

Written evidence submitted by Animation UK

About Animation UK.

Animation UK represents the comprehensive landscape of the UK animation sector, encompassing studios, production companies, service providers, and distributors. The industry is globally acclaimed for its creative and technical prowess, often deriving inspiration from UK literature. It is known for its innovative storytelling, character development, international brands and franchises, and the embrace of cutting-edge technology like XR.

We advocate for the sector's growth and increased market share potential in a global industry valued at \$260 billion.

Contact details

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About our response

We understand the DCMS inquiry has called for evidence on film and High-End TV. As an integral part of the film and TV sectors, animation possesses distinct characteristics and faces unique challenges, warranting a separate examination. Specifically, its broader impact on investment, development, and skills in the more expansive film and TV sector merits attention. This response addresses the questions highlighted below while presenting a sector profile and identifying key challenges.

- How attractive is the UK as a global destination for producing film and high-end television?
 - What are the barriers to maintaining and increasing overseas investment in the sector?
 - What are the benefits and challenges of overseas investment
- What more can be done to incentivise film and high-end television production in the UK?
- What can the industry and Government do to ensure British film and high-end television can adapt for the future?
 - What should be prioritised to ensure a strong skills pipeline and retention in the film and high-end TV industry?
 - What are the risks and benefits of artificial intelligence to the sector?
 - What needs to change to ensure the industry is supporting inclusivity and sustainability

Executive Summary

Addressing the UK Animation Industry's Challenges and Opportunities

The UK's animation industry is still hugely attractive. It is known for its creative output, innovative techniques, brilliant storytelling, irreverent humour, and the development of globally loved characters and significant brands. The Animation sector represents a vital element of the UK's Film and High-End TV sectors. We are rightly celebrated for our creative successes, with two Oscar successes last year, and have many world-class studios and success stories.

An initial review suggests the sector is in rude health. The 2021 Screen Business Report¹ attests to the animation sector's robust global standing. In 2019, the industry's Direct Gross Value Added (GVA) stood at £130.6 million, with direct tax revenues amounting to £74.2 million. The sector also sparks the creation of new brands and triggers further revenue streams. The estimated GVA, when considering these, is around £285.2 million, with tax revenues of £110.2 million.²

The animated features' growth is included separately in the film category (FTR) and consists of 21 features in the same reporting period, mirroring global trends and illustrating the UK's escalating proficiency. Prominent studios, including Locksmith Animation, Aardman, Jellyfish Pictures, Red Star, Lupus Films, Axis and Timeless Films and others, are pivotal in this development.

However, the industry faces singular challenges. These are rooted in its unique financing structure, long-term business model, workforce dynamics, and intense global competition. An urgent need for UK-based financial support underpins an over-dependence on foreign investment. The emphasis should be on nurturing UK-based intellectual property rather than just drawing direct overseas investments in services and skills. The potential for domestic studio expansion, job creation, and generating significant revenues has yet to be realised but could be with the right fiscal policies.

To illustrate this, the BFI Screen Business Report from November 2021 recorded a 30% drop in UK TV animation production (ATR) expenditure up to 2020, alongside an increase in animated film. Although the global market is growing, UK animation studios and production companies grapple with dwindling domestic investment and rising competition. Despite our reputation, we need more financial access for content and IP development. Unaddressed, this could lead to talent flight, unrealised opportunities, skill deficits, and a dilution of our cultural legacy.

In conclusion, our aim is precise and tailored to the sector. We advocate for a cooperative approach between the Industry and Government to determine the best strategies for bolstering animation as a distinct sub-sector in film and high-end TV. We propose collaborating with the Government and major industry stakeholders (BFI, BFC, Create UK, National and regional Screen Agencies) to recognise and tackle the unique challenges, thereby ensuring a dominant UK animation sector that stimulates regional growth employment and establishes resilient businesses.

1. Sector Characteristics and Strengths

1.1. Industry size and Value: Often overlooked in national data sources, the industry is now valued³ at approximately £1.7 billion, employing over 16,000 individuals across over 800 production companies and studios focused primarily on animation output spanning film, TV, advertising, and corporate content.

1.2. Sustained Revenue Streams: Beyond immediate sales, the value of the animation sector extends to licensing, merchandising and services. UK-made animations have the potential for continued returns from varied revenue streams post-release, particularly from merchandising and licensing. Thus, retaining intellectual property (IP) is vital for the industry's sustained growth and profitability.

¹ [Screen Business Report, Commissioned by BFI](#), carried out By Olsberg SPI & Nordicity, Published 2021

² *It should be noted that the animation sector's overall size and value are considerably more significant than the element captured with ATR. Animation Features are captured separately by the BFI and included in FRT data. In 2019, the BFI commissioned the first of two broader animation 'mapping' studies to analyse the sector's value, including animation for corporate and digital marketing and advertising. Most animation companies operate mixed business models —these will be explored in the second of the two mapping studies, due to be published shortly.*

³ Sourced from yet-to-be-published BFI Animation Mapping Report.

1.3. Soft Power and Cultural Impact: UK animation is globally recognised for its compelling characters and narratives, often inspired by British literature. Iconic creations like Wallace & Gromit, Paddington, and Peppa Pig have become international phenomena, generating significant export revenues.

1.4. Geographical diversity: The animation industry's geographic footprint is vast, extending beyond London to cities such as Manchester, Sheffield, and Bristol, as well as the Nations with clusters in Scotland, Northern Ireland, and Wales. 62% of animation companies operate outside of London and the South East.

1.5. Employment Scope: Animation requires a multitude of specialised roles. For instance, a feature film might employ around 250 individuals, while a TV series can engage 50-80 professionals. The longer production cycles, often spanning up to four years, provide a stable employment horizon across the UK.

1.6. Education and Innovation: The UK stands out in pioneering novel storytelling methods, virtual reality ventures, and innovative content. With its immersive qualities, animated content is set to transform educational practices, offering holistic learning experiences.

1.7. Business Models and Investment: Unlike conventional film business models, animation studios in the UK employ varied business strategies. While many maintain character rights and manage pre-production, collaborations are expected during production. The overarching objective remains IP retention, presenting unique challenges and opportunities.

1.8. Complex Financing Landscape: The journey from animation development to production can stretch over 5-6 years, with intricate financing structures, often necessitating forming complex investor partnerships, sometimes at the cost of diluting or losing precious IP.

1.9. Interconnected Ecosystem: The industry boasts a rich tapestry of specialisms. Its strength lies in its interconnected nature, with smaller TV productions often serving as foundational platforms for budding talent. Many studios diversify their portfolios across film and TV, emphasising the need for diverse investment strategies, including short films and domestic TV content financing.

1.10. Growth Opportunities: The global animation market is estimated between \$250 billion to \$270 billion⁴. Including all formats and merchandising. The opportunity is compelling with our reputation and the global market size. The size of the streaming market for animation content is growing at an annual rate of 8%. Netflix, Amazon Prime, Disney+ and Hulu are just some platforms providing opportunities for animation producers.

2. Investment Dynamics & Recommendations

Current Status and Potential

The UK has a rich animation history that dates back decades, and we are known for our diverse range of styles, from traditional hand-drawn animations to stop-motion to CGI. UK animation focuses on production quality, ensuring that many British animated works are of high artistic and technical calibre. British animation is also renowned for its compelling and often unique storytelling. This has been reflected in both short films and more extended features that have captivated global audiences, and UK animations and animators frequently receive international awards, which further bolsters the sector's reputation, including the Oscar for the best short animated film in 2022⁵ and credits on the Oscar for best film. In essence, the combination of the UK's rich history in animation, consistent quality, innovative approaches, and global collaborations has established its animation sector as one

⁴ Statistica 2022

⁵ *The Boy, the Mole, the Fox and the Horse (2023)* Oscar winner and Mackinnon and Saunders were creators of the puppets on Guillermo del Toro's *Pinocchio Best Animated Film (2023)*

of the most respected in the world. However, the focus on business and investment is now critical. The potential for rights exploitation is vast. UK-developed brands like Peppa Pig have shown exponential revenue capabilities, earning 150 times its initial production budget annually (£200m) and becoming multi-million-dollar franchise. UK-created brands, like Peppa Pig, exemplify substantial revenue potential; while we foster such creativity, ensuring the assets remain and thrive in the UK is vital.

Our sector operates globally, and with suitable investment, promotion and support for exports, we can capitalise on this opportunity. Now is the time to attract business to the UK, requiring our sector to compete aggressively and effectively to support and promote our sector.

Challenges & Barriers & solutions

Develop a comprehensive long-term Investment Strategy: We need a cohesive, focused investment strategy. We must design a coherent framework that provides consistent access to finance, competitive incentives, and business development support for the whole sector and recognises the distinct business models and potential.

Public Service Investment Decline: The decline in public service investment for UK-originated content, particularly in children's programming, is concerning and has a significant knock-on effect. Ofcom data highlights a market failure. Cuts in content (spend and hours) on traditional PSBs equate to an 80% decline over 22 years. The discontinuation of the Young Audience Content in 2020, set up partly to bridge this gap, has resulted in a loss of funding for PSB content development and production. Looking to the BFI, the latest National Lottery Funding Plan (2023-26) is budgeting £18 million a year for all filmmakers, whereas in 2022/23, the BFI Film Fund budget was around £25 m.

Address the Decline in UK Children's Content Funding: It's imperative to rethink how children's content is funded. As part of a broader debate, including with DCMS and broadcasters, we must examine new proposals to foster public-private partnerships, acknowledge the educational significance of content, and explore levies and funding partnerships.

Explore & renew access to I EU Funding. The UK Animation sector was once a clear beneficiary of European Investment through Creative Europe/Media Funds, with networks to support co-production partnerships and opportunities to pitch projects to global commissioners and buyers. These opportunities no longer exist, and the animation sector now relies on alternative sources like the much-welcomed Global Screen Fund. However, these funds must match previous levels and promote commercially viable content. MEDIA invested €32m to distribute UK films in Europe and made a further €40m in grants available to UK audio-visual companies. We strongly advocate exploring a return to the Creative Europe Media programme as associate members.

Increase the Global Screen Fund. Since its establishment in 2021, the £7m p.a. UK Global Screen Fund (UKGSF) has played a valuable role in stimulating international trade for the UK on a very modest budget. The Fund has awarded over £5 million to 33 UK international co-productions; c. £5 million to 54 UK screen sector companies to undertake global growth strategies; and over £1.5 million to 50 feature film projects to increase their international promotion and sales. Over its pilot year alone, the UKGSF returned £27 to the UK economy for every £1 invested.

However, the UKGSF's capacity to support such funding is limited by the funding provided, which is less than half that was previously delivered through MEDIA. The UK Government should double the

value of the UK Global Screen Fund to £14m in the following Spending Review to support UK independents to reach their full potential in terms of growing international trade.

Review the level of UK Tax Incentives in light of Global competition. The new AVEC reforms and the uplift to Animation TV and film were much-welcomed announcements in the budget this year and will make a significant difference to our position in a highly competitive marketplace; however, we must remain competitive, and tax incentives are a vital part of any new strategy. Commissions are secured on the combination of creative content, skills and talent, but also critically on value for money and the tax incentives. Other territories increasingly recognise the growth potential held by the animation sector and are providing competitive terms to attract international contracts and secure rights. For example, Ireland, France, Quebec (Canada) and the Canary Islands offer animation tax reliefs between 37% and 50%. The real opportunity for UK studios is in commissions and retaining rights, multiplying potential downstream revenues, which can extend over a decade, fuelling consistent growth. Our proposal, detailed in previous submissions, recommends **where animation work occurs outside London and the South East, the rate of tax relief is increased to 37%, and inside London and the South East, the rate of tax relief is increased to 32%**

Support investment in commercial content. For animation films and high-end TV, we strongly advocate for a fund geared towards commercial success, not just public funding, which has typically been to rectify market failure. These funds should prioritise commercial viability and be proportionately recoverable based on profit margins.

Increase Private Finance Incentives: Discontinuing SEIS and EIS for the film and TV sectors reduces the potential for private investment in animation. Reassessing the risk criteria and promoting animation incentives is essential.

Provide access to funding & business support across regions: Several Screen agencies and Gov departments provide public sector backing for business development, notably in the Nations. The devolved nations have a broader scope, fund production, and business and talent development. Devolved governments also make additional funding available for inward investment. And have prioritised animation in recent years. The BFI's remit is UK-wide, so there is no England-wide approach. Local and regional structures and support are centralised. The West Midlands Production Fund and Yorkshire Content Fund (both initially funded via the ERDF) serve as excellent examples of regional development and production funding initiatives, demonstrating impact and similar to funding structures which exist in France and Canada, where subsidies for the screen industries is available from regional as well as national Government. However, business support is only available across some regions, and we need to eliminate regional variations. Linking place-based funding with sector Policies

Support targeted promotion and advocacy of the UK sector. The British Film Commission (BFC) is the UK's national agency responsible for maximising and supporting the production of international feature films and high-end TV in the UK. The BFC plays an essential role in attracting international clients to the UK, highlighting the strengths and advantages of the UK film and television industries. However, the BFC remit does not extend to animation overall, which remains a gap and requires a sector-specific approach as the markets and business opportunities vary. Since its inception, Animation UK has developed a plan to advocate for the sector, attracting pockets of funding and partnerships to ensure the sector is represented at critical markets and animation Industry events. However, the necessary promotion and positioning will only happen strategically with ongoing funding benefiting the wider film and TV sectors. This lack of advocacy investment and the need for more funding for company representatives to attend international events (formally available through TAP Grants) is a huge gap. Animation UK is primed to extend its role in this respect with access

enjoyed by the wider film and high-end TV sectors. This would include organising familiarisation (fam) visits with international clients, showcasing assets, organising networking events and updating global partners on the UK's latest tax incentives, production services, and

Recommendations:

1. Undertake an in-depth review of the UK's investment in animation and children's content more widely.
2. Amplify the Global Screen Fund's provisions to bolster Animation Content investment and IP optimisation.
3. Design and implement a new recuperable investment fund that champions UK-originated and commercially profitable animated content for all ages.
4. Re-evaluate and enhance the SEIS and EIS incentives to make them more appealing for animation-centric investments.
5. Explore potential affiliation with Creative EUROPE /Media as an associate member to solidify our position in the global market and allow access to co-production funding and renewed access to markets to pitch projects as majority co-producers.
6. Support a long-term, animation-specific advocacy and international promotion plan, including family trips and urgently providing funds for companies to network and attend relevant markets

3. Adapting to the Future: Skills and AI.

Skills Issues, Gaps, and Employment Characteristics in the UK's Animation Sector

Overview. Animation skills are central to the animation and digital production sectors and the more comprehensive TV and film industries. Visual storytelling is now an essential part of depicting stories, and with the blurring lines between live-action and animation, many contemporary films and series integrate both. Blockbuster hits frequently combine real-world shots with computer-generated imagery (CGI) for a richer visual experience. With foundational animation skills, these hybrid forms of content are possible. Animation continuously pushes technological boundaries. It fosters innovation in software development, virtual reality, augmented reality, and more. These advancements subsequently benefit the broader screen industry, offering new tools and techniques for the sector and filmmakers. Alongside VFX, digital animation and video games are the R&D departments for the screen industries and wider virtual and immersive sectors. The technologies created, and workforce will drive innovation across the screen sector with spillover benefits for other sectors. Positioning the UK as a global centre of Excellence for next-generation computer-generated content creation and technologies will spread expertise to other sectors like industrial design, medicine, retail, education and the evolution of the internet. The online world is transitioning from a 2D, primarily text-based medium to one built on 3D virtual experiences, 'the metaverse'.

As a central part of this wider vision, we must have a sector-specific focus on maintaining and further developing our animation skills base. The animation sector mirrors trends in the wider film and TV industries and grapples with substantial skills gaps and shortages. Key findings from the yet-to-be-published BFI research⁶ And the ongoing engagement of the Industry Skills Task Force highlights these challenges:

- There are pronounced skill gaps and shortages at both the entry and mid-level.
- Talent drain is evident as skilled professionals are drawn away to other sectors domestically and to opportunities abroad.
- Management, supervisory, and business skills need to be improved, indicating a need for comprehensive leadership training.
- The importance of fostering a robust partnership between the industry and education spheres is felt more than ever.
- A renewed emphasis on continuous professional development ensures that those in the sector stay updated with the ever-evolving technological and artistic landscape.

An industry-led [Skills Task Force](#) has been established, chaired by former Amazon Studios executive Georgia Brown and comprising senior representatives from all the major broadcasters, studios and streamers, and key sector bodies, including Animation UK. However, the challenges of the digital production sector have yet to be fully reflected in discussions as we await the BFI Scoping Study. The task force is expected to report on its progress in November 2023. Aligned with this overall set of recommendations, we aim to produce an Animation Skills Plan reflecting the latest research findings and ongoing sector discussions regarding solutions.

Differences in company and employment profile. The typical profile of companies in the industry—small-to-medium enterprises (SMEs)—combined with an uncertain business climate makes planning difficult for these businesses. The burgeoning influence of artificial intelligence further complicates forecasting efforts, adding another layer of unpredictability. However, the animation sector diverges from the conventional freelance employment pattern predominant in live action. Instead, the industry is characterised by longer production cycles and a unique employment paradigm. A significant portion of the workforce is directly employed or through long-term contracts.

Investment and Opportunity. These employment practices have led to more open recruitment policies and more significant investment in training and development, a sector meeting many of the characteristics of Good Work.⁷ The animation sector exceeds the BFI's recommended investment in skills⁸. The sector champions traineeships, internships, mentoring, and shadowing initiatives. The introduction of a voluntary skills levy in 2012 has raised £800,000, and targeted programmes amplify its commitment to fostering diversity, streamlined entry paths, and community outreach.

Even during the tumultuous COVID-19 lockdowns, the sector illustrated its adaptability and resilience. This experience has also resulted in new and flexible employment patterns and remote job opportunities, potentially redistributing employment across the UK and benefitting a broader demographic, including graduates and apprentices.

Looking more broadly at the [education pipeline](#), We fully support a review of qualifications and the curriculum to help broader educational outcomes for the pre-18 age group to create the more broadly educated polymaths our industries need, including arts-based education. We want every child to achieve their full potential through theoretical and practical learning, irrespective of their

⁶ BFI Commissioned Skills Scoping Research, carried out by Olsberg SPI and due to be published September 2023.

⁷ The Good Work Review. Policy and Evidence Centre. February 2023. [Link](#).

⁸ Read more on BFI Skills Review and recommendations to invest 1% of production budgets. [Link](#)

background. We understand how much more they will thrive - in work or study - with highly developed creative, technological and entrepreneurial skills; they are the 'fusion skills' - the new skills imperative.

Diversity and Inclusion matter in the animation sector. The industry has recognised it must play a key role in achieving this. In partnership with the VFX and post-production sectors represented by the UK Screen Alliance, we have published⁹. We will shortly update a comprehensive workforce diversity report, measuring all aspects of diversity and setting an action agenda. Over half (50%) of those in creative roles are women, and BAME individuals constitute 17% of the workforce; the picture is nuanced and requires monitoring and action. The sector is active in addressing issues and recognises its role in change. Examples include support for the not-for-profit organisation Access: VFX and Animation, which champions all aspects of inclusion and diversity in VFX, animation and games. Their activities include career advice for schools and entry-level graduates and a thriving online mentoring service.

Rise: Women in Broadcast has been particularly active in developing mentoring for women in post-production and broadcast technology. They also run Rise Academy, a regular series of pop-up events and summer schools to introduce school-age children to TV and Film production technology. We also welcome the inception of CIISA¹⁰ as an independent body to uphold and improve standards of behaviour in the creative industries.

Sustainability

Like many industries, the animation sector has a role in addressing sustainability challenges. The digital nature of animation offers an inherent advantage, as it reduces the need for physical materials and the movement of people and resources. However, the energy consumption of high-powered computers and servers, often running 24/7, can be significant. To mitigate this, animation studios are increasingly transitioning to energy-efficient sources/usage, and optimised software can further reduce the carbon footprint.

Notably, the animation sector also champions sustainable narratives, embedding environmental themes within content to raise awareness among viewers.

Collaborating with the retail and merchandising sectors, animation studios adopt sustainable merchandising practices, using eco-friendly materials and ensuring ethical production processes.

Recommendations

We are planning to develop a targeted Animation Skills Plan: Given the distinct challenges and dynamics of the animation sector, there's an evident need for an Animation Skills Plan tailored to address its specific requirements, nested within the broader Screen Sector Skills Plan and supported by the industry, education and training providers and public funding.

The plan should include:

- A new model for developing an Animation Skills Fund, linked to Tax Relief benefits, recognises the importance of employer investment in various ways (directly and to a fund) and matched by private sector investment.
- Support our critical centres of Excellence, such as Next Gen Academy, and our work to forge even stronger partnerships with higher education to sustain our skills base and to
- Support for sector pilots to implement Apprenticeships in the Animation sector,

⁹ <https://www.ukscreenalliance.co.uk/subpages/inclusion-and-diversity-in-the-uks-vfx-animation-and-post-production-sectors/section=industry>

¹⁰ <https://ciisa.org.uk/>

- A new Animation Business Accelerator programme to develop our start-up companies and embed the business and leadership skills needed.

Analysing the impact of AI

Artificial Intelligence (AI) has made significant inroads into the screen industry, including the animation industry, and further research is needed to evaluate the risks and benefits. Early and high-level impacts include risks and benefits such as:

Benefits:

Efficiency and Speed: AI can streamline the animation process, making it faster and more efficient. Algorithms can generate in-between frames (in-betweens) for animations, cutting the time traditionally needed for manual frame-by-frame creation.

- Potential Cost Reduction: With automation brought by AI, studios might need fewer human resources for specific repetitive tasks, which can lead to cost savings.
- Enhanced Creativity: AI might assist animators in brainstorming and creating unique designs or character movements by suggesting alternatives based on vast datasets.
- Personalisation: AI-driven algorithms can create personalised content for users based on their preferences. For instance, characters or backgrounds could change according to the viewer's tastes.
- Enhanced Realism: AI can help generate highly realistic animations, especially with technologies like deep learning. For example, it can simulate natural human movements, facial expressions, or fluid dynamics more convincingly.
- Data-Driven Decisions: AI can analyse audience reactions and preferences to suggest tweaks and improvements in animation content, leading to more engaging and appealing productions.

Risks:

- Job Displacement: As AI automates specific tasks, there's a potential for job losses in areas like in-betweening or other routine aspects of animation.
- Loss of Human Touch: Over-reliance on AI might make animations feel too mechanical or lacking emotional nuance. The human touch in artistry could be compromised and output homogenised.

And perhaps most importantly

- Ethical Concerns: Deepfake technology, which utilises AI to create hyper-realistic but entirely fake content, could be misused in the world of animation and beyond, leading to misinformation or other malintent.

- IP and Copyright Issues: As AI generates content, there will now be legal and ethical debates about who owns the rights to AI-created content.

Recommendations

We support the recommendations in the BFI Digital Production Scoping Report for urgent and further analysis of the impact of AI on skills and jobs in the animation and allied sectors.

On the specific IP and regulatory frameworks issues, we join the calls of trade bodies across the creative Industries to use the upcoming platform at the AI Safety Summit at Bletchley Park.

Building on the recent Generative AI conference for the Creative Industries and the discussions through the House of Commons Culture, Media and Sport committee, we urge a focus on the protection of IP for creatives, including animation and exploration of the training of AI systems in a manner that credits and fairly compensates, the creator or IP rights holder, i.e. under licence.
