schemes, and related training. Further details of how the fund would be established are in Chapter 8.

3.8 We recognise that asking those at the delivery end of the value chain to contribute indirectly to the costs of developing and marketing films is a radical step. We believe that it is justified in order to bridge the gap between production and exploitation and to create the industrial structure required to deliver sustained change in the industry’s performance.

3.9 This fund, combined with enhanced investment in training and more focused public support, will enable us to deliver a comprehensive strategy to address the priorities we have identified. It will bring benefits at three levels. First, all users of film — the exhibitors, the video industry, the broadcasters — stand to reap the benefits of the increased commerciality and profile of British movies. We have only to look at the added value created by The Full Monty, which has taken over £20 million more than its nearest comparable British rival at the UK box office, to see the potential of well developed and expertly marketed home grown material and generic marketing initiatives to add considerably to the overall size of the market.

3.10 Secondly, individual firms will be able to gain access to the fund for support of their own development and distribution projects, with the potential to access sums in excess of their own contribution. Eligibility to benefit from this fund would be made conditional on making an appropriate contribution.

3.11 Thirdly, we should not underestimate the effects that the successful implementation of this approach could have on the attitude of other sources of finance for the industry. We believe that it will help to deliver the improvements to the structure and commerciality of the industry needed to attract private investment from outside the film sector. We also believe that it will be a powerful indicator to Government that this is a sector which is determined to succeed and in which public investment continues to be worthwhile.

Attracting private sector investment

3.13 If the public sector and existing film industry players demonstrate their commitment to developing a commercial industry by contributing to the schemes described above, film makers will be able to look to the City of London and industrial investors for further strategic investment in this sector. Attracting such investment has to be essentially industry-led, but the Government should also consider the case for introducing tax incentives which encourage investment in the business of film.

3.14 This review is a joint initiative by DCMS and the industry, and this report sets out conclusions which are backed by both halves of the partnership. Since the announcement of tax policy is a matter for the Chancellor of the Exchequer at the time of the Budget, it would not be appropriate for DCMS to endorse fiscal proposals that emerged from the Review Group’s discussions.

3.15 However, the industry members of the Group agreed unanimously that this was one of the most important issues under review, and that the results of their discussions about the fiscal climate for film investment should be recorded. The Minister for Film, as co-chair of the Review, has noted the conclusions set out below, but they should not be seen as a statement of current or future Government policy.

Tax incentives

3.16 Last year the Government gave a major boost to the British film industry by introducing, for a three-year period, 100% write-off of expenditure on production and acquisition of films with budgets under £15 million. Given the report’s emphasis on changing the fragmented structure of the industry, the industry members of the Group believe there is a strong case for extending the 100% write-off to encourage the making of bigger budget films by companies large enough to produce and exploit slates of movies. In their view, allowing 100% write-off for the first £15 million of expenditure on films with budgets of over £15 million would provide the additional incentive that could make film production and distribution an attractive option for potential big new investors. It would also increase our appeal as a destination for inward investment, in particular from the USA. It is precisely the big-budget pictures that are the most internationally mobile, since small cost advantages, in percentage terms,
3.17 The industry members of the Group propose two further changes to the current arrangements:

(i) the three-year life of the 100% write-off should be extended, since it has taken several months to agree all the details of how the new incentive will work;

(ii) the enhanced fiscal incentive should be tied to a quid pro quo which would help ensure real and lasting benefits for the British film industry and economy. One of the conditions attached to the 100% write-off should be a requirement to contribute to industry training.

3.18 While acknowledging the value of the capital allowances, the industry members of the Group see the need for a complementary tax incentive that would encourage investment in the business of film, rather than the production of individual films. This would encourage the necessary structural change within the industry by facilitating equity investment in production/distribution entities making and exploiting slate of movies.

Qualification for Tax Benefits

3.20 Qualification for the current tax incentives depends on compliance with the list of criteria set out in the Films Act 1965. Almost every response to the Film Review's consultations argued for changes to those criteria. The overwhelming consensus was that the criteria did not reflect the realities of contemporary film-making.

3.21 In considering how this section of the Films Act might be amended, we bore in mind that its purpose is to assess eligibility for fiscal benefits, and that it must therefore focus on economic factors, in particular expenditure and employment in the UK. This may mean that films with little British cultural content could be classified as "British". However, taking cultural considerations into account in the Films Act criteria would detract from the primary objective of the tax definition. After consultations with industry representatives and legal and financial experts, and after informal modelling of various options, we are formally seeking views on the proposals set out in detail in Annex 2. We believe these revised criteria would be more user-friendly and fairer, and would ensure that substantial economic benefits accrued to the UK.

Proposal:

Once the consultation responses have been taken on board, DCMS should secure Parliamentary approval for the revised criteria as soon as possible.

Defining "Britishness"

3.22 Since we were given the objective of doubling the domestic market share of British films, we had to address from the outset the vexed question of defining "Britishness". As indicated above, we did not feel that it was possible or desirable to design one all-encompassing definition that would both ensure that tax incentives were used to best effect and correspond with intuitive perceptions of what is and is not British.

3.23 Therefore, we believe that, alongside the qualifying criteria for those who want to access tax benefits, there should be an agreed definition, based mainly on cultural factors, of a British film. This would assist the monitoring of industry performance, eg market share and earnings at home and abroad, and help the industry target its marketing and PR activities.

Proposal:

A definition of a culturally-British film should be introduced. Views are invited on this proposal and on the possible model set out in Annex 2. DCMS should analyse the responses to this report and consult industry representatives and other interested parties on the terms of the definition.

Encouraging links between the film industry and the City

3.24 The Advisory Committee on Film Finance (the Middleton Committee) identified two major obstacles to attracting City investment into the film industry: the lack of suitable commercial undertakings in which to invest; and the lack of effective communication between the City of London and the film industry. The recent growth in the audiovisual industry, the extra tax relief announced in the July 1997 Budget, and the value of film "software" to new developments in the television sector, have all gone some way to alert some investors to the part that film investment might play in their media portfolios. But the industry needs to forge stronger links with the City to create long-term investment opportunities. We therefore endorse the Middleton Committee's proposal that an effective way to achieve an ongoing dialogue is to create a Film Finance Forum to bring together the film and financial sectors.
Chapter Three - The Structure

Proposal:
A Film Finance Forum should be established to discuss issues of interest to the two sectors, and consider specific proposals that might improve the investment potential of the industry. The membership should comprise representatives of each of the main investment sectors (e.g. pension funds, insurers, merchant banks, high street banks etc) and all aspects of the film industry. The Forum could also organise special events and conferences to attract a wider film and finance audience.

Encouraging the broadcasters to invest in British films

Proposals:
Following the publication of this report, DCMS should hold meetings with the broadcasters to discuss their plans for future investment in the British film industry.

3.26
Nevertheless, the Review Group is concerned that overall there is too great a mismatch between the benefits that the broadcasters reap from film – which accounts for around 10% of TV viewing time – and the resources that they put back into film, whether through licensing of films or direct investment in production. From our consultations we are aware that various plans for increased investment are being developed, and we strongly urge the broadcasters to implement and build on those plans. If we are to develop a sustainable British film industry, there must be a steady stream of investment from such important and powerful end-users. Such investment in British film will help broadcasters meet the requirement under EU law that they devote at least 50% of their schedules to European audiovisual works.

3.25
The broadcasters are a vital and integral component of the British film industry. It is widely recognised that, during the downturn of the late 1990s, Channel 4 was more or less the last hope of the UK film production sector, and that its enlightened film policy contributed a great deal to the buoyancy that the industry is currently enjoying.
4.1 The British film industry has a long-standing and demonstrable record of producing talented professionals both in front of and behind the camera. As the film industry grows worldwide and the pace of technological innovation increases, and as more and more countries compete to offer tax and other advantages to attract film makers, there can be no doubt that the future success of our industry depends on the nurturing of new talent. An adequate supply of skilled professionals is the only sure way to service a growing industry and to keep labour costs competitive. In this chapter we seek to identify those skills shortages (including the executive skills which the British industry has significantly lacked) that could have the greatest impact on the successful development of a sustainable commercial film industry and propose ways in which these can be met through practical and deliverable training programmes. Regular audits of skills shortages, training needs, and the new programmes will be required to ensure that training provision remains relevant to changing industry trends.

4.2 The focus of our analysis, which is presented below with approximate costings attached, has been on those areas mainly staffed by freelances who have no employer to provide training for them. The situation is less critical in those sectors such as exhibition and distribution where most employees are staff members, although there are some shortages for well qualified projectors. In addition, ongoing research into skills availability in the animation sector will be completed later this year and might identify further skills shortages in this important area. DCMS and the Department for Education and Employment (DfEE) are also undertaking research into the availability and quality of media training at further and higher education. Firstly, although the group has focused on feature film production there are clearly crossovers with the training needs of the television (especially drama) and commercials production industries. We recommend that TV production training needs of broadcasters, for both their staff and freelance labour, should be looked at in more detail by a separate Government/Industry group.

The new strategy: priorities

Producing films aimed at the marketplace

4.3 Well-trained practitioners in several key areas will be needed to deliver improvements in the commerciality of British films. The key areas identified are:

- **scriptwriters**; through master classes and conversion courses for writers with a proven track record in other media;
- **script editors and development executives**; through training courses and on the job development;
- **producers**; particularly in commercial management skills, script development and the basics of distribution, through a combination of placements with successful producers and access to tailored short courses;
- **production accountants**; to provide producers with professional accounting advice and strong cost control. Commercially qualified accountants should be encouraged to learn the intricacies of production accounting and non-qualified production accountants should be encouraged to train for professional exams;
- **distributors**; through internships, short-term placements and short courses run in a modular format;
- **talent**; through conversion courses for TV and stage performers and directors to teach them the specific skills of film and audiovisual performance.

Maintaining first class production values

4.4 Research conducted for the group suggested that an extra 200 new entrant training places a year are required to meet the increased demand for technical crews if the UK is to retain the ability to crew films to the required standard and at an acceptable cost. There is also a growing need for re-training in new technologies, to update skills to keep pace with new developments.

4.5 It is also critical that increasingly demanding health and safety standards are maintained on set and on location. This requires training but the measurement of competence and the attainment of appropriate standards and qualifications are also vital to achieving this. The Government is committed to the development of National and Scottish Vocational Qualifications (NVQs) to ensure that new entrants to the industry and especially freelancers who move between employers, are trained to industry standards and their competence assessed against objective industry criteria.

4.6 NVQs are also central to the Government’s New Deal initiative, which aims to find places for 250,000 young unemployed, with opportunities to learn skills to the standards defined by the vocational qualifications. Greater investment in providing training and employment which lead to the achievement of NVQs will help the Government achieve this aim and provide employers with a reasonable assurance that new employees are capable of performing a range of tasks appropriate to their qualification. An important step in implementing these standards and qualifications effectively is the development of film assessment centres through which each individual’s competence can be assessed and verified. This will also require employers to allow access to assessment for those people training and working on their productions.

Developing and maintaining high standards of education and practical qualifications

4.7 There are estimated to be around 32,000 students taking the 1,500 courses at Further and Higher Education level in the UK which contain some element of media
studies (however broadly defined). Some of these are excellent, but it is increasingly difficult to monitor how effective these courses are which seek to provide vocational tuition in giving students the skills necessary to help them find jobs in the audiovisual sector, and improvements are also needed in providing effective careers information to students. We welcome the fact that the Government’s Creative Industries Task Force has called for research into the content of media studies courses (see para. 6.11). Skilset is also working with DfEE to develop Related Vocational Qualifications (RVQs) which will link to the industry standards and qualifications to provide a qualitative assessment of the individual student’s preparedness for work.

Delivering training throughout the UK

4.8 There can be particular difficulties in identifying the training needs of people working in the film industry outside London and developing suitable programmes. An effective mechanism for ensuring that these demands are met is to support the Regional and National Media Training Consortia in each area of the country. Eight consortia have already been established under the auspices of Skilset and two more are at the feasibility stage. However, those that are up and running are not all on a strong financial footing and need further support.

Promoting opportunities for all

4.9 In our view, the industry has also paid too little attention to broadening opportunities for people with disabilities. In many disciplines, for example in technical grades, women and members of ethnic minorities are also seriously underrepresented. Opening up opportunities for people with disabilities and from all backgrounds will give the industry access to the broadest possible range of new talents. The further development of recognised industry qualifications will help to ensure that everyone is judged against objective criteria when looking for work in the industry. In addition, workshops designed to meet the needs of people with special needs should be supported to encourage their creative and technical development.

Paying for the training

4.10 The estimated cost of addressing the priorities identified above would be in the region of £5.3 million a year, broken down as follows:

- Making films aimed at the market: £1.5 million
- Maintaining production values: £3 million
- Standards and qualifications: £500,000
- Regional support: £200,000
- Promoting opportunities for all: £100,000
- Total: £5.3 million

These programmes would be aimed primarily at feature film production, although there would be overlaps with the TV drama and commercials production sectors.

4.11 We recommend that, in most cases, training provision should be orchestrated by Skilset, which is the designated National Training Organisation (NTO) for the sector, working with other training providers to develop and fund appropriate courses. This will include working closely with existing centres of excellence, and particularly the National Film and Television School, FTZ, Scottish Screen, Cymru, Welsh Broadcast Training and the Northern Ireland Film Commission, to deliver high quality training programmes. As the designated NTO, Skilset is already accountable to the Government for its activities and its major industry funders are all represented on its Board of Directors. We recommend, however, that Skilset should also report back to us regularly on progress in implementing our training recommendations and taking forward the development of their training strategy.

4.12 Training in the audiovisual industries is paid for by a combination of public and private funds and contributions from the trainees themselves. £1.5 million is invested by Skilset in programmes provided by employers and independent trainers. £1.5 million is spent on the National Film and Television School, of which the DCMS contributes £2.1 million. DCMS also contributes around £300,000 a year to the training element of the MEDIA II programme, not all of which is spent in the UK. The production sector’s investment in training consists largely of their contributions to the Independent Production Training Fund, which is currently levied at 0.25% of production costs with a ceiling of £2,250 per production. In 1996/97 feature film productions contributed just £39,351 through the levy, equivalent to just 0.01% of total film production investment. In addition, private companies, including the American major distributors and the exhibitors, invest in specific training schemes and invest in training on their productions or at their cinemas.

4.13 Given that these existing funds are committed, the extra funding required to deliver the training priorities described above approximates to the total sum identified of about £5.3 million. If this level of investment is to be achieved then more effective arrangements have to be introduced to gather contributions from the industry.

Proposal:

The existing voluntary levy arrangements should be upgraded to a Skills Investment Fund. Contributions to the fund would be set at 0.5% of production costs up to £10 million and at 0.25% for any costs above £10 million, with no ceiling on the level of contribution made by each production.

4.14 Contributions to the fund would still be collected on a voluntary basis. We firmly believe, however, that all productions filmed in the UK should make their full contribution to the future skills base of the industry and that this should be made a condition of funding for all films supported through public sector grants. Producers wishing their films to
4.15
These voluntary arrangements should be introduced for a trial period of two years, following which the Government should assess their effectiveness in bringing in sufficient funds to deliver the training strategy and consider what action to take if the scheme is not working on a voluntary basis. Given the central role that Skillset will have in developing an effective training strategy for the industry, we consider that there might be merit in the NTTO taking on responsibility for collecting the Skills Investment Fund so that it is better able to match needs with the resources available.

4.16
Based on 1997 production investment levels, and assuming that all productions paid their contribution, this system would have delivered total funds of around £2.5m. Therefore, even if 100% of productions paid the levy, there would still be a funding gap of approaching £3 million. This gap could be closed to some extent by additional on the job training offered by employers and on individual films, and the contributions from trainees themselves would also use to some extent as the amount of training was increased. We would also urge public sector providers to ensure that they are using their resources as effectively as possible to address these priorities. In addition, it is important that training should be seen as the responsibility of all sectors of the industry that rely on the quality of films produced. Monies generated by the all-industry fund (see chapter 3) could also therefore be used in support of training schemes linked directly to film development, marketing and distribution.
5.1 Chapter 3 describes a strategy for assisting the growth of a restructured, distribution-led film industry. The success of that long-term strategy depends on a steady supply of films with commercial appeal. This is necessarily also in the short term to make the most of current market conditions, including the major US distributors’ renewed interest in British films. This chapter sets out an action plan to help the industry increase the marketability of British films.

The Audience View

5.2 The Review Group commissioned research into audience tastes and attitudes. A summary of the findings, drawn from focus groups involving a varied cross-section of the population, is in Annex 3. A key finding was that film is regarded as the most complete story-telling medium and one of the most satisfying forms of entertainment. But film’s space appears not unsustainably. Alternative forms of visual entertainment – sophisticated computer games, virtual reality, the internet – provide some of the enjoyment traditionally offered by film, with the added thrill of interaction. The sheer quantity of movies on offer, through an ever-increasing number of means of access, is also lessening film’s distinctive attraction.

5.3 The research found that most cinema-goers are conservative and averse to taking risks when choosing films. Most felt that they had more than enough choice of films they knew they would enjoy. There was only limited interest in exploring beyond the mainstream.

5.4 Finally, the research covered general perceptions of British, American and world cinema. In many ways current perceptions of British film are very favourable:

- good performances; high standards of scriptwriting; good direction; artistic integrity; recognisable characters; subtle humour, "cool" appeal, especially for the young; well-crafted classics.

5.5 These perceptions have been reinforced by recent British successes, which are seen as providing a refreshing alternative to Hollywood. However, many of those surveyed – and in particular the core audience of regular cinema-goers in the 18-30 age-group – had some unfavourable perceptions of some British films, including depressing, gritty realism, lack of stars and lack of entertaining visuals or special effects. American films, by contrast, scored highly in terms of expectations of glamour, spectacle, entertainment, reliable stars, and family appeal. The relative size of average production budgets is clearly relevant to these contrasting perceptions.

5.6 These findings suggest the need, confirmed by the focus groups themselves, that a sustained increase in British films’ share of the domestic market depends on a more consistent supply of entertaining films with broad audience appeal. This does not mean sacrificing the qualities that make British movies distinctive; there is a demand, even among those most attracted to American movies, for what is widely seen as the craftsmanship, humour and inventiveness characteristic of British cinema, films such as The Full Monty and Four Weddings and a Funeral, which are seen as both immensely enjoyable and quintessentially British, have universal appeal.

Four Weddings and a Funeral

5.7 The Role of Research and Development

5.8 It has been estimated that Europe’s media groups spend about $22-1.5 million a year on script and other development. This contrasts with the $300-500 million spent by the US majors, which is equivalent to 10% of annual production expenditure. In an industry that is effectively producing a series of expensive prototypes, we believe that investment in R & D is vital.

Generating greater commercial investment in R & D should be one of the key objectives of public-sector support for film.

Research

5.9 Some UK companies are able to monitor changing customer tastes and behaviour, but most firms lack the resources to follow this best practice. We believe there is a case for pooling of resources in order to produce more readily available data that will be of benefit to the whole industry.

Proposal: A Marketing Database

A marketing database should be created which, for a fee, individual firms could access for their own commercial purposes. This would hold information on a large number of cinema-goers, from which companies could select samples to test out various marketing ideas. The database could be used to test screen films in various states of completion, try out new marketing ideas on groups selected according to region, life-stage, genre, preference, etc.

examine the effectiveness of loyalty cards and other marketing tools.

5.10 The following chapter sets out our proposals for the creation of an industry body with the capability to maintain and promote these databases. The "BARB for the Film Industry" would provide generic information to all the subscribers to this body. Since the Marketing Database would offer
Development

5.10

Lack of financial stability tends to encourage producers to move into production before a script and other elements of the project are as fully developed as they could be. In many cases they have no option but to proceed to principal photography in order to unlock a proportion of their fees. This contrasts markedly with Hollywood, where the majors have the resources to go through many more drafts of scripts, or to write off projects which, despite investment in development, do not come up to scratch. If the current boom in production investment is not matched by a proportionate increase in spending on development, there could be a damaging decline in the general quality of British films.

5.11

It could be argued that development should be funded by the distributors, who are close to the market and have a strong interest in ensuring that a film has box office potential. However, the separation of the production and distribution functions throughout most of the UK industry militates against that model. The distributor comes into the equation only after the film has been completed.

5.12

There is a role for public-sector support to help correct this market failure. We acknowledge the valuable backing for development provided by national bodies such as the British Screen Fund and the BBC, and by the various regional bodies, and we welcome the provision that up to 10% of the Lottery allocations to the three film franchises can be spent on development. Nevertheless, we believe there are real benefits to be gained from putting more public- and private-sector resources into this area, especially if those resources are allocated in such a way as to incentivise commercial success and involve distributors in the development process.

Proposal:

The introduction of a Lottery-funded development scheme whose main selection criteria would be previous box-office success. Normal public funding rules would be respected, especially the need to ensure that public monies do not substitute for private investment, ideally private-sector money would flow into the scheme from the all-industry fund described in Chapter 3. The scheme would help producers to follow up a hit film and would motivate other producers to achieve that initial commercial success. This would complement existing development schemes which help new producers to get on the first rung of the ladder. We recommend this proposal to the Arts Council of England.

5.13

Together with the existing development support schemes, and the enhanced training for scriptwriters, script editors, development executives and producers proposed in the previous chapter, we believe that a scheme based mainly on track record would help to grow companies with long-term viability and to produce more films with real audience appeal.
6.1 In the previous chapters we put forward proposals to boost the supply of films with audience appeal. This chapter deals with complementary initiatives to stimulate demand:

- to encourage an increase in cinema-going, especially among the non-core audience;
- to encourage the audience to see a wider range of films;
- to increase understanding and appreciation of the moving image in the audience of the future.

The Cinema Audience

6.2 Since television started to challenge cinema’s supremacy as the most popular form of mass entertainment, there has been a steep downward trend in cinema-going, from over a billion UK admissions in 1955 to the all-time low of 54 million in 1984. However, as figure 2 shows, the past few years have witnessed a steep rise in admissions. Last year there were 137 million admissions to British cinemas, the highest figure since 1974. During the last five years, total cinema visits amounted to seven times the total for theatre, opera, ballet and dance taken together. One of the main reasons for this upturn is the amount of investment in new cinemas during this period, with the total number of screens increasing by 1,000, over 40%, in the last ten years. However, we are still underresearched compared with many other countries and coverage of this country as a whole is patchy.

6.3 The rise in admissions is encouraging, but comparisons with other countries suggest there are opportunities for further growth. In 1996 average annual admissions were 2.1 per head of population in the UK, compared with 2.34 in France, 2.65 in Spain, and 4.25 in the USA. Figure 3 sets out frequency of cinema-going by age-group and socio-economic group. In Britain, cinema-going is concentrated in a narrow and shrinking demographic segment: about 5% of the population, namely under-35s attending at least fortnightly, account for about 60% of tickets sold. Our consumer research revealed that cinema-going is having to compete increasingly hard against other leisure choices, lacking, on the one hand, the convenience of watching films at home, and on the other hand, the ‘specialness’ and sociability of other options for a night out, such as live events, clubs and parties, and eating out.

6.4 We believe that the industry needs to respond to these opportunities and threats through more co-ordinated and effective marketing of film and cinema. We made proposals in chapter 3 to support the distribution of British films through additional funds for print and advertising. We also welcome the role played by AMF in raising the profile of cinema through initiatives such as National Cinema Day, which has succeeded in attracting significant numbers of infrequent cinema-goers. We believe that there is scope for more collective activity to build on these initiatives. There is evidence that such collaboration can pay dividends: for instance, the music industry has developed a programme of awards, targeted on different audiences and staggered throughout the calendar year, that has proved to be a powerful marketing tool, spreading benefits across the industry.

DCMS should work with the various interested parties, including AMF, to develop a specification for the objectives and constitution of the FMA, to seek industry funding for this new body, and to discuss with the Arts Council of England the possibility of Lottery support.

The Film Marketing Agency

6.5 The proposed core functions of the FMA are as follows:

- to co-ordinate all-industry, generic film/industry/marketing projects;
- to co-ordinate market research activity in the industry, and in particular to develop the research databases described in Chapter 5;
- to act as the industry’s interface with the broadcasters and the press media, lobbying for increased coverage of all aspects of cinema – this could include an awareness-raising campaign based on stories about British stars;
- to build up a historical database on the nature and impact of previous film marketing campaigns;
- to act as the main contact for foreign journalists, and to work with other bodies to co-ordinate the marketing of British films at festivals and markets abroad;
- to work with other organisations to co-ordinate a year-round programme of film awards and other events – these could include a ‘Booker’-style film prize that might generate controversy and interest;
- to investigate and promote new ways of improving the accessibility and appeal of cinema-going, in terms of availability of information, ease of booking, and the physical environment (Annex 3 summarises our research findings on this);
- to advise on training needs and provision for distribution, sales and PR staff, and to be the main source of information on new marketing ideas and developments for those working in the industry.
6.6 We see the FMA as a streamlined, unbureaucratic operation led by an experienced practitioner. Costs of administration would be kept to a minimum and many of its services would be bought in rather than developed in-house. The Agency’s work could be overseen by a board of trustees or governors made up of people actively involved in marketing and distribution, international sales, and public relations. Our initial estimate is that the annual overhead cost of the FMA would be within £1 million and that it would need an annual operational budget of about £3 million. The Agency should be able in due course to generate substantial revenues from its activities.

Broadening Understanding and Appreciation of Film

6.7 We believe that the British film audience is less adventurous than some of its counterparts abroad and that it should be a longer-term goal to create a more “cinema-literate” population, through education, in its widest sense, at all ages and levels. Our research findings suggest that a major cause of the inherent conservatism of the audience is fear of the unknown. Greater awareness of the sheer variety of films on offer, and deeper appreciation of the richness of different types of cinematic experience, would encourage more people to enjoy to the full this major element of our culture. There would also be social and economic benefits, in that a broader range of film-makers, distributors and exhibitors would be able to find an audience and to survive in the marketplace.

Proposal:
The establishment of a working group to draw up a strategy for film education. The group’s remit should take in school education, further and higher education, and the educational context for film exhibition in general, but it should focus on schools, in order to reach out to as large a proportion of the potential future film audience as possible. The group’s objectives should be firmly cultural rather than vocational, but it will need to liaise with bodies working in the vocational field.

6.9 We propose that the working group should be made up of representatives of the following organisations and sectors:

- British Film Institute
- Film Education
- the film industry
- representatives of the regions, including the Regional Film Theatres
- education bodies – local education authorities, universities and colleges, the teaching profession, the National Film and Television School and other film schools
- Skills
- the Qualifications and Curriculum Authority
- the Teacher Training Agency
- the OfOf for Standards in Education
- the Department for Education and Employment
- the Department for Culture, Media and Sport

6.10 Issues for the group to address could include the following:

- the place of film within the school curriculum, in the context of the current review of the National Curriculum and teacher guidance by the Qualifications and Curriculum Authority – this relates to the study of film per se and the use of film in the study of other subjects;
- the availability of teaching materials, including strategies for overcoming obstacles such as cost and the difficulty of obtaining copyright clearance;
- teacher training needs in the area of film education, in the context of current and future resource levels;
- the development of standards, indicators of learning progression and inspection frameworks for film studies in schools;
- the scope for developing more links between schools and the film industry, and in particular local cinemas and film theatres.

6.11 In taking forward its agenda this film education group will liaise with the recently-announced National Advisory Committee on Creative and Cultural Education and take into account its findings, due towards the end of this year. Another useful input to the group’s work will be current research into the content of film and media studies courses in further and higher education, jointly commissioned by DCMS and DfEE at the instigation of the Creative Industries Task Force.

6.12 This is a joint initiative by the public and private sectors. It will not cut across or replace the valuable work that is already being done. We propose that the BFI, because of its statutory responsibility for fostering the study and appreciation of film, should co-ordinate this initiative, working within the strategy set by the film education group.
6.13

This new initiative sits well with the BFI’s plans to focus its strategy on the central goals of increasing and deepening understanding and enjoyment of film, and fostering creativity. We welcome the commitment to improving access through a range of current and planned initiatives, including the following: the Imagination Network, aimed at opening up its archival collections for use in both formal and informal education; a new National Cinema Centre, bringing together many of its facilities; enhanced library services and improved access to research data; and the development of the London Film Festival, including screenings throughout the UK.
7.1
Film is an international business. Even if our plans to boost the domestic market have the major impact that we intend, receipts from overseas, in the form of export earnings and inward investment, will still be of crucial importance to the UK film economy. We need to build on our strengths in these areas by creating an environment that is attractive to foreign investors and supportive of British exporters.

7.2
The UK is at the forefront of the European audiovisual economy. Although the UK, overall, contributes 14% of total EU Gross Domestic Product, it accounts for 28% of all EU consumer spending on audiovisual entertainment. We believe that the UK, working with European partners, should lead a resurgence of the European audiovisual industry, which currently suffers from a trade deficit with the US of over $6 billion per annum. Both national and EU policies have a vital role to play in helping to build industrial structures that can be competitive on a global scale.

7.4
We recommend that the film commissions (the British Film Commission (BFC) and regional film commission networks) should update their existing information digests to create a comprehensive market-friendly information source containing all relevant data about filming in the UK as a whole and in individual areas of the country, possibly in partnership with private companies offering services in this area. This guide should be maintained in electronic form to ensure that it is instantly available anywhere in the world, although detailed enquiries would inevitably require personal service from commission staff.

7.6
The main focus for marketing the UK abroad will continue to come from the British Film Commission. Increasingly, national film investment promotion bodies around the world are recognising the value of maintaining a physical presence in Los Angeles to be close to the major studios' decision making processes. We recommend that the UK should also be represented in Los Angeles.

Growing Overseas Markets

7.6
The UK's export performance is already competitive. In the period 1990-95, although the level of our production investment was about a third of that in France, our export revenues were 70% higher. British films are financed to a significant extent by international co-productions and pre-sales to distributors around the world, and there is a great concentration of sales expertise in the UK.

7.9
Nevertheless, we believe that there is considerable scope to improve our export performance, given the advantage of making films in the international language of cinema. We have identified two key initiatives that we believe will help British films to reach their full overseas potential, so that more money can flow back into
development and production of further British films, thus creating a virtuous circle.

A Trade Body for Exporters

Proposal:
A trade body to represent the interests of exporters should be established. This body would play a useful co-ordinating role, providing a single point of contact with the various sources of export assistance, including the Overseas Trade Service and the British Council. It would draw up an annual strategic plan for the targeting of export assistance on key markets, and could respond quickly to new promotional opportunities that arise during the year, such as the British sidebar at last year’s Venice Film Festival.

7.10 Following discussions between the Review Group and PACT, we welcome PACT’s decision to set up a new membership division for sales agents and a new partnership with international distributors. It will be for that new body to develop its own strategy, but we recommend that an early initiative should be the compilation of a database of overseas distribution companies with good credit ratings, to facilitate the granting of guarantees by the Export Credits Guarantee Department.

7.11 The creation of a film exporters’ trade body fits well with the greater sectoral focus that the Government’s export promotion services will be developing, following the report of the Export Forum. It will also assist the work of the Creative Industries Export Advisory Group, which is currently being set up by DCMS and the British Council.

The Development of a London International Sales Market

7.12 We believe that the rapid growth in recent years of the informal London screenings, held in October, demonstrates the potential for the development of a fully-fledged international sales market in London. The creation of such a market would be entirely in keeping with London’s international standing as the unofficial film sales capital of the world. A London market would raise the international profile of British film and therefore boost exports. It would not only help British producers to sell their films; by giving them a new insight into the international marketplace, it would also help them to make films with greater worldwide commercial potential.

7.13 We welcome the role that PACT has played in the London screenings. Since the exporters’ trade body described above will come under the aegis of PACT, we believe it is appropriate that PACT should take the lead in developing the screenings into a sales market. We acknowledge that there are many practical obstacles to overcome, not least the current lack of a suitable venue.

The European Industry

7.14 We believe that our analysis of the changes needed in the British film industry applies also to Europe, where the market is even more fragmented because of the diversity of cultures and languages it embraces. The EU has an important role to play in complementing the audiovisual policies of the member states. We believe that it can provide the greatest added value by focusing on the long-term strategic goal of creating a self-sustaining European audiovisual industry, able to compete globally and win a far greater share of the European market.

7.15 We therefore endorse the three priorities of the MEDIA II programme, which mirror those in this report: distribution, development and training. We support the use of MEDIA II resources for an automatic distribution support scheme which rewards success and would encourage more use of automatic schemes in future, including for video distribution. We note the success of the MEDIA II training programmes and support the policy of encouraging the development of centres of training excellence.

7.16 We would also like to see the development of pan-European schemes aimed at encouraging private sector investment in audiovisual companies to help them grow to a scale where they can compete effectively with the US majors. We regret that it has not been possible for the EU member states to reach agreement on an audiovisual guarantee fund to support the production and distribution of European films on purely commercial grounds and believe that the European institutions and the industry should explore alternative ways of forging closer links with the financial sector, for example through the development of investment vehicles with the support of the European Investment Fund (EIF). In order that the UK can take a greater lead in developing such proposals, we recommend that the film and financial experts on the new Film Finance Forum should make this an early priority.
This report concentrates on the development of the film industry, but we acknowledge the importance of programmes aimed at supporting cultural diversity, such as the Council of Europe's Eurimages programme, which the Government intends to rejoin when resources allow.
8.1

The summary contains a full list of our recommendations, and a timetable for action. This chapter sets out the process for taking forward the main elements of the strategy.

8.2

The recommendations together create a coherent strategic package for delivery by the industry and the Government. The strategy addresses all segments of the industry and the audience. It also embodies a new type of partnership: certain responsibilities are assigned to the Government, others to the industry, and some are joint. If both sides play their parts, this new approach is capable of achieving significant change. It will achieve much more if the industry is prepared to contribute to the all-industry fund proposed in chapter 3 and described in greater detail below.

A new action committee

8.3

We have already begun implementation of the conclusions and our aim is that all the key elements of the strategy will be in place by April 1999. The Government has asked that the process be coordinated by a committee consisting of members of the Film Policy Review Group and key players from the industry and Government bodies which will need to take forward the recommendations. This group, the Action Committee, will have a limited life of one year only, until the key action points have been delivered. The main task for Government will be to ensure that the support of public bodies is focused effectively. The main task for the Action Committee will be to mobilize the industry to participate in the elements of the strategy on which it must lead.

The key actions for the industry

8.4

Greater investment in development, distribution and marketing: the all-industry fund

8.5

We estimate that a fund of the order of £20m a year would be enough to deliver significant benefits. This level of funding, which could be achieved with a contribution of just 0.5% of film-related revenues from the exhibition, theatrical distribution, video and broadcasting sectors, together with Lottery support, could deliver the following:

- £10m for distribution, which could buy £250,000 of print and advertising support for 20 qualifying films;
- £5m for development, which could buy £100,000 of development support for 50 qualifying films;
- £3m to finance generic cinema marketing campaigns run by the Film Marketing Agency;
- £2m towards training costs for those involved in the creation, production and distribution of British films.

Furthermore, much of the investment will be repayable so that success will grow a bigger fund and further success.

The new training strategy

8.6

We have identified a set of training priorities which will require a significantly increased contribution from the industry to deliver. The Action Committee will discuss these priorities with the producers' representative bodies to ensure that producers appreciate the value of contributing to the new Skills Investment Fund. The Committee will also ask all the major film investors in the UK, including the broadcasters and public bodies, to make a full contribution to the Fund to be made in respect of all films in which they are involved. Skilset will design, consult on and implement a new strategy to address the needs identified, which will be ready for implementation by the time the Fund becomes fully operational by the end of 1998. DCMS will look at the feasibility of making contributions to the Fund a condition of qualification as a British film or official co-production.

The Film Marketing Agency

8.7

Chapter 6 sets out a specification for a new industry-led marketing body, indicating what its objectives and areas of activity might be, how it might operate, and how it might be funded. The Action Committee will develop these ideas in consultation with all industry, marketing and other interested parties, and consult more widely in the autumn, with a view to laying the foundations for some of the FMA's activities, such as the consumer research database, during the next 12 months, and to establishing the body by April 1999.

The key actions for the Government

8.8

These relate primarily to the refocusing of the Government's strategy for supporting the industry.

The Arts Council of England (ACE) strategy

8.9

We reaffirm our support for the strategy outlined to us by ACE. In this context we recommend that ACE should:

(i) commit at least £100m of lottery money to film for the next three years;
(ii) build on the valuable first step of the franchises by reallocating a significant sum within the film budget from production support to support for development and distribution, and introducing schemes with the objective of encouraging restructuring by rewarding success;
(iii) review the existing franchises as planned and consider in particular whether they are promoting the development of sustainable structures and...
whether they might develop their distribution arrangements in such a way as to do so better;

(iv) contribute to the Film Marketing Agency’s plans for the generic marketing of cinema and of British films;

(v) consider how the new all-industry fund might work most effectively with ACE funding to maximise the funds available for development, distribution and marketing.

**BFI**

**8.10**

We recommend that BFI should, as planned, give priority to stimulating interest in and deepening understanding of film among the general public and particularly among children, and developing a strategy to increase and broaden the audience for film. In particular, it will play a co-ordinating role in a joint industry-government initiative to foster film education especially in schools. BFI is currently developing its new strategy for later this year.

**Rationalisation of Government machinery in the longer term**

**8.11**

In the longer term, the Government will review the machinery for providing Government support to film in the light of the recommendations of the British Screen Advisory Council and other bodies. Its aim will be to establish structures which:

- provide strategic leadership for the film industry and a clearer focus on its development;

- achieve greater coherence by ensuring that the allocation of resources reflects priorities and that gaps and areas of overlap in provision are eliminated;

- ensure that discretionary funding decisions are not all taken by one person or group of people.

**Monitoring Performance**

**8.12**

Our deliberations were hampered by the shortage of accurate, up-to-date and comprehensive information on the performance of the film industry. This lack of data also threatens the effective implementation of our proposals. If we cannot measure trends in performance, we cannot establish with any degree of certainty whether this action plan is having any effect and whether and how it needs to be modified. We believe that aggregate data on the production and distribution, both in the UK and abroad, of British films would be of great value to individual firms, industry bodies, public-sector organisations, and Government.

**Proposal**

DCMS should explore the feasibility of establishing an ongoing sample survey of film businesses, under the provisions of the Statistics of Trade Act 1947. The Department should investigate what data should be collected, how the sample should be chosen, and what the costs and benefits to business would be.
ANNEX 1: Membership of Film Policy Review Group and Sub-groups

**FILM POLICY REVIEW GROUP**

**Chairmen:**
- Rt Hon Tom Clarke CBE MP
- Stewart Till

**Members:**
- Chris Ayres
- Daniel Bultan
- Peter Brougham
- Dilsh Caze
- Charles Denton
- Duncan Kenneth
- Colin Leverstream
- Lynda Mykle
- Wendy Palmer
- Rich Scott
- Richard Segal
- Will Stevenson

**Inward Investment sub-group**

**Chair:**
- Chris Ayres

**Members:**
- Christopher Abbey
- Roger Bilton
- Dennis Davidson
- Mark Dwyer
- Steve Hardy
- Andrew Patrick
- Sir Sydney Samuelson
- Richard Scott
- Paul Webster
- John Woodward

**Export sub-group**

**Chair:**
- Wendy Potter

**Members:**
- Tim Brown
- Teo Huying
- Terry Wall
- John Patou
- Nick Powell
- Jonathan Rutter

**Training and Education sub-group**

**Chair:**
- Dilish Caze

**Members:**
- Peter Brougham
- Timothy Bertrat
- Jane Fraser
- Diane Freeman
- Roy Lackett
- Mark Samuelson
- Neil Watkin

**Submissions of Oral Evidence to the Film Policy Review Group**

**British Screen Advisory Council**
- Distributors Association
- Producers’ Alliance for Cinema and Television
- British Film Institute
- Arts Council of England (National Lottery)
- Cinema Exhibitors’ Association
- Federation of Entertainment Unions
- Motion Picture Association of America

In addition, 57 written submissions were received.

**Secretariat:**
-قبية

ANNEX 2: Consultation on Film Definitions

A. Consultation Exercise on Revisions to the Definition of a Qualifying Film for Tax Purposes (Schedule 1 of the Films Act 1985)

**Introduction**

As set out in Chapter 3, the Film Policy Review consultations revealed an overwhelming consensus that the qualifying criteria in the Films Act 1985 are outdated and should be amended. We concluded that the Films Act definition strikes a fair balance between the interests of domestic and incoming film-makers, but that it is difficult to use and produces confusion. Our aim, therefore, was to make the definition more user-friendly, but without altering its coverage significantly.

**Main Proposal**

The main proposal identified was the requirement that a qualifying film must be produced in the UK. A particular difficulty is that this requirement is assessed by looking at the amount of time spent in the UK. This can mean that if one part of a film is not produced in the UK, it is unable to qualify.

We recommend that the current requirement relating to labour costs should be retained, to ensure that substantial employment benefits continue to accrue. We propose that if an applicant takes advantage of the option to disregard one or two persons in calculating the requisite amount of labour costs, the costs of the remaining persons should also be subtracted before calculating whether the production spend requirement has been met.

**British Screen Advisory Council**
- Distribution Association
- Producers’ Alliance for Cinema and Television
- British Film Institute
- Arts Council of England (National Lottery)
- Cinema Exhibitors’ Association
- Federation of Entertainment Unions
- Motion Picture Association of America

In addition, 57 written submissions were received.

**Secretariat:**
-قبية
ANNEX 3: Summary of Main Findings of Consumer Research into Film

1. Cinema-going

1.1 Film is seen as the most complete story-telling medium; watching an enjoyable film is still one of the most satisfying, absorbing and appealing forms of entertainment.

1.2 The main appeals of going to the cinema are that it provides the ideal environment for watching films, access to newly released films which they are still topical, and an audience, understanding and relatively affordable opportunity for going out. However, in the context of wider consumer choice and rising expectations, cinema-going has to compete increasingly hard both against film-watching at home and against many other options for going out.

1.3 Watching films at home is seen as easier, cheaper and more convenient and relaxing than going to the cinema.

1.4 Outside the home, cinema-going is generally a low priority amongst the many other available options for going out. In general, attitudes to watching films in the cinema are mixed, low key activity which is neither strongly enough nor unique enough to make it fit chosen in its own right, lacking the excitement and status of some competing options, e.g. live events, clubs, smart restaurants, and the spontaneity of sociability of others, e.g. going for a drink, eating out, party, Cinema-going therefore tends to be fitted around higher priority leisure activities or combined with more sociable pursuits, so just one element of a bigger night-out. Only 'must see' films with high social currency command a place in social repertoire in their own right.

1.5 Film-going patterns are closely related to overall levels of social activity and the number and nature of leisure options available at different life-stages. It is highest amongst young single people who go out frequently and tend off rapidly as people settle down and increasingly have other calls on their time and disposable income.

1.6 There are, however, certain constraining factors which discourage cinema-going across all life-stages. These include:

- The supply of products: the appeal of cinema-going becomes more attractive when there is a large number of talked-about films around and tends to fade during periods when there is a dearth of good product.
- The number and quality of screens available locally: cinema-going tends to have a higher profile in locations where there is a virally able mix of screens offering a wide choice of product than in locations where there is a limited choice.
- The quality of the cinema-going experience: good viewing experiences and pleasant and interesting cinema environments both encourage cinema-going.
- Location of cinemas near other social activities: cinemas which are part of a collective destination are more visible and more accessible and easily incorporate into larger night out that these which are isolated.
- Effortless logistics at every stage of the process: good logistics which make choosing the cinema option as easy as possible encourage cinema-going. These include good information and booking systems, convenient opening times, easy access and plentiful secure parking.
- Perceived value for money: although cinema is currently regarded as a comparatively cheap night out, recent rises in admission prices and the high cost of "add-ons" is beginning to undermine its perceived value for money in certain locations and amongst certain audiences.

2. Film choice

2.1 Most people have distinct preferences for and dislikes of certain types of films which directly influence the range and variety of films they choose to see at the cinem a.

2.2 These broad likes and dislikes are based on their preferences for particular kinds of emotional and intellectual content (e.g. being excited, scared, moved, amused, made to think, made to feel good) and the degree of realism in the stories and settings (e.g. real life situations, recognisable characters they can identify with or fantasy, escapism, being taken out of themselves).

Basic preferences tend to vary across different cinema-going sub-groups. As a very broad generalisation, younger people like more "extreme" films, older people more subtle ones, men like action films, while women prefer human interest stories. Cis tend to favour easy-watching, escapist films, while BIs are more prepared to be challenged.

Within these broad preferences, individual tastes are influenced by other factors such as personal ones, friends in particular elements of films - e.g. special effects, music, specific subject matter - and, amongst others, the work of favourite directors.

2.3 The majority of cinema-goers are fairly conservative and risk-averse in their choice of films and are unlikely to see films they might not enjoy. Most choices, therefore, tend to be within established preferences for "my kind of film", according to mood and occasion.

2.4 In the absence of routine cinema-going, all films have to be chosen and have to compete for attention. Specific choices and judgements about what a particular film will be "my kind of film" are made on the basis of an amalgam of information, evidence gathered from a variety of sources.

2.5 The two most useful sources of information are trailers, which allow viewers to "sample" the film first hand, and personal recommendations from people who have already seen it.

A good trailer or film clip can generate interest in a film which otherwise might not appeal to qualify as "my kind of film". Conversely, a poor trailer can put off people who may have already enjoyed the film itself.

Personal recommendations are also very convincing provided they come from people with known shared tastes.

2.6 In the absence of either of these prime sources of evidence, other information and clues about whether film will be enjoyable may be gleaned from...
...