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Screen production in Australia:
Independent screen production industry census

Screen Producers Australia 2018

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Limitation of our work

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The Australian independent screen industry

Highlights

$1.2 billion in production revenue

43% export of production businesses

20,000 roles supported through productions and production businesses

90% of productions come from Australian ideas

Production businesses vary by size...

(Revenue<$1million) **Small**	($1million<Revenue<$25million) **Medium**	(Revenue>$25million) **Large**
7 *employees*	**31** *employees*	**45** *employees*
23% *export*	**68%** *export*	**88%** *export*
39% *making a loss*	**5%** *making a loss*	**0%** *making a loss*
13% *concerned about solvency in the next 5 years*	**5%** *concerned about solvency in the next 5 years*	**0%** *concerned about solvency in the next 5 years*

Executive summary

Australians are engaging with more screen content than ever. On average, we spend 17.5 hours watching TV shows and movies every week (Deloitte, 2017).

Iconic productions, from 'the Wiggles' to 'Crocodile Dundee' have helped to shape Australian culture. Today, the industry produces content for a range of formats and a variety of genres, generating an estimated cultural and audience value of over $18 billion (Screen Australia, 2016).

However, Australian screen content increasingly has to compete on an international stage. Changing viewership patterns are affecting funding, with total broadcaster and distributor funding for TV drama decreasing by more than $25 million over five years (Screen Australia, 2018a).

In this context, Screen Producers Australia asked Deloitte Access Economics to examine key trends, estimate the economic activity and provide an outlook for the independent Australian screen production industry. To do this we collected data from production businesses about their operations in the 2017 calendar year.

We found that the screen production industry in Australia supports substantial economic activity.

By aggregating the budgets of individual productions with the revenues of businesses responding to the survey, we find that the independent screen production industry generated **$1.2 billion in production revenue** in 2017. This is substantial: by way of comparison it makes the screen industry three times the size of the recorded music industry in revenue terms. Additionally, the businesses and productions responding to the survey supported **almost 20,000 jobs** in 2017.[1]

Australian productions are shown in at least 225 territories (Parry, 2017). **More than two in every five production businesses (43%) exported**, compared to 7.6% of Australian businesses overall (ABS, 2017a). In total, the survey captured $163 million in export revenue in 2017.

Despite the industry's size, many production businesses seemed to struggle. Two in five (41%) production businesses with revenues less than $1 million made a loss in 2017.

Regardless of size, many production businesses do not expect to see an improvement in their financial position, with **almost one in ten production businesses concerned about solvency** five years from now.

The independent production industry clearly plays an important role in shaping Australian culture. It has substantial revenue, and supports employment and exports for the broader economy. However, its future will be influenced by trends in consumption, globalisation and financing.

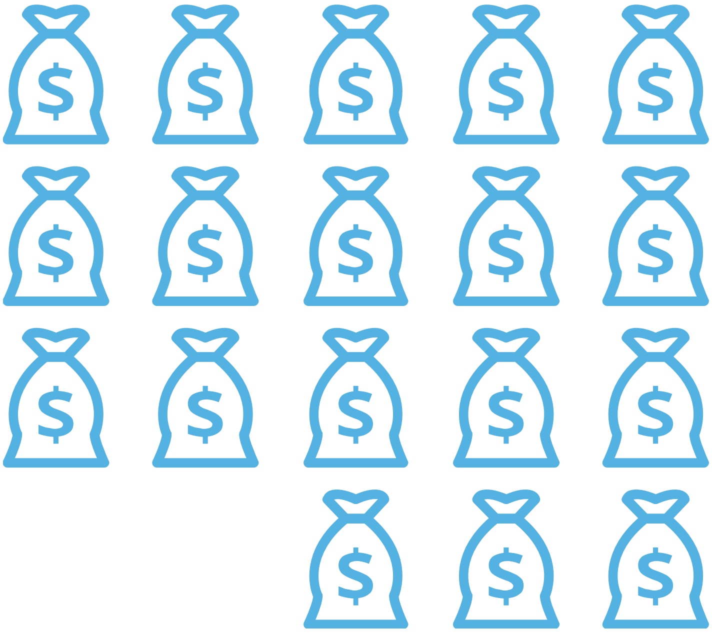
Deloitte Access Economics

For the purpose of this report, "screen" is defined as television and film content. This excludes television commercials, promotional videos , corporate videos and games.

Screen production businesses manage the technical and creative aspects of creating screen content. We define the size of the industry by looking at production revenue of independent (that is, not broadcaster owned) production businesses operating in Australia.

[1] This includes around 18,000 roles that were associated with individual productions. Because it is common for staff to be involved in more than one production in a calendar year, this does not equate to full-time equivalent roles, or to the unique number of people employed.

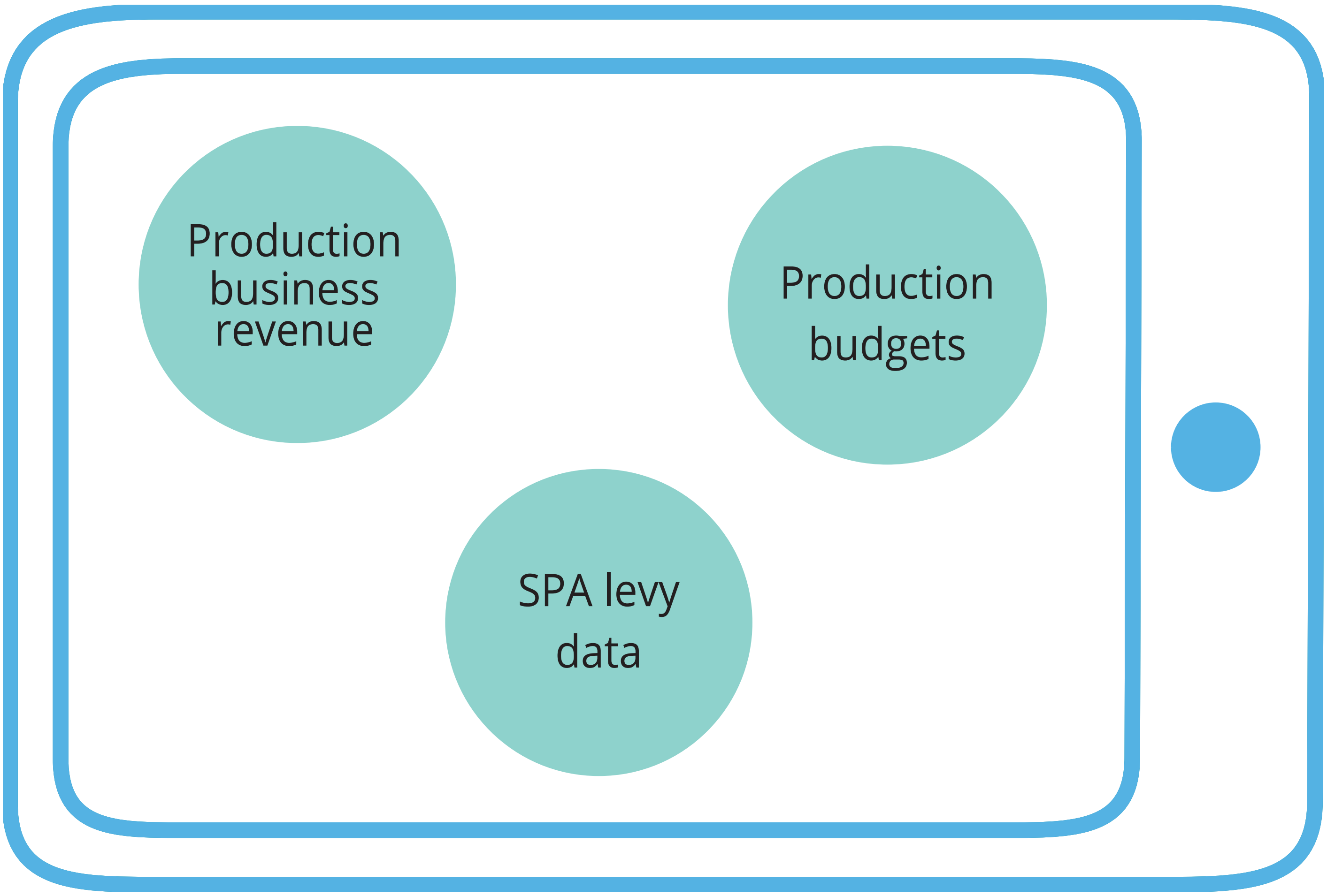
Shaping our culture



$18 billion

of cultural and audience value was generated by the screen production industry in 2016

Sources of data



1. Screen production in Australian

The screen production industry in Australia has been engaging audiences for over 100 years. The first feature film in the world, 'The Story of the Kelly Gang', was produced in Australia in 1906.

Iconic productions, from 'the Wiggles' to 'Crocodile Dundee' have helped to shape Australian culture. In fact, the cultural and audience value of the screen production industry has been estimated at over $18 billion (Screen Australia, 2016).

The industry also makes a significant contribution to the economy, with recent estimates placing its annual contribution to GDP at over $3 billion (Screen Australia, 2016). In 2014-15 alone, it generated $725 million in tourism expenditure (Screen Australia, 2016).

It produces diverse content, from light entertainment on TV to documentary films, and exports to almost every market in the world. For example, Bondi Rescue has been sold to 190 territories, and is currently airing in over 100 (Knox, 2016). The last three years alone has seen the release of box-office films 'Lion' and 'Mad Max: Fury Road', and popular television shows, 'Go Back To Where You Came From' and 'Rake'.

However, Australian screen producers are working in a challenging and rapidly evolving environment. The rise of subscription video services, increased competition from overseas productions and more broadcaster-produced content have led to narrowing profit margins in the industry.

While work has been done to establish the size of the industry in the past (for instance the Australian Bureau of Statistics' periodic film and television census), these surveys focus on a much broader industry than just television and film production.

In this context, Screen Producers Australia (SPA) has engaged Deloitte Access Economics to conduct this study into the current state of the independent sector of film and television production in Australia, and the key issues it is facing.

1.1 Defining screen production

'Screen' refers to narratives or creative content told through screen platforms (Queensland Department of Premier and Cabinet, 2017), and 'screen production' is the process of making and telling those stories.

Traditionally, stories told through film and television formed the bulk of 'screen'. However, as technology has advanced, the term 'screen' has expanded. Today, it also includes content conveyed on computers, smartphones and tablets. Apps, digital games, online content and subscription video on demand (SVOD) services such as Netflix and Stan are all covered under screen, and as technology continues to advance the definition of screen will continue to change (Queensland Department of Premier and Cabinet, 2017).

The breadth of the activities involved in production means that the industry is made up of a large and complex network of players, ranging from small individual producers to large multinational film producers, and even major distributors and broadcasting companies with production arms or subsidiaries. These production businesses vary widely in their structure, activities and revenue streams, across mediums and genres.

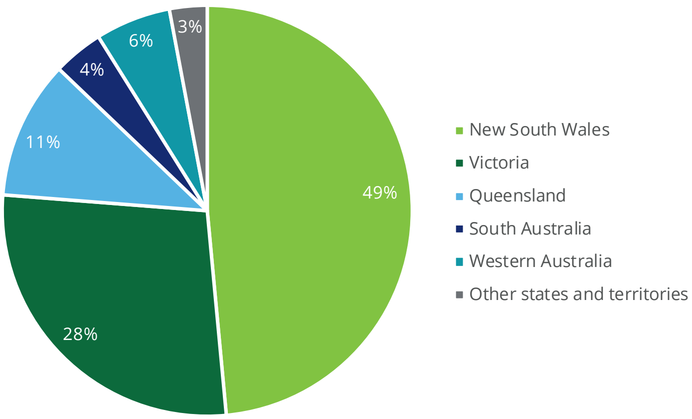
In its 2015-16 industry survey, the Australian Bureau of Statistics (ABS) estimated there were **2,819 active film and video production businesses** in Australia, as well as another 414 businesses specialising in post-production. As Chart 1.1 shows, almost half of these production businesses are in NSW, just over a quarter are in Victoria and 11% are in Queensland.

This is a very broad industry definition, which includes a wide variety of business. For example, it includes both a mobile app game developer and a feature film producer. In practice these are quite different businesses.

In this report, we consider a narrower screen industry. Specifically, we included television content, films and short films, and content made for online (e.g. for Netflix) but exclude television commercials, promotional videos and corporate videos.

Throughout the report, content is split into scripted and unscripted categories. Scripted content refers to productions, predominantly drama, that are derived from a script. Unscripted content refers to productions that do not necessarily have a script. Unscripted content is largely light entertainment and reality television. Documentaries can be both scripted and unscripted.

Chart 1.1. Production businesses in Australia, by location



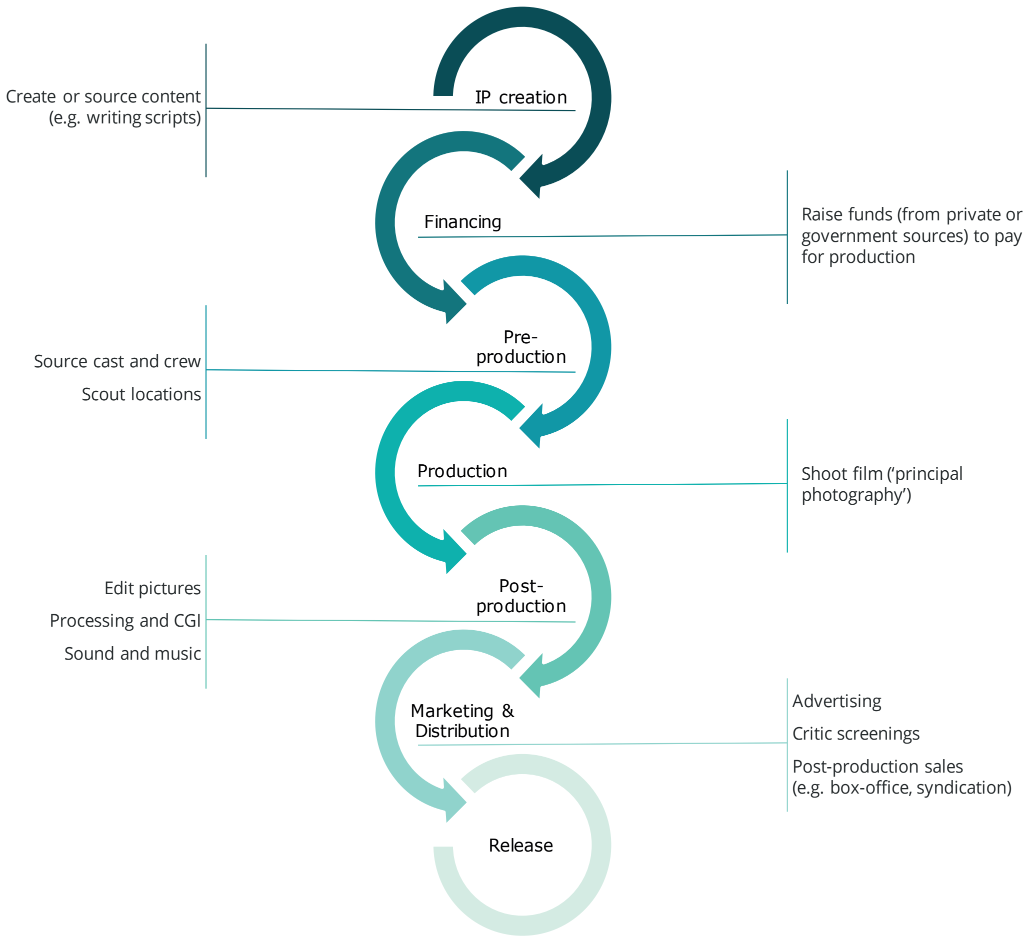
Source: ABS (2017b)

1.2 The role of screen producers

Screen production businesses manage the technical aspects of creating film and television content. They run the process from start to finish – from choosing creative content, hiring the cast and director, to editing, marketing and legal. Even within this narrower definition of screen, the activities screen producers undertake vary greatly, but Figure 1.1 provides a high level overview.

The first stage of the screen value chain is **intellectual property (IP) creation.** IP creation is where the concept is initially generated or sourced. The idea then needs to be **financed.** This process is summarised in Figure 1.2.

Figure 1.1. The screen value chain in Australia

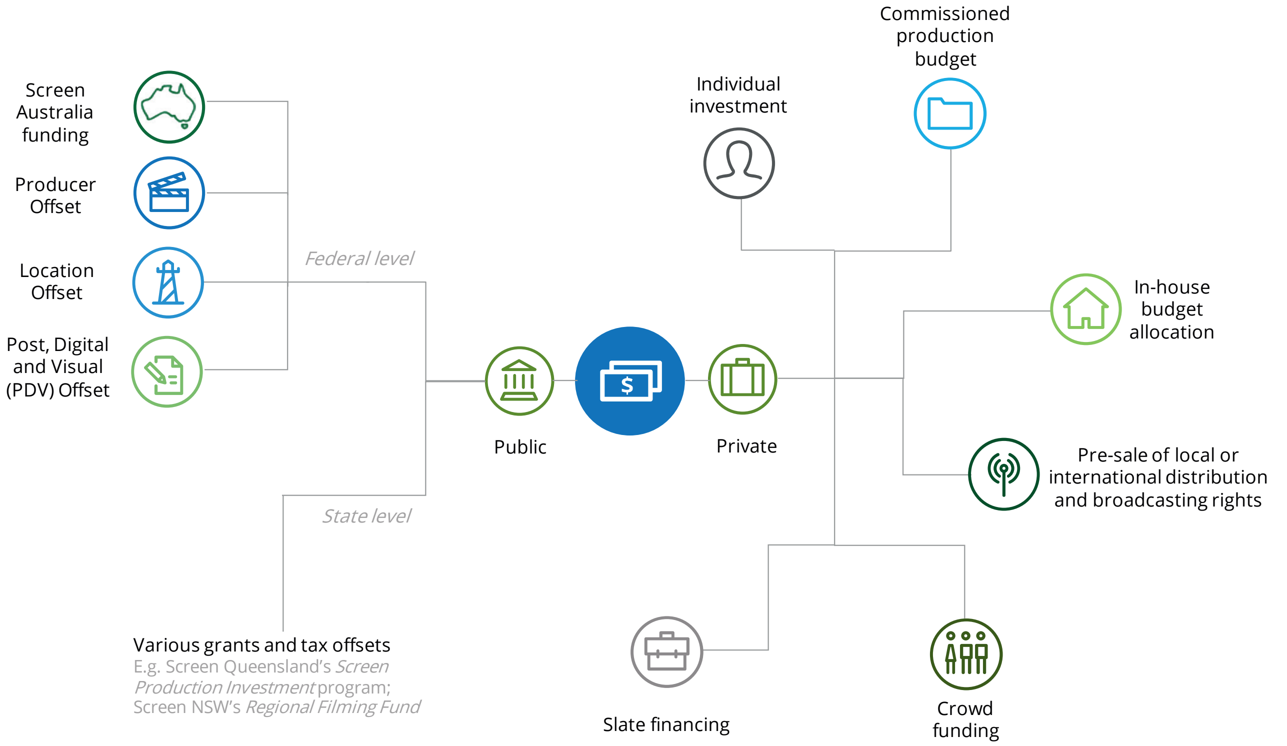


Source: Deloitte Access Economics

After finances are secured, the process of creating content begins. **Pre-production, production and post-production** are the three most significant stages of the process. Pre-production involves sourcing the cast and crew and location scouting. Production is when filming (also known as principal photography) takes place. Post-production consists of picture editing, adding special effects, sound and music.

After this, the process splits. For television content that has been commissioned by a broadcaster, the work is complete, and is released. For film, **marketing and distribution** are important stages. The distribution stage can generate significant revenue for the production business, by selling the distribution, broadcasting or syndication rights to the production.

Figure 1.2. Methods of financing screen production



Source: Screen Australia (2017); Department of Communication and the Arts (n.d.)

1.3 This report

This report presents a snapshot of the independent component of the Australian screen production industry. It includes Australian producers of television and film, but does not include productions made by broadcaster-owned businesses.

Informed by an industry census, it presents new statistics on the size and performance of the industry, and provides insights into the outlook for the industry and the barriers independent production businesses face.

The remainder of this report is set out as follows:

- Chapter 2 – outlines the industry's role in the economy, in terms of revenue, exports, employment and Australian content
- Chapter 3 – summarises the financial performance of the industry and the role of government
- Chapter 4 – discusses the current challenges the industry faces and its outlook.

The surveys

This report is informed by two bespoke surveys of the industry, designed and fielded by Deloitte Access Economics in collaboration with Screen Producers Australia (SPA) and industry representatives.

The first was sent to production businesses and contained questions about the business's financial performance, employment and perceptions of the industry over time.

The second was a production survey, filled out about each production that commenced principal photography in calendar year 2017. This contained questions about genre, IP, filming location, government support, budget and employees.

The surveys were sent to screen production businesses in Australia, and were in field between April and June 2018.

We received 74 responses to the production business survey and 218 to the production survey. Half of respondents were SPA members, though they make up 79% of the revenue captured in the survey.

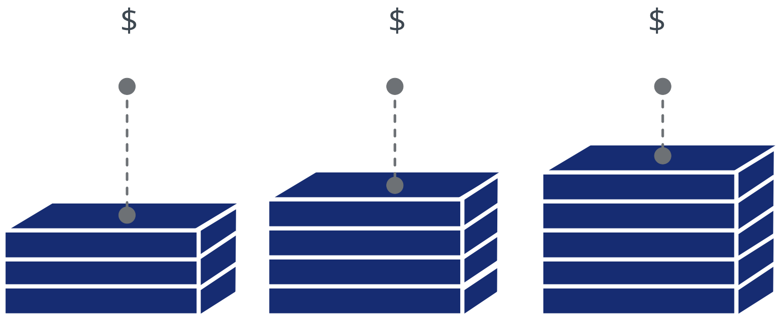
The screen industry is characterised by a small number of large businesses and a long tail of much smaller businesses. While the survey did not capture the entire industry, it did capture all the large businesses in revenue terms. Aggregated revenue from the survey was $1.2 billion, very similar to the ABS estimate of $1.6 billion for production income for film and video production businesses (ABS, 2017b).

Through the production survey we have captured 1,665 hours of new Australian television content. For perspective, the big three commercial broadcasters (Seven, Nine and Ten) broadcast around 1,100 hours of new Australian content during 2017 (ACMA, 2018).

Revenue

$1.2 billion

production revenue earned by the independent screen industry in 2017



Exports

Australian content is exported to more than

200

international markets

2. Role in the economy

The Australian screen industry plays an important role in the Australian economy. In 2017 the independent sector of the industry had revenue of **$1.2 billion**, and exports of **$163 million**. The sector is also a significant employer, with around **20,000 positions** supported in 2017.

2.1 Independent screen production

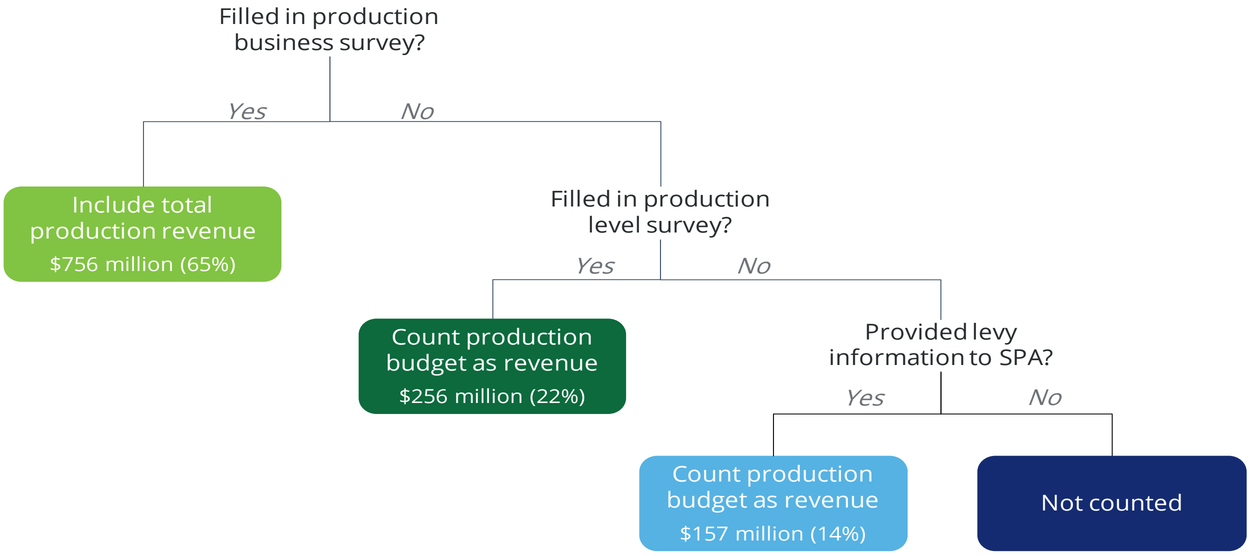
The screen industry includes a diverse range of activities and structures, making it difficult to precisely size. Some participants in the industry take on multiple roles; for example, television broadcasters often produce content in-house. A production might be co-produced, or produced by a special-purpose vehicle business structure. Production businesses may also generate revenue through non-production activities, such as merchandise sales and tours, or by producing commercials and corporate videos.

This means that although there are a number of estimates of the size of the screen production industry, they are difficult to directly compare. For example, the ABS estimates the industry had revenue of $2.3 billion in 2015-16, but this includes broadcaster-owned production businesses, as well as businesses that produce corporate videos.

After extensive industry consultation, we define the size of the screen production industry by looking at production revenue of independent production businesses operating in Australia.

This understates the total size of the screen production industry in Australia, because it does not include non-production revenue, other revenues earned by screen production businesses, production activity in Australia by businesses that are not registered in Australia, or the screen production activity of broadcasters. Further, foreign production businesses film content in Australia, but are not counted in Australian revenue figures.

Figure 2.1. Independent screen production revenue, 2017



Source: Deloitte Access Economics survey results; SPA 2017 production levy data

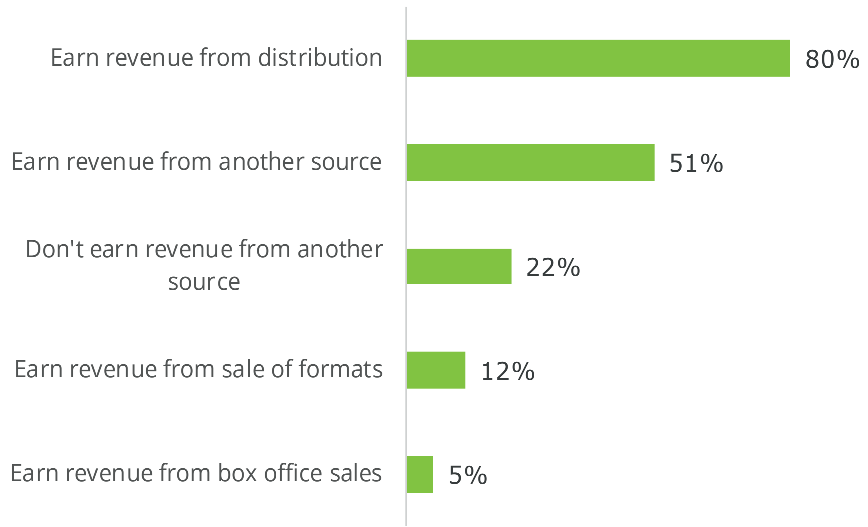
2.2 Revenue

Total production revenue identified in the survey for 2017 was **$1.2 billion**. This is substantial: by way of comparison it makes the screen industry three times the size of the recorded music industry in revenue terms (ARIA, 2018).

As detailed under Section 2.1, this is a conservative estimate which is likely to understate the entire size of the screen production industry in Australia. Figure 2.1 demonstrates how this estimate was calculated.

Most screen producers receive revenue from a range of sources beyond production, as shown in Chart 2.1. For example, four in every five production businesses earn revenue through distribution (selling a film or television show after production is completed).

Chart 2.1. Other sources of revenue not included in the survey



n=74 production businesses
Source: Deloitte Access Economics survey results

2.3 Exports

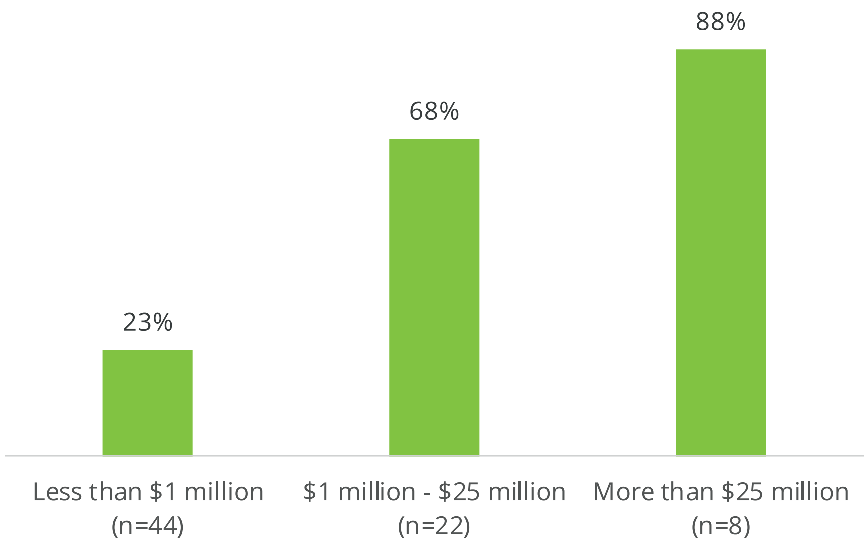
Relative to other Australian businesses, screen producers are much more likely to be exporting. More than **two in every five production businesses (43%) received at least some revenue from overseas.** This compares to only 7.6% of Australian businesses that generate export revenue (ABS, 2017a).

Chart 2.2 shows that the proportion of businesses earning export revenue is high across all business sizes. While larger businesses with revenue more than $25 million were more likely to be exporting than businesses with revenue of less than $1 million, these smaller businesses are still more likely to be exporting compared to Australian businesses more generally.

Australian production businesses export globally; today, Australian productions are shown in at least 225 territories (Parry, 2017). The survey captured **$163 million in export revenue in 2017,**[2] (14% of total revenue).

Around 79% (or $119 million) of export revenue was generated by businesses earning more than $25 million. While businesses earning less than $1 million exported much less in value terms ($183,000), exports still represented a significant proportion of total earnings for these businesses.

Chart 2.2. Likelihood of exporting by business size



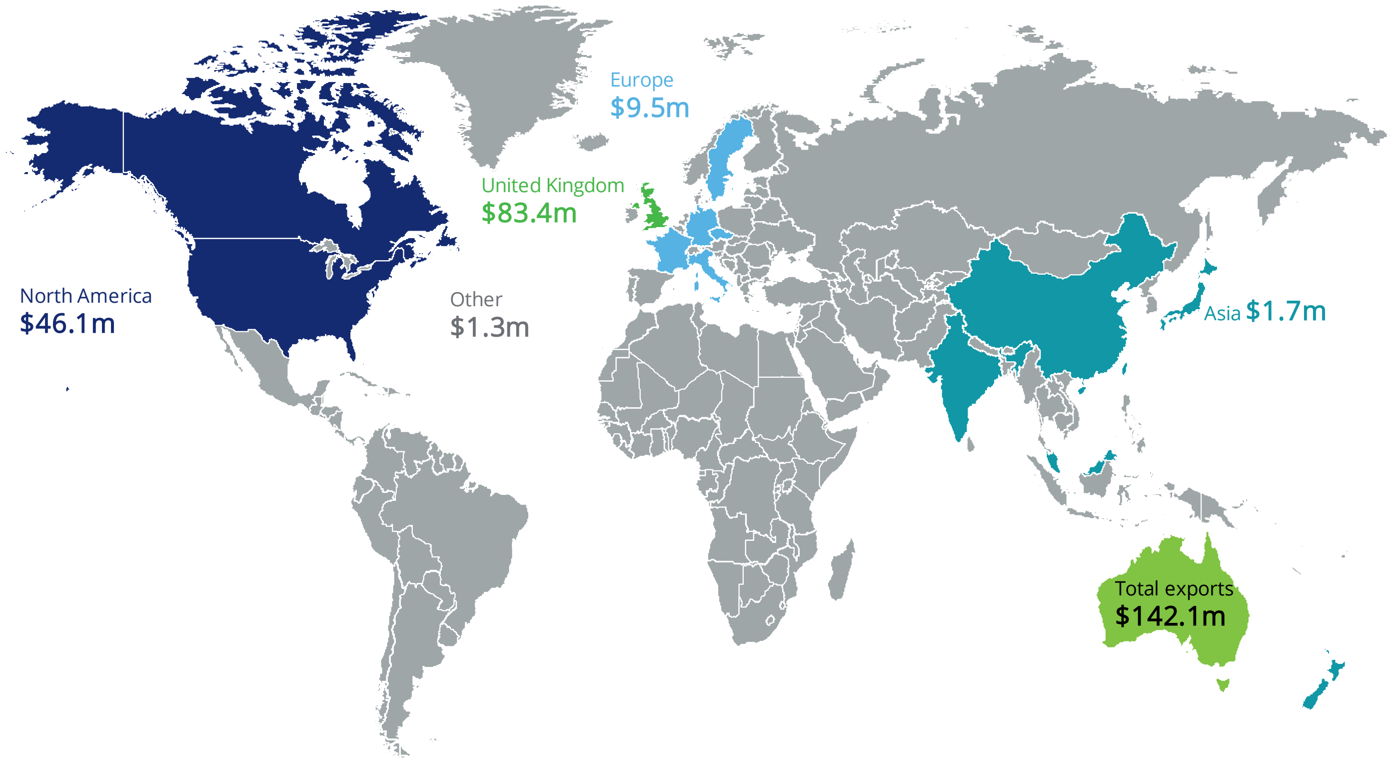
n=74 production businesses
Source: Deloitte Access Economics survey results

[2] Businesses responding to the production business survey reported $143 million of exports. Individual productions were not asked about their export revenue. As such, we impute a further $20 million of exports for productions which are not represented by businesses who responded to the production business survey, assuming that the same proportion of revenue was sourced from overseas.

Of course, not all exports were captured in the survey. The survey did not capture all activity in the sector, and in many cases reporting export by location was too complex – some shows are exported to over 200 territories. Further, the survey did not capture broadcaster income, and in some cases the distribution rights are such that the broadcaster earns export revenue rather than the producer.

Of producers that did report exports by country, more than half (59%) of revenue came from the United Kingdom and another 32% from the United States. An additional 7% of export revenue was derived from Europe, with export destinations pictured in Figure 2.2.

Figure 2.2. Map of export destinations, 2017



n=32 production businesses
Source: Deloitte Access Economics survey results

2.4 Employment

In total, the businesses and productions responding to the survey supported around **20,000 positions** in 2017. This is made up of over **1,300 people** employed on an ongoing basis in production businesses' corporate headquarters, and over **18,000 roles** associated with specific productions.

Production staff are often hired for a particular production, rather than on a permanent basis. Some production personnel work on more than one production in a given year. As such, the 18,000 roles are not equivalent to full-time equivalent positions, or individuals employed.

The number of people needed to make a production, and the types of skills required, vary between content types, as pictured in Figure 2.3. Each person in the figure represents 100 people working on the production.

In total, more roles were supported by scripted productions (10,370) than unscripted productions (7,885 production). Although the average scripted production supported 118 roles, some of the larger ones supported upwards of 700 roles. Likewise, while the average number of roles in an unscripted production was 58, some supported close to 600.

The screen industry is well balanced from a gender perspective – 55% of employees who are permanently employed in production businesses are female. Two thirds of production businesses responding to the survey had more female employees than male in 2017.

Figure 2.3. Position split for productions

n=255 productions
Source: Deloitte Access Economics survey results
Note: Each icon represents 100 staff

Every Cloud Productions - Women in Front

Every Cloud Productions, formed in 2009 by Fiona Eagger and Deb Cox, is an independent, Australian owned company that produces high quality television drama. It has created well known Australian dramas such as 'East of Everything' and 'The Gods of Wheat Street'.

Eagger and Cox are both experienced producers. However, when they began their careers, the production industry suffered from an under-representation of women. Having had to create their own pathways to achieve success, they are now passionate about mentoring Australian talent. Every Cloud has a campaign called 'Women in Front' which focuses on getting more women into the Australian screen production industry – both in front and behind the camera. According to Eagger, "We've been finding opportunities to assist women develop their careers in the industry for years – it just came naturally to us."

But they note that there is more to do when it comes to diversity in the industry, and mentor around 20 people each year through partnerships and talent development programs. "We would like to see more cultural diversity in the industry, and as part of that we make sure to find interns from regional areas."

One of the company's most successful productions is 'Miss Fisher's Murder Mysteries', a drama about a 1920s feminist would-be detective. To date there have been three series (totalling 33 hours of content), and the show is popular both in Australia and abroad. According to Eagger, "Each episode is watched by an average of 1.7 million viewers in Australia, and the Christmas special was one of ABC's most popular shows of the year."

Miss Fisher has been sold to 200 countries, and has a significant international following. "We are making a Miss Fisher film, and we have 60 extras flying in from all over the world to be part of the show." The film is set to start filming in October in Melbourne and Morocco. Eagger notes that having a strong fan following can also create new ways of funding productions. "We have a total budget of $8 million for the film – and we raised $1 million of that through crowdfunding and private investment."

Every Cloud has diversified into other revenue streams as well, which bring broader benefits to the economy. For example, Miss Fisher themed walks have been running for years in Melbourne, and a costume exhibition developed in partnership with the National Trust of Australia attracted 30,000 attendees in six weeks.

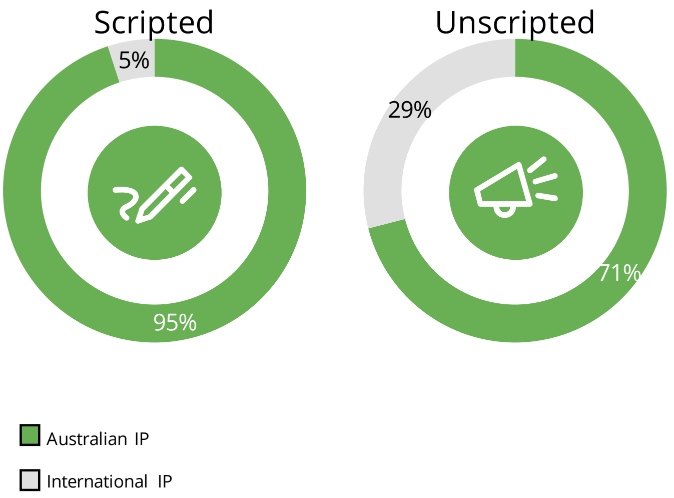
The screen production industry is undergoing significant change, with the rise of SVOD services and the increasing tendency of broadcasters to produce content in-house. But Eagger feels that these changes do not have to be negative, "things evolve all the time and you have to evolve with them, and we have an opportunity now, while government is listening, to future proof the industry. The rebate system is terrific, and we need to keep protecting the industry as new forces are coming to play."

2.5 Australian content

Screen content is primarily driven by Australian ideas – with **9 out of 10 ideas coming from within the country.** This trend continued along the screen industry value chain with 83% of filming and 94% of post-production work completed in Australia. Productions were filmed across all states and territories, in a mix of regional and metropolitan locations.

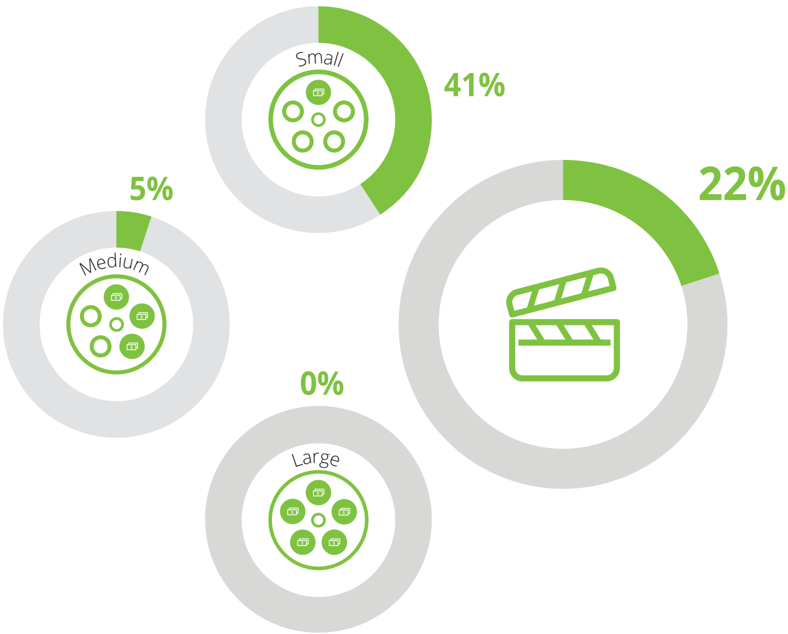
The volume of Australian intellectual property varies by genre. For example, all of the documentaries produced were sourced from Australian ideas, compared to around one third of reality competitions or light entertainment. In general, scripted productions were more likely to have come from local IP, as shown in Chart 2.3.

Chart 2.3 Australian produced IP by format



n=178 productions
Source: Deloitte Access Economics survey results

Profit



Of the production businesses surveyed,

22%

were making a loss.

Smaller businesses were likely to be making more loss

Funding sources

86%

of TV shows were at least partially funded through commissioning

47%

of productions received government funding of some kind

1/3rd

of productions are funded by producer equity

25%

of films received funding from private investors

3. Financial performance

The the independent screen industry is significant, but individual businesses are facing narrowing profit margins. Small businesses in particular are struggling to stay profitable, leading to some exiting the industry. Government plays an important role in supporting the industry to continue to create Australian content.

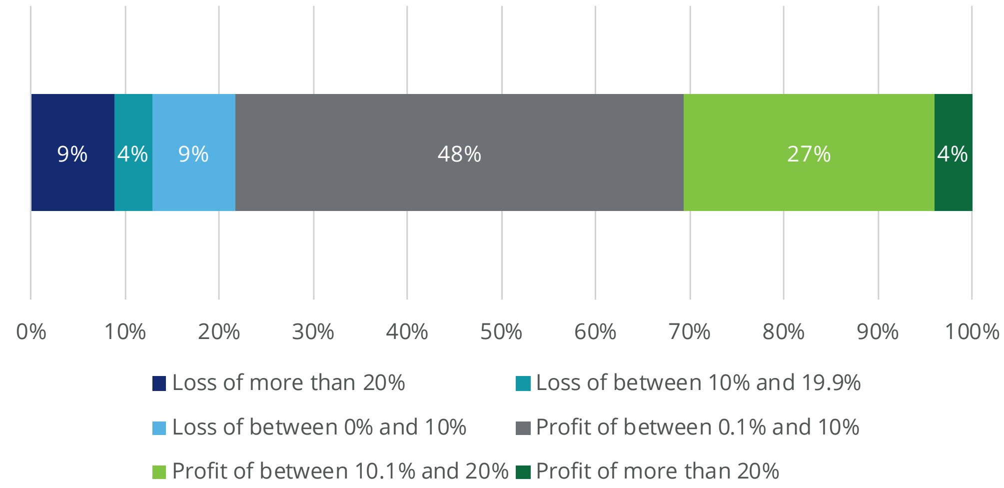
3.1 Profit

Many production businesses seemed to struggle in 2017. Almost a quarter (22%) of surveyed businesses made a loss, and another half (48%) only made slight profit (Chart 3.1).

And it appears that this is not a recent development. When asked about how profitability compares to five years ago, 41% of businesses said they were performing about the same, and 30% said their margins had narrowed.

This could even understate the issue; some production companies have gone out of business in the last five years, and so will not show up in the survey results. For example, Keo Films, the production business responsible for documentaries such as 'War on Waste' and 'Struggle Street' left the industry in 2017 (Screenhub, 2017).

Chart 3.1. Profit rates in the screen production industry, 2017

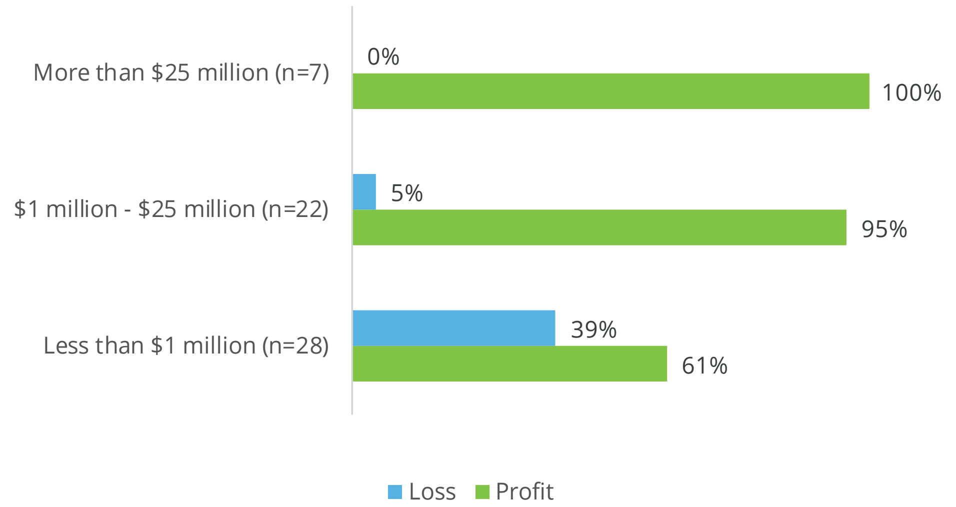


n=57 production businesses
Source: Deloitte Access Economics survey results

Profitability varied by business size. All of the production businesses surveyed with revenue over $25 million said they were making some profit (Chart 3.2) compared to 61% of businesses with less than $1 million in revenue.

This is fairly typical across the economy – large businesses have better survival rates than small businesses. Across the economy, large businesses have a 76% survival rate compared to just 55% for small businesses (ABS, 2018). Still, 39% operating at a loss is high relative to the economy more generally. And it is getting worse; one third of small production businesses and one quarter of large businesses report narrowing margins.

Chart 3.2 Profitability by business size, 2017



n=57 production businesses
Source: Deloitte Access Economics survey results

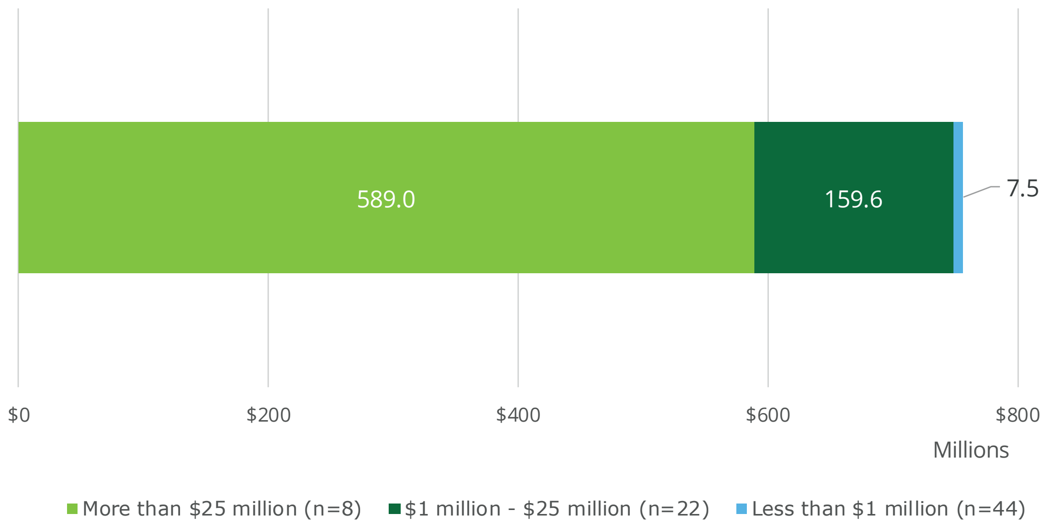
3.1.1 Income

The Australian screen industry is characterised by a small number of large businesses, and a long tail of much smaller ones. This is shown clearly in their revenue shares (Chart 3.3) – businesses with revenue over $25 million make up 11% of the sample by count, but 80% by revenue. Meanwhile the 59% of businesses that have revenue of less than $1 million are responsible for just under 1% of total production revenue generated by the businesses surveyed.

Businesses accrue production revenue primarily when in production. As such, those without a broad slate may experience peaks and troughs in revenue, which can be difficult to manage.

Small and large businesses tend to focus on different formats and genres. For example, in the survey: 70% of the content produced by businesses with revenue over $25 million was unscripted. Similarly, smaller businesses in the survey were more likely to make dramas than large businesses.

Chart 3.3 Production revenue, by business size



n=74 production businesses
Source: Deloitte Access Economics survey results

CJZ - Diversification the key to success

CJZ produces some of Australia's best known television content across a range of genres, from observational documentaries such as 'Bondi Rescue' and dramas like 'The Ex PM' to a range of shows in other genres such as the 'Gruen' franchise and 'Go Back To Where You Came From'. According to Nick Murray, Managing Director, "CJZ is one of Australia's largest screen production companies, and the only one to have produced content over the last two years for every major broadcaster."

Diversifying in this way has allowed CJZ to smooth its cash flow, and means it is less vulnerable to changes in broadcaster demand. "In this industry, cash flow can vary dramatically month to month based on what the broadcasters are buying. By selling into many markets and across many genres, we are somewhat insulated which means we can keep funding our productions even when times are tougher."

For CJZ, broadcaster commissions are central to funding new productions, and getting them off the ground. However, by re-selling content overseas, CJZ can ensure broader profitability. "It is getting harder to make money here in Australia. Broadcasters are feeling the strain, and as a result are squeezing us for more rights, and lowering their licence fees. But if we think a show will sell overseas we can afford to take more risks. Sometimes we only just break even here, and we only make money when we sell the format internationally," says Murray.

Exports are a critical source of revenue for CJZ. 'Bondi Rescue', for example, has been sold to almost 200 international markets, and is now televised in 140 countries around the world. Similarly, other productions such as 'Highway Patrol' are televised in many different markets. CJZ has also sold formats overseas. For example, 'Go Back To Where You Came From' has been optioned or re-created in eight different countries including the US, Germany and Denmark.

However, Murray is concerned that original Australian ideas are less likely to be commissioned in the current environment. "The broadcasters prefer to commission content reproduced from existing overseas content than take a chance on a new idea. If this trend continues, we'll lose diversity of content, and the know-how to build a show from the ground up. That would be a big loss for Australia."

Government funding has played a critical role in fuelling the growth of CJZ to date. According to Murray, "when the Producer Offset was first introduced, we used it to bolster the balance sheet, acquire other production companies, and move into new genres and markets." For instance, in 2013 CJZ acquired Greenstone, a leading independent production company in New Zealand, allowing CJZ access to a new market of broadcasters and grow its footprint internationally.

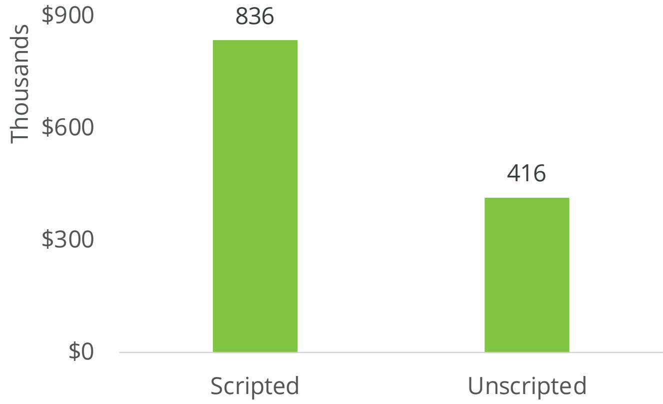
Ultimately, Murray wants to see the Australian industry thrive. "At the moment, margins are unsustainable for many producers. Markets such as the UK have put additional regulation in place to support the industry. They have independent production quotas and mandated minimum profit margins. It gives more producers the freedom to do what they're passionate about – bringing good content to life."

3.1.2 Costs

The survey found significant differences in production costs between formats, which is important considering the different production profiles of small and large businesses. Chart 3.4 shows that **scripted productions cost around twice as much as unscripted productions**, costing an average of $836,000 and $416,000 per hour respectively.

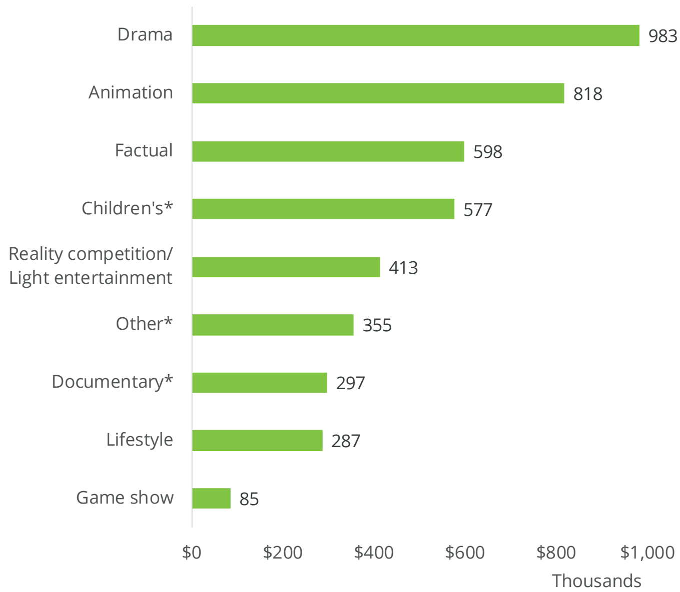
Comparing the different costs of production reveals that the drama is the most costly genre for the Australian screen industry, costing an average of $983,000 per hour to produce (Chart 3.5). Indeed, Screen Australia data shows that the cost per hour of Australia's top dramas in 2017 ranged from $920,000 to $3.4 million (Screen Australia, 2018b). Drama productions are more than three times as costly to produce as documentaries and lifestyle productions and 11 times more costly than game show productions.

Chart 3.4 Budget per hour of content by production type



n=166 productions
Source: Deloitte Access Economics survey results

Chart 3.5 Budget per hour of content by genre



n=166 productions
Source: Deloitte Access Economics survey results
Note: Genres with an asterisk include both scripted and unscripted productions

3.2 Funding sources

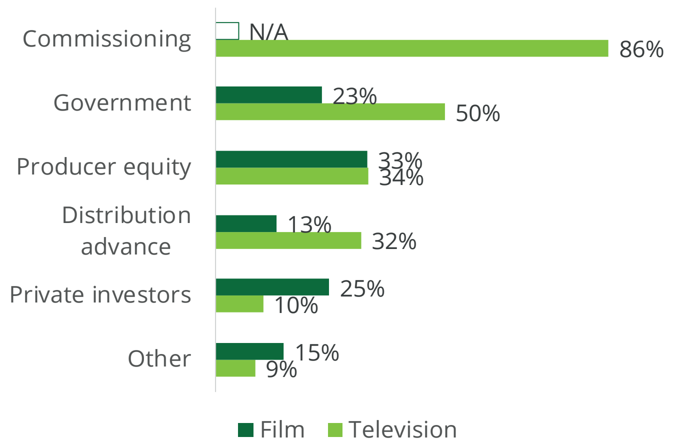
Production businesses receive funding from a number of different sources (see Section 1.2). These vary by format and genre. For instance, films tend to be funded through private investors, producer equity and distribution advances, while television is often commissioned by broadcasters.

Chart 3.6 shows that 86% of television shows were at least partially funded through commissioning, 50% used government funding and 34% relied on some producer equity. Meanwhile, 33% of films were financed through producer equity and 25% used private investors.

3.2.1 Commissioning

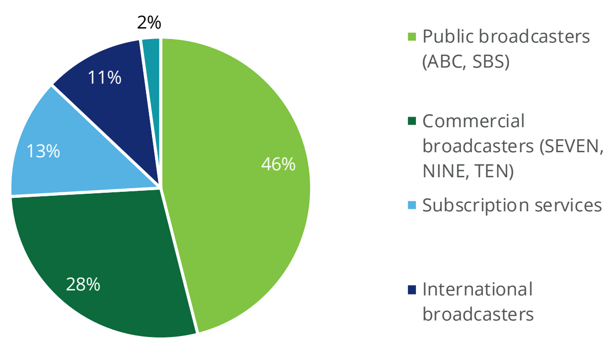
Chart 3.7 shows the number of productions commissioned by different broadcasters. Almost half of commissions were from public broadcasters, with another 28% by the major commercial broadcasters. It is important to note however that not all respondents answered this question, and there are likely additional shows that were commissioned in 2017 not shown here. It also does not include broadcaster in-house production.

Chart 3.6 Funding sources for productions



n=185 productions
Source: Deloitte Access Economics survey results
Notes: Film commissioning is not provided due to an insufficient number of responses; 'Other' includes crowdfunding, other producers and other.

Chart 3.7 Commissions by broadcaster



n= 108 productions
Source: Deloitte Access Economics survey results

3.2.2 Government support

Both federal and state governments provide support to the screen industry. Government support comes in many forms, including tax offsets, direct grants, and other regulation such as codes of practice and content requirements.

The most significant of this support comes from the federal government's tax offset program, specifically:

- The Producer Offset: A tax rebate for producers of film and TV projects with significant Australian content. The offset is calculated as 40% of qualifying Australian production expenditure (QAPE) for feature films and 20% for all other productions
- The location offset: A 16.5% offset on QAPE for film and TV productions shot in Australia
- The PDV offset: A 30% offset on QAPE for film and TV productions that have their post, digital and visual production work completed in Australia (Screen Australia, n.d.).[3]

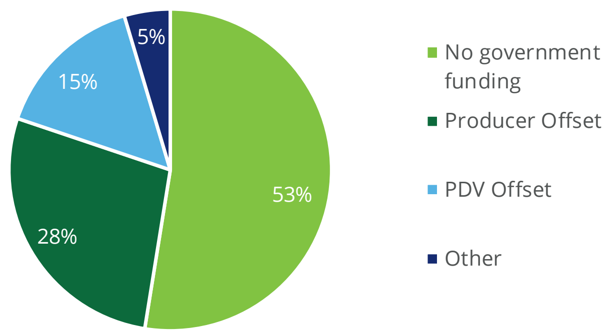
The Producer Offset alone has contributed more than $1.5 billion to over 1,000 film and TV projects since its introduction in 2008 (Screen Australia, 2017).

At the state and territory levels, different government grants and tax offsets are available, which broadly mirror each other. For example, Screen Queensland's 'Screen Production Investment' program and Screen West's 'Scripted Production Fund' are very similar, as are Screen NSW's 'Regional Filming Fund' and Film Victoria's 'Regional Location Assistance Fund'.

Of the productions in the survey, just over half (53%) did not report receiving any direct financial support from government. Many of these may not have qualified for funding – for instance, unscripted television does not qualify for the Producer Offset (Screen Australia, 2012). Instead, these productions were funded privately, for example by broadcasters and with producer equity.

On the other hand, 47% of productions received government funding of some kind. These productions were worth **over $264 million** in 2017. Of those who did receive funding, most (58%) received the Producer Offset, followed by the PDV offset, as pictured in Chart 3.8.

Chart 3.8 Government funding received by productions



n=218 productions
Source: Deloitte Access Economics survey results
Note: Other funding could refer to soft funding, such as direct grants from state or territory governments.

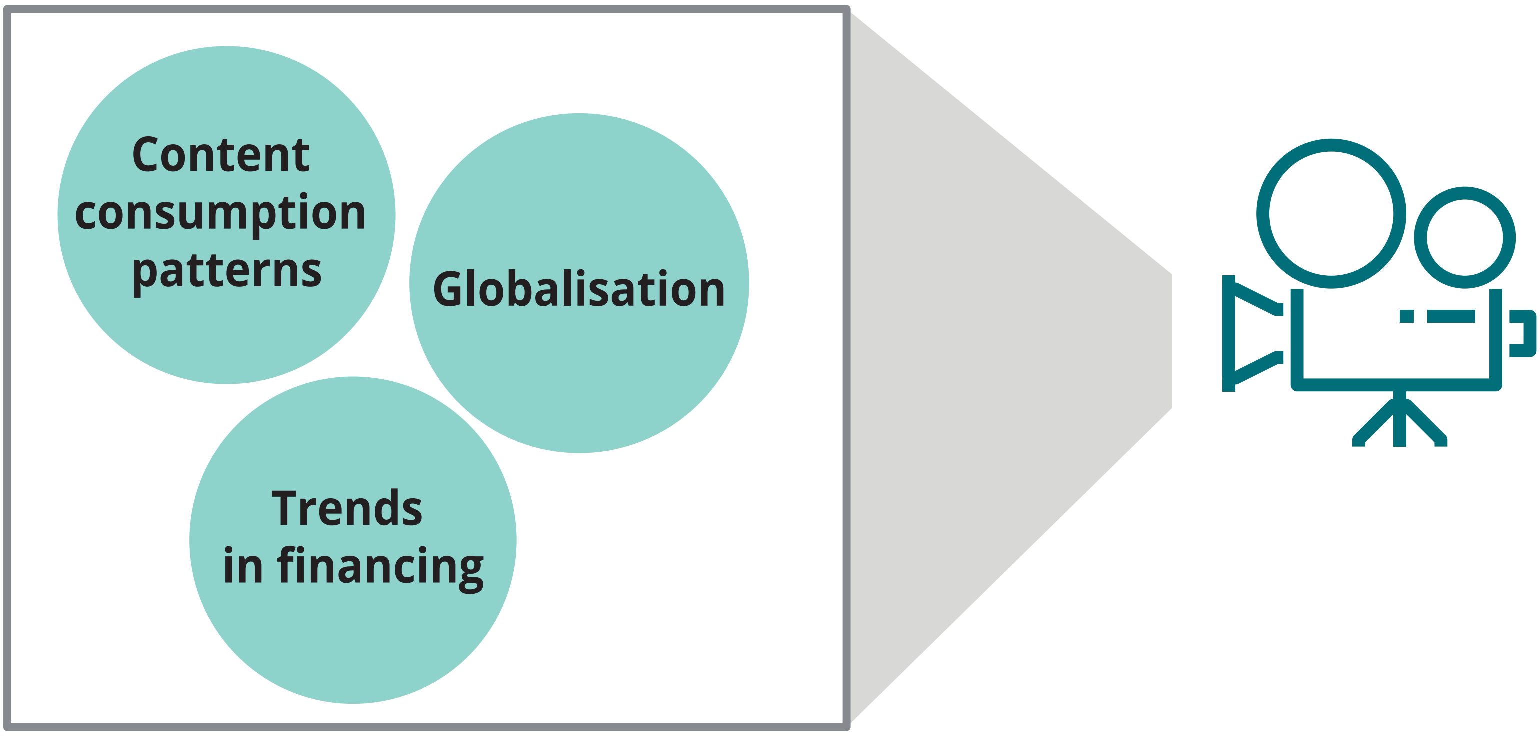
[3] The three federal tax offsets are mutually exclusive, according to s376-2(2) of Division 376 of the Income Tax Assessment Act 1997 (Cth). Therefore, a production business may only claim one for each production.

Outlook

21%

of producers expect a reduction in their activity over the next five years

Factors shaping the industry



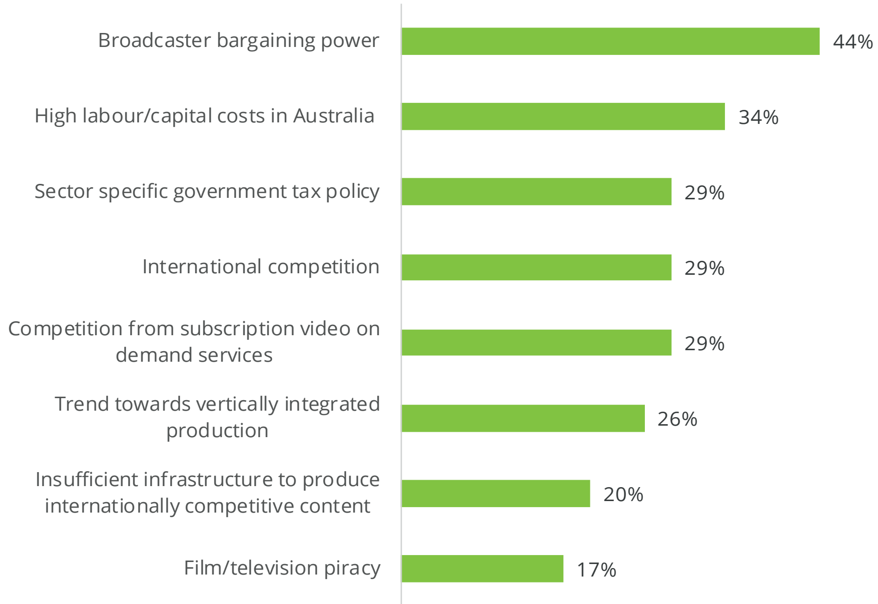
4. Industry outlook

The screen industry is global and dynamic. Digital trends such as subscription video on demand (SVOD) are changing viewing habits and distribution. Viewers have access to an increasingly global range of content, and broadcasters are changing their business models. Governments around the world are competing to attract production activity.

Though this ever-changing landscape presents opportunities, it also creates challenges for the industry. Chart 4.1 shows some of the top challenges cited by survey respondents.

Broadcaster bargaining power was the number one ranked challenge – selected by 44% of businesses. This was followed by high labour and capital costs in Australia (34% of businesses) and government tax policy (29%). These responses are likely the result of the broader changes affecting the industry, as explored in Section 4.1.

Chart 4.1 Top challenges faced by screen producers



n=71 production businesses
Source: Deloitte Access Economics survey results
Note: Other lower ranked challenges not shown on the chart include the exchange rate, a lack of support for actors, community expectations and workplace issues such as discrimination and sexual harassment.

4.1 Factors shaping the industry in the future

4.1.1 Content consumption patterns

Digital disruption is affecting all industries in the economy, and screen is no exception. Over the last decade there has been a significant change in the way that people consume media.

Australians are engaging with more content than ever – on average 17.5 hours per week – with 59% binge watching regularly (Deloitte, 2017). Yet the method of viewing this content has changed over time:

- Australians go to the cinema less often, with the average number of annual visits falling from 7.3 in 2010 to 6.6 in 2016 (Screen Australia, 2018c)
- The average time that people spend watching broadcast TV decreased by 8% in 2017 alone. In some groups, the trend is even stronger; 25-34 year olds today watch 17% less TV than they did a year ago (Regional TAM, OZTAM and Nielson, 2016)
- Meanwhile, there has been increasing use of SVOD with nearly a third of Australian household having a SVOD subscription in 2017, up 10 percentage points in one year (Deloitte, 2017)
- Australians now spend 3 hours on smartphones every day, with video content playing a major role in the increased consumption (Regional TAM, OZTAM and Nielson, 2016).

These changing media consumption habits mean that Australian screen producers need to reconsider business and funding models going forward.

4.1.2 Globalisation

Globalisation is changing what audiences view, and how producers make content. In 2017, Australian films topped the Australian Box Office only three times in 52 weeks (Box Office Mojo, 2018).

There is strong global competition amongst national governments to attract filming and production activities. For example, while the Australian government offers a 16.5% location offset rebate for film production occurring in Australia (Screen Australia, n.d.), the UK and New Zealand and offer 25% offsets, and some jurisdictions in the United States offer offsets up to 40% (KPMG, 2016).

Despite the current support provided by government including through the Producer, Location and PDV offsets, **tax policy** was the third most commonly identified challenge faced by producers (28%). To investigate other possible avenues of supporting the Australian screen industry, an inquiry into the sustainability of the industry was launched by the Commonwealth Government in 2017 (APH, 2017).

To compete both locally and globally, productions need sufficient investment, and the ability to deliver the greatest value out of that investment.

This can be more challenging in a high-cost environment. More than a third of the producers surveyed cited high **labour and capital costs** as a challenge they face.

4.1.3 Trends in financing

Changing viewership habits and global competition are shaping how productions are funded. Commissioning and distribution are still the most important sources of funding for television and film respectively.

For television, productions that were commissioned in our survey had budgets of **$614 million in 2017**. Yet licence fees appear to be decreasing over time. For example, according to Screen Australia, total broadcaster and distributor funding for TV drama formats has decreased by more than $25 million between 2012-13 and 2016-17 (Screen Australia, 2018a). Similarly, in 2008 commercial broadcasters were paying between $75,000 - $90,000 per episode for animated children's drama. In 2017, license fees were reduced to only $45,000. (Australian Children's Television Foundation, 2018)

At the same time, broadcasters are increasingly producing their own content, instead of commissioning. In 2015-16, **55% of production costs were 'in-house', compared to 44% in 2011-12** (ABS, 2017b).

As a result, **44% of producers cited broadcaster bargaining power as a challenge**, making it the most commonly cited challenge for Australian screen producers.

Yet the change in viewership also presents opportunities for producers in creating new sources of funding.

- Both Netflix and Stan have now commissioned Australian content, and can add value to existing rights-holders (Scarlata, 2017)
- Producers are increasingly turning to crowdsourcing from large groups on online platforms to independently create, market and distribute their own screen productions. As of January 2016, at least 12 feature-length titles have drawn on some level of audience sourced funds (Laycock, 2018)
- Merchandising offer films a source of marketing as well as revenue. For some films, as much as 40% of movie merchandise is sold before the film is released (Hanks, 2018).

4.2 Outlook

These changes make for an uncertain future. At first glance it appears that production companies are positive about the future – 60% expect to experience growth in the next five years (Chart 4.2).

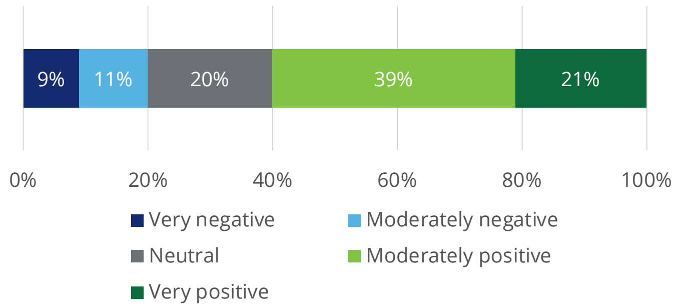
However, this is actually a fairly low proportion when compared to businesses more broadly. Other recent business surveys show a much higher proportion of businesses (85-90%) are positive about the future (Deloitte Access Economics, 2017).

In fact, 21% of production businesses responding to the survey expect to reduce their activity in the next five years, and **almost one in ten production businesses are concerned about their solvency** in the future.

Smaller production businesses are more likely to be concerned – one quarter have a negative outlook over the next five years. Even among businesses with more than $25 million in revenue, the outlook is less positive than the average business across the economy (Deloitte Access Economics, 2017).

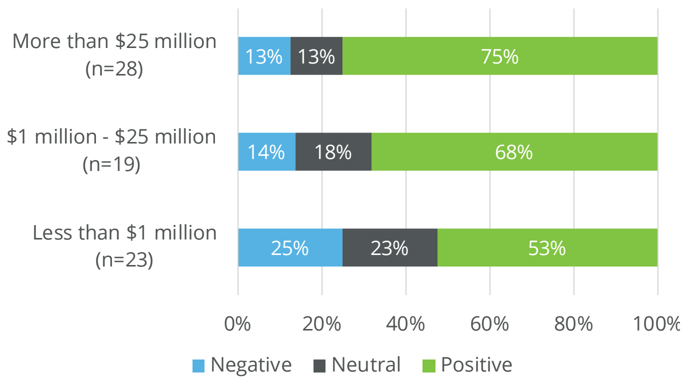
Trends in consumption, globalisation and financing, as well as changes in the broader media landscape, are putting pressure on Australian screen producers. Producers will need to continue to evolve in order to satisfy changing consumer preferences and adequately finance productions.

Chart 4.2 Five-year outlook for production businesses



n=70 production businesses
Source: Deloitte Access Economics survey results

Chart 4.3 Five-year outlook, by business size



n=70 production businesses
Source: Deloitte Access Economics survey results

Hoodlum – competing on the global stage

Hoodlum is an Australian screen production company that has found success both domestically and in the international market. “We are the first Australian company to have sold a show to network television in the US which was recommissioned for a second season, and just recently we became the first Australian company to be commissioned by Netflix locally” says Founder and CEO Tracey Robertson.

Hoodlum has been responsible for shows including 'Secrets & Lies' and 'Harrow', and employs several hundred people at any given time. The company has offices in Brisbane and Los Angeles.

Robertson puts their success down to quality content, “Australian shows can typically be made with a smaller budget than their international counterparts, and that makes it difficult to produce content of the same quality. Right now we are trying to tell big stories really cheaply. If you want to export, you have to produce quality. 'Harrow' is one of our most recent shows that has been picked up for a second season. We aimed to make it look bigger and more beautiful to help sell it internationally.”

She notes that there are a variety of factors that contribute to the smaller budgets seen in Australia, most notably broadcaster licence fees. “The average licence fee in the UK is around £900,000, but here in Australia it is $440,000, and it can be even lower for SVOD. You then have to find the rest of the budget. It means you may only have the money for 6 or 7 days of shooting per episode when a similar show in the UK would be able to film for 12 days or more on a 1-hour episode.”

Acknowledging that broadcasters are facing tough conditions, she warns that paying lower licence fees is not incentivising and fostering talent to stay in Australia. “All Australian shows need to finance the deficit with an international distributor. Their buyers are demanding higher quality storytelling and higher budget production values. That simply requires higher budgets to accommodate more time to shoot, incentivising writers. Lowering licence fees is not the answer, attracting higher distribution guarantees is the real ambition… but that means they have to work closely with an international partner to deliver an international show.”

Robertson also believes government has a role to play, “Our offset is just 20%, but the rest of the world can be getting rebates of at least 25%, in many cases 40%. I’d love to see our 20% Producer Offset increased to 40% so that we can aim to get more money into episodic television increasing the budgets in Australia. Episodic television is the training ground for sustaining and fostering Australian talent.”

But in spite of these challenges, Hoodlum thinks the future of screen in Australia is bright. “We’ve got international partners who are excited to work in Australia. We also have global audiences now that will embrace Australian stories with Australian accents. This is providing great opportunities for talent in front of and behind the screen."

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Appendix
Survey respondents

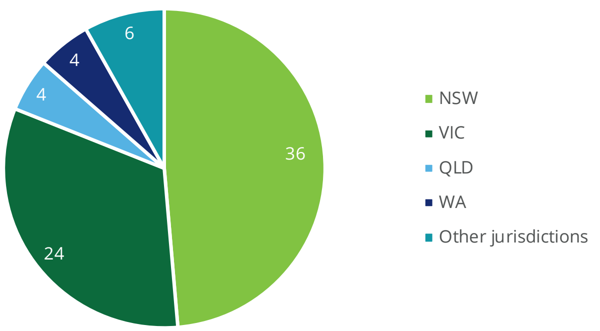
This report is informed by two production industry surveys. The first was filled out by production company headquarters, about their 2017 operations, with questions about financial performance, employment, and perceptions of the industry over time.

The second was a production survey, filled out about each production that commenced principle photography in calendar year 2017. It contained questions about genre, IP, filming location, government support, budget and employees.

The surveys were sent to screen production businesses in Australia, and were in field between April and June 2018.

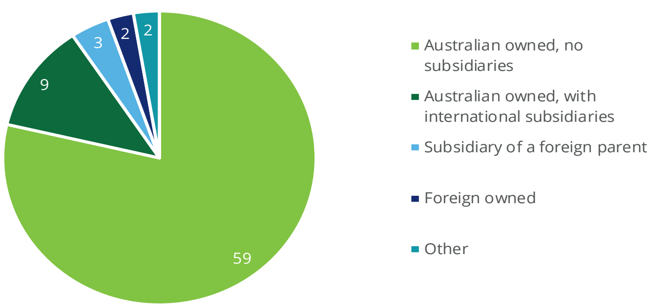
We received 74 responses to the production business survey, and 218 to the individual production survey. The charts below show the breakdown of responses.

Chart A.1 Location of production businesses



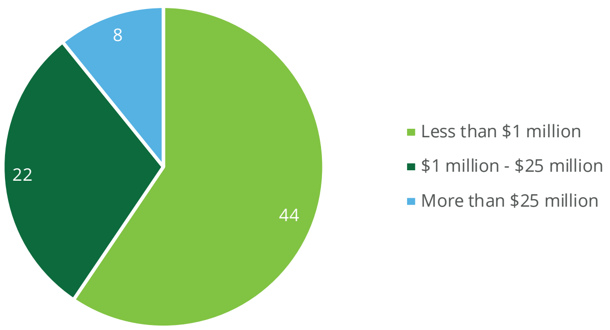
n=74 production businesses
Source: Deloitte Access Economics survey results

Chart A.2 Production business ownership structure



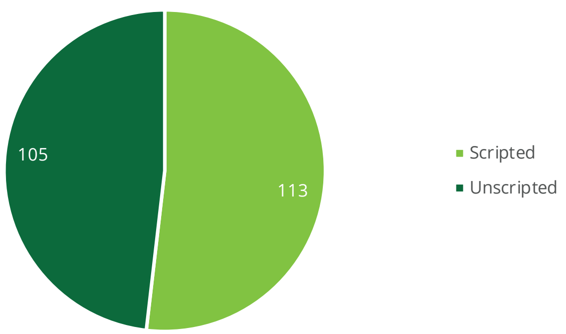
n=74 production businesses
Source: Deloitte Access Economics survey results

Chart A.3 Production businesses by size (revenue)



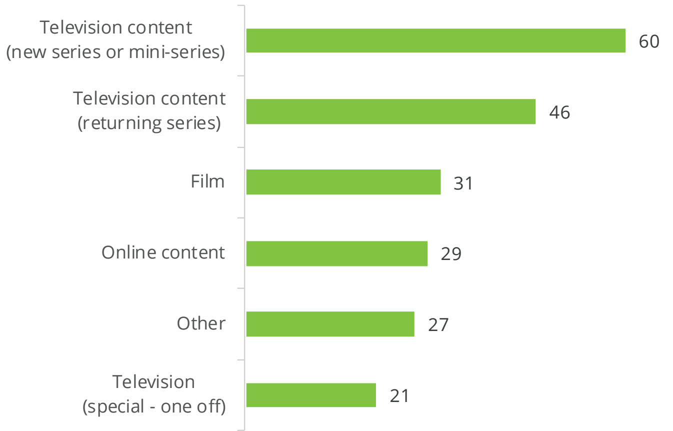
n=74 production businesses
Source: Deloitte Access Economics survey results

Chart A.4 Number of productions by type



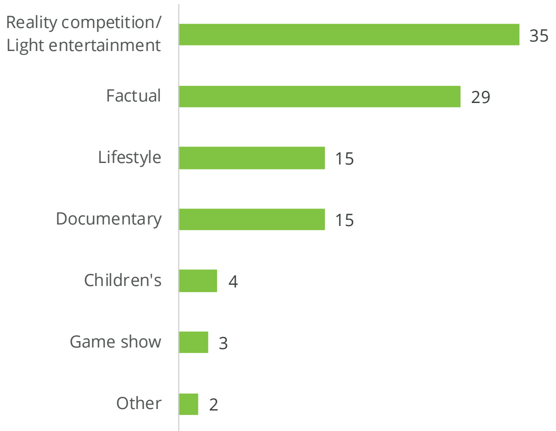
n=218 productions
Source: Deloitte Access Economics survey results

Chart A.5 Number of productions by format



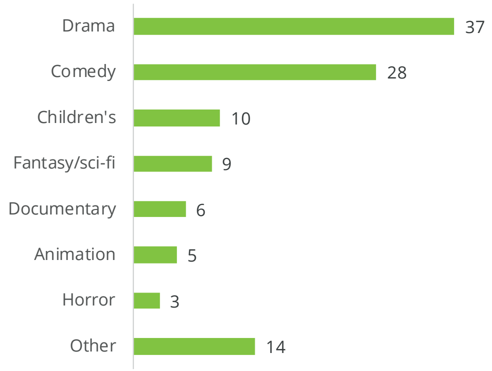
n=214 productions
Source: Deloitte Access Economics survey results

Chart A.7 Genre split, unscripted productions



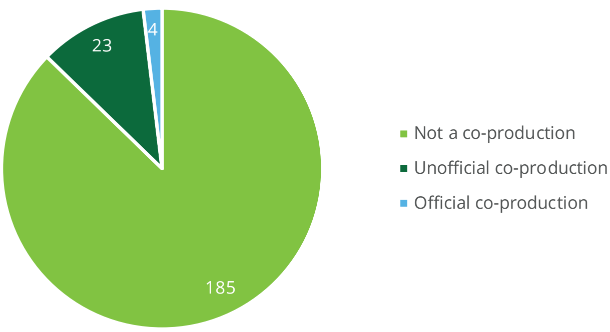
n=103 production businesses
Source: Deloitte Access Economics survey results

Chart A.6 Genre split, scripted productions



n=112 production businesses
Source: Deloitte Access Economics survey results

Chart A.8 Co-production



n=212 production businesses
Source: Deloitte Access Economics survey results

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