# ‘This is for the *Batmans* as well as the *Vera Drakes*’: Economics, Culture and UK Government Film Production Policy in the 2000s

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Following the UK general election of May 2010 and the formation of a Conservative-Liberal Democrat coalition government, a new team of Ministers was installed at the Department for Culture, Media and Sport (DCMS), the government department with partial responsibility for film policy. Barely two months later, on 26 July, the new Secretary of State for Culture, Olympics, Media and Sport, Jeremy Hunt, announced the decision to abolish the UK Film Council (UKFC), the publicly funded agency with responsibility for the support of film. Although the decision was met with a general sense of disbelief, it was not, perhaps, as unexpected as it might at first have appeared. Prior to the election, the Conservative Party, the major Coalition partner, had been decrying public-sector waste under Labour as a way of preparing for the cuts that were to follow. In a much commented upon speech, the future Prime Minister, David Cameron, had specifically called for reform of non-departmental government bodies, or quangos, which, he argued, had contributed to the growth of public sector expenditure. Although he was wary of announcing a forthcoming ‘bonfire of the quangos’, it was clear that many such bodies were destined for the axe. In the wake of the crisis over MPs expenses in 2009, the UKFC had also come under press scrutiny for both the high salaries and expenses of its chief executive and main officers and, therefore, looked set to be one of the quangos most at risk from any impending ‘bonfire’.

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The decision to end the Film Council was also made easier by virtue of the fact that the DCMS, prior to the election, had been encouraging merger discussions between the UKFC and the British Film Institute, the body responsible for various aspects of cultural and educational policy (including the maintenance of the National Film and Television Archive). These negotiations had, however, made relatively little progress and it was reported that the new Minister for Culture, Communications and Creative Industries, Ed Vaizey, had called off the negotiations on the grounds that the remits of the two organisations were incompatible (Dawtrey 2010). The main surprise, therefore, was not so much that the new government should choose to review the arrangements for the delivery of government film policy but that the abolition of the UKFC should have occurred without any consultation or clear vision of how the responsibilities of the UKFC were to be discharged in the future. One of Cameron's arguments had been that ministerial responsibility for policy outcomes should not be devolved onto unelected bodies unless there was a demonstrable need for political independence. However, what rapidly became evident was that the abolition of the Film Council was less an attempt to alter – or reclaim – the direction of policy than a speedily contrived response to Treasury demands for savings. Even this, however, was not as clear-cut a matter as it was presented and the government was subsequently taken to task by the National Audit Office for having failed to undertake an adequate assessment of the 'financial implications' of its decision (National Audit Office 2011: 29).

Despite the inconclusive nature of its earlier merger talks with the UKFC, it turned out to be the British Film Institute that was called upon to assume the bulk of the UKFC's former functions (along with the newly established Creative England which took over from the UKFC-funded Regional Screen Agencies and Film London which, somewhat controversially, assumed responsibility for the British Film Commission). It was, however, only after these arrangements were agreed, and set in motion, that the government announced, in May 2011, that it was to establish a review of film policy. Given that key policy decisions had already been made, this appeared to be something of an afterthought designed to cover over the ad hoc nature of the policy-making process so far. This was further confirmed by the unexpected choice of Chris Smith as chair of the review panel. Smith had not only been the first Secretary of State for Culture, Media and Sport, following the renaming of the Department of National Heritage by the newly elected Labour government in 1997, but he had also been responsible for establishing the review group that had led to the formation of the Film Council in 2000. Given that it was politically inconceivable that this second review group should propose the reinstatement of the Film Council, Smith's appointment not only helped to legitimise, retrospectively, the destruction of his creation but also served as a reminder that, for all the *Sturm und Drang* accompanying the decision to close the Film Council, fundamental continuities in film policy remained. Indeed, while the review group was still in session, the government announced that, following an EC decision, it would be extending the tax breaks introduced by the previous government until at least the end of 2015 (HM Treasury 2011).

## *Continuities of policy*

However, if Coalition film policy did not signal as dramatic a change in policy direction as the announcement of the UK Film Council's closure at first appeared to indicate, this might also be said of the policy decisions that took place under the new Labour government following its election to office in 1997. There is, for example, only one mention of film policy in Tony Blair's mammoth 718-page account of his premiership, *A Journey* (2010). It comes relatively early in the book when he boasts of how productive the first days of his government had been. Thus, along with the creation of a new Department for International Development, the awarding of independence to the Bank of England and introduction of bills for referendums on Scottish and Welsh devolution, he lists the announcement of 'a seven-point plan to revive the British film industry' (Blair 2010: 25). This refers to the plan, announced by Chris Smith at Cannes in May 1997, designed to help 'the film sector of small craft businesses into a properly integrated modern industry' (Smith 1998: 87). However, while Blair's account gives the impression of Labour rushing to the rescue of a beleaguered film industry, the most newsworthy aspect of Smith's appearance at Cannes was, in fact, the announcement of the Lottery-funded franchises that had already been decided upon under the outgoing Conservative administration.

It had, of course, been the case that for a long time the Conservative government had done little to help the UK film industry. Determined to remove all restrictions on 'free trade', the Conservatives under Margaret Thatcher abolished the quota (whereby British cinemas were required to show a certain proportion of British films), ended the Eady levy (whereby a small percentage of exhibitors' earnings was returned to film producers) and 'privatised' the National Film Finance Corporation which – as British Screen – had remained one of the few sources of public finance for film-making during the 1980s and early 1990s (Hill 1993). There was, however, a significant change in direction in 1994 when John Major's Conservative administration, partly in response to mounting criticism of the government's neglect of film, agreed to allocate a share of revenues from the newly established National Lottery to film funds to be administered by the Arts Councils of England, Wales, Scotland and Northern Ireland. Arriving at this point had involved a fair amount of manoeuvring on the part of the British film industry as, in order to qualify for Lottery funding, it had been necessary to argue that not only did British films constitute a 'good cause' but that, based on the precedent of tax law, they constituted capital expenditure as well. However, once the principle of Lottery funding for film had been established it quickly became a central plank of UK film policy as well as a source of considerable controversy. This was particularly so in the early years when the alleged poor quality and poor box-office performance of the films funded by the 'People's Lottery' became the focus of sustained press criticism (Petley 2000; Caterer 2011).

Although the attacks upon Lottery-funded films often appeared to misunderstand the guidelines that governed the allocation of Lottery funds, the strength of the press campaign against the films, nevertheless, helped to ensure that the original policy would be changed. In the case of English Lottery funding these changes were implemented by what was then referred to as a new 'super-body', the Film Council (subsequently renamed the UK Film Council), established in 2000. In order to advance his seven-point plan, Smith set up a working party to produce an agenda for action in support of British film. The Film Policy Review Group's report, *A Bigger Picture*, was published in 1998 and recommended, *inter alia*, the rationalisation of the various public bodies supporting film. Under this new arrangement, the Film Council replaced the Arts Council of England as the distributor of Lottery funds for film production as well as taking over British Screen and the British Film Commission (the body responsible for promoting Britain as a film location and attracting inward investment). At the time, it also seemed possible that the BFI, the oldest of the various film bodies, might be incorporated into the new organisation (and probably it would have been had it not been for its Royal Charter and charitable status). It is, therefore, something of a historical irony that it survived to subsume its short-lived parent organisation.

To this extent, the arrival of the Coalition and the 'New Labour' governments were marked by broadly similar initiatives (albeit that these occurred in a different order): the establishment of a policy review and the amalgamation of existing film organisations (indeed, it was Gordon Brown, when Shadow Chancellor, who had first promised a 'bonfire of the quangos' in 1995). Moreover, despite the sense of ushering in the new that these actions generated both governments nonetheless maintained a strong sense of continuity with the film policies of the preceding administration. To some extent, this might be said to derive from the peculiar status that film has occupied within policy discourses. As I have suggested elsewhere, government policy and legislation directed at film has been driven by a number of different imperatives (Hill 2004). Historically, government film policy has primarily been conceived as an *economic* policy concerned with the maintenance and support of commercial film production within the UK. However, in recognition of both the social effects and cultural importance that may be attributed to films, governments have also implemented film policies on both *social* and *cultural* grounds. Indeed, given the precarious economic position of the UK film industry since the 1920s, it is possible to argue that film policy has rarely been a matter of economics alone but has also depended upon cultural assumptions about the significance of film for the projection of 'national culture' at home and abroad (see, for example, Board of Trade 1936: 4). This interweaving of policy objectives became even more evident during the 2000s as a result of the way in which economic and cultural goals were increasingly linked together, as in the case of the Film Council which was discharged with the responsibility for not only developing 'a sustainable UK film industry' but also supporting 'film culture in the UK' through the encouragement of 'access to, and education about, the moving image' (a remit which it, in large part, fulfilled through its funding of the already existing BFI) (Film Council 2000: 6). Thus, while it has been common to comment upon the way in which cultural objectives were subordinated to economic ones during the 'New Labour' years, the actuality was rather more complicated. What might be said to have occurred is that the boundaries between the economic and cultural became increasingly blurred with the result that not only did 'cultural' policies increasingly come to rest upon economic justifications but also that 'economic' policies increasingly came to depend, both explicitly and implicitly, upon 'cultural' assumptions as well. Thus, while government film policy has sometimes been promoted as a hard-headed commercial industrial strategy it has rarely turned out to be so straightforwardly the case.

This may be seen in relation to policies in support of film production which have not only tended to dominate public debates but have also accounted for the lion's share of public spending. Thus, according to the *BFI Statistical Yearbook* (2011: 162), over 50 per cent of public spending on film is directed towards production (a percentage that is actually higher given that other listed activities – such as script development and training – are primarily forms of support for production). The two main ways in which funding for film production has been routed is through grants and loans and through fiscal incentives. Although not all of this expenditure has been governed by explicitly economic imperatives, much of it has been focused on 'commercial' production. By examining how this particular aspect of film funding has operated, this article will indicate how difficult it is to conceive of film policy as purely an economic matter even when it may have been presented, or intended, as such.

## *Production funding*

Although direct government support for film production stretches back to 1948 when the then Labour government established the National Film Finance Corporation (subsequently British Screen) as a specialised bank to make loans in support of British film, the beginning of the modern era of funding was undoubtedly the decision to make Lottery funds available for film production. This was particularly so given that core grant-in-aid from the government did not increase significantly during the Film Council's existence. Thus, in 2009–10, the UKFC (2010: 11) reported that core grant-in-aid had increased for only the second time since 2003 (by £0.6 million to £25.3 million). As a substantial proportion of this grant-in-aid (£16 million) went straight to the British Film Institute, this meant that it was Lottery revenues accruing to the UKFC (£34.2 million in 2009–10), along with the funding provided by other national and regional agencies, that constituted the main source of grant-in-aid to film production. However, as previously noted, the administration of Lottery funds by the Arts Councils (especially the Arts Council of England) had quickly come under fire from the press and one of the first tasks undertaken by the newly established Film Council was the reconfiguration of Lottery funds. Although the Film Council was obliged to continue funding (to the tune of £17.2 million in 2000–1) the three ill-fated Lottery franchises announced in 1997, it also proceeded to launch two new production funds – the Premiere Production Fund (initially amounting to £10 million per year) and the New Cinema Fund (initially budgeted at £5 million) – as well as a Film Development Fund (worth £5 million) and a Training Fund (worth £1 million). The establishment of the Premiere Fund, in particular, appeared to signal the new direction in which the Film Council sought to take Lottery film funding insofar as it was designed to help fund bigger-budget productions that would prove 'profitable and attract significant audiences at home and abroad' (Film Council 2000: 15). Although the Film Council's launch document, *Towards a Sustainable UK Film Industry* (2000) indicated that that there would be an investment ceiling of £1 million per film, awards soon exceeded this figure. *Mike Bassett: England Manager* (2001), for example, received £1.2 million in 2000 while Gosford Park (2001) obtained £2 million in 2001. Other beneficiaries of large awards were subsequently to include *Valiant* (£2.5 million), *Five Children and It* (£2.1 million), *Stormbreaker* (£2 million), *The Constant Gardener* (£1.9 million), *Life'n'Lyrics* (£1.1 million), *Closing the Ring* (£2 million), *St Trinian's* (£1.4 million), *How to Lose Friends and Alienate People* (£1.4 million), *Harry Brown* (£1 million), *Nowhere Boy* (£1.2 million) and *The King's Speech* (£1 million).

Inevitably, the size of these awards and the apparent pursuit of 'mainstream' projects generated rather different questions from those that had previously accompanied the Lottery awards to film made by the Arts Council of England (and, to a lesser extent, by other Arts Councils in Scotland, Wales and Northern Ireland). If ACE had been criticised for supporting films that appeared to lack commercial potential (and which may have been rejected by commercial investors), the Film Council faced the opposite criticism for appearing to invest in films that commanded sufficient commercial appeal as not to require public funding (the animated feature *Valiant* (2005), for example, which was awarded over £2.5 million by the Council, received distribution from Disney in the US and was estimated to have cost $35 million overall). The notorious example of *Sex Lives of the Potato Men* (2003), which received over £1.6 million of Lottery funding, also illustrated how the funding of a film on an apparently 'commercial' basis could nonetheless attract considerable hostility from the very same newspapers that had previously lamented the lack of commercial success of Lottery-funded films. Even though a spokesman for the Film Council defended the film on the grounds that it would appeal to young working-class males rather than middle-aged, middle-class critics (and the film did, it seems, eventually turn a profit on the back of video and DVD sales), the general sense within the press remained that, whatever its commercial appeal, the film was nevertheless undeserving of public support on both aesthetic and moral grounds.

However, if the press response to the Film Council's funding of *Sex Lives* suggested that public investment in film could not really be regarded as solely an economic matter, the UKFC's own emphasis upon supporting 'popular' films did mean, nonetheless, that the economic performance of its films became subject to particular scrutiny. Unlike conventional arts funding (and other Lottery funds), awards to films were not conceived of as straightforward grants (or subsidy) but loans upon which a degree of return might be anticipated. Thus, in its launch document, the UKFC (Film Council 2000: 15) had indicated that the Premiere Fund's recoupment targets would be 'pegged to commercial norms'. Given the high-risk nature of film investment whereby many films fail at the box office, this was an ambiguously worded statement. Nevertheless, the Film Council did succeed in securing a good return on some of its early investments such as *Gosford Park* (which had fully recouped by the end of 2003) and *Mike Bassett* (which successfully recouped most of its award during the same period). The box-office success of later films such as *St Trinian's* and *The King's Speech* also meant that the Film Council saw its money fully returned. However, even though the Film Council could lay claim to a relatively high recoupment in comparison to film funding bodies across Europe, the majority of the films it supported did not, of course, recoup fully (and some films appear to have provided no return at all). According to the UKFC's Chief Executive, John Woodward, the Board had set a recoupment target of 50 per cent for investments supported by the Premiere Fund (House of Lords 2010b: 38). However, as of the end of 2008, the actual figure for the Premiere Fund was 34 per cent (ibid.: 31). While this would be regarded as a good rate of return for a conventional system of cultural subsidy (and comfortably exceeded the targets set for the more culturally oriented New Cinema Fund), it was less impressive for a fund designed to operate on a commercial basis. In the light of this, Woodward sought to downplay some of the Film Council's original ambitions, explaining to the House of Lords Communications Committee that the UKFC was not in 'the business of profit maximising on investment' but helping 'the film industry to get films made' (ibid.: 38). However, while it would be fair to say that the profile of the commercially successful films funded by the Premiere Fund helped to rescue Lottery-funded films from some of the opprobrium that had been a feature of press coverage in the 1990s, the 'commercial' rhetoric surrounding the Fund also rendered it, in part, a hostage to fortune, particularly if the would-be commercial films it supported turned out to be flops. Although partly motivated by a reduction in support for film production, this consideration may also have contributed to the decision to merge the Premiere and New Cinema Funds into a single production fund in 2010.

It is, of course, worth remembering that the New Cinema Fund did not operate with the same commercial expectations as the Premiere Fund and had, among its aims, the ambitions 'to encourage innovation in form and content' and to 'challenge audiences' (Film Council 2000: 16). Although there were complaints that the types of films supported by the two funds overlapped and that the New Cinema Fund was less adventurous than its predecessors, the BFI Production Board and British Screen, the New Cinema Fund did, nonetheless, provide financial backing for a fairly diverse group of films, ranging from *The Magdalene Sisters* (2002) and *The Wind that Shakes the Barley* (2006) to *Fish Tank* (2009), *Nightwatching* (2007) and *Yes* (2004). What some of these films backed by the New Cinema Fund demonstrated, moreover, was the multiplicity of factors involved in the emergence of a film as 'commercial'. This was partly revealed when the Coalition Culture Minister, Ed Vaizey, reported UKFC recoupment figures for the period 2006–11 which showed how a relatively 'uncommercial' project such as the documentary *Man on Wire* (2007), funded by the New Cinema Fund, had proved to be much more successful than a supposedly 'commercial' comedy such as *How to Lose Friends and* Alienate People (2008), backed by the Premiere Fund. Thus, whereas *How to Lose Friends*... had only returned £9,977 on an award of £1,471,145, *Man on Wire* had returned £390,081 on a UKFC award of £385,000.[1] Given these complexities, it was, perhaps, unwise of the new Coalition Prime Minister, David Cameron, to seek to intervene in the formulation of film policy ahead of the publication of the Film Policy Review Panel's report, *A Future for British Film*, by declaring that public money should be employed in support of 'commercially successful pictures' (Kemp 2012). This was not, as some media coverage implied, a recommendation of the report itself which proposed, in a more nuanced manner, that the objective of UK film policy should be 'to connect the widest possible range of audiences throughout the UK with the broadest range of British films and films from around the world' (Film Policy Review Panel 2012: 91). It was also, as some observers were quick to point out, a highly problematic – as well as historically ill-informed – remark given how difficult it was for both private investors and public agencies to identify in advance the components that make up 'commercially successful pictures'. As the history of the Premiere Fund demonstrated, even when a fund was devoted to funding potentially 'commercial' projects this did not guarantee that this would turn out to be the case.

## *Creative industries*

Despite the more proactive, pro-market features of the two UKFC production funds, they can, nonetheless, be seen to belong to a tradition of supporting film-making established by the National Film Finance Corporation, on the one hand, and the BFI Production Fund, on the other. The real discursive shift in policy rhetoric, therefore, might be said to have occurred in relation to the grounds upon which economic investment in film was identified and validated (transforming, in the process, how the 'profitability' of the film industry itself came to be conceived). In a revealing remark concerning his time as Minister for Culture, Media and Sport, Chris Smith (2003) comments as follows:

> Spare a thought, however, for the poor old Minister, faced with the daunting task of getting the increased funding out of the Treasury to start with . . . So I acknowledge unashamedly that when I was Secretary of State, going into what always seemed like a battle with the Treasury, I would try and touch the buttons that would work . . . I would refer to the economic value that can be generated from creative and cultural activity . . . If it helped to get more funds flowing into the arts, the argument was worth deploying.

Although the emphasis upon the economic importance of 'creative and cultural activity' had strategic benefits for the DCMS, it also chimed with more general socio-economic trends. In the period from 1979 to 1997, over three million UK manufacturing jobs had been 'lost' (Froud et al. 2011: 18–19). The 'New Labour' government, first elected in 1997, did little to reverse this trend, presiding over the loss of a further 1.3 million manufacturing jobs during the following ten years. In the face of manufacturing decline, the government sought to stimulate economic growth and global competitiveness through the promotion of a 'post-industrial' services-led 'knowledge economy' and, in 1998, the Department of Trade and Industry published a White Paper with a foreword by Tony Blair identifying 'knowledge, skills and creativity' as the country's 'most valuable assets' (Blair 1998). It was this 'modern knowledge-driven economy' with which Smith sought to align his department by establishing an inter-departmental Creative Industries Task Force discharged with assessing what steps government might take to increase the 'wealth-creating potential' of cultural activity and publishing a *Creative Industries Mapping Document* that identified the 'economic value' of the UK creative industries (DCMS 1998: 3). As various commentators have observed, the definition of 'the creative industries' was undoubtedly problematic, giving rise to a variety of questions regarding the principles governing the inclusion – and exclusion – of specific industries and the legitimacy of bracketing together relatively distinct economic sectors and cultural activities (Oakley 2004; Garnham 2005; O'Connor 2007). Nevertheless, the Creative Industries discourse has proved to be remarkably resilient and has clearly succeeded in giving credence to claims regarding the economic contribution of cultural activities. This was estimated to be £57 billion a year of revenues in the first *Mapping Document* of which film was held to account for some £900 million. Towards the end of the 2000s, the DCMS suggested the contribution of 'film, video and photography' to 'Gross Value Added' (the income generated by the sector minus consumption of goods and services) had become even greater, rising from £1.9 billion in 1997 to £3.8 billion in 2006 (though falling to £2.7 billion in 2008) (DCMS 2009, 2010).

This emphasis upon revenues (and 'value added') necessarily altered the way in which state support for film was conceived. The sole policy document of the Thatcher era, *Film Policy* (Department of Trade 1984), had also claimed to be encouraging 'the creative talents and business skills' of those involved in film production but had sought to do so by setting the industry 'free' from 'the paraphernalia of Government intervention', including state economic support (Department of Trade 1984: 18). Thus, while the report does refer to the economic turnover of the film industry (an estimated £300–400 million per annum), it does not consider the size, or economic contribution, of the industry to be salient to the formulation of government policy. However, subsequent to the DCMS initiative surrounding the creative industries, the measurement of economic value (however defined) became central to both the case for government 'investment' in – rather than 'subsidy' of – the film industry and the demonstration of the benefits that might be seen to accrue to the taxpayer (or Lottery-player). This was not, of course, an entirely new phenomenon. John Myerscough's well-known study, *The Economic Importance of the Arts in Great Britain* (1988), had paved the way for research into how the arts – including film – not only constituted economic activities in their own right but also contributed to the growth in ancillary industries, created additional employment, provided a catalyst for urban renewal, raised the profile and business attractiveness of a region and stimulated tourism. In the wake of the 1998 and 2001 *Creative Industries Mapping Document*s, however, studies of the economic impact of the arts and creative industries became increasingly common and, in the case of the UK film industry, a key component of policy debates (Cambridge Econometrics 2005; Oxford Economic Forecasting 2005; Oxford Economics 2007, 2010).

Much of this concern was in line with a broader government agenda to measure and audit the benefits of public investment of all kinds. However, in the case of the UK film industry, the new emphasis upon 'economic impact' also shifted the terms of the debate away from the profitability, or otherwise, of individual films (as occurred in relation to the use of Lottery monies) towards the economic benefits of film production in a country or region more generally. Thus, in the case of Northern Ireland, for example, it could make sense for the Northern Ireland Film Commission to argue that the Lottery funding of films had delivered a positive return to the local economy even when the majority of films that had received support had performed poorly at the box office (and thus provided relatively low levels of recoupment to the Northern Ireland Arts Council and NIFC) (Hill 2006: 185).[2] In this respect, what was decried in some circles as crude instrumentalism (the measurement of support for culture in terms of economic effects) became, in the case of film, quite an effective lobbying tool by virtue of the way in which it permitted a shift away from arguments about whether the industry was capable of 'standing on its own feet' towards arguments about the more general contribution that the film industry made to the economy, both directly and indirectly. This may be seen in the way in which tax incentives, previously regarded by the Thatcher government as an inappropriate interference in the market, came to be regarded as an acceptable form of government 'subsidy' that could be claimed not only to help remedy 'market failure' but also to constitute a net economic benefit to the Exchequer.

## *Tax incentives*

The rise of tax incentives as a key plank of government film policy since the 1990s is not difficult to understand. From the Thatcher era onwards, both Conservative and 'New Labour' governments displayed a suspicion of what was regarded as state 'subsidy'; in such circumstances, fiscal incentives were seen to constitute a more market-friendly form of economic stimulus than grant-in-aid. By ruling that films could henceforth be regarded as 'plant', the Inland Revenue had ushered in capital allowances for film as far back as 1979. These had, however, been phased out by 1986 on the grounds that they constituted a part of the 'paraphernalia of Government intervention' that the 1984 White Paper had set out to eliminate. Partly due to the problems facing the industry by the end of the 1980s and effective lobbying for 'a level playing field' in the wake of the Downing Street seminar of 1990, tax write-offs for film were admitted under Section 42 of the 1992 Finance

(No. 2) Act by the then Conservative Chancellor, Norman Lamont. In a further example of the emerging political 'consensus' surrounding film policy, the new Labour Chancellor, Gordon Brown, extended these tax incentives in his 1997 budget by permitting (under Section 48 of the Finance Act) accelerated tax write-offs for films costing less than £15 million. Although debate within the press about film policy during this period characteristically focused on the use (and alleged misuse) of Lottery funds, the amounts provided through tax relief were by far the more substantial (though the more difficult to associate with specific films). Referring to the tax costs of Section 42 and 48 in the Commons in 2006, the Paymaster General reported a growth from £10 million in 1997–8 to £560 million in 2005–6 involving a total sum of £2 billion for the period from 1997 to 2006.[3] This constituted over four times the amount of direct funding that had gone into film over the same period as well as accounting for a significant proportion of overall production expenditure.

Although these tax incentives were associated with an increase in production spend and numbers of films made, they were also to prove controversial due to the opportunities they provided for tax avoidance of various kinds (HM Treasury 2005: 13). This led to the introduction of a number of changes aimed at eliminating tax loopholes and, ultimately, a decision to overhaul the whole framework of tax relief in 2004. As John Woodward, Chief Executive of UKFC, explained to a gathering of industry personnel at the time, the government was 'fed-up with the middlemen who were seen to be pillaging the tax system' and had little appetite for the renewal of Section 48. As he went on:

> These are days of tough Government spending rounds, tough choices, tough Treasury decisions. State pensions or private pensions? Cancer research or movies? More money for schools or bigger tax shelters for high net worth individuals? We need to understand how special the bubble we live in really is in the context of the big picture. (Woodward 2004)

Given such sentiments, it was, perhaps, something of a triumph for the film industry (and testimony to the government's continuing belief in the virtues of the 'creative industries') that it was able to emerge from the consultation process with a new revised tax relief in place (beginning in January 2007). This sought to minimise tax evasion by making a tax credit available to film production companies rather than to film financiers (and would-be tax dodgers) that was calculated on the basis of UK expenditure (which had to amount to at least 25 per cent of the total). This new set of arrangements also had the effect of reducing the cost to the Treasury though the sums involved still remained substantial. Thus, in August 2011, HM Revenue and Customs reported that claims amounting to £645 million had been received, of which £570 million had so far been paid.

The revised tax credit also succeeded in winning widespread political approval. Both the House of Lords Select Committee (2010a) and the Film Policy Review Panel (2012) expressed support for the continuation of the system. The Office of Tax Simplification, launched in 2010 by the incoming Coalition government, also recommended that the relief be retained despite the Coalition's adoption of a range of 'austerity' measures. To some extent, this was a tribute to the efforts that had gone into demonstrating the economic impact that the film industry could be shown to command. The Office of Film Tax Relief, for example, explicitly cites the research of Oxford Economics, a fairly open piece of 'lobbynomics' commissioned by the UK Film Council and Pinewood Shepperton, that not only argues that the film industry makes a substantial contribution to GDP (over £4.5 billion in 2009) and to the Exchequer (£1.2 billion in the same year) but that, in the absence of tax relief, these figures would have been significantly smaller (Oxford Economics 2010; Brown 2010). Thus, while Magor and Schlesinger (2009: 317) query the extent to which the post-2006 Film Tax Relief may be regarded as the product of 'creative industries policy' as opposed to a longer-standing tradition of Treasury interventionism, it does seem to be the case that the emphasis upon 'economic value' and 'economic impact' to be found in creative industries discourse – and research – did, nevertheless, come to exert a growing influence upon Treasury thinking (and help to make the case that tax relief should not necessarily be regarded as simply a drain on the exchequer).

This does not mean, however, that tax policy has been free of ambiguities and tensions in the way in which it has been conceived and implemented. For, while the use of tax incentives has been understood primarily as an 'economic' policy concerned with support for industrial activity, the Treasury, in establishing its review of tax reform, actually declared that the 'specific case' for government support of film production rested upon the 'important role that film plays in British cultural life' (HM Treasury 2005: 5). As a result, the review document goes on to propose that 'the core aim of tax reliefs' must be 'to promote the sustainable production of culturally British films' (ibid.: 8). This, however, is a more complex formulation than it at first appears and the precise ways in which the terms 'cultural Britishness' and economic 'sustainability' are to be understood has been a matter of some dispute.

While there is, as previously suggested, a long tradition of governments invoking the contribution of cinema to 'national life' in support of government measures on behalf of film, the specific impetus for the contemporary emphasis upon 'cultural' film may be linked to the UK's membership of the European Union. Under Article 87 of the EC Treaty, any use of state resources that 'distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods' was deemed to be 'incompatible' with the common market. Although 'aid to promote culture and heritage conservation' was held to be an exception, this was only the case where such aid did 'not affect trading conditions and competition in the Community' (European Commission 1997). This, however, was insufficient to allay concerns that EU competition law might prevent member states 'from supporting their cinema sector in an international environment marked by tough competition with other continents' and led the European Commission to lay out new rules that permitted governments to assist film and television production provided they took steps, in line with the principle of subsidiarity, to ensure that 'the cultural content of the works supported' was established 'on the basis of verifiable national criteria' (European Commission 2001). Although tax reliefs do not constitute direct grant-in-aid, the EC nonetheless regards them as a form of 'state aid' that involves the deployment of state resources in a manner that is selective and liable to distort competition (European Commission 2006: 9). As a result, it became necessary for the UK government to demonstrate that the films benefiting from the proposed new tax reliefs exhibited the 'cultural content', based on 'verifiable national criteria', that exemption from EU competition law required.

This resulted in the adoption of a 'cultural test' for British films by the UK government; however, the basis upon which a 'culturally British' film might be defined provoked something of a political tussle insofar as the European Commission rejected the UK government's initial version of the test. To some extent, it could be said that this became the case due to a need to reconcile what had originally been conceived as an economic policy, designed to stimulate private investment in film production, with the EU's insistence that tax incentives constituted 'state aid' that had to be justified on 'cultural' grounds. The Chancellor's original extension of tax relief in 1997, for example, had been planned to 'promote growth, employment, investment and opportunities in the British film industry' rather than achieve specific cultural objectives (HM Treasury 1997). Tax incentives, under both Section 42 and Section 48, were, of course, only available to 'British qualifying' films but the definition of a 'British film' at this time rested upon purely industrial criteria (such as the use of a UK studio or the registration of a production company as British). This also meant that what counted as 'British' could vary considerably. Addressing the House of Commons in 1997, the Chancellor, Gordon Brown, declared that 'too many British films that could be made in Britain are being made abroad, or not at all'.[4] This is, however, an ambiguous formulation that suggests something of the 'Janus-faced' character of tax policy as it has evolved. On the one hand, it appears to be a policy concerned to address 'market failure' and encourage the production of British films that might not otherwise attract investment and get made. On the other hand, it is also a policy designed to encourage the production of films in Britain that would otherwise be made 'abroad' (and, thus, which might be said to be only potentially 'British').

Brown's measures were informed by the Middleton Report on Film Finance which had argued that, as tax incentives constituted 'a significant feature' of most film-making countries, similar incentives at a similar level were necessary in the UK if the film industry was 'to compete effectively in an open international market' (Advisory Committee on Film Finance 1996: 38). This recommendation had, of course, less to do with the encouragement of 'British films' as commonly understood than with the attraction of much bigger-budget international productions to Britain (and the economic benefits with which they are associated). Britain has, of course, a long history of inward investment, particularly on the part of the Hollywood majors which have made extensive use of UK studios (encouraged, in part, by quotas or favourable exchange rates). However, under pressure to reduce production costs (especially labour costs) and increase international box-office earnings, Hollywood production has become increasingly mobile in character, thereby encouraging increasing competition among countries (such as Ireland, the Czech Republic, Canada, New Zealand and Australia) to attract films to their territories through the use of tax incentives (Miller et al. 2001).[5] As a result, the view that the UK has to remain competitive by matching the tax incentives of other countries has become a key feature of arguments in support of fiscal incentives for UK film production. These incentives were, in turn, linked to the Film Council's ambition to promote the UK as a 'film hub' (and the Labour government's even grander aim of turning the UK into 'the world's creative hub') that would, in the words of the UKFC's first Chairman, Alan Parker, supply 'skills and services to the global film market' (Parker 2002:10; DCMS 2005).

This idea of a 'creative hub' may also be seen to be connected to the arguments over the 'cultural test'. Under the British government's original version of the UK cultural test, the 'use of cultural hubs' (including the use of UK studios and post-production facilities) constituted the most important component. The purpose of this was clear from the pronouncements of the Creative Industries Minister, James Purnell, when announcing the government's plans for tax reform in 2005. Indicating that 'the test would not dissuade Hollywood productions from taking productions to the UK', he argued that 'cultural goals go hand in hand with the industrial goals' and that the proposals were aimed at 'the Batmans as well as the Vera Drakes' (Milmo and Gibson 2005). However, as the European Commission noted, the title of 'cultural hub' was something of a misnomer insofar as it pertained to economic expenditure rather than what would commonly be regarded as the 'cultural content aspects of filmmaking' (European Commission 2006: 11). As a result, the UK government was obliged to reduce significantly the score it attached to the use of 'cultural hubs' and increase the number of points it awarded for 'cultural content' and 'cultural contribution'. However, although there were concerns that the revised version of the cultural test might deter Hollywood productions, it was crafted in such a way (awarding four points, for example, for the mere use of the English language) that, according to the US trade magazine *Variety*, it was 'a hard test' for Hollywood films involved in filming in the UK 'to fail' (Dawtrey 2008). Indeed, once the relatively low hurdle of the cultural test was jumped, the new tax credit was actually more generous to Hollywood productions in comparison to its predecessors insofar as it applied to all UK expenditure, including the salaries of American talent, and did not specify an overall ceiling on production spend.

Given these circumstances, it is hardly surprising that the co-Chairman of Working Title and subsequent Chair of the UK Film Council, Tim Bevan, felt able to tell the House of Lords Select Committee in 2010 that the tax credit scheme, introduced three years earlier, was 'working brilliantly for inward investment in terms of bringing the studios into this country to make big films here' (House of Lords 2010b: 309). This is borne out by the aggregate figures, released by HM Revenue and Customs, summarising the operation of the tax credit scheme in the years between 2007 and 2011. According to these, over 100 claims were made on behalf of 'large-budget films' (defined as costing over £20 million) for which the average tax-credit payment amounted to £3.7 million (though given that a 20 per cent tax relief can be claimed on 80 per cent of qualifying expenditure some of these payments will have been substantially higher). As the majority of these 'large-budget films', as well as some of the 'low-budget' ones, will have been US-backed, this means that a policy in support of 'the sustainable production of culturally British films' has entailed the provision of financially generous 'state aid' to numerous big Hollywood productions such as the *Harry Potter* films, *Mr Bean's Holiday*, *Prince of Persia*, *Hugo* and *Pirates of the Caribbean 4* (all of which passed the cultural test).

That this should be the case also sheds light on how the idea of 'sustainability' has tended to function within policy discourse. As previously noted, the Film Council was initially established with the brief to promote 'a sustainable UK film industry' while, for the Treasury, the primary aim of tax policy was 'the sustainable production of culturally British films'. The term 'sustainable', however, has rarely possessed a clearly defined meaning. At times, it has been taken to mean 'profitable', 'commercially successful' or 'self-sustaining'. However, the appeal of the term has also seemed to be, in part, that it is vaguer (and gentler) than many of these possible synonyms. As the former Head of Research and Statistics at the UK Film Council, Jim Barratt, has suggested, it is possible to draw a distinction between 'a hard concept of sustainability' that aspires to the creation of an industry that survives 'without outside support or influence', and a 'soft conception' that involves the idea of 'sustaining' the film industry within (or without the exhaustion of) 'available resources' (Barratt 2010). The Conservative administration, under Margaret Thatcher, might be said to have experimented with a 'hard concept' of sustainability by withdrawing various forms of state support and subjecting the film industry to the rigours of the 'free market'. However, faced with the slump in British film production to which this led, the succeeding Conservative government, under John Major, signalled a degree of retreat from earlier policies by introducing tax reliefs and providing film with Lottery support. Although 'New Labour' inherited the 'pro-market' sentiments of the preceding government, it also, in the case of film, maintained a 'soft concept' of sustainability by introducing additional forms of fiscal support and relaxing the ways in which Lottery funds could be employed to assist film. Thus, notwithstanding some of the rhetoric with which they have been associated, the policies for promoting 'a sustainable UK film industry' might be said to have involved the acceptance of two kinds of dependency. In the first case, it has involved an acceptance that the UK film industry is dependent upon Hollywood for investment in film production and the maintenance of a creative and technical infrastructure or 'film hub' (involving skilled technicians, studios and post-production facilities). However, given the mobility of Hollywood production and the vulnerability of investment to international competition (and fluctuations in the exchange rate), the maintenance of a 'sustainable' film industry has also come to be seen to depend upon the continuing availability (and, indeed, extension) of generous tax inducements (along with other kinds of state support).

As Goldsmith and O'Regan (2005: 59) suggest, it has been the assumption of governments that the presence of international productions and studios will benefit local film production (rather than simply provide employment on inward investment films). However, the development of 'convergent and productive relations' between the two is neither automatic nor guaranteed. Indeed, given the huge percentage of production spend accounted for by 'inward investment' films (over 80 per cent in 2010), the published figures on the state of 'the UK film industry' often disguise the diversity of production practices that constitute UK film production and the fragile economic basis upon which the bulk of UK 'independent' production is conducted. In its 1998 report, *A Bigger Picture*, the Film Policy Review Group accounted for the weakness of the British film industry in terms of a 'production-led and fragmented… 'cottage industry'' in which distribution is 'dominated by big US companies' (1998: 14). At the end of the 'New Labour' era, the situation of the film industry in Britain remained much the same. In 2010, subsidiaries of the Hollywood majors still accounted for over 80 per cent of UK box office which was practically the same figure that it had been in the late 1990s (BFI 2011: 77). Production also continued to be fragmented with production activity spread across 232 production companies, of which 219 were involved in only one feature film (ibid.: 154). The majority of British films also continued to struggle to obtain adequate distribution and exhibition with only a handful each year achieving significant box-office returns (primarily those funded and/or distributed by the Hollywood majors). In line with the EU more generally (in which US distributors have typically accounted for over 70 per cent of market share), the continuing fragility of 'independent' UK production is indicative of the failure on the part of 'pro-market' policies to address the ways in which the imbalances of power associated with film distribution have themselves distorted the operations of the 'free market' and restricted the access that audiences have to see a full range of British (and European) films in cinemas. As such, the political strategy of 'New Labour' to go with the grain of globalisation may have served to sustain UK film production in some ways but also to have maintained its underlying weaknesses in others. In this regard, it is also worth recalling the emphasis that *A Bigger Picture* placed upon the role of television in supporting 'a sustainable British film industry' (Film Policy Review Group 1998: 24). Although Channel 4 and the BBC have continued to invest modest sums in British film production, the enhanced role envisaged for television in sustaining film-making has not materialised despite the continued popularity of television as a medium for film viewing. In this respect, it is another minor irony that one of the headline recommendations of the most recent film policy review in 2012 should have been a call for increased support for British film production (enforced by legislation if necessary) on the part of the major broadcasters (Film Policy Review Panel 2011: 55).

## *Conclusion*

In its report on film finance in 1996 (which led to the extension of tax reliefs in 1997), the Middleton group noted that the Treasury appeared to have accepted that the film industry was a 'special case' by virtue of the way it had permitted benefits that were unavailable to other industries (Advisory Committee on Film Finance 1996: 38). If, at that time, the cultural underpinnings of fiscal policy were implicit rather than explicit, they have become much more overt since the introduction of the 'cultural test' for a 'British film' in 2007. In a slightly odd twist of the creative industries discourse, this has also led other industries to lay claim to 'state aid' on the grounds that they too may be seen to generate 'cultural', rather than simply 'economic', value. This has been so in the case of the video games sector, for example, which initially failed to win government support for tax relief on purely economic grounds but now seems set to obtain a tax subsidy provided the EC accept that it, like the UK film industry, may be held to be engaged in the production of 'culturally British' goods (TIGA 2011: 13).[6] However, if film has historically enjoyed a 'special' status as an industry it might also be said to have enjoyed a certain degree of favour as a 'cultural asset' as well. Thus, when the revised version of the 'cultural test' was debated in the House of Lords, the composer and owner of seven London theatres, Andrew Lloyd Webber, felt moved to ask why such reliefs were not also available to the theatre.[7]

In a sense the demands on behalf of both the theatre and video games for tax reliefs similar to those enjoyed by film indicate how blurred the lines between 'economics' and 'culture' have now become within policy discourse. In the case of film, this means that while the value of cultural activity has increasingly been measured in industrial and economic terms, it is also the case that economic policy (even for the most commercially successful of films) has itself been underpinned by cultural considerations. However, although 'economic' and cultural' goals are now routinely linked together within UK film policy discourse, this does not mean that the relationship between the two is clearly agreed and settled. Indeed, the use of state aid in support of film looks set to become a matter of political dispute once more in the wake of the publication of a draft EC Cinema Communication, planned to replace the Cinema Communication of 2001. Partly motivated by the fear of a 'subsidy race' among member states keen to attract inward investment films, the new Communication proposes a reduction in the proportion of a film budget that governments can require to be spent within a particular territory as well as a new definition of a 'European audiovisual work' that would potentially restrict the aid currently available to Hollywood films shooting within the EU (European Commission 2012). Given that these changes will almost certainly have a greater impact upon the UK than other EU states, the outcome of the current consultation may well be of considerable significance for the future implementation of UK policy in support of 'the sustainable production of film as a cultural product'.[8]

**Notes**

1. House of Commons, Written Answer, 20 July 2011, col. 1056W, http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110720/text/110720w0003.htm.
2. Due to the devolution of Lottery funding to bodies in Scotland, Wales and Northern Ireland, it is, of course, difficult to identify a unitary UK film policy. However, although different 'national' film bodies have pursued distinct 'regional' policies, the influence of 'creative industries' discourse has, nonetheless, been evident across the UK.
3. House of Commons, Written Answer, 27 February 2006, vol. 433, col. 328w, http://www.publications.parliament.uk/pa/cm200506/cmhansrd/vo060227/text/60227w84.htm#60227w84.html_spnew7.
4. House of Commons, Debates, 2 July 1997, vol. 297, col. 308, http://www.publications.parliament.uk/pa/cm199798/cmhansrd/vo970702/debtext/70702-21.htm#70702-21_spmin1.
5. Different states within the US have also become involved in the global battle for Hollywood business, generating lively debates regarding the costs and benefits of these and how they are to be measured and assessed (see Wells and Posey 2011).
6. In his March 2012 budget, the Conservative Chancellor, George Osborne, announced his intention to introduce tax schemes, similar to the film tax credit, for the video games, animation and high-end television production industries subject to state-aid approval by the EC (Sabbagh 2012).
7. House of Lords, Debates, 7 December 2006, vol. 687, col. 1335, http://www.publications.parliament.uk/pa/ld200607/ldhansrd/text/61207-0014.htm.

8. This is the objective for state aid identified by the UK government in response to an EC 'Issues Paper' on 'Assessing state aid for films and other audio visual works' that preceded the publication of the draft Cinema Communication. See the letter from Gemma Cook, UK Representation to the EU Brussels, 5 October 2011, http://ec.europa.eu/competition/consultations/2011_state_aid.../uk_en.pdf.

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