

The economic case for a live-action children's TV tax credit

Communications Chambers, June 2014

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About Pact

Pact is the UK trade association representing and promoting the commercial interests of independent feature film, television, digital, children’s and animation media companies.

About Communications Chambers

Communications Chambers is an association of experts specialising in media, telecoms and technology. We advise on issues of strategy, policy and regulation.

Our members have worked at senior levels in industry or in regulators, in addition to having many years of consulting experience.

Recent or current assignments have been for clients as diverse as the BBC, Google, Qualcomm, Vodafone, News Corp, ITV, the Australian Government, Telstra and the Broadcasting Authority of Ireland.

Our members have substantial international experience, having worked across Europe, the US and Asia.

1. Foreword

John McVay
Chief Executive
Producers' Alliance for Cinema and TV (Pact)

There are so many great shows I remember from being a kid. Programmes that years later we are still passionate about and share a laugh over. My favourites were *Crackerjack* and the early *Doctor Who* episodes – the Daleks made me hide behind the sofa.

But the question is, will the next generation have the same shared cultural legacy? Over the last ten years, the BBC has emerged as the remaining and sole buyer of children's TV with other broadcasters fading into the background and a rapid decline in original children's programming as result.



Today, fantastic shows like *Teletubbies* (shortly to be remade by Darrall McQueen), *In the Night Garden* and format based shows like *Mr Maker* have sold in countries around the world. *Horrible Histories* has won countless international awards and packs a punch in terms of selling Britain's creativity, talent and soft power overseas. However, successes like these are infrequent and children's producers are feeling the pressure of struggling to fully finance shows.

Following the success of tax credits for film, high end TV drama and animation, this report makes the economic case for the introduction of a tax credit for live action children's TV. Beyond the direct benefits to the Exchequer, the tax credit could stimulate a more competitive domestic TV industry which acts as an incubator for future talent and skills development. This in turn could drive further growth in exports, secondary and ancillary revenues and encourage inward investment from overseas broadcasters.

Quite simply, as Joe Godwin, Director of BBC Children's put it recently, 'what's good for kids, is good for Britain'.

Baroness Floella Benjamin
House of Lords

I am thrilled to be supporting the Pact campaign for the introduction of a tax credit for children's live-action television productions. It's essential, it's necessary and it's desperately needed, not only for the sake of the future of our industry but also for our children's wellbeing.

In addition to the economic case made in this report, there is an overwhelming cultural case for the introduction of the tax credit too. As many of you know, I started my career in children's television nearly forty years ago and am passionate about its future. I benefited from the skills and experiences I learnt from working in children's television and the industry has been a launch pad for many other successful careers.



Today it is heart-breaking to hear talented children's producers talk about the fragile state of the industry. Some describe the painful process of being pulled from pillar to post struggling to fully finance their shows. More worryingly, others even say that to deliver top quality programmes they have to beg and borrow time from fellow professionals.

Is this what we want for our children? Surely they deserve better!

We have seen how successful a tax break for animation has been and it seems clear to me that we should be giving the same assistance to live-action children's television too. If children are to feel a part of the society in which they live, they need to see themselves represented on screen to help them understand their world. It is vital for their development that they are engaged and stimulated by a range of quality and diverse British programming.

I strongly believe children's television should be at the heart of public service broadcasting. So let's all support our wonderful industry by helping to secure a tax credit which will allow us to continue to make brilliant British television programmes for our children, for them to remember long into the future.

Let's give kids a break... they deserve it!

2. Executive summary

British live-action children's TV has a long and illustrious history. For decades, it was at the heart of the broadcast schedule, producing iconic programmes such as *Play School* (1964), *Jackanory* (1965), *Newsround* (1971) and *Grange Hill* (1978). *Blue Peter*, which first aired in 1958, is the longest-running TV show in the world.

Internationally and commercially, live-action children's TV has an established record of success. *Teletubbies*, which first aired on the BBC in 1997, has been shown in 120 countries and in 45 different languages. It generated a reported £200m in revenue, sold 50m merchandising products and at the time was the BBC's most commercially lucrative show across all genres¹.

Other British live action shows like *Art Attack*, *In the Night Garden*, *My Parents and Aliens*, *Horrible Histories*, *Grandpa in my Pocket* and *Waybuloo* have also become international bestsellers, helping to satisfy a growing global appetite for high quality children's TV content. In the recent international Prix Jeunesse International awards², British productions won three out of the four awards given for "the best kid's TV of the past 50 years".³

But the last decade has been characterised by rapid decline and increasingly challenging conditions for UK producers. UK production has come under pressure both from diminishing domestic budgets and increasing government support elsewhere.

Driven by (well-intended) regulatory changes, investment in original British children's TV amongst the commercial public service broadcasters (PSBs)⁴ fell by 97% over the last decade, from £65m in 2002 to £2m in 2011.⁵ Spend on UK first run productions by multichannels is also low, leaving the BBC as a near 'monopsony'⁶ purchaser. While BBC support for the sector is critical and greatly valued, this concentration is inevitably unhelpful for competition and diversity, and (given continued pressure on the BBC's own budgets) may sometimes reduce production values.

¹ Broadcast, [Teletubbies is nice little earner for BBC](#), 6 October 2005

² [Prix Jeunesse](#) is a leading children's television festival, which awards prizes for best children's programmes globally in several categories

³ Two of which were live-action productions - *Horrible Histories* and *Teletubbies*

⁴ The commercial PSBs are ITV, Channel 4 and Five. The BBC is a non-commercial PSB

⁵ Ofcom, [PSB Annual Report 2013: Annex F - Children's Report](#), August 2013

⁶ In economics, a 'monopsony' market is one in which there is a single buyer of a good or service, in contrast to a monopoly market in which there is a single seller

Today we estimate the UK children's live-action sector is worth just £98m, of which £48m is spent with independent producers.⁷

As a consequence, while children in the UK have more channels to watch than ever before, the schedule is flooded with repeats and US imports. By 2011:

- The proportion of first-run original children's programmes on the PSB channels was just 6% (down from 29% in 1998)
- 91% of children's content across the PSBs was repeats, (versus 39% in 1998)
- Just 20% of all children's content aired by the PSBs and commercial children's channels, taken as a whole, was of UK origin (first-run and repeats)⁸

While the domestic market for UK production has been challenging, there is the opportunity for growth from capturing international production spend. The skills of UK producers are widely recognised by international commissioners. However, UK producers are not on a level playing field. Many markets, such as Canada, France, Australia and Ireland offer substantial tax credits to support local production. At the moment, UK producers can offer no such credits, and thus are at a disadvantage.

This is very similar to the situation that previously existed for animation and high-end drama. The recent UK tax credits for these sectors have been highly effective, boosting volumes and attracting material inward investment.

Based on our analysis, we believe a similar tax credit for children's TV would have similarly positive results. It would:

- Have net financial benefit to the Exchequer - based on attracting production of four incremental children's TV series to the UK each year, we estimate a net benefit to the Exchequer of £2.9m per year (averaged over the long run)
- Encourage inward investment from existing global broadcasters such as Disney and Viacom, and from new players such as Netflix and Amazon
- Help to create a more competitive domestic production market, which could drive further growth in exports, secondary and ancillary revenues
- Stimulate an industry in which the UK has traditionally excelled, creating more home-grown content for both domestic and global audiences

⁷ Ofcom, *PSB Annual Report 2013: Annex F - Children's Report*, August 2013, Communications Chambers analysis

⁸ *ibid*

- Increase the sector's scale and enhance production values, improving the probability of global break-out hits, which provide substantial returns for reinvestment

3. Introduction

In this report, commissioned by Pact, we discuss the prospects of the UK's live-action children's TV industry, and the role a tax credit (similar to that for animated content) could play in its support and development.

We begin by outlining the industry today, highlighting the key trends of the last decade, and the immediate challenges it faces. We then look at tax support for live-action TV around the world. Next, we assess the fiscal impact of a tax credit, before outlining the wider benefits of a dynamic children's TV industry to the UK. Finally, we offer our conclusions.

A note on definitions

Children's live-action TV covers both scripted and non-scripted shows, and encompasses a wide range including comedies such as *Hank Zipzer*, factual entertainment such as *Horrible Histories*, drama like *Children's Ward*, , puppet shows, character driven pre-school hybrid shows like *Waybuloo*, game-shows like *Fort Boyard*, factual programming and format-driven programmes such as *Mister Maker* and *Art Attack*. In this report, we define live-action TV as all genres of children's programming, excluding animation (although live-action children's programmes may have animated or CGI elements).

4. Live-action children’s TV in review

Children’s TV has been at the heart of the UK’s system of public service broadcasting (PSB) since its inception.

Children’s programmes started on the BBC in 1946 with a live Sunday afternoon transmission known as *Children’s Hour* or *For the Children*. ITV’s launch in 1955 introduced competition, later expanded by Channel 4 and later Five, plus commercial children’s channels available on cable and satellite platforms.

By 2002, with the launch of the BBC digital children’s channels (CBBC and CBeebies), hours of children’s programming broadcast and spend on first-run original UK programming were at a peak.

Figure 1: Children’s live-action TV – timeline of key events⁹

Year	Event
1946	BBC begins broadcasting children’s television
1950	<i>Watch with Mother</i> begins
1955	ITV begins broadcasting
1958	<i>Blue Peter</i> begins (BBC)
1964	<i>Play School</i> begins as BBC 2’s inaugural programme (BBC)
1965	<i>Jackanory</i> begins (BBC)
1972	John Craven’s <i>Newsround</i> begins, the first regular news programme for children (BBC)
1974	<i>TISWAS</i> begins Saturday morning children’s TV (ATV / ITV)
1978	Controversial drama series <i>Grange Hill</i> begins
1982	Channel 4 / S4C begin transmission with children’s output
1983	Introduction of Children’s ITV
1985	Introduction of Children’s BBC as a discrete brand for children’s programmes
1989	<i>Byker Grove</i> begins (BBC)
1993	Nickelodeon and The Cartoon Network begin broadcasting
1995	Disney Channel begins broadcasting
1997	Channel 5 launches Milkshake, with 13 hours of pre-school programmes per week
1997	<i>Teletubbies</i> launches (BBC)
2002	BBC’s specialist digital children’s channels CBeebies and CBBC launch
2003	Communications Act relaxes commercial PSB quotas on children’s programming
2006	Ofcom implements ban on advertising for food and drinks high in fat, salt and sugar
2009	The proportion of repeats across all PSB channel children’s hours reaches 90%
2011	ITV, Channel 4 and Five’s spend on first-run originated UK children’s programming falls to £2m, compared to £59m in 2003
2012	Children’s programming comes to an end on BBC One
2013	Tax credit for animation is introduced

⁹ Based on Ofcom, *The future of children’s television programming – setting the scene*, September 2006

Industry challenges over the last decade

But the last decade has been characterised by rapid contraction, and increasingly challenging conditions. Changes have included:

Regulatory relaxation

In the 90s, the then regulator ITC required commercial public service broadcasters to broadcast a minimum number of hours of original production, with quotas for particular genres.¹⁰

However, the Communications Act of 2003 brought a lighter touch regulatory approach. This removed the requirement for commercial PSBs to carry children's programming.

Advertising restrictions

In November 2006, driven by Government policy at the time, Ofcom announced a ban on advertising of food and drinks products with high fat, salt or sugar (HFSS) during children's programmes. This made children's TV less financially attractive for the commercial broadcasters.

A shift to thematic digital channels

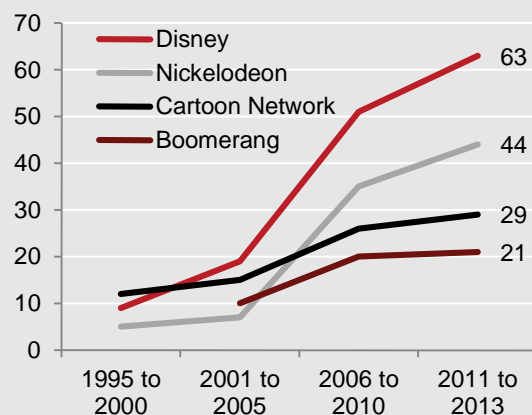
In 2002, the BBC launched two dedicated digital children's channels, CBeebies (for 0-6 year olds) and CBBC (for older children) and now delivers all of its children's provision via these two channels. In 2005, ITV launched CITV, and also began to move children's content from ITV1, replacing it with higher-rating repeats of adult dramas.

Growth in pan-European channels

Over the last decade, the number of channels provided by huge US-based international broadcasters has grown significantly.

Since launching their first European channels in the mid-90s, Disney, Nickelodeon (Viacom) and the Cartoon Network / Boomerang (Turner) have all increased their European footprints, launching a range of channels. These have primarily been on pay-TV satellite and cable platforms.

Figure 2: Number of main pan-European channels in Europe¹¹



A rapid decline in investment

As a result of the changes discussed above, we have seen:

¹⁰ For example, ITV was required to broadcast 390 hours of original children's TV per year. There were also quotas for particular sub-genres such as 77 hours a year of original pre-school, 52 hours of factual and 70 hours of drama.

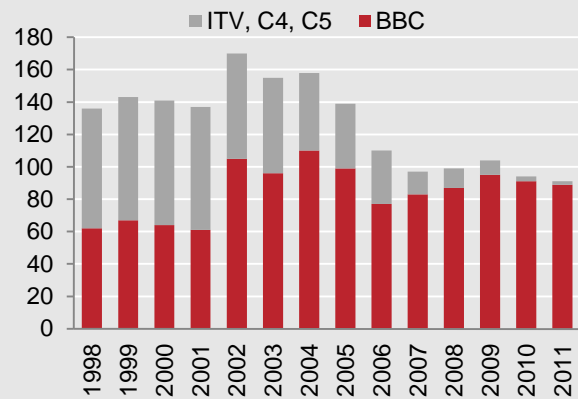
¹¹ European Audiovisual Observatory, *Children and Audiovisual Services: Status and Trends of Media Use and Availability of Services*, April 2013

Collapse in commercial PSB spend

ITV historically played a role in delivering a strong alternative voice to the BBC. However, since the 2003 Communications Act and the ban on HFSS advertising, it has significantly reduced its investment in children's programming, and the other commercial PSBs have followed suit.

Together the commercial PSBs have reduced investment in original British children's TV by 97% over the last decade, from £65m in 2002 to £2m in 2011, representing 38% and 3% respectively of PSB spend on children's programming¹³. Furthermore, the cost-per-hour amongst the commercial PSBs has fallen dramatically, from £107,000 in 2006 to £27,000 in 2011.¹⁴

Figure 3: PSB network spend on first-run children's originated hours, £m¹²



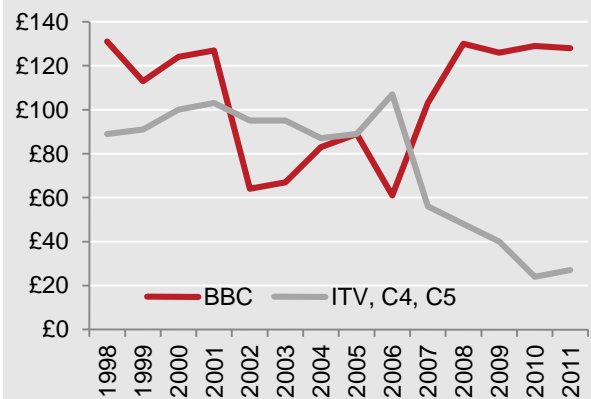
Fewer BBC original commissions

The BBC is now by far the main PSB provider of first-run children's programming, contributing around 90% of the PSBs' first-run originated output in 2011. This compares to 80% in 2006, and 37% in 1998.

However, it too is constrained. The licence fee settlement in 2010 led to a freeze which represented a 16% real terms cut BBC funds over six years. The subsequent *Delivery Quality First* initiative focussed commissioning on 'fewer, bigger, better' children's shows.

Thus, while the BBC increased spend on first-run children's programming from £77m to £89m since 2006, it reduced the hours of first-run originations from 1,276 to 695 hours.¹⁶ This 46% reduction has reduced the number of commissions to be won, increasing risk for the independent sector, notwithstanding the stable BBC budget.

Figure 4: PSB cost per hour of first-run originated children's content (£000)¹⁵



¹² Ofcom, *PSB Annual Report 2013: Annex F - Children's Report*, August 2013

¹³ *ibid*

¹⁴ Note that throughout this section we will use 2011 data, which is the most recent available from Ofcom. Financial figures are in inflation-adjusted 2012 pounds

¹⁵ Ofcom, *PSB Annual Report 2013: Annex F - Children's Report*, August 2013

¹⁶ *ibid*

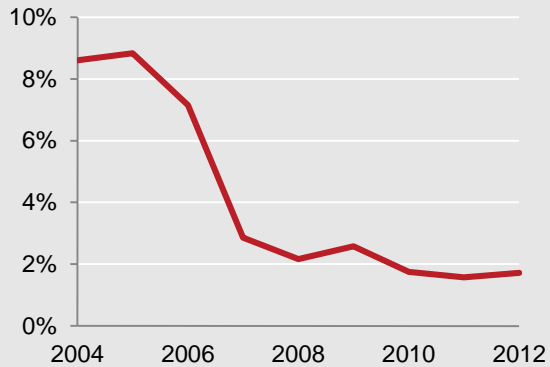
Lower relative commercial multi-channel spend

In real terms, the commercial multi-channels (non-PSBs, such as Disney) are also spending less, and what they do spend is almost all on acquired content. In 2011, they spent £53m on children's content, up 15% on the previous year, but showing a 16% decline from 2006 in real terms.¹⁸

This is against a backdrop of significantly increased content spend more widely, meaning commercial multi-channel spend on children's TV as a proportion of all content spend has fallen from 9% in 2004 to under 2% in 2012.

The commercial children's channels have also reduced their hours of first-run originations significantly. The number of first-run originated programmes fell from 654 hours in 2006 to 340 in 2011, a 48% decline.¹⁹

Figure 5: Children's spend as share of total commercial multichannel content spend¹⁷



Broadcasting trends

Growth in total hours of output

Due to the emergence of new channels, children have more programming available to them than ever before.

Between 1998 and 2011 the number of dedicated children's channels in the UK increased from six to 29.²⁰ Ownership of those channels is concentrated, with almost 20 being owned by three key global media organisations; The Walt Disney Company, Turner and Viacom.

According to Ofcom, total hours broadcast across these 29 channels was 112,207 hours in 2011; an increase of 17% on the previous year.

¹⁷ Ibid, Communications Chambers analysis

¹⁸ Ibid

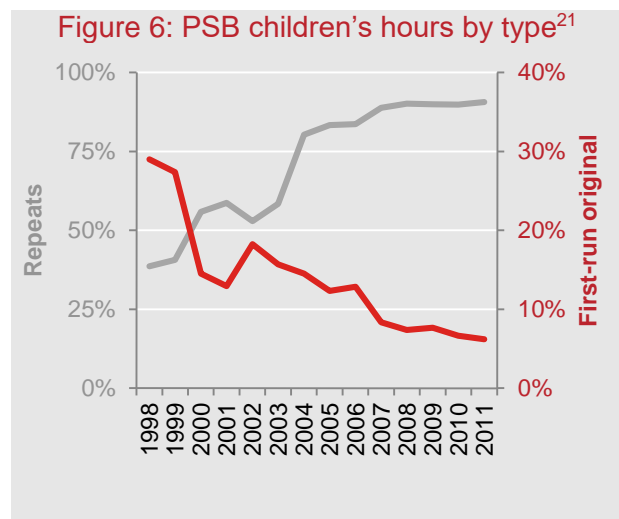
¹⁹ Ibid

²⁰ Ibid

Growth in repeats and decline in original commissions

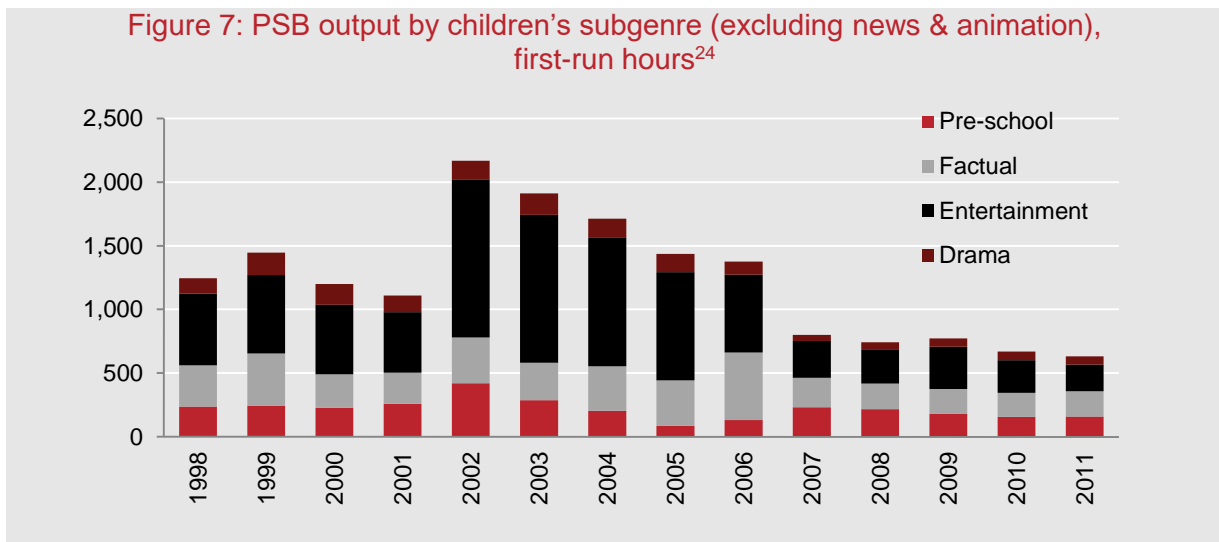
With many more hours of broadcast to fill, and lower spend on original content, the proportion of repeats has increased substantially. By 2011, 91% of children's content across the PSBs was repeats, compared to 39% in 1998.²²

Conversely, there has been significant decline in the number of original UK commissions. By 2011, the proportion of first-run original children's programmes on the PSB channels was just 6% (down from 29% in 1998). Across all children's TV, first run original programmes represented 0.8% of hours, with first run acquisitions a further 1.6%.²³



Undersupply in key genres

Some children's TV genres have been hit particularly hard (Figure 7), with the BBC now the only commissioner in some categories. In 2011, across all the PSB channels, only 66 hours of first-run originated drama was broadcast and this entirely by the BBC. The BBC was also the only broadcaster of children's news, and overwhelmingly the main provider of new UK factual programming.



²¹ Ibid. Note there is a third category not shown, new acquisitions

²² Ibid

²³ Ibid, Communications Chambers analysis

²⁴ Ibid

Growth in US imports

The growth of US owned commercial children's channels and a withdrawal of the commercial PSBs from commissioning of originated UK content, has led to a shift towards US imports. In 2011, just 20% of all children's TV aired was of UK origin.²⁵

Scale of live-action children's TV production today

Given years of rapid decline, today we estimate the UK children's live-action sector is worth just £98m, of which £48m is spent with independent producers. This is in sharp contrast to the wider independent TV production sector, which has grown by over £1bn over the last decade, with sector revenues of £2.8bn in 2012²⁶.

The challenges ahead

An undiversified domestic market

In this challenging environment, the BBC has played a vital role in providing business to the sector and enabling productions. However this has not been without trade-offs. The BBC's own budget constraints can put pressure on production values, and the BBC's position as virtually the lone material UK buyer (an effective 'monopsony') limits producers' negotiating power.

This results in:

- A lack of commissioning plurality
- Industry dependence on a single buyer
- Undersupply of originated UK live-action content in key genres such as drama

An undiversified domestic market can create a vicious cycle, whereby lower spend results in lower production values, leading to reduced opportunities in secondary markets, further declines in investment and gradual erosion of skills.

BBC commissions also tend to have shorter runs than demanded by international markets, where 100+ episodes might be required in some territories. This weakens producers' ability to secure distribution deals.²⁷

Difficulty in securing production budgets

UK live-action commissions are rarely fully-funded. Generally a domestic broadcaster puts up only a proportion of the project cost and thus producers must seek funding from other sources, including:

²⁵ *ibid.* According to Ofcom, 45% of all children's viewing was of content of UK origin, suggesting a disproportionate interest in home-grown children's programming.

²⁶ Pact, *Financial census and survey 2013*, 9 July 2013

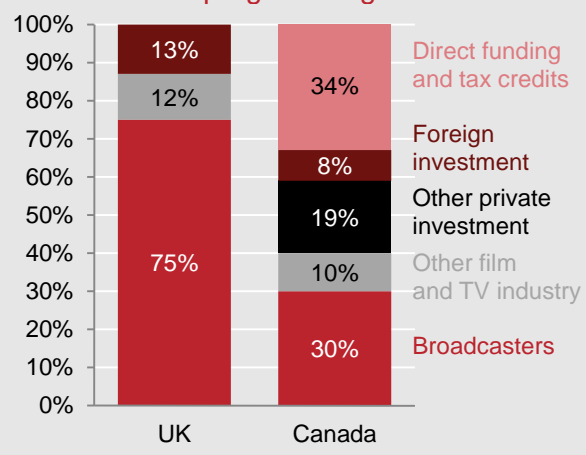
²⁷ The UK Trade & Investment (UKTI) and Pact's UK Television Exports survey found that "60% of survey respondents believed that series with a short number of episodes were the greatest obstacle to further export growth".

- **Pre-sales** to overseas broadcasters
- **Co-productions with other broadcasters** - where the programme might be jointly produced by two or more companies in different countries. This provides finance, but often at the expense of intellectual property and rights. For example, *Wizards vs Aliens*, is a BBC/Fremantle co-production. Fremantle provides funding in exchange for rights to global sales, DVDs, merchandising and book publishing²⁸
- **Distribution advances** – where distributors provide a financial advance based on a forecast for secondary and ancillary revenues (e.g. sales of the finished programmes, licenses to master toy companies, DVD sales, royalties for books and other merchandise, etc)
- **Private investment or loans** from directors, friends and family
- **Bank loans** - or deficit / gap finance
- **Regional development funds** - for example, *Hank Zipzer* is a BBC-commissioned comedy drama series created by Henry Winkler, based on his experiences as a dyslexic child. Filmed in Halifax, it was secured after investment from Screen Yorkshire through its European Regional Development Fund
- **National government funding and tax credits** - Outside the UK, these are often an important source of funding (see section 5 for a more detailed discussion)

Ofcom's analysis in 2007 suggested that the children's production sector in the UK was highly dependent on broadcasters (primarily the BBC) who provided 75% of funding. The remainder came from co-productions and distributions advances. There was no UK government support.

This mix of funding is likely very similar today for children's live action (though animation is now benefiting from its tax credit). Kindle Entertainment Ltd, a UK based independent production company, reports that on a recent representative project it was responsible for bringing 22% of project financing to the table, but in order to secure this funding it gave away much of the intellectual property and future revenue streams.³⁰

Figure 8: Sources of funding for children's programming²⁹



²⁸ Guardian, *Doctor Who writer Russell T Davies laments decline of children's TV*, 28 January 2012

²⁹ Ofcom, *The future of children's television programming*, 3 October 2007

³⁰ Culture Media and Sport Select Committee, *Written evidence submitted by the Children's Media Foundation*, 2012

Kindle state that “it is time consuming, complex and challenging to put the financing together on a UK-generated kid’s drama”. This creates cost and delay even for successful projects, but producers must also manage the risk that funding is not secured and a project falls through.

Once a production is complete, there is further risk to manage, exacerbated by the need to give away rights to secure production in the first place. The recoupment process is becoming longer and more complex, with the producers’ fees deferred until after distributors, equity investors, and post production investors have been paid. Overseas capture of production spend

The lack of financial incentives in the UK means that productions with international flexibility are motivated to work in other markets where they can tap into tax credits.

For example, Kindle Entertainment’s *Leonardo*, commissioned by CBBC, was shot in South Africa in 2012, using an almost entirely South African crew³¹. Live-action CGI hybrid comedy *Roy*, a CBBC production with funding from RTÉ and the Broadcasting Authority of Ireland, was produced in Ireland to benefit from local tax support, creating “up to 60 jobs”.³²

These countries continue to enhance their tax support (see next section), as well as investing in their own studios and infrastructure. Thus shifting production away from the UK will become increasingly attractive.

³¹ Broadcast, *Leonardo (series 2)*, 20 September 2012

³² Irish Independent, *BBC deal to create 60 jobs at Dublin animation studio*, 9 October 2012

5. International support for children's live action

Substantial government support is available for children's live action in several other countries. Inevitably this increases the attractiveness of production in those markets, even if the relevant domestic market or skills base is small. As we have noted, such markets are able to attract inward investment.

Sample relevant markets in this regard are Australia, Canada, Ireland, South Africa and France. We discuss these in turn.

Australia

Australia offers government support both at the national and state level.³³ At the national level, there are two key programmes: direct government investment and the Producer Offset, both administered by Screen Australia, a government agency. In recent years these have typically provided 20-30% of the finance for children's drama.³⁴

Direct investment

For domestic Australian children's programming, direct government investment represented 18% of funding in the period 2007/08 to 2011/12.³⁵ To be eligible, the producer must have secured sale of local broadcast rights (at least A\$100,000 per broadcast half hour). Investment is capped at A\$3m for 26 broadcast half hours.³⁶ The government takes equity in exchange for its investment.

The Producer Offset

This provides a rebate of 20% of qualifying Australian expenditure for eligible television series (including children's). To be eligible, a production must meet several tests, including meeting expenditure thresholds and containing significant Australian content.

The Producer Offset was introduced in July 2007, and Screen Australia has undertaken a five year review of its impact.³⁷ It was found (across genres) to have raised production budgets; increased producers' equity and revenue shares; and improved the negotiating position of producers. This in turn enabled greater reinvestment in the industry by producers, putting them on a more stable footing.

Australian production spend on children's TV drama was 19% higher in the six years since the Offset was introduced compared to the

³³ For an outline of the wide range of state support available, see American Bar Association, *Tax Credits and Other Film and TV Incentives: The World Outside Canada and The United States*, 6 October 2012

³⁴ Screen Australia, *Child's Play – Focus on the Producers*, 3 May 2013

³⁵ Screen Australia, *Child's Play – Focus on the Producers*, 3 May 2013

³⁶ Screen Australia, *Program Guidelines, Convergent Television: TV Drama Programs*, 3 May 2011

³⁷ Screen Australia, *Getting Down to Business – The Producer Offset Five Years On*, November 2012

preceding six years (in real terms),³⁸ and this despite the severe impact of the global financial crisis, which constrained budgets globally. Screen Australia’s review found that broadcasters reported multiple productions (across genres) which would have been made at a far smaller scale or not at all, absent the Offset, and that several of these cases the production won international sales as a result.

With these incentives in place (in addition to the various state level programmes), Australia has been able to attract appreciable foreign funding, which comprised 35% of the finance of children’s drama finance between 2007/08 and 2011/12.³⁹ Germany spent over \$6m annually in this period, with (for example) German broadcaster ZDF co-producing teen drama *Dance Academy* with Australian indie Werner Productions and ABC.

Canada

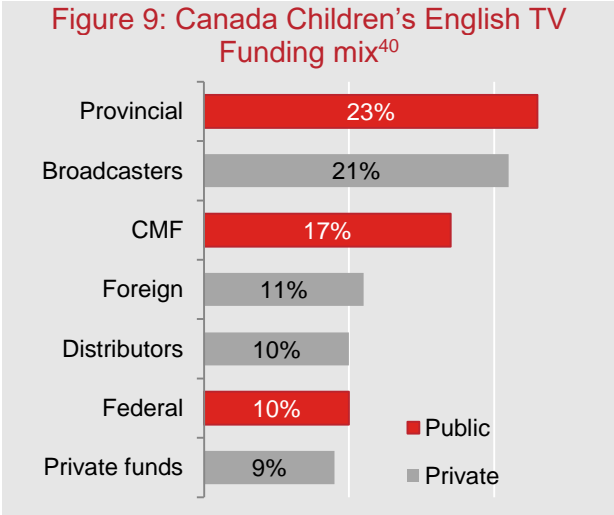
Children’s programming in Canada receives multiple forms of support, from the Canada Media Fund and from provincial and federal governments. In aggregate, these sources represent over 50% of the funding of Canadian children’s TV.

Provincial Funds

There are a wide range of programmes at the province level. To take one example, Ontario offers a 35% tax credit against local labour expenditures. To be eligible, a production must pass a Canadian cultural test,⁴¹ spend 75% of its total costs in Ontario and must have a local distributor and producer.

Canada Media Fund

The CMF is funded primarily by a levy on satellite and cable broadcasters, but also by a direct contribution from the federal government. In 2012/13 it provided C\$36.5m (£20m) for English language programming, with a further C\$17.4m for French language programming.⁴² Generally such funding is in the form of a straight grant – a non-repayable ‘licence fee top-up’. To be eligible, programmes must



³⁸ Communications Chambers analysis of figures from Screen Australia, *Children’s TV Drama: Activity Summary* [Accessed 11 June 2014]. Note that the Offset applies to both live action and animation, but the budget figures are not broken out on this basis

³⁹ Screen Australia, *Child’s Play – Focus on the Producers*, 3 May 2013

⁴⁰ CMPA, *Profile 2013 – Economic Report on the Screen-based Media Production Industry in Canada*, 29 January 2014

⁴¹ Unless it is an official treaty co-production

⁴² CMF, *Convergent Stream* [Accessed 10 June 2014]

pass a cultural test, they must be shot and primarily set in Canada and rights must be held in Canada.⁴³

Federal funds

Federal funds are available via the Canadian Film or Video Production Tax Credit (CPTC). This provides a refundable tax credit of 25% of qualified labour costs. Eligibility criteria include rights ownership requirements, local spend thresholds and a cultural test.⁴⁴

Ireland

The key form of support in Ireland is the 'Section 481' tax incentive, available to film, TV dramas, animation and documentaries. This currently provides a benefit of 28% of qualifying expenditure. This comprises spend on labour, goods and services within Ireland, up to a maximum of 80% of the global budget. The tax incentive is subject to a relatively loose cultural test.

TV Drama (adult's and children's) has been the primary beneficiary of the incentive. 'Incoming' (international) TV drama production of €265m (£213m) been supported between 2005 and 2011, plus a further €164m of local TV drama.⁴⁵

Section 481 funding has been available since 1993. After a recent review, the Irish government decided to increase the benefit to 32% of qualifying expenditure (from 2015), and to commit to leave it in place until at least 2020.⁴⁶ The tax incentive is also to be restructured to be 'producer led' rather than 'investor led' (making it more similar to the UK Animation Tax Credit, for example).

South Africa

South Africa offers the Foreign Film and Television Production and Post-Production Incentive (Post-Production was added in 2012). The incentive is worth 20-25% of qualifying spend. Productions must have qualifying production spend of ZAR12m (£660,000) and be filmed at least 50% in South Africa, or qualifying post-production spend of ZAR1.5m.

A 2013 study⁴⁷ by the National Film and Video Foundation (an agency of the Department of Arts and Culture) found that 2012 direct and induced tax revenues from the Incentive were ZAR670m, compared to its cost of ZAR250m.

⁴³ CMF, *Performance Envelope Program – Guidelines 2014-15*, March 2014

⁴⁴ CAVCO, *CPTC Program Guidelines*, 2 April 2012

⁴⁵ Irish Department of Finance, *Economic Impact Assessment of Section 481 Film Relief*, December 2014

⁴⁶ IFTN, *Budget Changes to Irish Tax Incentive Welcomed by Irish Film Industry*, 15 October 2013

⁴⁷ NFVF, *South African Film Industry Economic Baseline Study Report*, April 2013

France

In France the CNC⁴⁸ administers the Tax Rebate for International Production (TRIP). TV dramas are eligible, provided that they have spend of at least €1m and five days of shooting in France. The rebate is set at 20% of eligible expenses, which include salaries, equipment rental, transportation, catering and depreciation.⁴⁹ In 2013 CNC provided €74.9m (£60m) of funding for TV drama made in France (for domestic and international producers). Foreign financing for TV drama was €27.1m.

Conclusions

Available tax credits and other financial support is substantial in a number of other markets. Unsurprisingly, programme commissioners and producers report that such support is a major factor in where they choose to make programmes. The UK's current lack of equivalent support puts it at a significant disadvantage.

⁴⁸ Centre national du cinéma et de l'image animée

⁴⁹ CNC, *The Tax Rebate for International productions (TRIP): general description of the system* [Accessed 12 June 2014]

6. Assessing the fiscal impact of a tax credit

In this section we consider the financial trade-offs to the Exchequer in providing a tax credit in the UK.⁵⁰ While a tax credit would clearly have a cost to the Exchequer, it would also bring substantial new revenues, as we set out below.

Financial analysis of a tax credit

A tax credit will undoubtedly help UK producers win more business and keep more of their own projects at home (rather than sharing them with a co-producer, with associated loss of IP rights, fees and so on). This will bring revenues to the Exchequer in three ways:

- **Payroll taxes** - More production undertaken in the UK means greater PAYE and NIC receipts for the Treasury, either directly from employees or from the many freelancers who receive some of their income from children's production
- **VAT** - Higher sales by UK producers (either to the UK or to the EU) means higher VAT receipts
- **Corporation tax** - Increased volumes of production and the downstream revenues from greater retained IP due to a tax credit will generate profit for the sector, which in turn will provide corporation tax to the Exchequer

In analysing how these incremental receipts compare to the costs of a tax credit, we have considered two categories of production:

The first category is Anyway Productions, those that would take place fully in the UK with or without the credit. From the Exchequer's perspective, providing a tax credit to these is largely a loss, since there is minimal incremental business in the UK to offset it.

The second category is Incremental Productions, projects that occur in the UK because of the tax credit. This could be because the credit:

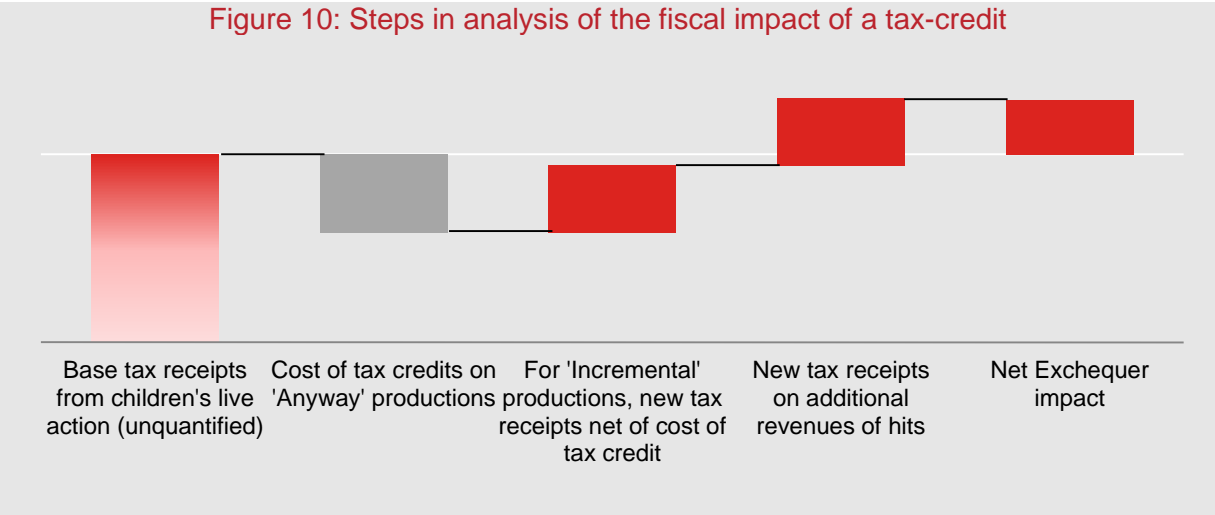
- Attracted new production work to the UK
- Prevented work by a UK producer being moved overseas in pursuit of an international credit
- Made the difference between completing a production budget or not
- Shortened the time to complete funding thereby enabling a company to launch projects more rapidly
- Led to greater returns which (in the longer term) were reinvested in future projects

⁵⁰ Our approach is broadly similar to that we previously used in analysing the potential of an animation tax credit – see Perspective, [*Securing the Future of UK Animation*](#), September 2011

All such Incremental Projects give material return to the Exchequer on the credit, since all the associated taxes are themselves incremental.

In addition to these two categories of production, we have also considered the benefit of break-out hits. Incremental productions have the potential to become global hits, and thus bring additional revenue to the Exchequer – while inherently less certain, this nonetheless represents important value.

Thus our analysis is (conceptually) as follows:



Cost of application of credit to Anyway Productions

To assess the overall net impact, our first step is to understand the current level of UK production spend on children’s live action programming. The most recent data available is Ofcom’s relatively detailed information on 2011 children’s programming spend by PSB broadcasters and multi-channels. Ofcom also provides a mix of first-run hours by different children’s genres, such as pre-school, animation and so on.⁵¹

Using this data and estimates of typical per-hour costs for different genre, we are able to estimate total broadcaster first-run spend by genre. This we then adjust to remove spend overseas, in-house spend by the BBC and spend on animation (all ineligible for the proposed credit) to get to a status-quo figure of broadcaster spend on UK live action independent production. For 2011 this figure is £33.5m (of which over 80% derives from the BBC).

We carry this figure forward flat in our pro-forma forecast, though this is a conservative assumption, since BBC commissioning budgets are likely to be under continued pressure.

⁵¹ Ofcom, *PSB Annual Report 2013: Annex F - Children's Report*, August 2013

The £33.5m is the broadcaster spend on commissioning. The amount spent on production will be less than this, since producers will retain some gross margin on the relevant projects. We assume this gross margin is 20%, and thus the base production spend will be £26.8m. This is the spend that attracts the tax credit – assuming that qualifying spend is 80%, and a 25% credit, this implies total credits of £5.4m.

We assume this sum is put to use in three ways. One half returns to the broadcaster, in the form of reduced costs for programming (we assume this is then redeployed elsewhere on other programmes); one quarter becomes an incremental investment in the programming; and one quarter is retained by the producer as additional margin (potentially for reinvestment in future projects).

For these Anyway Productions, from the Exchequer's perspective, the key impact is the pay-out of the £5.4m tax credit. There is a minor offsetting benefit from the broadcaster redeployment and spend on increased production values. Some of this additional spend will be in the form of staff costs, generating incremental PAYE and NIC, which we estimate at £0.6m. Thus the net direct impact of the credit on Anyway Productions is a loss for the Exchequer of £4.8m per year.

Benefit from Incremental Productions due to the credit

In assessing the effects of Incremental Productions, we have assumed that four such productions are commissioned annually, with an average budget of £5m. While any such assumption is necessarily arbitrary, we believe this is an entirely plausible figure given the UK's strong capabilities in this area and the very positive results of the high-end drama and animation credits. The extra £20m in production revenue implied is roughly equivalent to the contraction in children's TV spend from 2009 to 2011, and thus is by no means out-of-scale with the sector's capacity.

To allow for some co-productions, we assume that 20% of this £20m spend is outside the UK. The remaining £16m would attract a credit of £2.6m (after again allowing for some producer margin). As with the Anyway Productions, we assume this credit is spread between broadcaster discounts, improved production values and producer margin.

The entirety of the PAYE & NIC associated with the staff-cost portion of the £16m (which we assume to be 63% of costs) is incremental. This represents offsetting income for the Exchequer of £1.7m.

The sale of the programmes in question will also bring VAT. We assume that 50% of the sales are VAT-able (to allow for ex-EU sales) and thus additional VAT receipts are £1.5m.

Finally, the Incremental Productions will create margin for producers, and this will attract corporation tax, which we calculate at £0.6m.

These three additional tax flows more than offset the tax credit on the incremental productions, for a net benefit to the Exchequer of £1.2m.

Benefit from hits

TV production is in part a hit-driven business. Occasional global successes such as *Teletubbies* (currently being revived by Darrall MacQueen), *Mister Maker*, *Tweenies* and *In the Night Garden* can provide very substantial returns. Both *Teletubbies* and *Mister Maker* sold to broadcasters in over 100 countries, but in addition to such sales, they garnered substantial licensing revenues from associated merchandise such as toys, books and so on. In its heyday, *Teletubbies* generated well over £30m per year from such licensing.⁵² *In the Night Garden* sold over 1.5m books in China up to 2010.⁵³

A tax credit has the potential to trigger such hits in two ways. One of the Incremental Productions might turn out to be such a hit. Alternatively, it might ‘tip’ one of the Anyway Productions into hit status. We have assumed that one of the ways the credit is deployed is increasing the production values of the Anyway Productions, and this will somewhat improve their chances of attracting an enthusiastic international audience.

While hits are rare, we believe it is appropriate to include them in our analysis. We assume one incremental hit per decade (compared to the 40 Incremental Productions in the same period, and the much larger volume of Anyway Productions). We assume that such a hit delivers income of £30m annually (less than *Teletubbies*) and does so for three years. This £90m of license fee income results in £18m of corporation tax per decade, or £1.8m per year.

We have here considered only a real break-out hit. In practice there will be a number of moderate successes, but conservatively we have not included these in our analysis.⁵⁴

Indirect and induced impacts

The above analysis considers only the direct impact of the credit. However, there will also be indirect and induced impacts. Indirect impacts are those on the upstream suppliers of the production

⁵² BBC Worldwide, *Annual Report and Accounts 1997/98*, June 1998. Worldwide received £20.5m (excluding programme distribution), or £30.5m after adjusting for inflation. However, this excluded substantial revenues from the Americas, the rights for which were retained by producer Ragdoll

⁵³ The Guardian, *Secrets of In the Night Garden*, 15 August 2010

⁵⁴ Analysis of live-action children’s commissions from 2009 using Broadcast’s Greenlight commissioning database shows that almost 50% had non-primary revenue, including international sales and ancillary income. Over a third (34%) generated income from merchandise sales

companies. They will receive additional business, and thus increase their own employment, PAYE, NIC and corporation tax. Induced impacts are those associated with the employees of the industry and its supply chain – increased employment will enable them to spend more in the wider UK economy.

In estimating these indirect and induced impacts, we have followed Oxford Economics’ approach in its analysis of the UK film industry.⁵⁵ They used a multiplier value of 2.0x.⁵⁶ That is, they assumed that direct impacts are doubled, once indirect and induced impacts are included. Applying this multiplier to our estimates above of direct impacts suggests an additional £2.3m of PAYE/NIC income for the Exchequer, and £2.4m of corporation tax.⁵⁷

Summary

These results are summarised in Figure 11. We anticipate average annual credits of £7.9m, resulting in a net benefit to the Exchequer of £2.9m per year (averaged over the long run).

Figure 11: Exchequer impact of tax credit (£m per year)

	Anyway Productions	Incremental Productions	Benefit from Hits	Total
Direct impact				
Payable tax credit	-5.4	-2.6	0.0	-7.9
Incremental VAT	-0.0	1.5	0.0	1.4
Incremental PAYE/NIC	0.6	1.7	0.0	2.3
Incremental Corp'n tax	0.0	0.6	1.8	2.4
	-4.8	1.2	1.8	-1.8
Indirect/Induced impacts				
PAYE/NIC	0.6	1.7	0.0	2.3
Corporation Tax	0.0	0.6	1.8	2.4
	0.6	2.3	1.8	4.7
Total	-4.2	3.6	3.6	2.9

There is clearly risk in these figures. The number of incremental commissions, their scale and the number of additional hits are all uncertain, and even if long run averages for these were known, there would still be substantial volatility in the short run. However, even if the number of incremental productions per year were to fall from 4 to 2.5,⁵⁸ the credit would still be slightly positive for the Exchequer, with a net benefit of £0.3m per year.

⁵⁵ Oxford Economics, *Economic Contribution of the UK Film Industry*, September 2012

⁵⁶ This multiplier was in turn derived from Optima/Cambridge Econometrics, *Economic Impact of the UK Screen Industries*, May 2005. This study found similar results for TV and film production

⁵⁷ Note that the multiplier is not applied to VAT – the upstream VAT is effectively already embedded in the VAT charged by producers

⁵⁸ And allowing for a pro-rata reduction in the number of hits

UK high-end television drama and animation tax reliefs

Like any forecast, the above analysis is inevitably subject to risk. However, in adjacent sectors we have very clear evidence of the positive impact of tax credits.

The high-end television and animation tax reliefs, introduced in April 2013, are bringing new sources of investment and helping to “stop the animation industry leav[ing] the UK”⁵⁹.

Data from the BFI suggests that in their first year, the high-end TV drama tax reliefs attracted almost £395m of spend, including £225m of inward investment.⁶⁰ Over the year, the animation tax relief attracted £52m of spend (equivalent to 17% of the pre-credit industry size), of which £8m was inward investment.

COBA’s survey of multi-channel senior executives and CEOs found that the majority planned to increase their investment in the UK as a result of the high-end television tax credit.

“New tax reliefs aren’t changing our programming strategy in terms of what appears on-screen, but are having an impact on where we choose to make programmes. It’s definitely acting as an incentive to produce more in the UK.”⁶¹

⁵⁹ Conservative MP Ed Vaizey, quoted in MCV, *Tax relief is just the start for UK game developers*, 31 March 2014

⁶⁰ BFI, *Film, high-end television and animation programmes production in the UK*, 24 April 2014

⁶¹ COBA / Communications Chambers, *Building a Global TV Hub*, November 2013

7. Opportunities ahead

The 2013 tax credit for animation provided a welcome boost to animated kid's programming, and with support, the opportunities for British children's TV as a whole could be significant.

Encourage inward investment

The increasingly peripatetic nature of global TV production means that international broadcasters often scour the world for incentives, typically financial in nature. A tax credit for live-action children's content could help to attract more production in the UK.

The UK is well-placed to attract inward investment - many global broadcasters have located their European or non-US headquarters and creative operations in the UK (e.g. Disney, Viacom / Nickelodeon, Turner / Cartoon Network), while some have established regional commissioning hubs, with an explicit aim of more non-US production.

The UK also benefits from a highly qualified workforce; being an English speaking country; the existing tax break for animation production; and established international buyers and distributors.

There are some recent examples of success which point to the UK's potential. For example, Viacom commissioned comedy-drama *The House of Anubis*, the first Nickelodeon series to be produced in the UK, which was aired in both the US and the UK (ranking as the number-one UK-produced programme on the channel in 2011).⁶²

If the UK can attract this inward investment, this can also directly encourage the growth of long term infrastructure across the country. For example Disney's first-ever TV mini-series filmed in the UK, *Evermoor*, was produced by Lime Pictures and will be broadcast to 160 countries through the Disney Channel later this year. The production employed a large local team, and involved building a purpose built set in Warrington which will be used for future productions.

Tapping into a growing international market

There is growing demand for finished programmes from international markets, driven by:

- Access to more markets – as international broadcasters continue to increase their global footprint
- New platforms - with the emergence of connected TVs, new IPTV services, and smartphones supported by faster distribution networks

⁶² Other recent UK commissions include drama show *Summer in Transylvania* and live-action game shows *Camp Orange* and *Split / Second*.

- Infrastructure change – increasing television penetration around the world, ongoing migration to multi-channel TV, a greater number of children’s and other thematic channels
- Enduring demand for high-quality English language content that appeals to international audiences⁶³

A strong British children’s TV sector could drive growth in exports, as illustrated by international success of high quality shows such as:

- The children’s sitcom *My Parents are Aliens*, an ITV commission with over 100 episodes sold around the world
- *Wolf Blood*, a BAFTA nominated series aimed at teens, co-produced by CBBC and ZDF (Germany), which has been acquired by the Disney Channel for broadcast across the U.S., Latin America, the Middle East and selected European countries
- Zodiak’s *Waybuloo*, which has been broadcast in 79 countries worldwide⁶⁴

In addition, there are opportunities for more format sales, an area where the UK has excelled in adult genres in recent years. For example, in 2011, Disney acquired the format of the UK live-action show *Art Attack*, originally aired on ITV from 1990 and produced by TVS (later Media Merchants, STV Productions and Hit Entertainment). Disney plans on reviving the show through local productions in 11 countries in Europe, Latin America and Asia.⁶⁵

Exploiting secondary and ancillary markets

While live-action content does not lend itself as readily to secondary and ancillary markets as animation, for the right children’s programmes, the commercial opportunities can still be huge, particularly in pre-school.

British producers have a strong track record of exploiting their secondary rights in different markets including DVDs, toys and goods merchandising, digital rights for games, and book rights. For example:

- *In the Night Garden*, made by the Ragdoll for the BBC, has sold one million DVDs, four million cuddly toys and had a sell-out theatre show
- Novel Entertainment’s animation *Horrid Henry*, broadcast on CiTV, spawned a 3D live-action film, a wide range of merchandise, a stage production and computer games

⁶³ Two thirds (67%) of commercial multichannel executives and CEOs stated that their ambition when commissioning is create content which “appeals to both international and domestic audiences” in COBA, *Building a Global TV Hub*, Nov 2013

⁶⁴ Broadcast, *RDF’s Waybuloo to release album*, 26 July 2010

⁶⁵ C21 Media, *Disney takes Art Attack Global*, 5 May 2011

- Preschool arts and crafts show *Mister Maker*, produced by The Foundation (Zodiak), has led to stage shows around Asia and a magazine

Spending on products targeting children aged up to four years has seen particularly strong growth in emerging markets. In Brazil, it grew by 28% to \$528 million between 2008 and 2011, and by 46% to \$867 million in China⁶⁶.

Providing greater incentives for UK PSBs

As we have noted, the last decade has been characterised by a near complete withdrawal of the commercial PSBs from the commissioning of original UK live-action children's TV.

A tax credit similar would go some way to incentivising domestic broadcasters to return, increasing commissioning plurality and contributing to a more competitive and dynamic market.

Attracting new sources of investment

In addition, a range of digital players have begun to commission originated children's content for the first time. Some of these new sources of investment have been in countries where government support exists, such as Canada.

For example, Amazon recently commissioned its first three original children's TV series, including the live-action series *Annedroids*. Produced by Sinking Ship Entertainment (Canada), in co-production with ZDF (Germany), *Annedroids* will be broadcast around the world across multiple platforms and devices.⁶⁷

⁶⁶ Euromonitor International reported in Business Week, [*Teletubbies Seek New Owner as BBC Worldwide Sells Venture*](#), 18 December 2012

⁶⁷ Kid Screen, [*Sinking Ship's Annedroids gets international broadcaster partners*](#), 2 April 2013

Netflix has a reported annual budget of \$4bn for content of which 10%, or \$400m, will go towards new commissions. In 2011 it launched a “For Kids” service, and has produced its first original children’s content through a range of animated series, such as *Turbo*, *Dreamworks Dragons*, *King Julien*, *Puss in Boots* and *Veggie Tales in the House*.

Ted Sarandos, Netflix’s Chief Content Officer, argues that the lack of a competitive market in the UK means acquired US content fills their roster instead of original programming:

“The money I [would] be spending in the UK on homegrown product I have to spend on US imports because they are not making that content, the more attractive programming, available in the current windows [for licensing shows]. What it is doing is forcing us into licensing content from the US for the UK if we want to have children’s programming, creating kids’ brands that are not homegrown.”⁶⁹

As Netflix, Amazon and other digital players grow and seek differentiation from each other, they will have both the scale and the need to commission increasing quantities of proprietary content. Given the international scope of these players, they are also not anchored to a particular home market. This suggests a growing market for internationally mobile production for the digital players, which the UK could serve well.

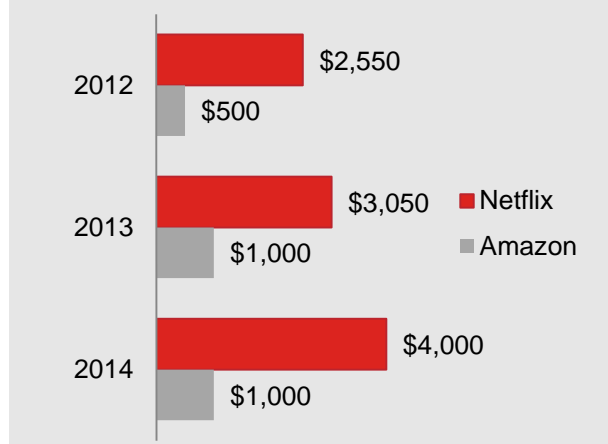
Wider benefits

Providing a training ground for talent

A strong and vibrant children’s production sector supports investment in skills and talent development, which contributes to future success. According to Anne Wood, founder of Ragdoll Productions:

“For me the most important thing about *Teletubbies*, is it allowed me to pass on my experience to younger creatives, such as Andrew Davenport with whom I went on to create *In The Night Garden*. This too has become a landmark programme.”⁷⁰

Figure 12: Estimated content spend of VoD platforms (\$m)⁶⁸



⁶⁸ Fierce Online Video, *A closer look at the billions of dollars Netflix, Amazon and Hulu are spending on original content*, 4 June 2014

⁶⁹ The Guardian, *Netflix boss: BBC is holding back UK children’s shows*, 30 May 2013

⁷⁰ DCMS, *Written evidence submitted by the Children’s Media Foundation*, 2012

Live-action children's TV has long been regarded as a training ground for TV talent more widely, with many prominent writers and actors beginning their careers there before moving into adult genres:

- David Attenborough's TV debut was in the 1954 show *Zoo Quest*
- In 1989, *Byker Grove* launched the careers of Ant and Dec
- Granada's *Children's Ward* (1995) was written by Paul Abbott and Kay Mellor, who have since enjoyed careers as award-winning adult drama writers
- Russell T Davies first began his career writing Children's BBC dramas such as *Dark Season* (1991)
- Central TV's *Press Gang* (1989) launched the careers of Dexter Fletcher (now a successful director) and Julia Sawalha (actress in *Absolutely Fabulous*)
- Jesse Armstrong, co-writer of the Bafta-winning *Peep Show* and Oscar-nominated *In the Loop*, began his career in children's TV, writing for *Tracy Beaker*

Even today, children's TV continues to be able to attract talent from across British broadcasting. For example, Lion Television's *Horrible Histories* has attracted leading writers and actors from across adult British comedy, including as Steve Punt, David Baddiel, Alexei Sayle, Jon Holmes (*Dead Ringers*), Giles Pilbrow (*Have I Got News For You*), Jim Howick (*Peep Show*), Dominic Brigstocke (*Green Wing*) Simon Farnaby (*The Mighty Boosh*), Mathew Baynton (*Gavin and Stacey*) and Ben Ward (*Dead Ringers*).⁷¹

Cultural importance

An underlying principle of PSB is that it reflects the cultural make-up of the country and that viewers across the UK see people like them represented on screen. This is as important for children as well as for the general population. Live-action programmes play a particularly important role (compared to animation), with characters children can directly relate to.

Exported around the world, children's TV can also help to reflect our national sensibilities, helping to preserve British identity.

Supporting the UK's wider creative economy

Children's TV is an important part of the UK's strong creative economy, which itself is responsible for over 2.5m jobs⁷² and 6.2% of GDP, higher than almost all other countries.

⁷¹ The Guardian, *How Horrible Histories became a huge hit*, 17 March 2011

⁷² DCMS, *Creative Industries Economic Estimates*, 14 January 2014

In particular, children's live-action has strong links with the wider TV industry (which employs over 50,000⁷³), with resources often moving fluidly between kids and adult programming.

An industry with scale creates more career opportunities, creating viable career paths, opportunities for freelancers and reinforcing the UK's historical competitive advantage.

⁷³ Skillset, *Employment Census of the Creative Media Industries 2012*

8. Conclusions

The last decade has seen a rapid decline in original British children's TV commissions, many more repeats and US imports, a much smaller industry, and an erosion of production values. Absent support, the future of children's live action TV is likely to be characterised by:

- An industry which is subscale
- An enduring BBC 'monopsony', albeit with reduced budget
- Continuing dominance of US programming
- Migration of talent to other sectors and areas of programming

However, the new tax credit for animation is providing a welcome boost to that sector, and with similar support for live action, we believe the opportunities for UK children's TV as a whole are significant.

We note that the idea of supporting children's content more widely is not a new one. In 2010 the House of Lord's Select Committee on Communications recommended "the extension of the film tax credit, on a pilot basis, to children's programmes"⁷⁴

British live action children's TV programmes such as *Teletubbies* and *Art Attack* have been exported around the globe, and illustrate the potential. These programmes were not fully funded by the commissioning broadcaster and were part funded by the production companies. Had the producers not been able to pull together the deficit funding, these global hits would not have been made.

Based on our analysis, we believe a tax credit for children's TV, similar to that for high end TV drama and animation, will have net financial benefit to the Exchequer. By attracting four incremental commissions to the UK each year, we estimate a net benefit to the Exchequer of £2.9m per year (averaged over the long run).

A more competitive domestic market is likely to have dynamic benefits, supporting an industry in which the UK has traditionally excelled.

Thus a tax credit for live action can have real impact, replicating the success of the existing credits and ensuring UK live-action children's TV production can capitalise on its significant potential.

⁷⁴ House of Lords, *The British film and television industries - decline or opportunity?*, January 2010