

Deloitte Access Economics

# Analysis of the Victorian screen industry

Film Victoria

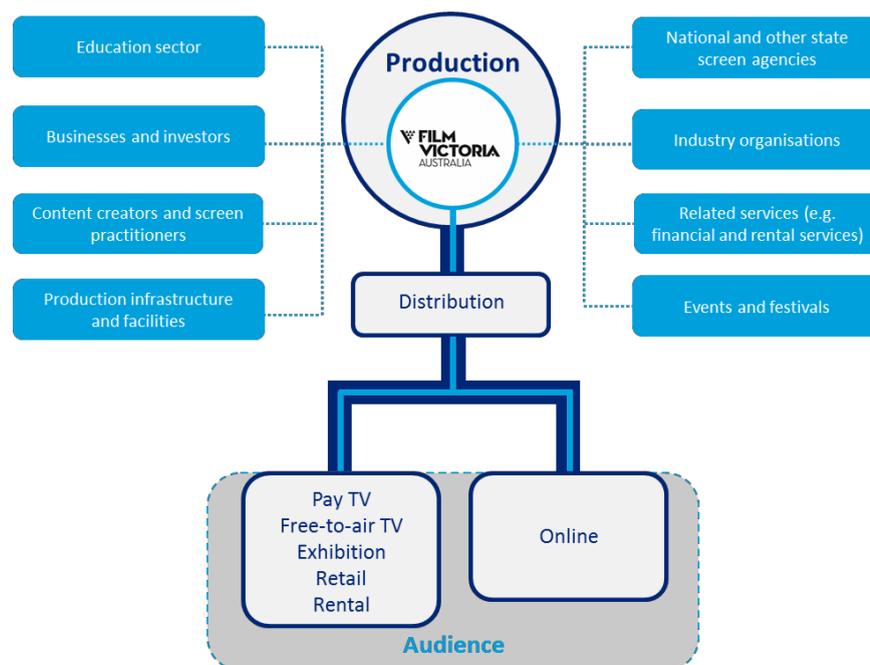
April 2016

# Key findings

## The Victorian screen industry (VSI) is a large and diverse ecosystem, with content creation at its core

- The VSI supports a wide range of individuals, organisations and activities that are engaged in and associated with the Victorian (and national) creative economy – from content creation to consumption.
- Production sits at the core of the industry – creating content that includes film and television (TV) drama, comedy, documentaries, reality TV, sport, news, current affair programs, console games and mobile games.
- Film Victoria supports a significant portion of this production activity, developing the capabilities of local creators of film, TV and digital games – capabilities that would likely otherwise be lost to other industries or markets.
- The production of content feeds the rest of the screen supply chain, catalysing economic activity across screen subsectors that include the exhibition, retail, rental and online subsectors (noting that a substantial proportion of supply chain activity is also supported by foreign productions).
- Supporting the screen supply chain are related services such as financial, insurance, rental and freight services, screen agencies and educational institutions, as well as events and industry organisations which promote screen culture, industry development and audience engagement – many of which share an open and collaborative relationship with Film Victoria.

Figure i: The VSI ecosystem



Source: Deloitte Access Economics (2016)

### **Victoria is a national leader in content creation**

- Victoria leads<sup>1</sup> the nation in television drama and digital games production and vies for second position with Queensland in feature film production<sup>2</sup> – with all three sectors a focus of Film Victoria’s strategic support.
- According to Screen Australia (2015) - the Commonwealth Government’s agency for supporting Australian screen production - the production of feature films and TV drama accounts for 30% of all audiovisual production in Australia:
  - in 2014-2015, 53% of the total expenditure for TV drama production was expended in Victoria – the highest share among Australia’s states and territories and a record high market share for Victoria (Screen Australia, 2015); and
  - in 2014-2015, Victorian-based production companies were responsible for 37% of the total budgets allocated to feature film production – the second highest share among Australia’s states and territories (Screen Australia, 2015).
- Victoria is also a stronghold of digital games production, with the majority of Australian digital games production businesses located in Victoria (48%), well ahead of Queensland (19%) and New South Wales (NSW) (18%) (GDAA, 2015).
- The strength of Victoria’s production activity stems from the State’s rich screen history and its ability to generate talent. Victoria’s vibrant arts scene and high levels of liveability combine to attract and retain local talent.
  - Individuals in artistic and cultural professions choose to reside in Melbourne meaning there is a vibrant and diverse resource pool of talent that screen content creators can draw on.
- Film Victoria holds a significant leadership presence in supporting the production of Australian stories for film and TV.
- In 2014-15, Film Victoria supported:
  - 19 feature films which had a total \$74 million in production expenditure and 23 TV projects which had a total of \$97 million in production expenditure; and
  - 12 game projects which were associated with \$2 million of expenditure in Victoria.

### **The VSI makes a major contribution to the Victorian economy**

- The VSI comprising the film, TV and games sectors – with all its content creation, distribution and exhibition subsectors – contributed an estimated \$1.4 billion to the State’s gross state product (GSP) in 2014-15.
  - Film and TV production (\$322 million) overtook free-to-air TV (\$288 million) as the largest contributing subsector in estimated direct value added. The production subsector remained the greatest contributor to employment with an estimated 3,620 full-time equivalent (FTE) employees (Table i).

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<sup>1</sup> ‘Leading’ in this context is defined by share of production activity by location of expenditure for TV drama and feature film (based on Screen Australia data) and by location of games production companies for digital games (based on Game Developers’ Association of Australia (GDAA) data).

<sup>2</sup> Position is impacted by the level of international production activity.

**Table i: Economic contribution of the film and television sectors in Victoria, \$M 2014-15<sup>3</sup>**

Subsector	Value added 2014-15	Change since 2012-13	Employment (FTE) 2014-15	Change since 2012-13
<b>Direct</b>	1,085	-0.2%	<b>8,836</b>	-1.8%
Production	322	22.8%	3,621	11.3%
Distribution	175	-8.3%	565	-5.0%
Free-to-air TV	288	-7.9%	1,141	-11.1%
Pay TV	117	3.9%	548	1.0%
Exhibition	116	-8.8%	1,797	-6.5
Retail	48	-5.0%	948	-3.1%
Rental	14	-49.1%	204	-51.0%
Online	5	51.2%	11	35.9%
<b>Indirect<sup>4</sup></b>	275	14.7%	2,103	11.3%
<b>Total</b>	<b>1,361</b>	<b>3%</b>	<b>10,939</b>	<b>0%</b>

Source: Deloitte Access Economics (2016)

**Film and TV sector composition**

The film and TV sectors of Victoria, for the purpose of the economic contribution analysis, is defined as eight subsectors across the value chain, from content creation to final audience consumption.

- **Production (and post-production):** This encompasses content creation in film and TV products in Victoria. Companies which produce such content include Matchbox Pictures, Princess Pictures and December Media.
- **Distribution:** The distribution subsector is the intermediary which provides an avenue between the producers of screen content and TV, retail, rental and cinemas. These are often major companies that are present in Australia, comprising the studios from the US that dominate globally. There are also numerous smaller independent distributors in film such as Studiocanal, Rialto Distribution, Icon Film Distribution and Australian distributors such as Village Roadshow.
- **Exhibition:** The exhibition subsector includes businesses that screen films in cinemas. The subsector includes independent operators, chain operators, single-screen complexes and multi-screen multiplexes. These include Village Roadshow, Reading Entertainment Australia and Auholdco1 (Hoyts Group).
- **Free-to-air TV:** This includes Australia's free-to-air TV broadcasters, comprising of two government-funded national networks (SBS and ABC), three commercial networks (Seven, Nine and Ten, with regional and multi-channel affiliates) and small community channels such as C31 Melbourne which broadcasts public TV to Greater Melbourne, Geelong, and Gippsland.
- **Subscription TV:** Subscription TV includes operators such as FOXTEL, Optus TV and AUSTAR.
- **Retail:** The retail subsector includes the sales of DVD and Blu-Ray.

<sup>3</sup> The estimates provided represent the film and TV sectors combined, reflecting the manner in which the film and TV sectors are characterised in the available data.

<sup>4</sup> The indirect contribution only measures that of the production subsector.

- **Rental:** The Australian rental subsector is made up of operators such as Blockbuster and Video Ezy.
  - **Online:** These are mainly digital internet-based streaming services, offering TV and movie video on demand (VOD) and electronic sell-through (EST). There are domestic and international online subscription services such as Netflix, Presto, Stan, Quickflix and Foxtel Play. Online also includes Australia's free online catch up services such as ABC iview and SBS On Demand. Australia also supplies domestic content through foreign suppliers such as Apple iTunes and the Google Play Store.<sup>5</sup>
- The Victorian digital games production subsector contributes an estimated \$54.4 million in economic value added and around 590 FTE jobs. This subsector is primarily comprised of small independent producers publishing games for mobile, personal computer (PC) and tablet platforms via digital distribution (Table ii).

**Table ii: Economic contribution of games production in Victoria, \$M 2014-15**

Subsector <sup>6</sup>	GOS	Labour income	Value added	Employment (FTE)
<b>Direct</b>	12.4	36.2	47.8	557.1
<b>Indirect</b>	3.4	3.3	6.6	30.5
<b>Total</b>	15.8	39.5	54.4	587.7

Source: Deloitte Access Economics (2016)

Note: Due to rounding, figures may not add up to totals.

#### *Value add, GOS and labour income*

Value add can be thought of as the revenue earned by an economic entity (e.g. a company or sector) for the goods and services it sells, excluding the cost of inputs it bought from other sectors. For example, in the production subsector, a company applies its workers (e.g. cast and crew) and capital equipment (e.g. studios and camera equipment) to goods and services supplied from other parts of the economy to create products that are worth more.

The value add of an entity is comprised of the labour income that is earned by the workers it employs and the gross operating surplus (GOS) which represents the profit that is earned by its capital equipment. Value add excludes any subsidies that have been granted to the entity by the government or similar public bodies.

<sup>5</sup> Three major online streaming services – Netflix, Presto and Stan – entered the Australian market place in early 2015. They are not included in the economic contribution for the reference year 2012-13, but growth rates used to calculate the 2014-15 estimates captures their impact on the online subsectors.

<sup>6</sup> The economic contribution study does not include subsectors further down in the value chain of the games industry such as games production (e.g. the printing of physical discs), distribution and retail/rental to consumers.

- There are also other economic benefits stemming from the film and TV sectors:
  - film and TV can be powerful in enhancing the brand value of a location it is filmed in, assisting a country or region to develop an image as a destination for tourism;
  - screen content can play a role in driving merchandise sales and contributing to an economy's retail industry (noting that a proportion of this activity can also be considered by-products of film-induced tourism, instead of additional to it); and
  - screen industries build human capital, with the procurement of screen production likely to strengthen an economy's skill level, subsequently helping drive growth and productivity in affected subsectors.

### **Screen activity supported by Film Victoria delivers significant economic outcomes**

- Film Victoria supports the production of feature films, TV drama and documentaries in Victoria.
  - Film Victoria supports or has a direct interest in (alongside other funding-support agencies such as Screen Australia) approximately 30% of total Victorian film and TV production activity.
  - The contribution which can be attributed to Film Victoria's support for this level of production activity in 2014-15 is estimated at \$355 million in economic value added and around 2,705 FTE jobs across the film and TV sectors.
- Film Victoria also supports the games production subsector in Victoria, providing assistance to the production and market release of a wide range of commercial game projects, across a variety of genres and delivery platforms.
  - In 2014-15, Film Victoria supported 12 game projects in Victoria, which suggests that it supported approximately 11% of the Victorian games production subsector in 2014-15.
  - The contribution which can be attributed to Film Victoria's support for this level of activity in 2014-15 is estimated at \$5.2 million in economic value added and around 65 FTE jobs in the digital games production subsector.

### **The impacts of the VSI transcend material economic measures and include a variety of social and cultural benefits**

- Screen mediums promote social inclusion and connectedness, supporting outcomes across a range of important socio-economic indicators.
- Productions, projects, screen businesses and industry organisations directly supported by Film Victoria contribute toward cultural and social benefits experienced by Victorians (and Australians more broadly). These benefits include:
  - enhanced international cultural standing;
  - retaining highly talented and mobile professionals;
  - social capital benefits (empathy and perception, behaviour and attitudes, social bonds and communal meaning, social collaboration and participation);
  - educational benefits; and
  - health benefits (mental and physical health).

**Projections for the screen industry suggest continued growth. Maintaining Victoria’s position as a leader in screen content creation will see increased economic contributions for Victoria**

- Projecting growth for the film, TV and digital games sectors in line with available forecast growth trends suggests that, by 2020-21:<sup>7</sup>
  - the contribution of the film and TV sectors supported by Film Victoria will reach an estimated \$407 million in total value added (a 15% increase from 2014-15) and an estimated total FTE employment of 2,897 (a 7% increase from 2014-2015); and
  - the contribution of the games production subsector supported by Film Victoria will grow to an estimated \$6.6 million in total value added (an increase of 27% from 2014-15) and around 71 FTE in employment (an increase of 10% from 2014-2015).

**Maintaining Victoria’s leadership position in a growing market will require increased government support and the successful navigation of challenges confronting the industry**

- In order to maintain the industry’s growth and ensure Victoria retains its nation-leading competitive position, a number of trends and challenges will need to be successfully navigated. These include:
  - retaining and increasing State government funding;
  - increasing competition for Federal government funding;
  - maintaining an ongoing pipeline of production activity;
  - retaining and developing technical and creative talent;
  - competing with the value proposition of other jurisdictions;
  - operating in an environment of static content quotas for Australian TV;
  - adapting to the disruption of new technical platforms; and
  - responding to constrained private investment (beyond traditional industry investors).
- A number of priority areas were identified by industry players where support – including from Government – could help maintain the position of the VSI and ensure that forecast industry growth and the associated economic gains are realised:
  - increasing funding support for local production activity;
  - finding new outlets and international markets for Victorian screen content;
  - encouraging new sources of private investment;
  - investing in developing and retaining talent; and
  - researching new opportunities in digital platforms.

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<sup>7</sup> The forecast draws on a several key modelling assumptions, including those relating to the level of State and Federal funding for screen content, level of content quotas, Victoria’s share of production activity relative to other Australian jurisdictions, international competition, talent retention, level of private investment, anticipated pipeline of projects, and composition of production companies operating within Victoria.

**Additional opportunities to dramatically grow the VSI at “above trend” levels warrant exploration**

- The film, TV and digital games sectors in Victoria are rich with creative talent, established infrastructure and industry leaders – fertile ground to grow the VSI (and Victoria’s share of national/international screen activity with it) and expand economic, social and cultural benefits.
- Opportunities to achieve transformational growth in the VSI (led by Film Victoria) should be considered and could include:
  - strengthening Victorian film, TV and digital games infrastructure, including increasing studio capacity and facilities that encourage innovation and experimentation in film, TV and games production;
  - facilitating strategic partnerships with major international investors and collaborators through, for example, special initiative funding, increased travel funding and/or commence business case development funding; and
  - further investment into developing and retaining creative talent, underpinned by commissioned research into, for example, industry workforce skills and the skills required by content creators in an environment of emerging technologies, platforms and formats.

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