

Independent Producers Scotland
Film City Glasgow
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Friday 23rd January 2015

Dear Members of Economy, Energy and Tourism Committee,

Thank you for taking notice of the state of the screen sector and allowing us to provide evidence.

We would like to encourage you to pressure ministers to make an intervention, to immediately inject some critical funding into the gaping hole that is the infrastructure of our industry.

Last year IPS developed a business plan to create a 'super-infrastructure' that would be sustainable within 3 years and have a transformative effect. Our plan was a starting point. We would like to develop this plan further and implement it within the next 3 months, with a leading screen commercial advisor and industrialist at the helm. A figure like this should also lead the task force, reporting to Scottish Government and the IPS, and represent the vast majority of independent producers in Scotland. We look forward to the opportunity to build on this work.

I thought it would be useful to append a list of our main points from Wednesday's meeting on the next page.

Best wishes

John Archer
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1. Establish a dedicated Screen Development Agency with responsibility for all aspects of support for the sector. In the meantime, remove Screen business development support from SE and give this responsibility/funding to IPS/CS to administer.

nb. It's critical that there's no moratorium during the establishment of a new agency.

2. Locate the long-discussed film studio near a city-centre where it has the automatic and guaranteed support of infrastructure, accommodation, the metrics of place, connectivity & accessibility, where sustainability can be fully realised. We believe location is absolutely critical to its success.

3. Empower existing and new Scottish producers – invest in an intensive Creative and Industrial development programme for producers, designed by world-class Screen Strategist/Analyst/Trainers to encourage entrepreneurship and confidence (eg www.wedevelop talent.co.uk / Olsberg-SPI/ Northern Alliance)

4. Identify and implement new funding sources – ERDF (like Northern Ireland & Yorkshire Screen) and further investigate Financial Transactions (as discussed with John Swinney's finance team). Recycle VAT from cinema tickets and apply to screen industries (see attached doc 'Scottish Cinema ticket VAT – IPS Film Production Fund Proposal')

5. Lobby to increase the UK Tax Credit for Film and high-end TV in Scotland, to stimulate the industry. The impact would be phenomenal.

nb. There's no argument from London about the parlous state of the film sector in Scotland, therefore a case could be made.

6. Establish the National Scottish Film/Screen School proposed in the Youth Arts Strategy as a Foundation Organisation on the same campus as the new film studio.

7. Film policy should be set by the Scottish Government, informed by IPS, CS and other relevant parties.

A PROPOSAL FOR FILM FINANCING IN SCOTLAND

Film production in Scotland is low, fragile and uncertain. This is true across the sector: shorts, fiction features, documentaries, animation. Each film is a small miracle of determination on behalf of the film-makers. Too few films are made and each film carries a burden of expectation in cultural and commercial terms which many cannot fulfil. The core chronic problem is a lack of funding which would allow film production to become a normal activity, a confident and consistently successful expression of ourselves to ourselves and the global audience.

What is to be done?

A NEW FILM PRODUCTION FUND

The proposal is simple: that the VAT applied to cinema tickets in Scotland is collected as a hypothecated tax and gathered into a film production fund. The price of a cinema ticket would remain the same and the 20% collected as VAT is collected as a levy to be paid into a film production fund. Our calculation is that in the last year 16.5 million commercial cinema tickets were sold in Scotland with an average ticket price of £7, totalling £115,500,000. This would give a production fund of £23,100,000. Such a figure would be transformative. It would allow Scotland to bring production investment to the level of, say, Denmark.

The Scottish cinema-going public would see no difference in the cost of their going to the cinema. But what they would see would be a broader, more frequent experience of Scottish film in their cinemas. We are confident that the Scottish public would value the idea that they were supporting their indigenous film industry, at no additional cost.

It would also mean that the films which are currently the most popular in Scotland – the Hollywood blockbusters – would, in effect, help to support the development and sustainability of the Scottish film industry.

HOW WOULD THE FUND WORK?

The Fund would provide support for the development and production of films by Scottish producers and would be accessible only by Scottish productions companies. International film companies would be able to access the Fund via co-production with Scottish companies. This would ensure the consistent involvement, growth and international connections of Scottish companies. The Fund would encourage Scottish film makers to work at home and internationally.

A comparable system has been successfully established in Sweden. For further information, please see <http://www.sfi.se/en-gb/About-SFI/what-we-do/The-Film-Agreement/>

The Scottish Fund would support all forms of film making, both the overtly commercial and those which may not secure a large audience but have genuine cultural concerns at their heart. It would support a strong programme of short film making to nurture the emerging generations of

young film makers. As well as shorts, the Fund would invest in documentaries, feature films and animation.

It may be that this Fund would be administered by a new Film Agency. Scotland is the *only* country in Europe without a dedicated film agency. Many film producers think that Creative Scotland is a generalised arts body which is not appropriate for the needs of the film industry or its development.

TAXATION

It is assumed that a tax credit scheme would still continue. We think that the stimulation provided by the new Production Fund would encourage major private investment since the Fund would result in a much greater number of films, especially feature films, being produced. The risk for private investors, across a much broader slate of films, would be significantly reduced. We would prefer that a Scottish taxation scheme followed the premise of the Irish model in allowing tax credit investment into films at the point of production. This will have the effect of excluding the middle men who make money by standing between the investors and the film companies.

The continued availability of tax credits will be a vital component in attracting private investment and inward investment in the form of international films being located in Scotland.

Returning to the issue of VAT, while at present the majority of public sector revenue payable by Scottish residents and enterprises is collected at the UK level, there have been attempts to estimate what amount of VAT the Scottish Government would collect from Income Tax, National Insurance, VAT, etc, based on figures from 2009 – 2010. These show that Scottish residents and enterprises paid around £7,348mill in VAT, (£7.3bill 2009-2010). VAT accounts for 17.4% of potential Scottish Public Sector revenues (the third most important source behind Income Tax and National Insurance). Total UK VAT revenues were £83,616mill in 2009-10, (£83.6bill), which means Scotland's share of VAT (if it was collected separately) would be about 8.8%, roughly in line with its population size. The £23.1m for the proposed Film Production Fund therefore represents about 0.3% of what Scottish residents and enterprises are estimated to pay in VAT.

THE EUROPEAN UNION

There are several points to be made here. The proposal would require State Aid Approval by the EU Commission. The key issue here is "additionality", that "any support should generate additional activity rather than subsidise that which would have taken place anyway" (Clause 26, Scotland's Future on Screen: Support for the Screen Sector in an Independent Scotland. The Scottish Government, June 2014).

The fact of the matter is that the *Scottish* Government does not currently provide any direct funding into film production. Such monies which are available are entirely sourced from the National Lottery so the proposed Film Production Fund will satisfy the question of additionality. In an aside,

it should be noted that this is not the case with the Scottish opera, ballet or theatre sectors, all of which receive direct Government investment and would not be able to utilise the proposed VAT scheme.

THE SCOTTISH FILM STUDIO

The bids for the Scottish Film Studio are under consideration. On the assumption that this endless saga is finally drawing to a close, the Film Production Fund would be of major importance to the success of the studio. The Fund would enable Scottish producers to pay suitable rates for the use of the studio and the increased production level would help to ensure the consistent use of the facility.

INDEPENDENT PRODUCERS SCOTLAND

The film and television producers in Scotland have recently formed a new collective grouping, Independent Producers Scotland (IPS). Some forty film and television companies have joined and the organisation will continue to grow. Its formation has been welcomed by the Scottish Government and by Creative Scotland. IPS represents the clear and coherent voice of the producers in Scotland. It has already become a powerful force in challenging the current situation of the film industry and proposing how substantial improvements might be made.

POLITICAL CHALLENGE

The proposal for the Film Production Fund is a vital challenge to all political parties in Scotland. None of the parties has a credible agenda for the film industry in Scotland, especially with regard as to how to finance it and its necessary development.

It is likely that, in the first instance, the proposals of the Smith Commission will form the context for the VAT proposal. It is IPS's understanding that aspects of VAT may be devolved to the Scottish Government. We urge the Scottish Government to secure control of this aspect of VAT and set about establishing a Scottish Film Production Fund which can draw on these new resources.

Independent Producers Scotland Ltd December 2014.

Comparison between Scottish and Danish Film Sectors and a Possible Scottish 'VAT' Fund - follows

Comparison between Scottish and Danish Film Sectors and a Possible Scottish 'VAT' Fund			
	Current Situation Scotland	Proposed VAT Subsidy Fund	DFI Subsidy 2013
£ Sterling	3,500,000	23,100,000	36,933,789
	ACTUAL	ESTIMATES	ACTUAL
Size of Population	5.3mill	5.3mill	5.6mill
National feature film releases	5 or 6	12 to 15	19
National documentary film release	1 or 2	4 to 5	9
Number of Cinemas in country	67	67	157

Multiplex cinemas (min. 6 screens)	40+	40+	19
Cinema screens	352	352	405
Average ticket price excl. VAT	5.85	5.85	6.60
Average ticket price incl. VAT	7.00	7.00	8.30
Total Cinema admissions	13.5m	14.2m	13.5m
Admissions for National films	less than 1m	2m	4m
National market share	6%	14%	30%
US market share	85%	74%	56%
European market share	8%	11%	12%
Market share, other	1%	1%	1%

Figures from Creative Scotland Film Sector Report and the Danish Film Institute 2013. VAT Fund Figures Estimates