Deloitte.

Screen production in Australia:
Independent screen production industry census

Screen Producers Australia 2019

Deloitte
Access Economics

2019

Executive summary.

Australians value local screen content.

The screen production industry which produces this content contributes to both our culture and our economy.

This report looks behind the curtain at recent trends in the independent Australian screen production industry, based on a survey of production businesses.

Key findings.

The screen industry remained resilient this year, despite challenging circumstances.

In total, the industry generated $1.2 billion in production revenue, and supported more than 13,000 roles in 2018 – a significant contribution to the Australian economy. This was similar to 2017, where the industry generated $1.2 billion in production revenue.

The screen industry also continued to be very export active, with 47% of surveyed businesses exporting productions, generating some $160 million in revenue in 2018. In 2017, 43% of businesses reported to exporting, generating $163 million in revenue.

With disruption to financing, policy changes and evolving consumer preferences, it is a challenging time for the industry.

However, many screen production businesses remain optimistic about their future profitability, buoyed in part by recent changes to federal and state-based funding incentives, and opportunities to increase market share in a growing global industry.

Contents

Screen production in Australia.

Screen production in Australia is a large and complex industry, with businesses of ranging sizes, each participating in different stages of the production process.

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.

This report is the second in a series. As such, in addition to providing a snapshot of the independent industry, it also provides insight into how the industry has changed over the past year.

However, there has been some change in the numbers and composition of respondents, which may affect comparability between 2017 and 2018.

The survey

The report is informed by two bespoke surveys of the industry – a business survey and a production survey. These surveys asked about performance and perceptions over the 2018 calendar year.

The surveys were designed and fielded by Deloitte Access Economics in collaboration with Screen Producers Australia (SPA), and are consistent with those fielded for the previous edition.

The surveys were sent to screen production businesses in Australia, and were in field between August and September 2019. We received 75 responses to the business survey and 125 responses to the production 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 the majority of large businesses in revenue terms. Aggregated revenue from the survey was around $0.8 billion, which represented some 1,210 hours of new Australian film and television content.

Supplementary data

In calculating aggregate revenue for this report, we supplemented survey data with data collected by Screen Producers Australia and data collected by Screen Australia.

For productions which were not represented in the survey, we include levy information provided to Screen Producers Australia, representing an additional $36 million in production budgets.

For productions beginning principal photography in 2018 with neither survey nor levy data, we incorporate data from the Screen Australia Drama Reports (2018 and 2019). This represented an extra 69 drama productions and over $400 million in additional revenue.

The employment associated with production data provided by Screen Producers Australia and Screen Australia has not been captured. This affects the comparability of results.

Who are ‘screen producers’ and what do they do?

Screen production businesses manage the technical and creative aspects of creating screen content. This can range from choosing the creative content to produce all the way to organising marketing and distribution for a show or movie. Figure 1.1 provides a high-level overview of the activities undertaken by screen producers.

In this report, we define the size of the industry by looking at the production revenue of independent (that is, not broadcaster owned) screen production businesses operating in Australia.

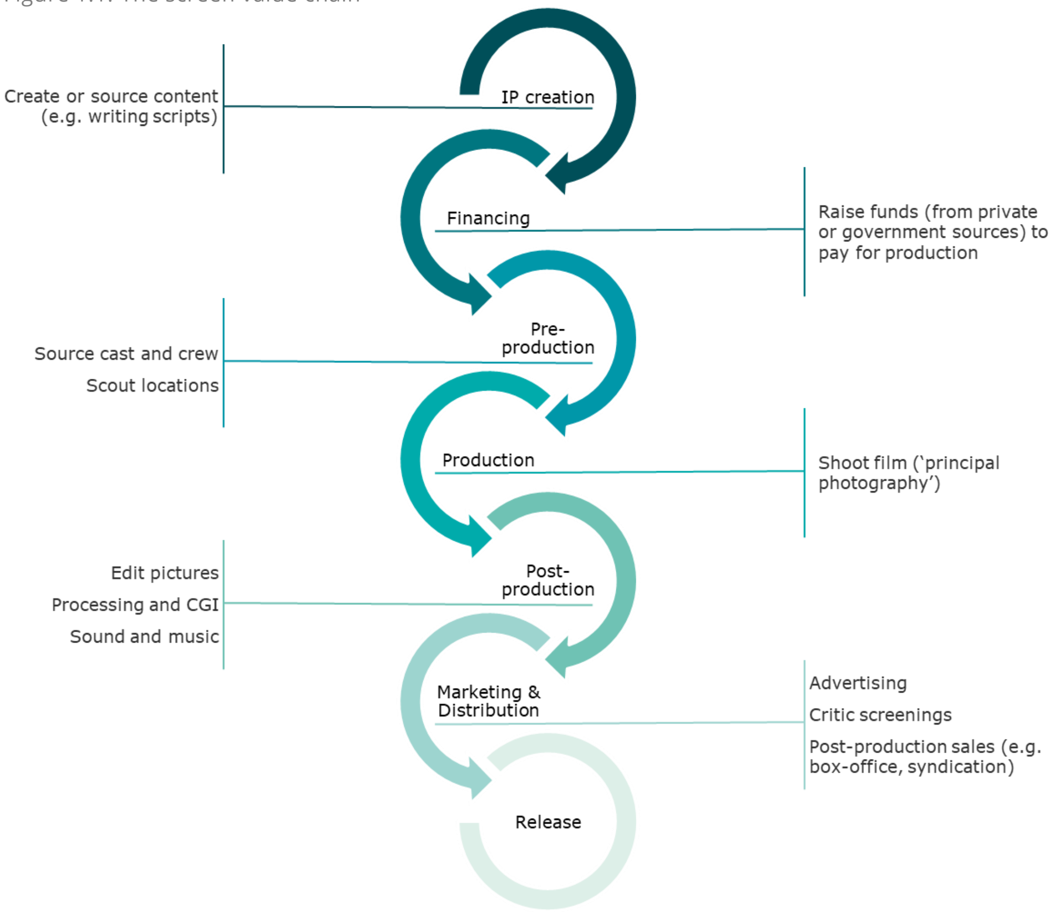
What is ‘screen’?

For the purposes of this report, we define ‘screen’ as television and film content. This excludes television commercials, promotional videos, corporate videos and games. Throughout this report, television content is further split into:

- **Scripted television** refers to productions, predominantly drama, that are derived from a script.
- **Unscripted television** 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.

Figure 1.1: The screen value chain



Source: Deloitte Access Economics

Screen production in Australia

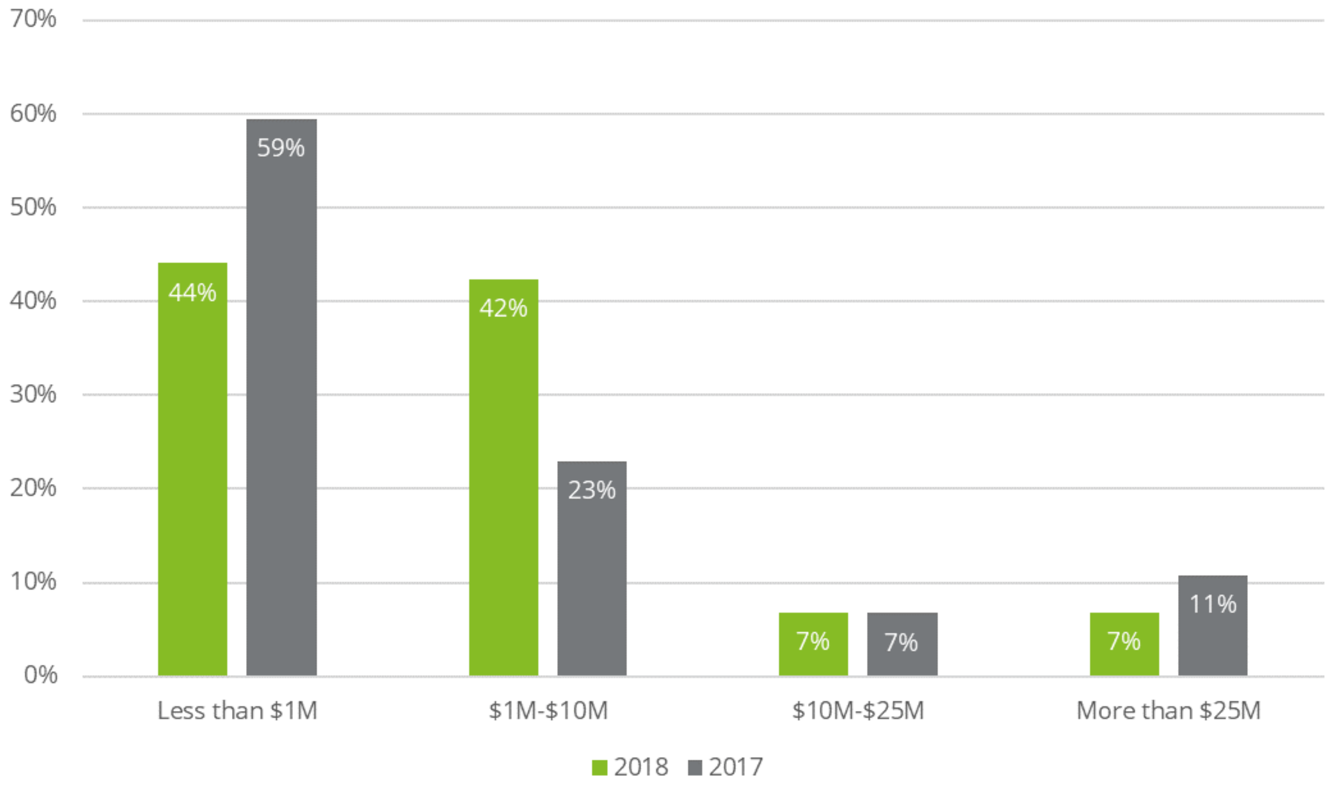
Screen production in Australia is a large and diverse ecosystem. According to the most recent ABS data, there were **over 3,200 producers and post-production businesses** operating in Australia, in an industry which is over 100 years old.

These production businesses vary widely in their size, structure, activities and revenue streams, across mediums and genres.

The industry is predominately made up of smaller businesses. Chart 1.1 shows that this is reflected in the survey, where about 44% of businesses responding reported an annual production revenue of less than $1 million. Another 42% reported a revenue between $1 and $10 million, while 7% had an annual turnover of between $10 and $25 million. The remaining 7% an annual turnover more than $25 million.

This was similar to last year, where most businesses responding had an annual turnover of either less than $1 million (59%) or between $1 and $10 million (23%).

Chart 1.1: Surveyed production businesses in Australia, by production revenue bracket



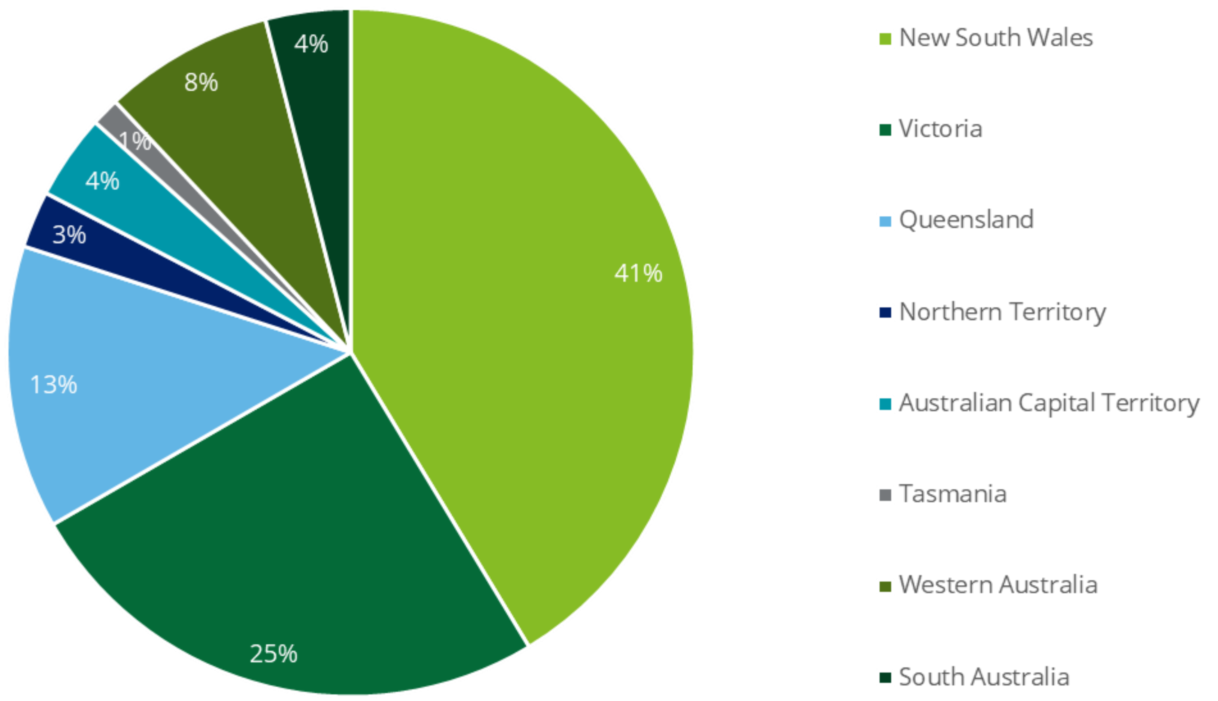
Source: Deloitte Access Economics

Screen production in Australia (continued)

Of the businesses who responded to the survey, more than 40% were based in NSW. A quarter are in Victoria and 13% are in Queensland (see Chart 1.2).

This is consistent with other research and estimates for the motion picture and video production industry more broadly. According to most recent IBISWorld data, 47% of production businesses are based in NSW, 28% in Victoria and 12% in Queensland.

Chart 1.2: Production businesses in Australia, by location



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 75 production businesses

Contributing to the broader economy.

Screen producers make a significant contribution to Australia’s economy, by generating revenue and supporting employment.

Production revenue

In total, aggregate production revenue identified in this report was $1.2 billion for 2018, using survey, levy and Screen Australia data. This is similar to the $1.2 billion of total production revenue seen in 2017.

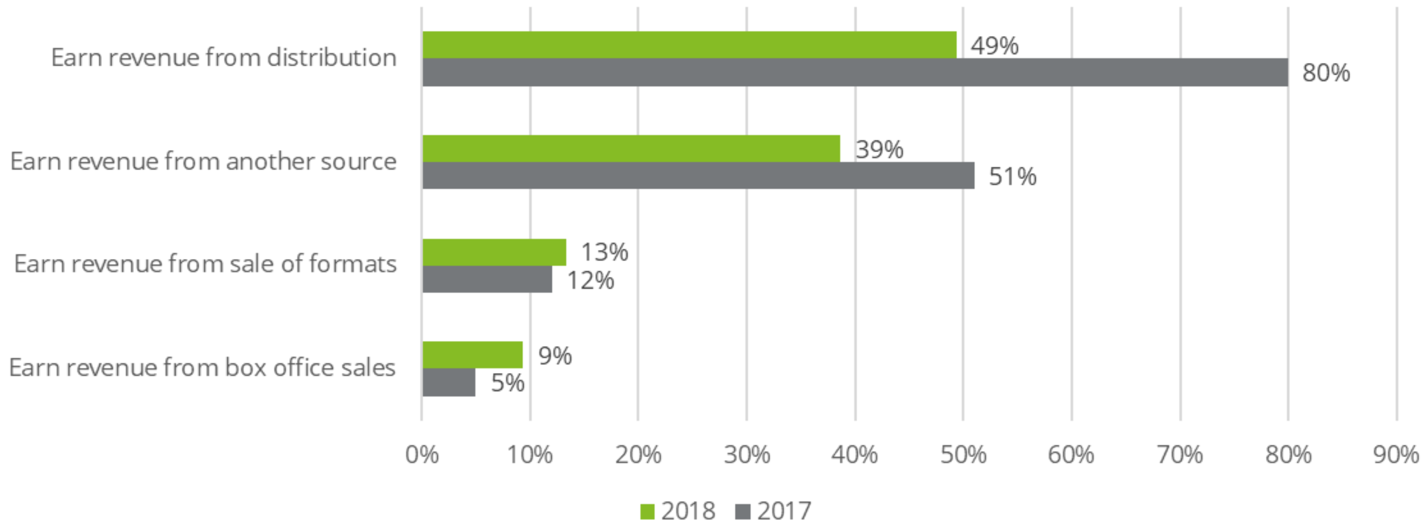
By way of comparison, this makes the independent screen industry about three times the size of the recorded music industry in revenue terms (ARIA, 2018).

Consistent with the previous report, we define the size of the industry by looking at the production revenue of independent production business operating in Australia. Total production revenue, however, is likely to be a conservative estimate of the true size of the industry. It notably does not include other revenue sources, such as:

- non-production revenue (e.g. distribution revenue, box office sales etc.)
- other revenues earned by screen production businesses
- production activity in Australia by businesses that are not registered in Australia, including 'footloose' production
- production revenues which were not reported through the survey, levy or Screen Australia Drama Reports.
- the screen production activity of broadcasters.

As Chart 2.1 shows, just under half of screen producers earn revenue through the sale of distribution rights and 13% from the sale of formats. While revenue streams in the industry can be diverse, production revenue remained the sole source of income for 16% of screen producers – up from 14% in 2017.

Chart 2.1: Other sources of revenue received (not included in estimates of industry size)



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 75 production businesses

Exports

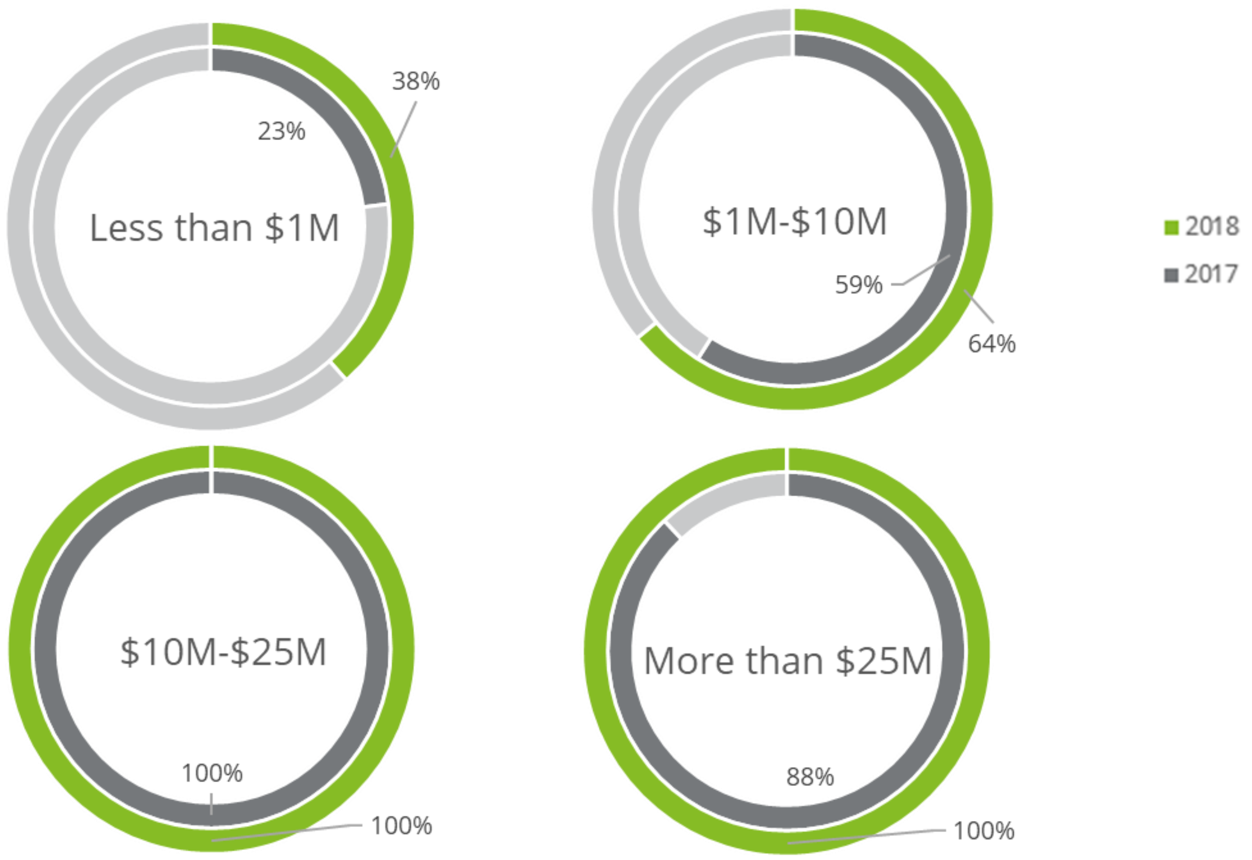
Australian screen producers play on a global stage and are much more likely to export compared to other businesses. Just under **one in two production businesses (47%) reported receiving at least some revenue from overseas in 2018**, compared to 7.6% of Australian businesses more broadly (ABS, 2017).

This represents an increase on 2017, where only 43% of screen producers reported that they were exporting productions. The proportion of production businesses earning export revenue remains high, even when accounting for business size. Larger businesses with more than $10 million in revenue were the most likely to be earning export revenue (100%).

However, even smaller businesses with less than $1 million revenue (38%) and between $1 and $10 million in revenue (64%) were significantly more likely to be exporting than the typical Australian business. The proportion of businesses exporting has also increased in these groups over the last year (see Chart 2.2).

Austrade figures confirm the importance of screen production exports. In 2018-19, around 100 businesses in the motion picture, video production, and post-production services, and free-to-air television industries received grants through the Export Market Development Grant (EMDG) scheme.

Chart 2.2: Proportion of production businesses exporting, by business size



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 59 production businesses

Exports (continued)

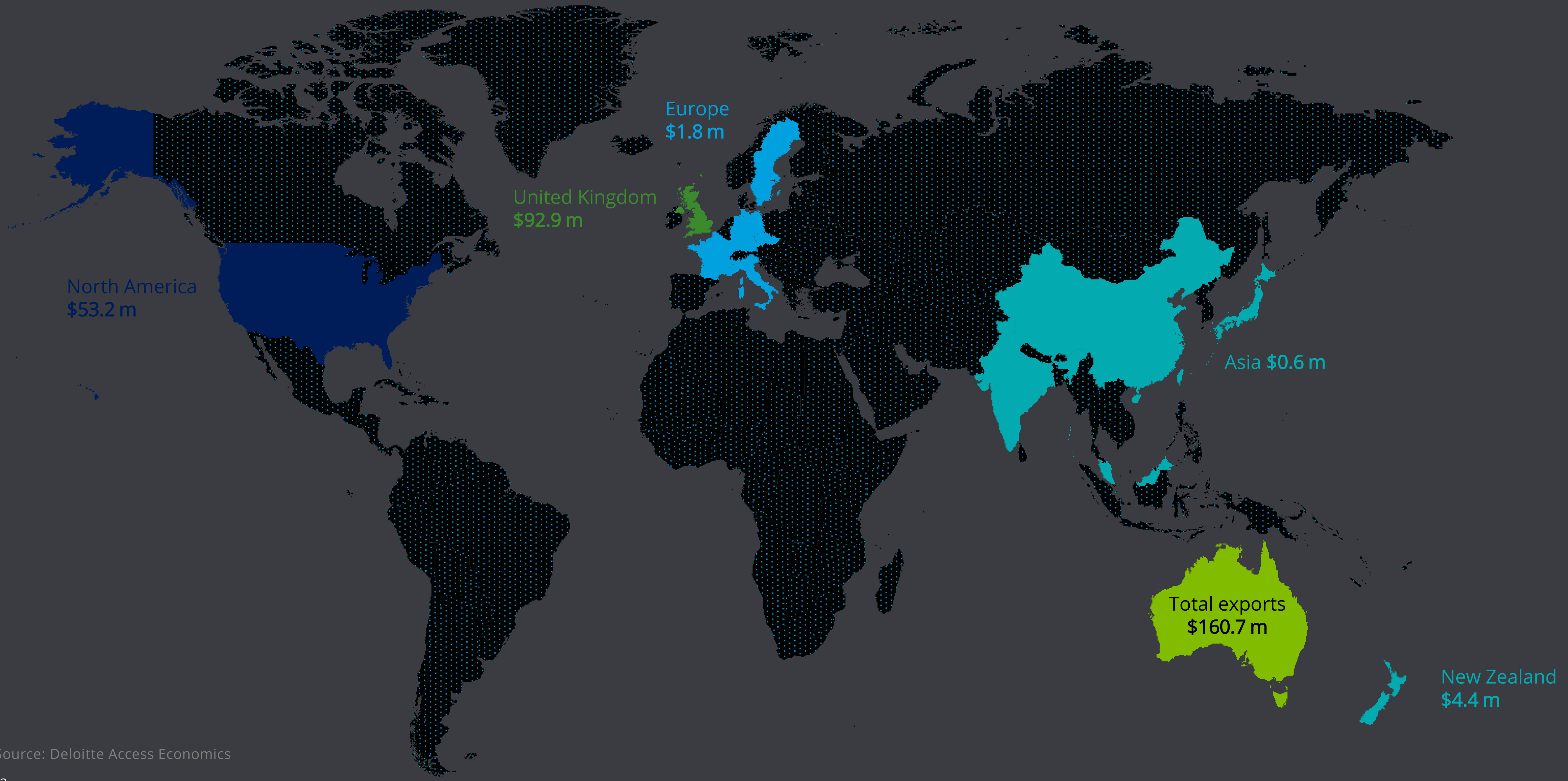
In total, the survey captured $160 million in export revenue in 2018, slightly down from $163 million in 2017. This implies that 20% of production revenue captured in the survey came from exports, compared to 14% last year.

Of the export revenue that was captured in the survey, over a third came from the United Kingdom (UK) (38%). This was followed by the United States (US) (21%), and New Zealand (2%). Figure 2.1 shows the main export destinations cited by Australian screen producers in the survey.

These figures are likely to underestimate the true value of screen exports. This is due to several factors:

- **Survey coverage:** Not all screen producers in Australia responded to the survey.
- **Reporting difficulties:** In many cases, reporting export by location can be complex – some shows are exported to over 200 territories.
- **Sale of rights:** In some instances, producers may sell some or all international distribution rights to a commissioning entity. As a result, in some circumstances a production is exported without the producer recognising any export revenue.
- **International subsidiaries:** For producers who are a part of a larger international group of companies, overseas production revenue may be treated as an inter-company transfer rather than as export revenue.

Figure 2.1: Major export destinations for Australian screen producers



Source: Deloitte Access Economics

Employment

The screen production industry is a significant Australian employer.

According to the 2018 survey, on average, each production supported 82 roles, and each production business' corporate headquarters supported 17 roles on an ongoing basis.

This represents a slight increase on 2017, where the average number of roles supported by a surveyed production was 72 and a surveyed business had 18 employees on average.

In total, businesses and productions responding to the survey supported 13,139 positions in 2018. Because the survey did not cover all screen production and because it is a 'roles' measure, this is not intended to be a measure of industry employment. Having said that, we note that there were 11,000 employees in the 'Film and video production and post-production services' industry in 2016, according to Screen Australia's analysis of ABS data.

Changes in the numbers and composition of businesses and productions responding to the survey between this year and the last means figures cannot be directly compared to the positions supported figure from 2017.

Employment in screen production typically comes in two forms – employment on an ongoing basis in a production business' corporate headquarters, and employment on a contract basis for a specific production. Of the 13,139 positions supported by the industry in 2018, 1,294 people were employed on an ongoing basis in production businesses' corporate headquarters, while 11,845 roles were associated with specific productions.

Across content types, the number of people needed to make a production, as well as the types of skills required, can vary.

In total, more roles were supported by scripted productions (7,871) than unscripted productions (3,974). Although the average scripted production supported 119 roles, some of the larger ones supported upwards of 1,300 roles. Likewise, while the average number of roles in an unscripted production was 52, some of the largest supported more than 800 roles.

Gender diversity in the screen industry

Employment in the screen industry is relatively well-balanced in terms of gender, according to the survey. Approximately 56% of people permanently employed in production businesses identified as female in 2018. Further, about 73% of surveyed production businesses had more female employees than male.

This represented a slight increase from 2017, where 55% of employees permanently employed in production businesses identified as female and about two thirds of production businesses had more female employees than male.

While the industry continues to be gender diverse, these numbers do not capture the share of women in senior roles, which is likely to be a problem as in other industries. The Screen Industry Diversity Network was established to address this and other issues.

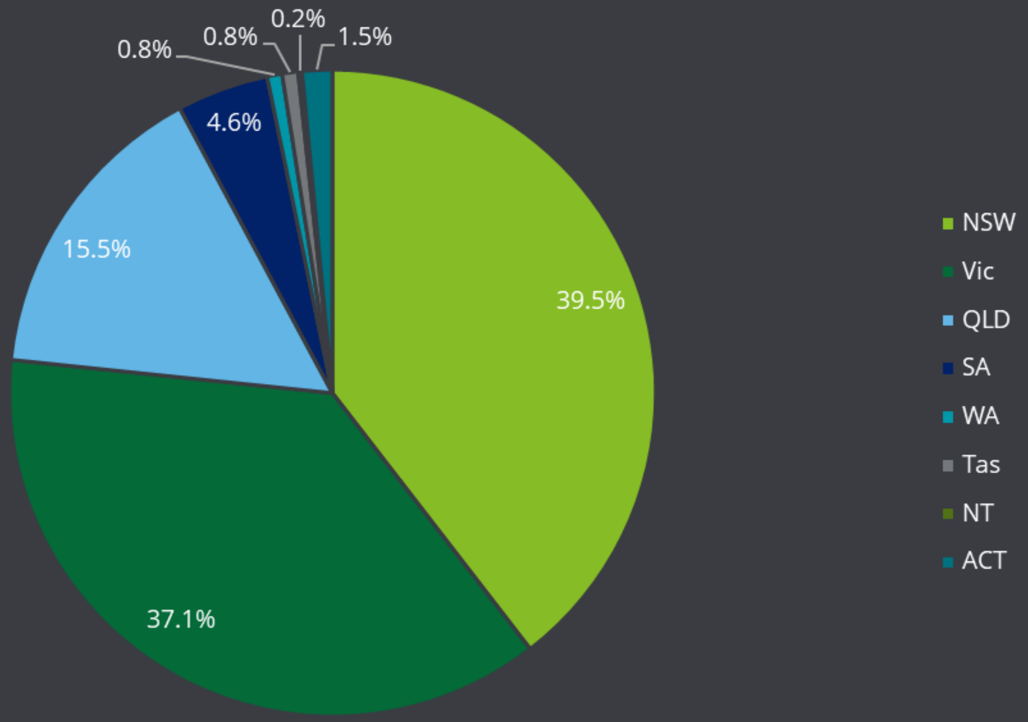
Screen production employment varies by state/territory. ABS data from August 2019 show that New South Wales drove the majority of employment in the motion picture and video industry, representing close to 40% of employment in the sector.

Victoria came in second with 37.1% of employment, followed by Queensland (15.5%); South Australia (4.6%) and the Australian Capital Territory (1.5%).

Western Australia and Tasmania each accounted for 0.8% of employment, while the Northern Territory accounted approximately 0.2% of employment (see Chart 2.3).

It should be noted that the ABS's figures reflect employment for the wider motion picture and video industry, which has an estimated total employment of over 41,000 people (23,817 full-time employees and 17,242 part-time employees). This covers a broader definition of 'screen' – including production by broadcasters, as well as the distribution and exhibition of screen content – and so is not directly comparable.

Chart 2.3: Employment in the motion picture and video industry, by state/territory



Source: ABS (2019)

Australian content

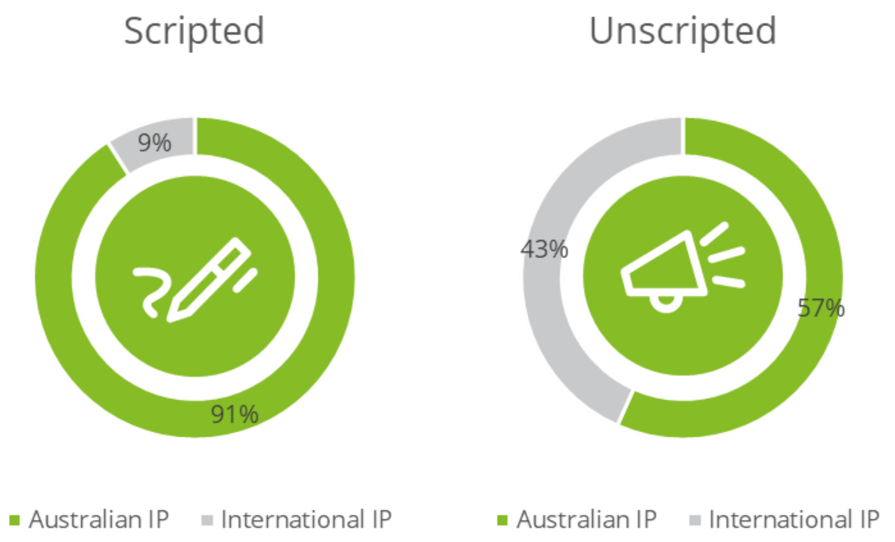
With the increasing digitisation of the media sector, more international content has become readily available to audiences than ever before.

For Australian content, this has meant greater competition for audience share. Yet screen content produced by Australian independent producers today continues to be overwhelmingly driven by Australian ideas.

In 2018, **nine out of 10 productions were based on Australian ideas** – the same as that in 2017.

The share of Australian IP in screen content, however, does vary across content types. Over 90% of scripted content is sourced from Australian ideas, as compared to only 57% of unscripted content (Chart 2.4).

Chart 2.4: Productions sourced from Australian IP, by content type



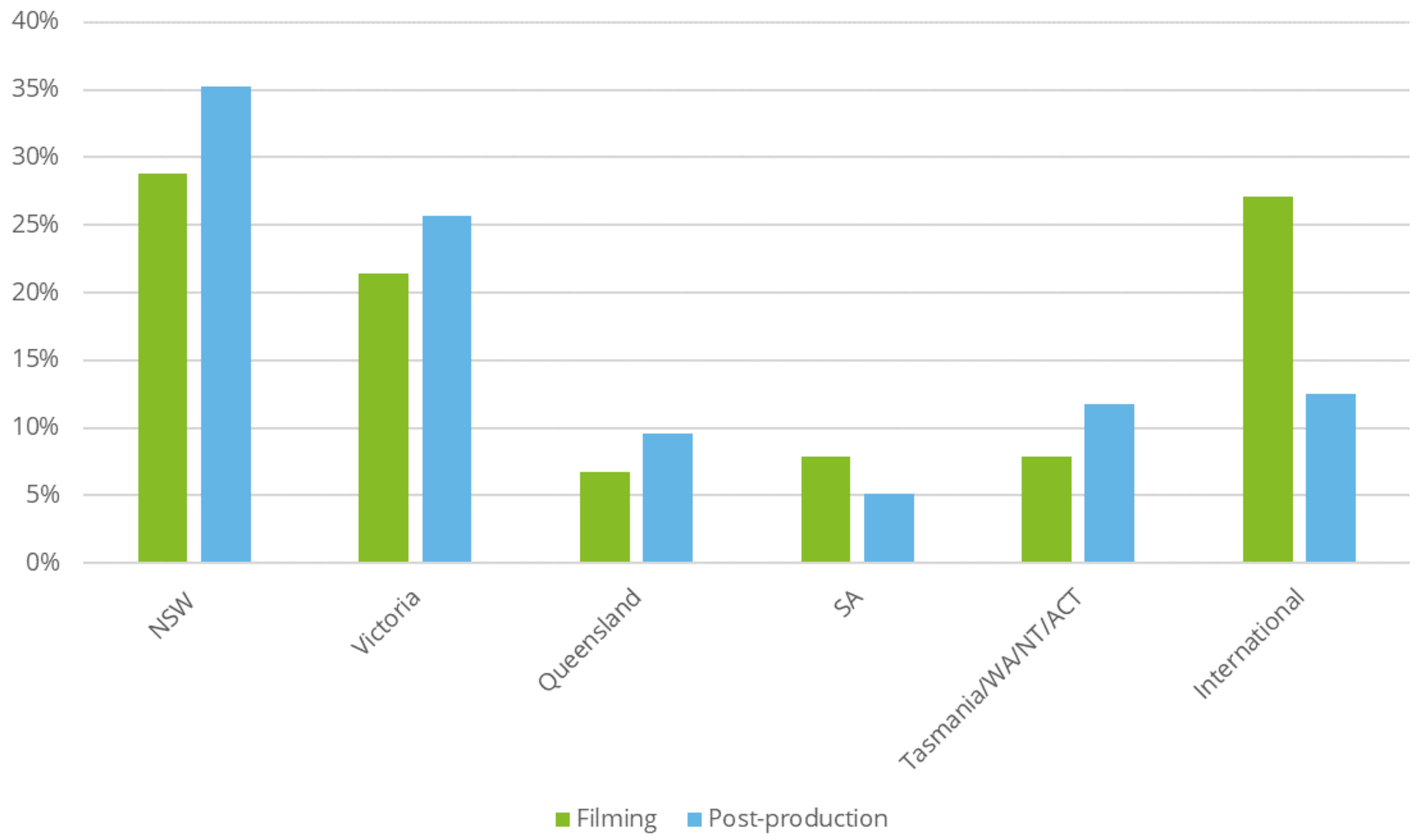
Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 125 productions

Australian content (continued)

Going further along the screen industry value chain, the production activities of the industry also generally took place locally. Over 72% of filming and 87% of post-production activities were completed in Australia in 2018.

Chart 2.5 provides a breakdown of the proportion of filming and post-production activities taking place in each state/territory.

Chart 2.5: Production activities taking place across each state/territory



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 125 productions

Financial performance.

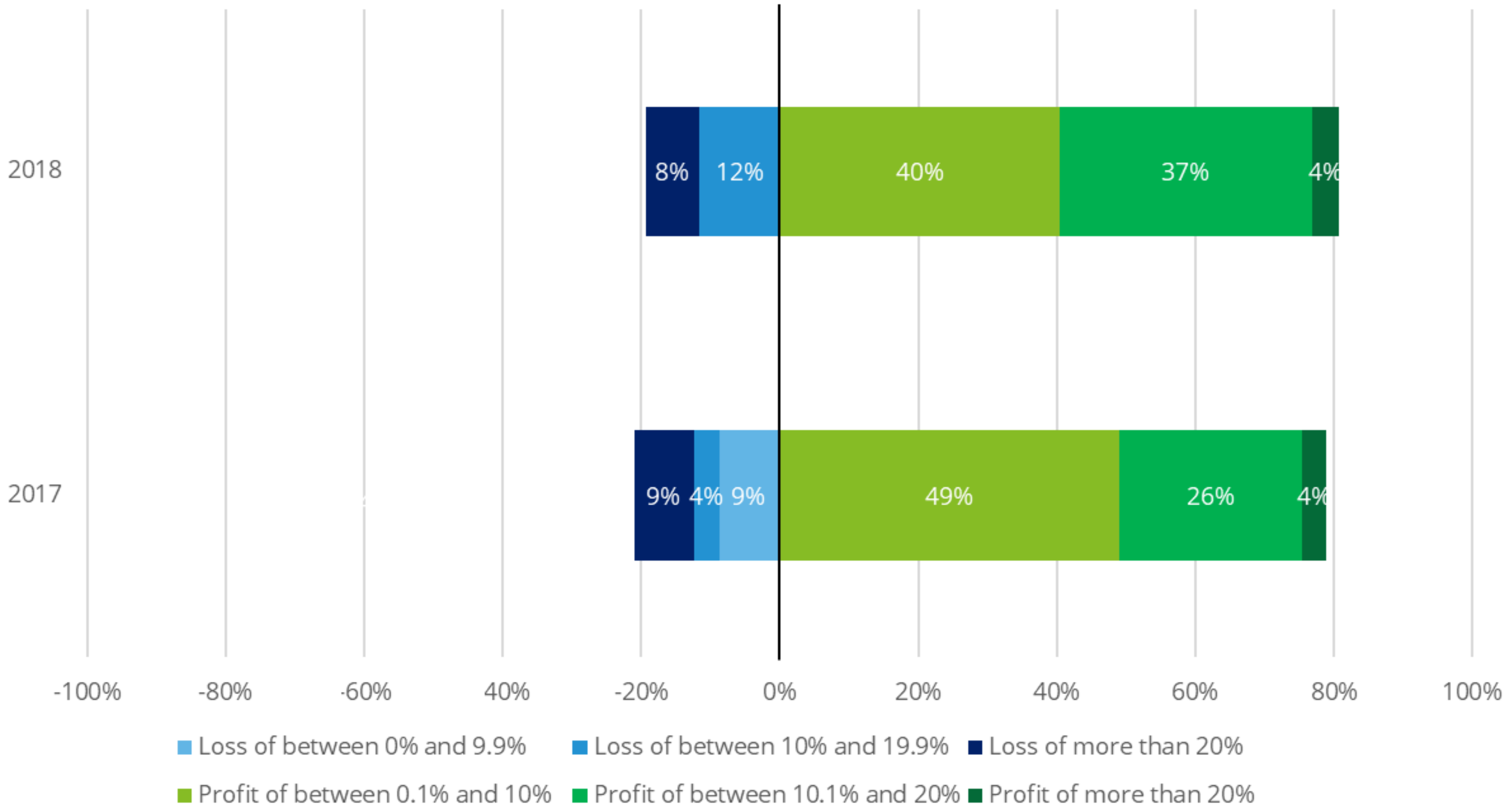
Many individual screen production businesses continued to struggle in 2018, with narrowing profit margins and changing funding sources creating challenges to profitability.

Profit

Achieving positive profits continued to be a challenge for many production businesses in 2018.

Of the production businesses surveyed, one in five businesses reported a moderate or very negative loss. More than 40%, however, reported making a good profit, and another 40% made a profit of between 0.1% and 10% (see Chart 3.1). While this represented some improvement on profit rates in 2017 – where 22% of businesses had made a loss and about 49% had made slight profit, it is clear that profitability remains an on-going issue for the industry.

Chart 3.1: Profit rates in the screen production industry, 2018



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 52 production businesses

Profit (continued)

For many producers, the modest financial performance of the last two years is part of a longer-term trend. About **two in every five businesses report being less profitable today than they were five years ago**. This may in part reflect the challenge posed by vertical integration in the local screen industry, with many broadcasters producing content 'in-house'.

Another 25% of businesses said they were performing about the same, while 35% have seen their profit margins increase either moderately (25%) or significantly (10%) (see Chart 3.2).

Profitability further varies by business size: 100% of the production businesses surveyed with revenue over $25 million said they were making some profit compared to 65% of businesses with less than $1 million in revenue (see Chart 3.3). This result was similar to last year, where 100% of businesses with revenue over $25 million and 61% of businesses with less than $1 million revenue indicated they were making some profit.

Chart 3.2: Current profitability compared to five years ago, 2018

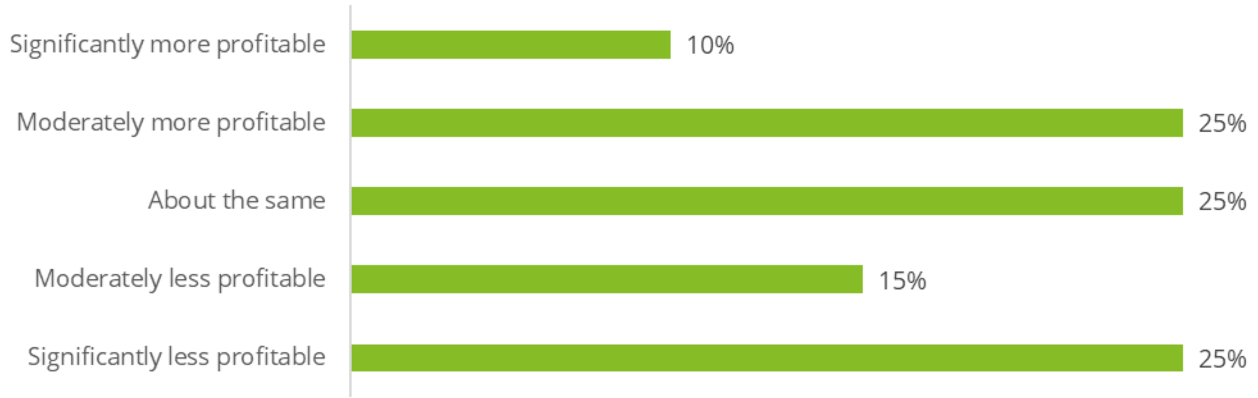
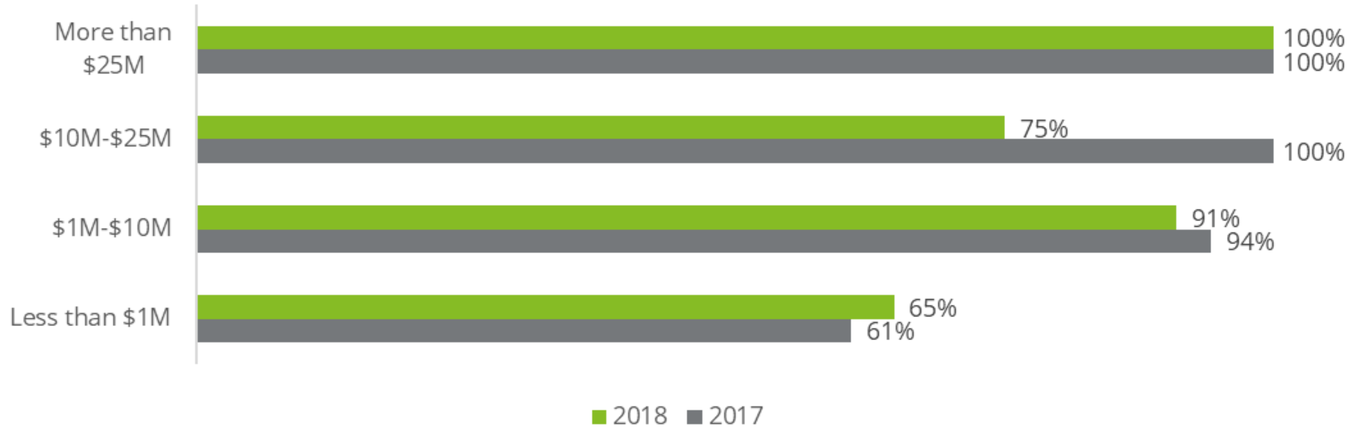


Chart 3.3: % of production businesses which are profitable, by business size, 2018



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 52 production businesses

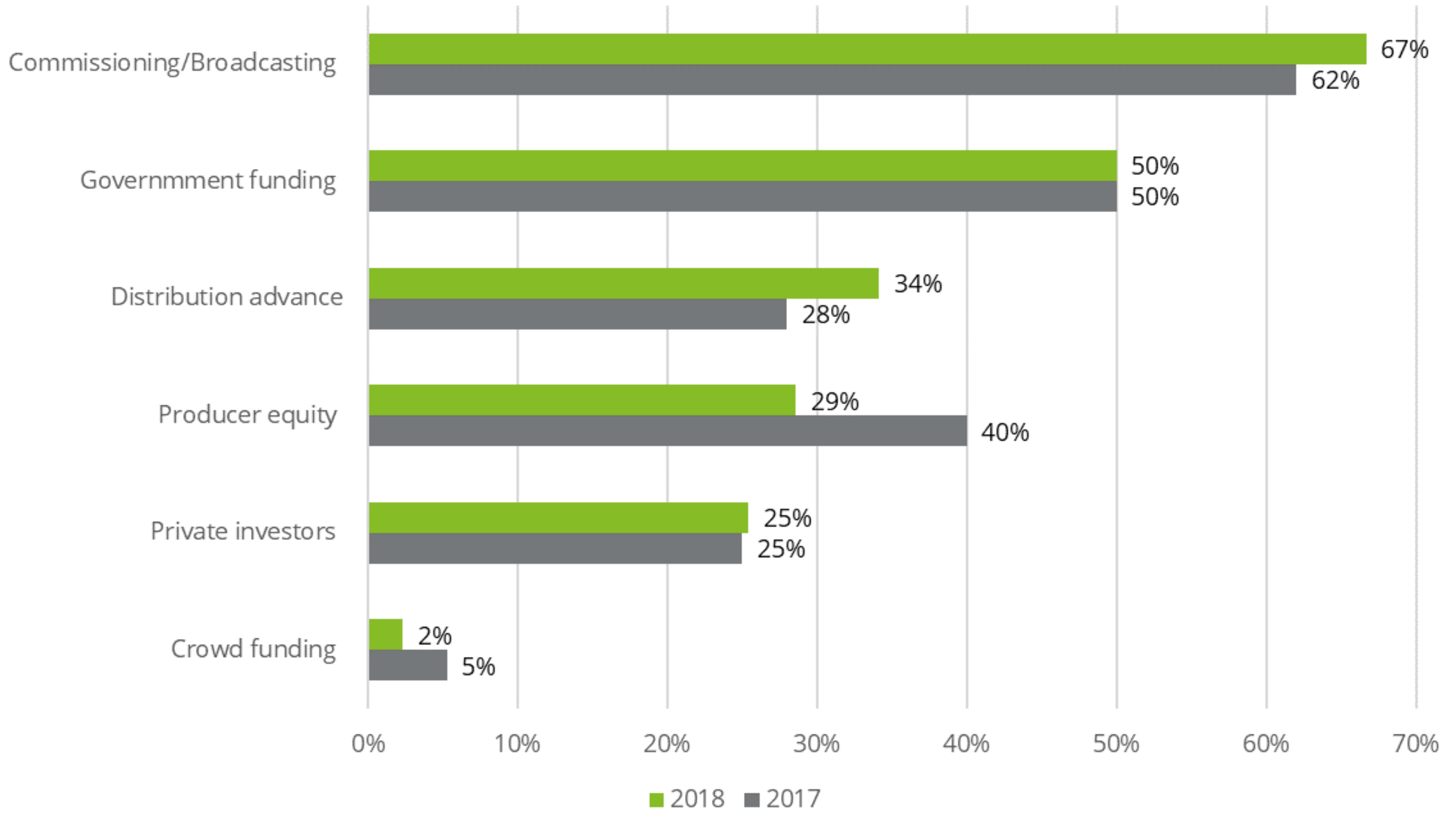
Funding sources

Across the industry, the most common source of production revenue cited by survey respondents was from commissioning/broadcasting.

Two in three productions reported receiving some part of their revenue through commissioning or from a broadcasting network, representing a slight increase from 2017. This was followed by government funding (50% of productions) and distribution advances (34%).

Fewer producers also reported having used producer equity and crowd funding in 2018, as compared to 2017 (Chart 3.4).

Chart 3.4: Proportion of surveyed productions having this source of production revenue



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 125 productions

Funding sources (continued)

Production businesses receive funding from a number of different sources, depending on format and genre.

While the major source of demand for Australian-made television lies in commissioning, major films are more likely to receive funding from private investors.

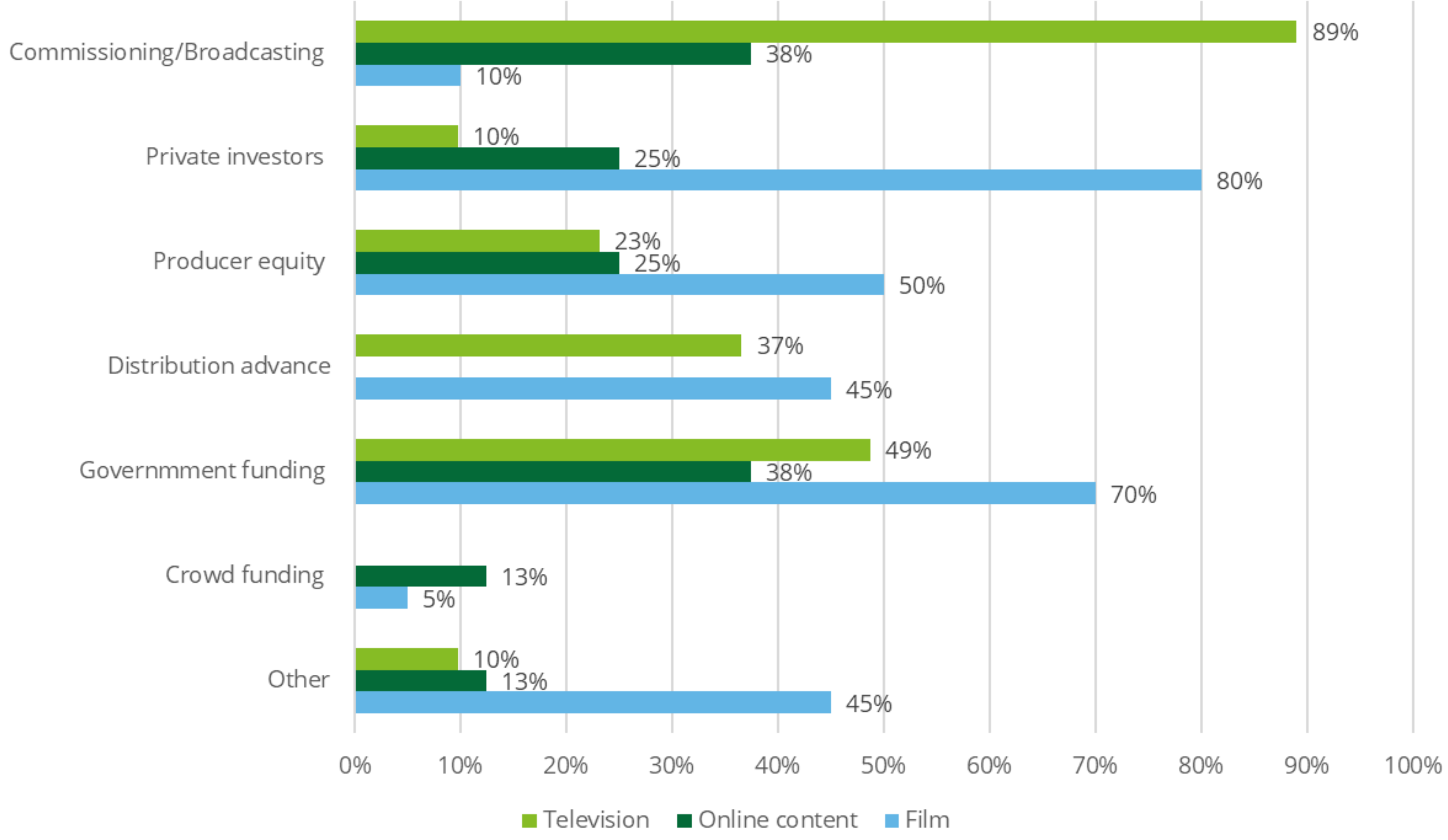
Chart 3.4 provides a breakdown of major funding sources for productions, by content type.

Commissioning is one of the most common sources of funding, particularly for television productions.

About 1 in 3 commissioned productions was television content for new or mini-series, while another 47% was television content for returning series.

In the survey, the vast majority of productions with an identified commissioner listed the ABC or SBS, but this does not reflect the commissioning share because of (i) non-responses to the survey and (ii) some productions had no commissioner identified. Independent producers contributed significantly to the 1,800 hours of new Australian content for the three commercial broadcasters (Seven, Nine and Ten) (Free TV Australia, 2018).

Chart 3.4: Funding sources for productions



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 125 productions

Funding sources (continued)

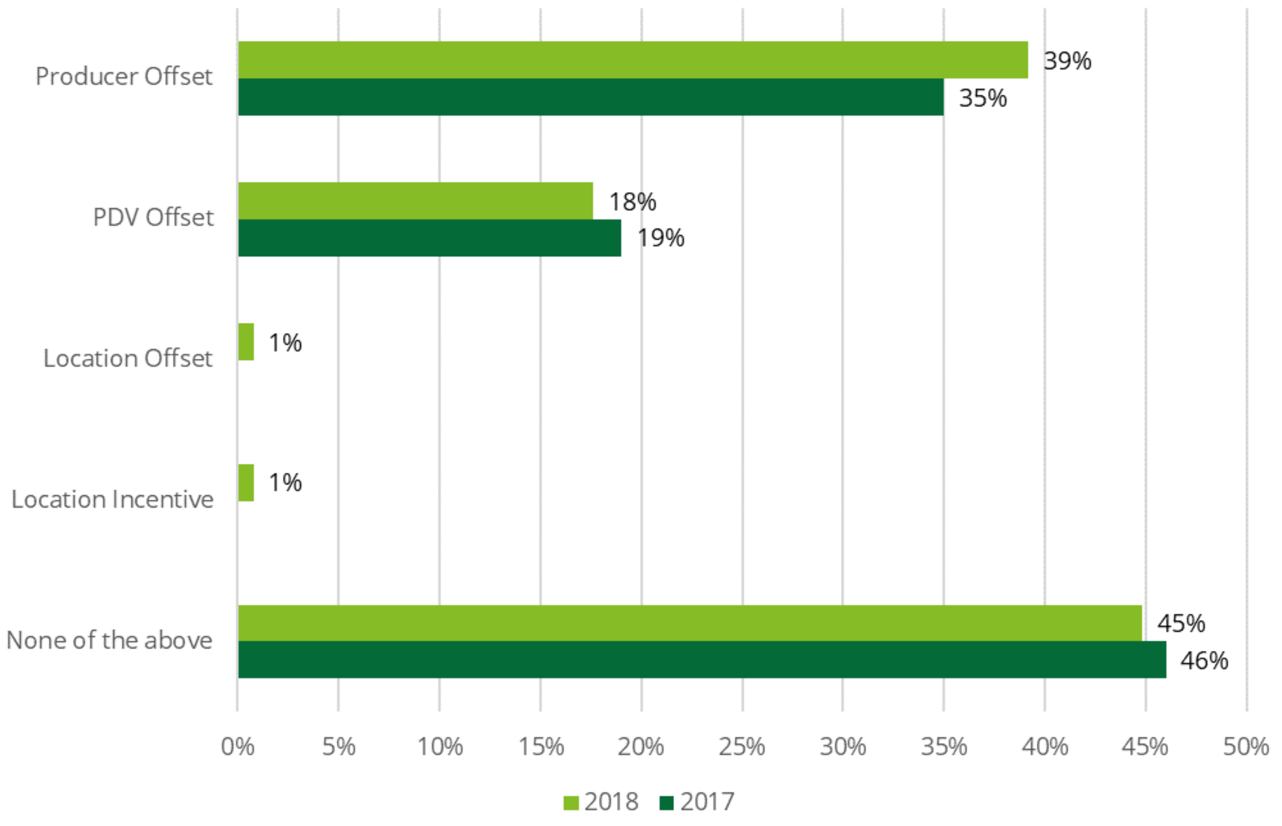
Government support remained an important source of funding for screen production businesses in 2018, with changes to federal and state funding settings providing the sector with a boost.

A range of new state-based funding initiatives were introduced throughout the year, including a 10% PDV incentive in NSW, Queensland, and South Australia, as well as a 10% production incentive in South Australia. The federal government additionally introduced the Location Incentive – a grant of up to 13.5% of Qualifying Australia Production Expenditure (QAPE) – for international footloose productions qualifying for the 16.5% Location Offset.

The main forms of government funding received by productions are summarised in Chart 3.7.

Nearly half (45%) of productions reported not receiving any government funding in 2018. This is similar to last year, where a significant proportion of productions (46%) also reported to not relying on government funding.

Chart 3.7: Government funding received by productions



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 125 productions

Industry outlook.

Industry sentiment improved in the past 12 months, despite significant challenges and uncertainty facing the sector.

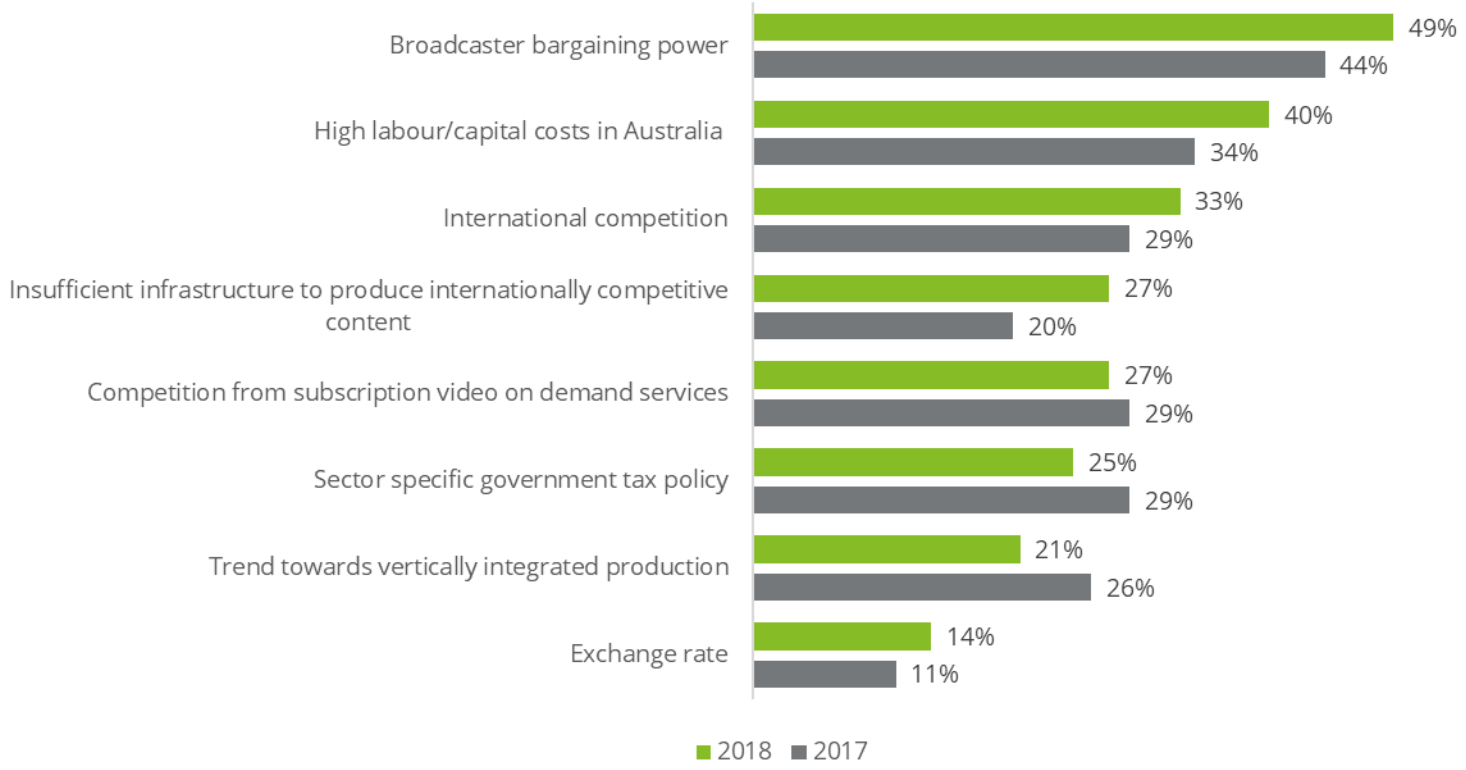
Factors affecting the future of the industry

In the face of consumption trends and financing changes, screen production businesses continued to adapt to disruption to traditional revenue sources, as well as continued uncertainty in the domestic policy context.

Chart 4.1 shows some of the challenges most commonly cited by survey respondents. Mirroring results from 2017, broadcaster bargaining power was the most commonly cited challenge (49% of businesses) followed by high labour and capital costs in Australia (34%). International competition rose to the third ranked challenge, with 33% of businesses citing it as a challenge.

Sector-specific government tax policy was selected by a similar proportion of businesses as in 2017, but dropped three places to become the sixth commonly cited challenge. With the recent changes to federal and state screen production and location funding settings, it appears that this has been overtaken by other concerns in the industry.

Chart 4.1: Challenges faced by screen producers



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 73 production businesses

Factors affecting the future of the industry (continued)

Rising global competition

The financing of screen content has become a global battleground for Australian screen production companies, with global subscription video-on-demand (SVOD) services such as Netflix, Apple TV, and Amazon Prime increasingly involved in both the production and distribution of film and television content.

Although television remains popular amongst Australian consumers, the strongest growth in consumption lies in the uptake of SVOD services, which increasingly produce, licence, and distribute their own content.

This represents both an opportunity and a challenge for local screen production businesses. While SVOD services represent a growing pool of potential funding, there is also increased global competition to access this and other funding.

About 1 in 3 surveyed businesses (33%) considered international competition to be a significant challenge facing the industry into the future.

Disruption to traditional revenue sources

In combination with increasing global competition, disruption to traditional revenue streams continues to create uncertainty among screen production businesses in Australia. Nationally, the major source of funding for Australian-made film or television still lies in the commission of content by broadcasters.

However, slow growth in federal funding for national broadcasters is raising producers' concerns about the extent to which they will continue to commission Australian film and television content, potentially threatening one of the major sources of funding for Australian film and television content. Simultaneously, commercial free-to-air and subscription broadcasters have faced increasing budgetary pressures, in part the result of increased competition for advertising spend.

On the other hand, local and international SVOD platforms, such as Stan and Netflix, are producing more home-grown content. For instance, Netflix reportedly spent $13 billion on content globally in 2018, including 85% on original films and series, with content produced in Australia including series such as *Tidelands* (2018), *Lunatics* (2019) and the upcoming *Clickbait.* In 2018, the Stan catalogue featured 172 Australian titles, equivalent to 11% of the total catalogue.

National funding and policy settings

Recent changes to federal and state-based screen production tax offsets have been widely welcomed by industry stakeholders, and may help to attract an increased volume of footloose productions to Australia. Given the high incidental expenditure brought about by the capital and labour-intensive process of filming and editing screen content, an increase in international expenditure may help domestic screen production businesses as well, boosting profit margins among the sector generally. However, the global tax offset landscape remains highly competitive, and it continues to be seen how other competing jurisdictions will react to Australia's changed settings.

Australia's content requirements policy for domestic broadcasters requires 55% of free-to-air network content to be produced in Australia. While these minimum content quotas have historically helped to support Australia's domestic television and drama expenditure, SVOD providers are not subject to the same requirements. Given the higher labour and capital costs which screen production businesses face in Australia, cited as a concern by 40% of businesses surveyed, domestic producers may be at a disadvantage compared to international SVOD competitors.

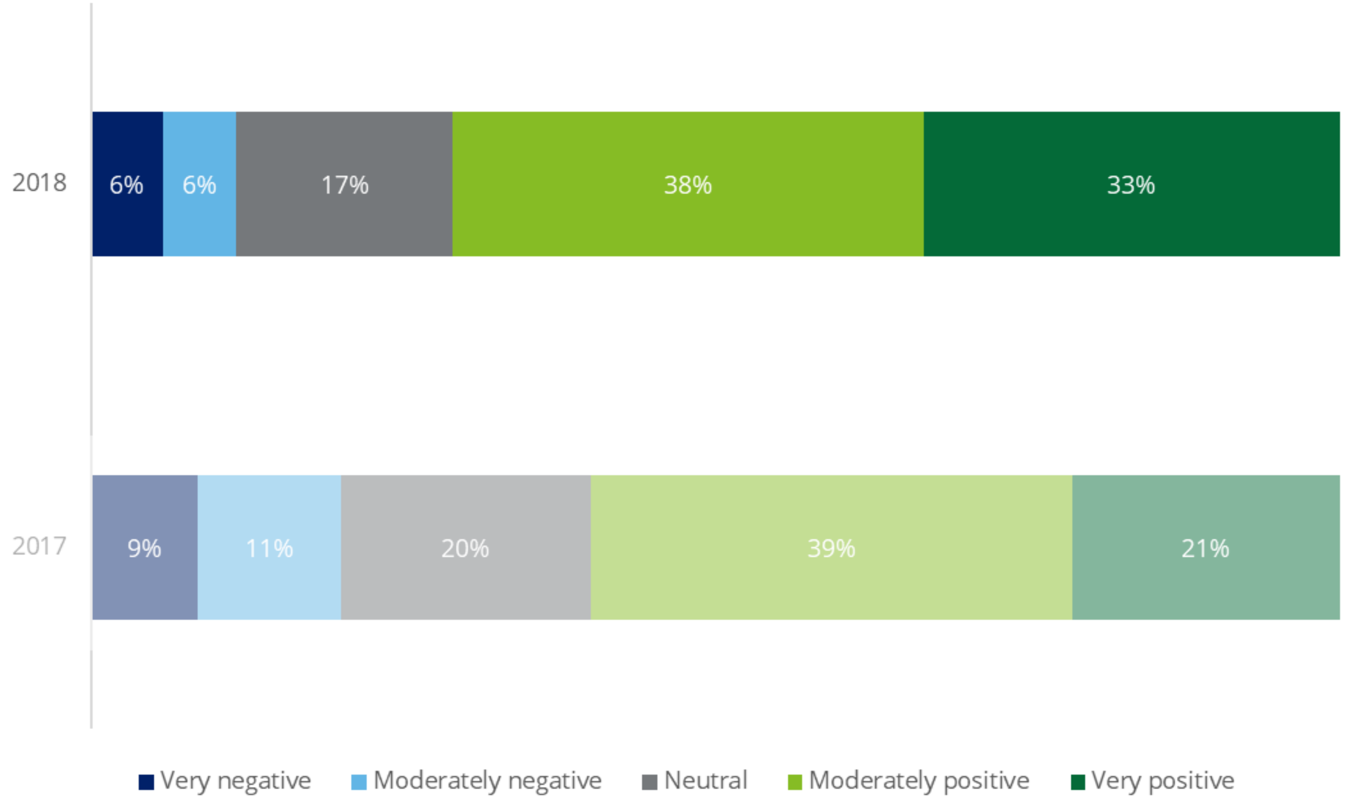
Outlook

Despite this uncertainty, many screen production businesses reported positive outlook over the next five years.

Over seven in ten (71%) of businesses anticipate some growth in the next five years, with 33% of businesses expecting a 'very positive' profit. Only 12% of businesses expected some reduction in activity over the next five years, or reported concerns about their solvency over the period.

This represents a marked improvement in outlook among screen production businesses compared to last year, where only 60% of businesses anticipated some growth in the next five years. This may have been partly facilitated by recent changes to national and state-based funding settings, such as the 13.5% Location Incentive at the federal level, and 10% PDV incentives in NSW, Queensland, and South Australia. While these changes have helped to bring Australia screen funding settings somewhat closer to competing jurisdictions, such as New Zealand, Canada and the UK, Australia still has some way to go (Parliament of Australia. 2018).

Chart 4.2: Five-year outlook for screen production businesses



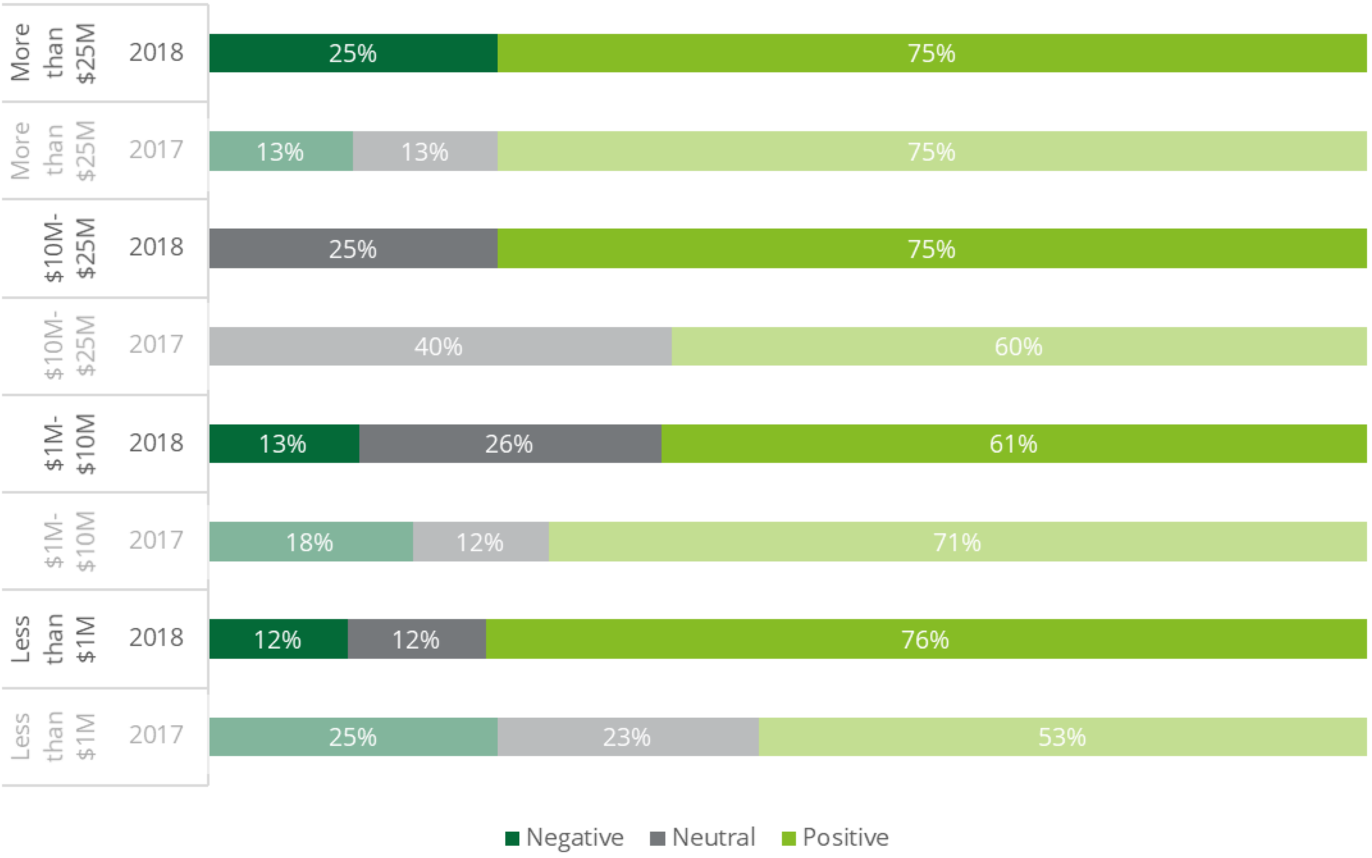
Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 67 production businesses

Outlook (continued)

Examining business outlook by firm size, Chart 4.3 shows that an overwhelming majority of firms, whether small, medium or large, have a positive outlook. Some of the largest production businesses with more than $25 million in revenue, however, do appear to be concerned – 1 in 4 have a negative outlook over the next five years.

This remains similar to last year, where 75% of larger production businesses and 53% of small production businesses all shared a positive business outlook.

Chart 4.3: Five-year outlook, by business size



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
n = 56 production businesses

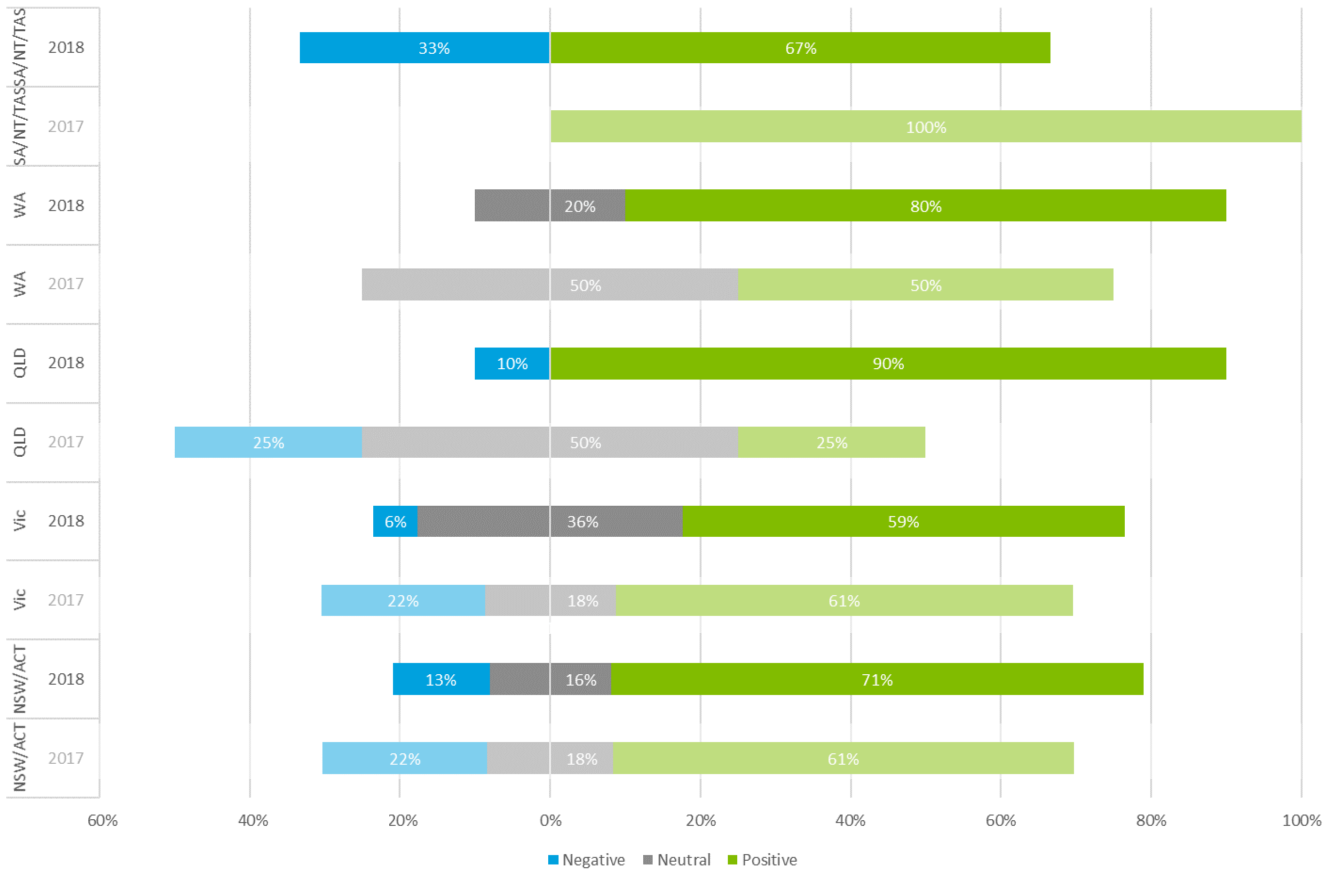
Outlook (continued)

The industry outlook also remains overall positive on a state-by-state basis.

Businesses are particularly optimistic in Queensland, where about 90% of businesses have a positive business outlook over the next five years. This lift in outlook compared to 2017 (25% positive) may in part reflect the introduction of the 10% PDV Attraction incentive in Queensland and the 13.5% Location Incentive at the federal level in late 2018.

Businesses report similar optimism in New South Wales/ACT (71% positive) and Victoria (59% positive), potentially reflecting a shift in local market conditions and recent changes to state-based screen production and location funding settings in those states.

Chart 4.4: Five-year outlook for screen production businesses, by state



Source: Deloitte Access Economics and Qualtrics, *Screen Production in Australia Industry survey* (2019).
Note: n = 67 production businesses. South Australia, NT, Tasmania and ACT contained a relatively small number of producer responses and should be considered with caution.