

Good morning. I'm Neil Hatton, the chief executive of the UK Screen Alliance, which is the trade body for VFX, animation, post production, TV & Film Studios representing around 80 member companies, many of which are here at this conference. UK Screen's primary purpose is advocacy and the major part of my job now involves lobbying the UK government to ensure that our industry's voice is heard at the top table.

Over the next few minutes I'm going to give you an honest appraisal of the burning issues affecting facilities working in UK film & TV.

I'll begin by quoting some well-known opening lines of a novel written back in 1859 that somehow seem apposite today.

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity"...

It carries on for several more couplets in a similar vein.

That quote from Charles Dickens' Tale of Two Cities kind of sums up the Brexit dilemma. Some good. Some bad. And lots of uncertainty and contradiction.

Let's start with the good.

The UK's film and TV industries have been on something of a roll recently with record levels of production for both film and high-end TV, driven by a combination of the UK's Film and High-End TV Tax Reliefs and a weak pound.

On the eve of the Brexit vote in June 2016, a pound would have cost you a buck and a half. Today it's \$1.28, so you get a lot more bang for your buck now.

Whilst the tax credits attract new business, it's our talented crews and the undoubted strength of our infrastructure that encourages producers to come back for more.

The quality of the work in VFX speaks for itself, with Oscar wins for British based companies 6 times over the last decade.

The Film Tax Relief is now 10 years old, having been introduced by the then Chancellor, Gordon Brown and enjoys cross-party support. All our screen sector tax credits appear safe from Brexit. They are already written in UK law although they are constrained by EU state aid regulation.

Some might argue that £340 million pounds of tax relief per year given to film-luvvies might be better spent on social care, but far from being a hand out to broken industry, the film and TV tax reliefs are actually strategic investments that pay the government back quickly and handsomely.

Research commissioned by the BFI in 2015, showed that each £1 of tax relief created £12.49 of value for the UK economy; a really impressive multiple which helps generate the tax receipts necessary to allow other areas of public spending.

This economic contribution assessment is revisited every couple of years and is happening right now. We have persuaded the BFI to gather more granular data this year for animation and VFX.

The contribution of animation in previous surveys was seriously undervalued as the effects of rights and merchandise weren't fully considered. There was also a tendency to classify features reliant on animation, as live-action films. For instance, *Paddington*, where the lead character is animated but the rest of the cast are live action. Or *The Jungle Book*, where there is only one live-action character composited into an otherwise entirely animated CG cast and environment. We are expecting to see a much greater value for animation in the current research.

Could our tax reliefs be made even better once we leave the EU and become unshackled from its state aid regulation? UK tax relief is only allowed on 80% of the budget. If a production performs principle photography in the UK, it will often have exhausted the scope for UK tax relief by the time it gets to VFX and post production. This is an EU restriction that was meant to share the work around EU member states, but instead drives the work to Canada as productions seek to maximise the use of available tax incentives.

Once we Brexit, could we ignore this cap and offer relief on the whole budget? This would certainly retain more VFX in the UK, if the Treasury would agree to cash flow the extra investment. It would also depend on whether we stay in the Single Market, in which case EU state-aid regulation will be one of the conditions. There may be some wriggle room, as there is now, but this carries political risks in the current climate and no one wants to spark a race to the bottom or become a sacrificial pawn in some larger trade deal.

So far, I've been talking about inward investment feature film, mainly from the US. Whilst this is powering the growth in the UK, our own domestic independent film industry is in the doldrums. Flat at about an annual £400 million for the last 5 years. Recent research shows a decline and Brexit brings additional real risks.

Whilst it seems likely that British indie films will still be considered as European works when it comes to EU broadcast quotas, the loss of access to production finance after Brexit is a grave concern.

Upcoming legislation in the EU intends to treat Europe as a single territory for film and TV rights. The ability to sell only once rather than 27 times will reduce the value of pre-sales causing further difficulties in getting productions green-lit.

We could lose access to the Creative Europe Media scheme which is not just a source of programme development finance. It provides access to distribution throughout Europe.

We will also be no longer get grants from the European Social Fund or the European Regional Development Fund, which for example, kick started the Space Project Studios in Manchester.

We will instead need to rely on direct government funding saved from that now infamously fictitious £350 million a week payment to the EU, painted on the side of the campaign bus.

We are bound to face stiff competition for a share of this cash as the government rides the wave of disquiet over continued austerity.

All this downward budgetary pressure is certain to be handed on to facilities here in the UK.

What's the effect on broadcasters. Currently pan-European channels with playout facilities based in the UK, benefit from the EU's Country of Origin principle which states they only need to be regulated in the country they transmit from rather than in all 28 receiving-states. The UK regulatory system run by OFCOM is considered a gold standard and many pan-European broadcasters have chosen to be based here. Once we quit in 2019, this principle will no longer be valid for the UK and several broadcasters are reputed to already be packing their bags, with a worst-case re-location of up to 1000 channels.

However, the primary impact of Brexit on VFX is the curtailment of the Free Movement of Labour

UK Screen's survey of leading British VFX houses found 57% of workers were from the UK, but 31% were from the EU and 12% were from the rest of the world. There's less data available for animation but it also employs a high proportion of EU workers.

We need to wait for the forthcoming Immigration Bill to see the full visa proposals for skilled workers following Brexit. Current proposals seem to indicate a move to high cost visas as a way of regulating demand, something that we are definitely opposed to.

The government is looking to all industries to build a home-grown workforce and VFX and animation's commitment to do this is strong, but our education system has had a long-term inability to supply sufficient numbers of high quality graduates, although there are notable exceptions.

Alumni of European colleges are highly-rated by UK employers, often in preference to graduates from the UK. These European courses are generally longer and better prepare their graduates for the transition into work. Degree level apprenticeship offer a solution to bridging this skills gap for UK graduates.

There's a huge pool of young untapped talent that needs to be made aware of the career opportunities in our industries. To feed our skills pipeline the VFX, animation and games industries backed the NextGen Skills Academy, a network of FE colleges across the UK. This has just delivered, its first cohort of 120 eighteen-year-olds ready to go onto apprenticeships or university courses. Next year's cohort will be 190. It's a great start.

But, the VFX and animation sectors will always need access to international talent. We produce the very best global output in Film and High-End TV, so we need the most skilled and creative workforce, regardless of where it comes from, to stay in the game with Vancouver, Montreal and Hollywood.

I firmly believe that employing a workforce from across the globe, from diverse cultures and with different experiences can be immensely powerful. If a company's culture encourages diversity of thought, it empowers the kind of creativity which gives a competitive edge.

Our home-grown workforce benefits hugely from the mentoring and knowledge-transfer from rubbing shoulders with the international elite and from working in teams led by globally renowned experts.

The government need to get their skilled worker immigration policy right so that we really can, as they say, be a "magnet for international talent that attracts the brightest and the best". The early glimpses of this policy are not encouraging with high visa costs, but these might be softened due the government's current lack of authority. We are pressing them on this.

To finish, I think I should lift the gloom. Much of the VFX work comes from the USA and will be unaffected by Brexit, providing we can continue to attract and retain the skilled staff to do it.

And then there's China, with a growing interest in the UK. Recently a £30 million joint venture was announced between UK animation company BlueZoo and the China UK Animation Company, which will unlock a £72 million slate of production. There's more of this kind of investment queueing up.

We are not doomed. The next few years are set to be turbulent but there's definitely opportunity out there if we prepare to grasp it.

Thank you for listening.