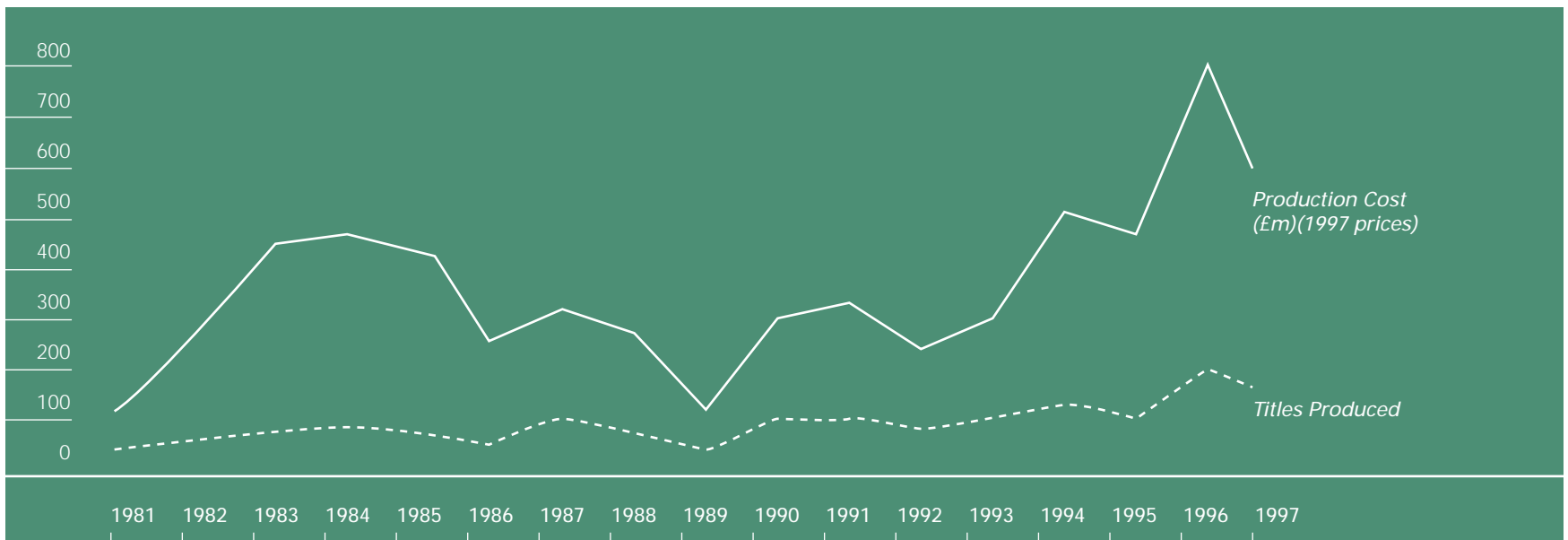


INDUSTRY REVENUES

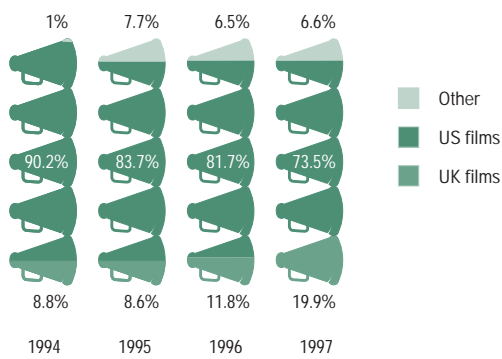
The UK film industry attracted gross revenues of £920m in 1997, including UK consumer spending on UK films of £160m,¹ overseas receipts of £545m and £217m spent by foreign producers shooting in the UK.

Number and Value of UK Films



Source: BFI Handbook; 1997 data; Screen Finance

Share of UK Box Office



UK film production is currently undergoing a renaissance. Film production spend on UK films has risen dramatically over the 1990s, from £105m in 1989 to £558m in 1997. The UK film industry is now making over 100 titles a year.

UK MARKET SIZE

1997	Total £m	of which UK film
Box office spend	512	102
Video/DVD feature films	880	35
Pay-TV consumer spend	480 ²	19
Terrestrial TV film rights	100 ³	4
Total	£1,972m	£160m

In 1997, UK audiences spent almost £2bn on films, £160m of it on UK films.

1 Assumes UK films achieved 20% of box office and 4% of video feature film spend, consumer Pay-TV spend on films and terrestrial TV spend on films
 2 Assumes that 70% of BSkyB subscribers take a movie channel and that £9 of their total monthly subscription price can be attributed to films
 3 Categorized as consumer expenditure, because it is either funded through licence fee, or paid for by advertising, the cost of which is ultimately passed on to consumers in the price of the goods they buy

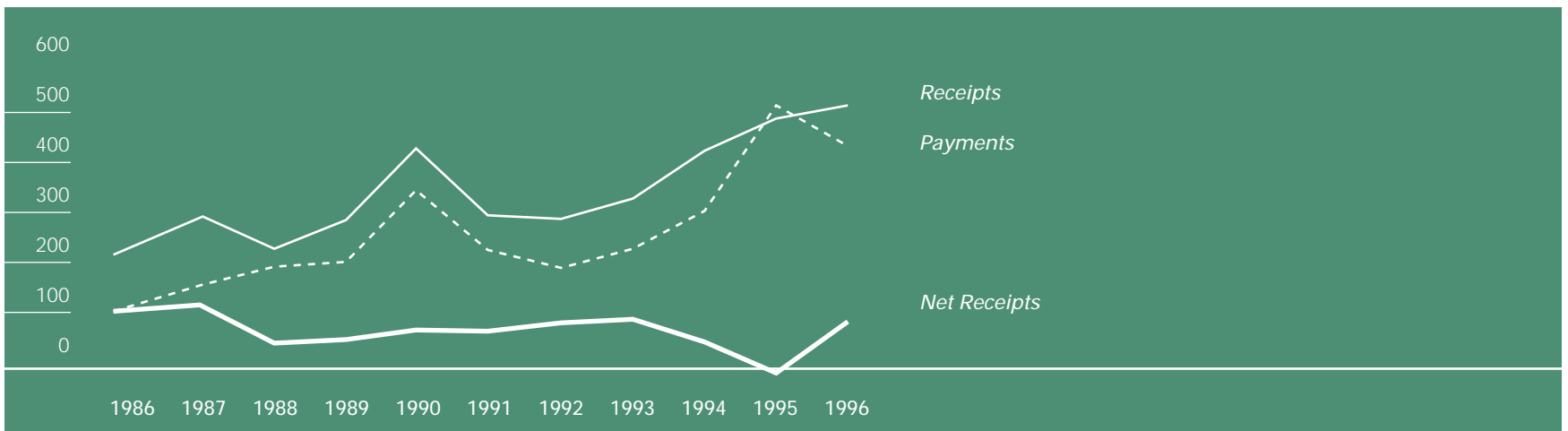
Cinema admissions reached 139m,⁴ a 12% increase over the previous year and their highest level since 1974. Total UK box office takings exceeded £512m, a 16% increase over 1996. UK films accounted for £102m of this (20%). This was boosted by the success of *The Full Monty*, which has taken more than £48m, making it the highest-ever grossing film at the UK box office.

The UK video market has been growing steadily, and £880m can be attributed to feature films, of which £35m was on UK films.

UK broadcasters spent around £350m on film rights, the bulk (£250m) attributable to BSkyB. The table above shows Spectrum's estimate of the share of Pay-TV spend attributable to feature films.

BALANCE OF TRADE

Overseas Transactions of the Film Industry, 1986-1996 (£m)



In 1996, overseas revenues for films made in the UK were £522m, more than double the 1986 figure. Imports amounted to £431m, resulting in a trade surplus of £91m. Over the last ten years, the UK has consistently had a surplus in film. However, this is partially misleading, since so much of the revenue from films made in the UK flows out of the country.

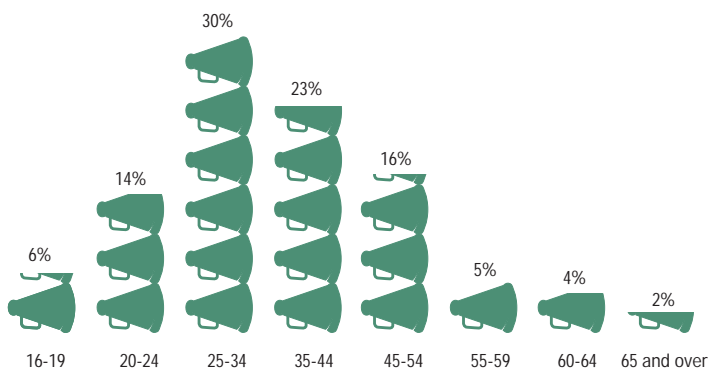
In 1996, UK films took over \$50m at the US box office, and this is likely to be far exceeded by 1997 figures. The recent success of UK films abroad has resulted in the UK industry becoming second only to Hollywood in the UK box office.

The Film Policy Review report, *A Bigger Picture*, in March 1998 pointed to the need to put structures in place to ensure that this success can be sustained and improved upon. The establishment of an All-Industry Fund would encourage better development and distribution of more commercial British films, while a film marketing body would raise the profile of film in Britain.

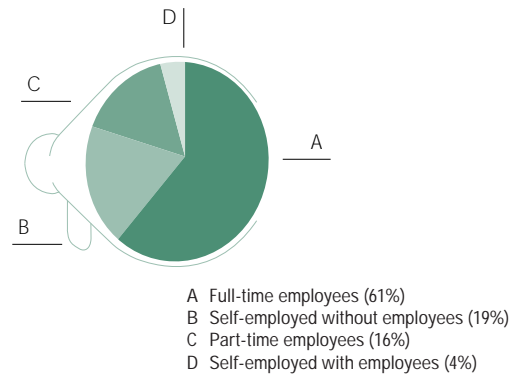
EMPLOYMENT

Breakdown of Employment in the UK Film Production, Distribution and Exhibition Sectors

by Age



by Employment Status



The UK film industry employs over 33,000 people. Actors, producers and directors account for 21% of the total. Around half the total are employed in "non-cultural" occupations, such as management or cinema operation.

58% of workers are male and 42% female. 96% are white, and 1% each Black-Caribbean, Indian, Pakistani and other Asian.⁵

⁴ Source Screen Finance Jan 1998

⁵ Source Employment in the Arts & Cultural Industries Arts Council of England

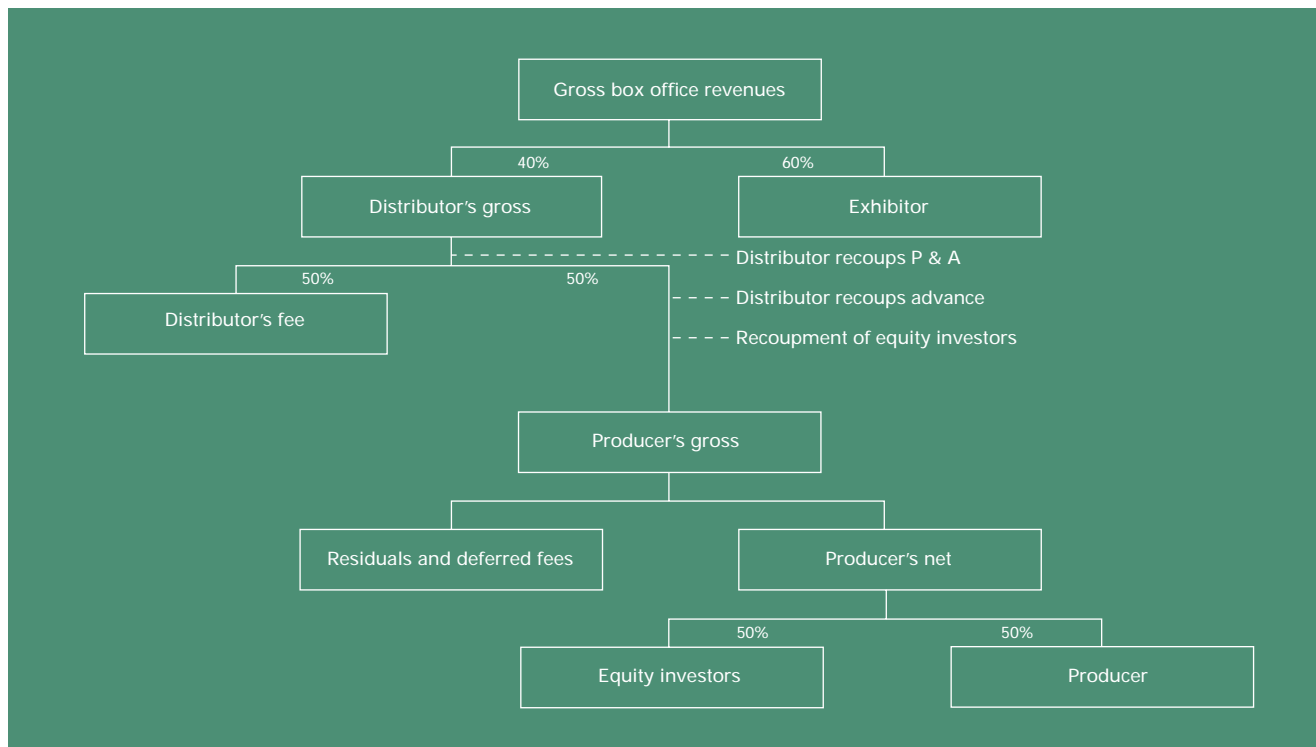
INDUSTRY STRUCTURE

UK Film Industry Structure

Channel Four, Polygram, Miramax, Lottery franchises							
Training	Ideas Creation/ Writers	Development/ Production	Investment	Finance	Sales Agent	Distributors	Exhibition
National Film and Television School London Screen Writers Workshop Moonstone International Screen Lab	Simon Beaufoy John Hodge Peter Morgan Nick Hornby Ronan Bennett	Renaissance Figment Films Carnival Recorded Picture Company Company Pictures Scala	ACE Channel 4 BBC Capitol Films Winchester Films	Guinness Mahon F.I.L.M.S. Barclays E.C. Funds I.N.G. Coutts Lloyds Lombard North Central (NatWest)	Capitol Films J&M Icon Entertainment Intermedia Distant Horizons	Guild Entertainment Portman First Independent	Virgin UCI Rank (Odeon) Showcase (S. Redstone) Warner Mayfair (Curzon)

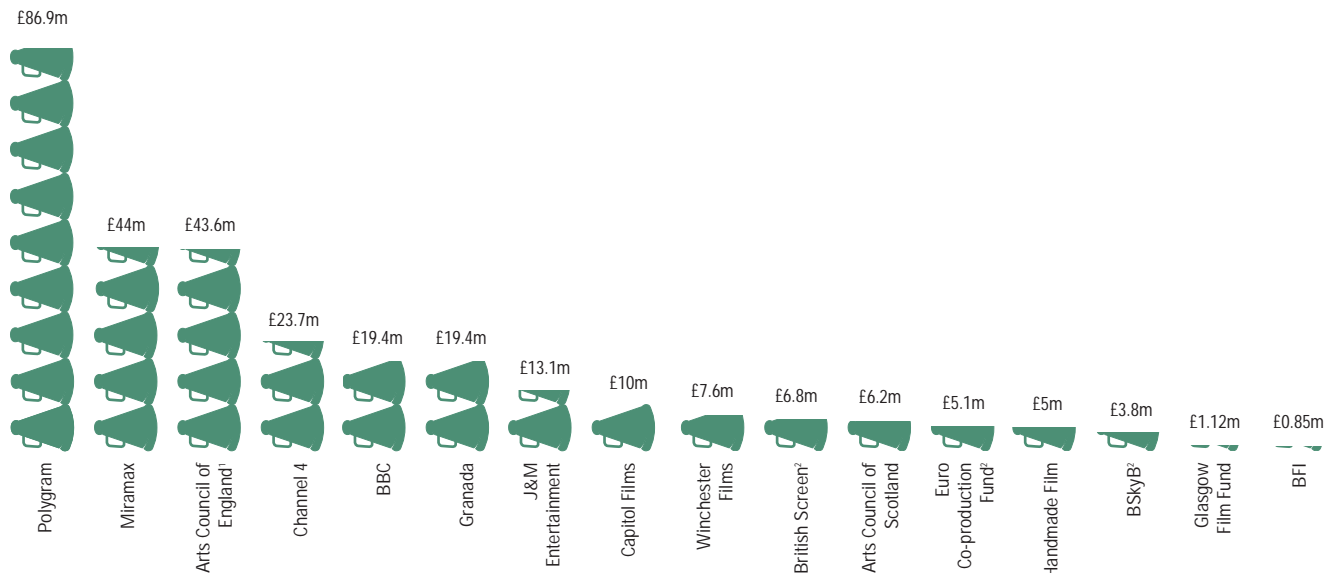
The UK film industry is essentially a cottage industry, characterised by a large number of small production companies making, on average, less than one film a year. Risk is not therefore spread over a slate of films, and economies of scale cannot be generated. The industry is still heavily dependent on US studios and UK television companies for financial backing.

Generating a Producer's Net from a Theatrical Release



Although UK films may perform well at the box office, little of this revenue reaches the producer, meaning there is little net profit to re-invest into production. Overall, there is insufficient profit to offset the UK distributors' advances and to pay for the real costs of making and promoting British films. Recommendations in *A Bigger Picture* are designed to go some way towards addressing this problem.

Investors in British Film, 1997



Notes
 Chart details main British investors in UK films, plus Polygram and Miramax. Figures apply to Calendar Year 1997, or to most recent financial year, where appropriate. Investment includes equity and pre-buys that contributed towards a film's production financing, but not pick-ups of completed movies or development financing.

Source: Variety
 1 Includes \$8.5m Greenlight Fund
 2 These funds are invested through British Screen Finance

FILM PRODUCTION FINANCE

Initiatives including the *Lottery franchise scheme* are designed to address structural problems within the UK industry, by encouraging vertical integration and providing investment of over £100m. In addition, the Arts Council of England awarded £45m of Lottery money to 53 projects between September 1995 and November 1997, and will continue to make awards to individual films.

However, the most successful British films are made with *foreign investment*. *The Full Monty*, *The English Patient* and *Bean* were backed by Fox, Buena Vista and Polygram respectively. Miramax and MGM set up substantial UK bases during 1997. In all, approximately 60% of UK production is accounted for by US money.⁶

UK terrestrial *television companies* are also major financial backers of British film. The BBC invested over £10m in UK film in 1997. The ITV network is committed to providing film finance, and Film Four has recently secured additional funding worth £40m over the next four years from C4. BSKyB has so far made little direct investment in UK film, but has recently announced that it will make five feature length films in the next two years, each costing between £2m and £6m.

Most *private investors* are still wary of the UK film industry. The Lottery franchises have prompted some interest from the investment community, but few commitments. The big banks are wary of investing in film, but equity funds such as Baltic Media and Flashpoint are bringing some private investment into production. Matrix Securities, the tax-based investment adviser, recently established a multi-million pound investment vehicle which could put as much as £30m into British film by the end of 1998.

FOREIGN PRODUCTIONS

The large number of US films being made in the UK also brings substantial investment to the industry. In spite of the strong pound, it is still around 20% cheaper to shoot in the UK than in the US.⁶ The UK also offers US film makers highly skilled technicians and no language problem. Pinewood, Shepperton and Elstree Studios all have plans to expand in order to meet the increasing demand.

POST-PRODUCTION AND SPECIAL EFFECTS

The UK post-production and special effects sector is small but booming, thanks largely to the growing number of US films shooting in the UK. In the new US film, *Lost in Space*, British technicians demonstrated that their special effects were way ahead of those available on the West Coast of America. Main players include The Computer Film Co., Cinesite and Moving Pictures. There is increasing co-operation between rival post-production houses. A new digital fibre-optic network called SohoNet connects twelve London-based production houses, and links the UK to California. This may be extended to Pinewood and Shepperton Studios, allowing US producers to send daily rushes back to the US. There is, as yet, no US equivalent to SohoNet.

DISTRIBUTION

More than 80% of UK distribution is still accounted for by the US majors. Some 35-40% of box office takings are passed on to the distributor, roughly 10% less than in the US.⁷ UK independent distributors are small, and find it hard to represent a slate of commercially successful films and invest in the required P&A budgets and adequate information systems.

⁶ Source Screen International Oct 1997

⁷ Source Moving Pictures Jan 1998

UK films are still finding it hard to secure theatrical distribution, due to the nature of the product (too small, with an average budget of £1.6m, often not commercial enough and sometimes compromised by budget constraints) and the weak position of UK independent distributors. Also, since most UK films are financially backed by television, their distributors are often left with no television rights to sell.

Less than 25% of UK films made in 1995 secured a wide theatrical release in the UK. The marketing spend of the US majors is increasing, and Hollywood blockbusters are opening to ever more screens. However, the increasing number of screens should eventually make it easier for independent distributors to secure a limited release for their pictures. The All-Industry Fund proposed in *A Bigger Picture* is intended to compensate for the market failures arising from the structure of the industry and the revenues would be dedicated to measures to cure them.

EXHIBITION

The exhibition sector is strong. There are currently over 2,000 cinema screens in the UK. This compares with 1,800 in Japan but 4,500 in France.⁸ Multiplexes account for more than half of cinema admissions. It is estimated that more than £100m was invested in building and upgrading cinemas during 1997.⁹ The market is becoming increasingly competitive as the prime sites become filled, and branding and luxury facilities are becoming increasingly important.

INTERNATIONAL CRITICAL ACCLAIM

Since 1990, British films, actors and filmmakers have won 21% of all the major Oscars, 18% of all the major prizes at the Cannes Film Festival and 15% at the Berlin and Venice film festivals. The last two years in particular have seen major success at the Oscars, with British talent winning almost one-third of all the awards in 1996 and almost half in 1997.

SECONDARY ECONOMIC IMPACT

It is estimated that in 1997, film production in the UK created indirect economic benefits of around £1.4bn, a multiplier effect of 2.5 on £558m film production expenditure.

This figure includes expenditure on services, such as restaurants, hotels and taxis, and on indirect earnings associated with the production of a film.

Film production supports 18,000 jobs through indirect employment, a multiplier of 1.7 on current direct employment of 10,700.

The UK film industry also plays a crucial role in the international perception and marketing of Britain, helping to promote other creative industries as well as inward tourism, providing exposure for the UK in over 15 major countries and to more than 100m viewers worldwide.

POTENTIAL FOR GROWTH

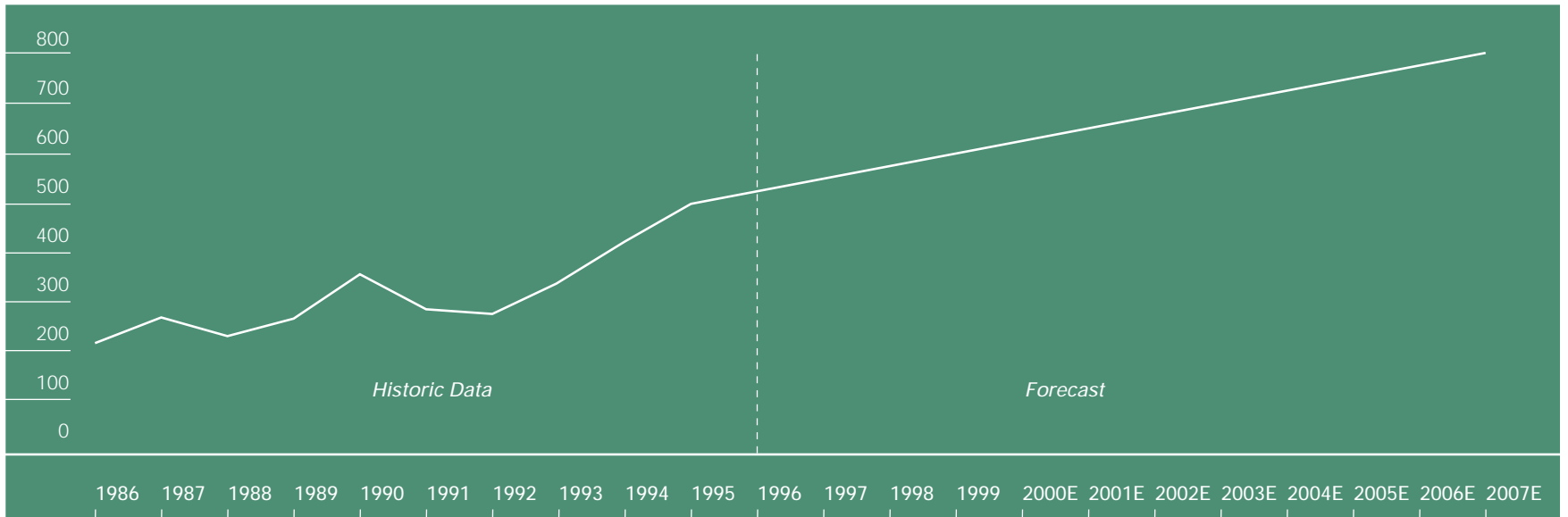
Industry revenues	1997 actual	2007 forecast
UK consumer spending	£160m	>£400m
Overseas receipts	£545m	c. £800m
Foreign productions in UK	£217m	>£200m
Total	£922m	>£1.4bn

Spectrum estimate that the contribution of the UK film industry to the economy could grow from £922m to over £1.4bn by the year 2007.

⁸ Source Screen Digest Aug 1997 (1996 data)

⁹ Source Sunday Times 18 January 1998

Overseas Receipts of the UK Film Industry (£m)



This forecast relies mainly upon the assumption of continuing growth in *overseas receipts*, which could grow to £800m even with a relatively modest growth rate (as indicated in the chart above). This would help perpetuate a virtuous circle of increased production levels, improved negotiating power for UK producers and increasing access to US distribution.

ESTIMATED UK CONSUMER SPEND

2007	Total	of which UK film
Box office spend	£880m	£220m
Video/DVD feature films	£1,200m	£100m ¹⁰
Pay-TV consumer spend	£1,000m	£80m
Terrestrial TV film rights	£200m	£16m ¹¹
Total	£3,280m	£416m

UK consumer spending on UK film is forecast to more than double to over £400m. This will be supported by the multiplication of *television* outlets with the development of digital technology. UK film makers already earn more from UK Pay-TV returns than they do from UK box office, and the importance of this source of revenue can be expected to grow. The *home-viewing market* will also be further stimulated by the launch of the Digital Video Disc (DVD) during 1998.

The flow of *foreign productions* shooting in the UK is notoriously sporadic, but if economic conditions are favourable, the level of inward investment could be maintained beyond £200m. The establishment of a UK Film Office in Los Angeles, which was one of the recommendations of *A Bigger Picture*, is expected to encourage greater inward investment from the US.

In July 1997, the Government introduced a 100% tax write-off for production costs in a film's first year, applicable to films budgeted at less than £15m. It has been calculated that this could reduce production costs by 10% per film.¹²

Over £92m of National Lottery money will be invested in British films over the next six years through the studio franchise scheme. This will be used to produce 90 films with a total value of some £460m.

With the current production boom, screenwriters are more likely to get their films made and are choosing to stay in Britain. Writers and producers are also becoming more cinema-oriented and more commercial, rather than theatre and television-based. The industry is benefitting from a new wave of young screenwriting talent, such as Joe Penhall, Lee Hall, Amy Jenkins and Darren Baillie.

In this context, the opportunity exists for the UK not merely to be the second largest consumer of Hollywood films, but to become the second largest producer of films, after the US, within a global market.

Growth at the level predicted by Spectrum could see employment in the industry grow by between 10-20,000 over the current level of 33,000.

¹⁰ This is a lower percentage than box office because of the video industry's skew towards A-list Hollywood blockbusters and US animation

¹¹ Assumes same proportion of market is achieved by UK films for video

¹² Source Screen International Jan 1998

Current and Projected New UK Multiplex Sites

	End of 1997	Sites to be added by end of 2000 ¹
ABC	2	15
CINE-UK	4	20
National Amusements	14	6
Odeon	16	31
UCI	26	8
Virgin	29	22
Warner Village	17	25
New operators	-	26

The exhibition sector is expected to continue to experience strong growth. Many new multiplexes are planned by the end of the century. By the year 2000, cinema admissions are forecast to pass 180m,¹³ making the UK the biggest movie-going country outside the US. Multiplexes are expected to account for 75% of admissions, compared to 50% currently.

*Notes: New sites of five or more screens
Source: Screen International Oct 1997*

Cinema advertising revenue has doubled in the last eight years, reaching £73m in 1996, and will continue to grow with the increase in cinema screens and attendances. Related sales, such as movie merchandise and refreshments, can also be expected to increase.

GROWING THE SECTOR – POINTS FOR CONSIDERATION

Growing the UK film industry depends crucially on being able to sustain the current production boom while ensuring that the quality of the product is maintained and that films are properly targeted at an international commercial market. There are a number of key issues, many of which are addressed in *A Bigger Picture*, including:

- the improvement of available training for film-makers, scriptwriters and others on whom the industry depends for a quality product, and encouraging the industry to invest more in training
- investment in script development, to ensure that more scripts reach their full potential – in comparison with the US, the UK film industry spends little time or money on script re-writes
- the provision of guidance and support for the industry, including information on locations, markets, audience profiles and revenue forecasts
- the impact of current government initiatives, including the Lottery franchise scheme and fiscal incentives, to promote UK film production
- the encouragement of foreign film making in the UK, particularly if a strengthening in the UK economy threatens the level of US productions
- support and encouragement for exports
- action against piracy
- the improvement of communications between the industry and the City
- increasing the industry's understanding of audience preferences
- improving film education and cine-literacy

SECTION 07 | FILM



SECTION.07 | FILM

