REPORT

on

PROMOTION OF INVESTMENT IN STUDIO INFRASTRUCTURE

For the

DEPARTMENT OF ARTS, HERITAGE AND GAELTACHT

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Abbreviations

ACA	Accelerated Capital Allowances
BSE/IFB	Bord Scannan na hEireann/Irish Film Board
BES	Business Expansion Scheme
CAs	Capital Allowances
EIIS	Employment and Investment Incentive Scheme
EI	Enterprise Ireland
HER	Higher Earnings Restriction
ISIF	Irish Structural Investment Fund
NAMA	National Asset Management Agency
NPRF	National Pension Reserve Fund
PPP	Public Private Partnership
RFT	Request for Tender
TCA	Tax Consolidation Act
TFEU	Treaty on the Functioning of the European Union

SUMMARY

1. The development of the audiovisual sector in Ireland has been adopted as an important element in the Government's strategy for employment creation. An essential part of this is the attraction of foreign film and TV productions to Ireland.

2. The prospects for the audiovisual sector globally are good. Demand has been particularly brisk in the UK recently where there has been a significant liberalisation of the tax regime. As Ireland adopts a similar tax regime from 2015 on it is expected that demand for facilities and personnel will rise rapidly in Ireland also in the next few years.

3. Given a competitive tax regime, studios have a significant and growing role in attracting international film and TV productions. In this, Ireland is competing with an expanding number of very large studios in Europe and the U.K including Northern Ireland.

4. Although there has been important private investment in the last few years at Ashford Studios, Ballyhenry, County Wicklow, Ireland's studio space is relatively small and restricted in a number of ways. To capture the potential market likely to open up it is important that Ireland should have at least one large fully developed film studio.

5. Given their economic characteristics as infrastructure, the volatility of international production, the extensive subsidisation by the state of competitor facilities in other jurisdictions, Irish studios, though busy, are unlikely to be able to generate cash for significant development and expansion.

6. In principle promoting investment in a studio can be by means of one or more of a number of different types of 'one-off' capital transfers: grants, transfers of property and equity investment. It can also be promoted by recurrent aids in the form of reliefs of taxation and local authority rates.

Capital Aids

7. As forms of state incentives 'one off' type capital transfers to studio promoters whether in the form of grants of cash or transfers of land, or equity have advantages in terms of targeting, certainty and control of the investment and known limits to the cost to the Exchequer. The equity form of support also has the possibility of a return to the Exchequer. A disadvantage of these approaches is the difficulty in deciding the quantum so as to leverage the maximum investment at minimum Exchequer cost and avoid 'deadweight'.

8. The main drawback of capital transfers is the 'upfront' cost to the State at a time of fiscal stringency.

Tax Based Aids

9. 'On going' types of incentive include tax based incentives and rate remission (rates being a significant cost for film studios). Tax based incentives tend to be the opposite to capital schemes in terms of strengths and weaknesses. Introducing accelerated capital allowances for film studios would reduce the effective cost of the project to an investor. The drawback is that there is no certainty that the concession would be sufficient to induce an investment of the scale and type required.

10. As against this drawback, such schemes have the advantage that the cost of the Exchequer is deferred.

11. The Request for Tender specified consideration of the potential role of the BES/EIIS tax scheme as a channel for finance for studios. The EIIS scheme allows investments to be offset against tax at the marginal rate of 41%. By itself this could be a powerful incentive but the cost would be borne by the Exchequer, (mostly upfront). The main problem is that the EIIS is not structured to deal with this type of investment and radical changes, amounting almost to new legislation, would be required to bring film studios within its ambit.

12. In the Request for Tender the attention was drawn to the adverse impact of local authority rates and charges on the economics of studios. Rates are likely to bear relatively heavily on film studios given that they are fixed costs and large relative to studio rentals, especially given that studios are periodically unused. A revamped scheme for waivers for temporarily inactive facilities would be helpful at relatively small cost. More effective, and also economical in terms of cost to local authorities, would be temporary abatement of rates for new studios.

Public Private Partnerships

13. Public Private Partnerships (PPPs) have been used to fund infrastructural type investments (e.g. the National Convention Centre). Capital costs are deferred, there is a chance of some upside to the State if the investment is a success, and the State has a large say in the type of facility developed. The main problem is that on past experience a PPP for a studio could take years to complete.

14. In summary, the Irish Government has a number of institutions, aid schemes and tax incentives for promoting economic development. None of them is specifically adapted to or has the resources for promoting a major studio development. Either they don't have the mandate for such a development or if they have the mandate (i.e. BSE/IFB) they don't have the means. Each approach has its own administrative and legal problems. However, given appropriate priority by the Government these obstacles could be overcome and means found to effectively promote the development of audiovisual facilities in Ireland

I INTRODUCTION

Terms of Reference

1.1 The Department of Arts Heritage and Gaeltacht (DAHG) requested a study on capital incentives in Ireland for the promotion of investment in large scale audiovisual production facilities. The Request for Tender (RFT) defines large scale as sound stages of 30,000 square feet or more. Included in the brief is the potential role in such investments of decisions by local authorities with respect to rates and development charges.

1.2 The items listed in the RFT have been reviewed together with other items of relevance. It has to be emphasised that this is a preliminary review of the field: the survey touches on a number of issues which will require examination by specialists (e.g. lawyers, financiers, film makers) if they are to be taken further. A strategy for studio development in Ireland will be contingent on the outcome of these more detailed examinations.

Methodology

1.3 The methodology adopted was desk research of already-prepared material on the industry which had been commissioned by the Bord Scannán na hÉireann/Irish Film Board (BSE/IFB). However, some of this was a few years old and it was supplemented by an internet search of relevant web sites. In addition there was a number of face-to-face and telephone interviews with people in the industry and personnel in government agencies. A list of these is included in the Appendix.

Growth of the Audiovisual Industry

1.4 Over the last number of years the audiovisual industry has become an important feature of the Irish industrial scene in terms of employment, production and exports. In 2008, in the latest comprehensive survey of the industry (PWC 2008), PWC consultants estimated employment to be in excess of 5,000 and production to be worth about €550 million.[1] Since then a second major studio has opened up, as have some temporary establishments, and all of them, including the long-established Ardmore studios, report that they are busy. It is therefore very likely that employment and output are substantially higher than in 2008, something that cannot be said of very many other sectors of the economy in the last five traumatic years.

1.5 In *Creative Capital*, the report of an industry group convened by the DAHG and published in 2011, a target was adopted to double in five years the output and employment of the audiovisual industry in Ireland.[2] The report outlined a number of measures aimed to expand both the indigenous industry and to attract foreign productions to Ireland. In February 2012, the Government incorporated these proposals into its *Action Plan for Jobs 2012* devoting a section of the Plan to the industry as part of the wider arts and cultural sector.

1.6 A variety of factors have contributed to growth of the Irish audiovisual production industry in recent years including world-wide demand for audiovisual productions and the development of

[1] *Irish Audiovisual Production Content Review.* PWC. 2008.

[2] *Creative Capital: Building Ireland's Audiovisual Creative Economy*. Report of a Steering Group set up by the Department of Arts, Heritage and the Gaeltacht. 2011

indigenous capacity. As to the first, digital technologies have opened new channels, including broadband and mobile, for consumption of content. The PWC *Global Entertainment and Media Outlook* (PWC 2013a) predicts that demand for filmed content and TV will rise at a brisk 3.6% and 4.3% per annum respectively throughout the world.[3] In Ireland, competitiveness in this sector has been founded mainly on an attractive tax regime and a readily available pool of personnel skilled in all branches of the cinematic arts. In addition to market and technical forces, recent liberalisation of the UK tax regime has expanded production there. Though the liberalisation represents increased competition for Ireland's existing tax regime, and may have diverted some specific projects to the UK, the increase in UK production has also led to some overflow of demand for capacity in Ireland.[4]

1.7 However, from 2015 onwards, Section 481 of the Irish tax code will be replaced by a tax credit regime similar to that in the UK but at a slightly higher rate: in addition payments to non EU personnel will be eligible for the credit, subject to a 20% withholding tax. Industry sources expect these changes to at least restore Ireland's competitiveness *vis á vis* the UK and lead to an upsurge in potential demand for facilities. Since Irish studios are already busy, and there are no concrete plans to develop new ones, there is a danger that extra production will not materialise in this country.

1.8 Within the overall world-wide increase in audiovisual production there has been a particularly strong growth in feature films and 'high end' TV productions. High end TV productions are films or high quality drama series for TV and have cinematic values almost on a par with feature films. They are distinct from relatively 'low end', cheap to make quiz shows, sit coms and 'soaps' for television broadcasters. These have potential for 'repeat' business as successful series are extended. But with their large budgets, the feature films and high end productions create strong demand for the whole range of audiovisual skills and services in the locations where they are produced.

1.9 In the past, economics of agglomeration dictated that most phases of film production took place in vertically integrated companies like the major 'studios' in Hollywood (MGM, Paramount, etc.). Improvements in transport and digitisation however mean that large parts of the production process can take place in a number of locations remote from each other and from the head offices of the production companies where most of the commercial decisions are still made.[5] Production being mobile and economically valuable to the regions which host it, the result is strong competition virtually throughout the world to attract international investment by film and TV production companies.

[3] *Global Entertainment and Media Outlook*, 2013. PWC. Available at: http://www.pwc.com/gx/en/global-entertainment-media-outlook/index.jhtml

[4] *Screen Daily*, 'Studios: the UK's capacity crunch. http://www.screendaily.com/features/studios-the-uks-capacity-crunch/5057187.article. Accessed 18 November 2013.

[5] Thus, shooting of 'The Vikings', series for MGM/History Channel takes place in the Ashford Studios in Ballyhenry County Wicklow but the 'rushes', the results of each day's filming, are sent by internet overnight to Canada for post-production.

II ROLE OF STUDIOS

2.1 In a report for the BSE/IFB and Enterprise Ireland, Price Waterhouse Coopers (PWC 2006) consulted with a number of US and UK producers and tax incentives emerged as the predominant factor in the choice of a location for filming[6]. However, it is clear that by itself a competitive tax regime is no longer enough. In fact in an increasingly competitive environment it is probably true to regard tax incentives as no more than the *necessary* conditions for the location of film production. A variety of elements make up the *sufficient* conditions including transport, communications, language, and the general business environment. Ireland scores reasonably well on these dimensions. But studio facilities are becoming an increasingly significant factor and this is one area of the country's audiovisual 'offer' which is distinctly inferior to what is obtainable in the U.K., including Northern Ireland, and further abroad.

2.2 Thus, in the PWC 2006 report, the country's weak studio infrastructure was cited as a deterrent to production in Ireland by industry representatives polled by them. The report concluded:

'…our consultation programme also indicates that it is a distinct advantage to have a studio, (respondents) stating that they (sic) will remain an essential feature of the film and television production infrastructure…. If a location does not have studio infrastructure, and competes solely on the basis of other factors such as tax incentives and locations, they may risk losing big-budget productions.' (p.33).

Economics of Studios

2.3 However, as infrastructure, studios face specific economic problems which have shaped their business strategies and led to extensive involvement by public authorities. Fully equipped internationally competitive studios are relatively expensive items to build meaning that capital costs, interest on the money invested and depreciation of the structure, are high relative to the operating costs. In fact the costs necessary to keep the facility open for business are no more than minimal maintenance and security, all other costs (e.g. electricity, set buildings, props and other production costs) being paid for by a film company when it is *in situ*.

2.4 The second characteristic is that studios have few alternative uses, at least in the short term: either they are used for film making or they stand idle. Even when there is excess capacity, and low rentals, it makes sense for studios to remain open for business at rates well below what is necessary to cover all costs as long as they cover the minimal running costs and contribute something towards the fixed costs. In these circumstances studios generate large losses, but nevertheless, do not close down. Of course this inhibits the reduction of supply and the restoration of profits in the industry. On the other hand, should demand be strong, studios could be highly profitable because, while it is difficult for a studio to find an alternative economic function when things are bad, the supply of studios cannot be increased quickly in good times either. In these respects studios are like other forms of capital intensive business such as some types of large industrial plants and office blocks.

2.5 What makes studios more likely than not to experience downward price pressures is the considerable public support for them in many countries on the grounds that audiovisual production is mobile and prized for its economic spin offs. As noted above, studios have been identified as a key

[6] *A Review of the Requirement for International Inward Productions*. PWC. 2006.

factor in attracting audiovisual activity and throughout the world many regional and national authorities have responded by subsidising their development.

2.6 Size, and associated financial risk, is also a factor which may justify public support. Market place developments indicate that large budget feature films and high end TV productions almost always require large, fully equipped studios with a full range of ancillary services in a location with good transport links.[7] The studios should have a number of stages including three of 25,000 square feet each in a total studio stage of at least 100,000 square feet. A 'tank', being a water-filled stage for shooting water scenes is an added advantage and commonly found in larger complexes. To this should be added floor space for production offices, many of which, like changing rooms, make up, cafeteria and offices, should have a high standard of finish. Several acres (at least) of 'backlot' are also important for construction of exterior sets. Proximity to an urban area for manpower, hotels and transport are also important. PWC (PWC 2006) estimated that the cost of a studio of that scale in Ireland would be about €59 million (exclusive of site) at that time.

Table 1: Characteristics of 'Best-in-Class' Studios	
1	Multiple sound stages, of varying sizes, which are modern and up-to-date
2	Flexible, competitive studio rates
3	Attentive, flexible studio management and staff
4	Large, modern screening rooms, production offices and workshop space
5	Close proximity to experienced professional labour force
6	Backlot space
7	Special features (tanks, permanent exterior sets)
	Proximity to city and good services within the city, to a broad range of ancillary services, high volumes of electricity
Source; PWC Report, 2006.	

2.7 The importance of large scale facilities was reemphasised by PWC in a recent review of trends in the industry. (PWC 2013b)[8] (See below)

2.8 In addition to physical characteristics, to be internationally competitive, studios need good management, close attention to costs and strong international marketing and promotion.

2.9 From the viewpoint of the host region and the local suppliers to the film industry, big budget productions generate the highest margins for suppliers of services including studios. In this respect they are superior to TV work - even high end TV productions. However TV work generates a large volume of demand, and, as noted above, may offer chances of repeat business, as one series follows another. On the other hand they are highly constrained by their budgets and this puts pressure on studio margins. Ideally, therefore, studios should be of a size and have sufficient sound stages to accommodate both big budget productions and high end TV work at the same time. Indeed some studios also take on low end TV productions simultaneously in order to better use their capacity. This

[7] Some high budget features have been shot without significant studios such as the *Lord of the Rings* series in New Zealand. However, the New Zealand locations were uniquely suitable to that production.

[8] PWC, *Powering Ahead*, *A report for Creative Industries,* January 2013).

mixture enables studios to attract high margin work, but at the same time spread their risks by having several customers, and to maximise utilisation of their capacity.

What do Producers look for?			
Current requirements			
Stage size	Ancillary space	Backlot	Modern technology
Minimum 25,000-40,000 Sq ft. for blockbuster films Many need stages that are at least 30 feet high	Workshops, offices, parking	Backlot can be used to build substantial sets Option vs. Filming on location	Technology continually advancing Also heightened security
Future trends			
More 'mega' stages for bigger productions	Rising budgets and production sizes increases Ancillary demand	Larger number of bigger sets produced on backlot space	Continuously modernise to remain competitive

Source: PWC *Powering Ahead*. January 2013. http://www.creativeengland.co.uk/wp-content/uploads/2013/01/Screen-Event-Website-version-RM1.pdf.

2.10 Furthermore, it is desirable from the point of view of the host region that the studio is capable of acting as a base for audiovisual related industries such as those involved in set building, lighting, electrical services and so on. The ready availability of these services on the studio campus adds to the attraction to production companies. Even more valuable in creating competitive advantage would be the capacity of the studio to act as a 'hub' of development for high value added industries in animation, special effects, post production. This would foster the emergence of a mutually supportive industry 'eco system'.

Studios: The Competition

2.11 The PWC 2006 report reviewed a total of 33 'non west coast/Hollywood' studios throughout the world which were destinations for internationally mobile productions, tabulating a number of features of the facilities, their use and ownership. Some of this data are shown in Table 2 below with the addition of a number of other facilities which have come into existence since then. In the limited scope of this assignment the focus is on just three metrics: the latest information on the number and size of studios' sound stages (the biggest and the aggregate). The attached figure presents some of this information in graphical form with new studios and additions shown in dark.

Table 2: Studios: Locations and Capacities

Country	Studio	Nearest City	Stages			
			No	Largest	Total	
						Of which Post 2006
				000 square feet		
Australia	Village Roadshow	Gold Coast	8	22	120	
	Docklands Studios	Melbourne	5	25	68	
	Fox Studios	Sydney	8	37	154	

Table 2: Studios: Locations and Capacities						
Country	Studio	Nearest City	Stages			
			No	Largest	Total	
						Of which Post 2006
				000 square feet		
Bulgaria	Boyana	Sofia	13	19	110	
Canada	Pinewood Toronto	Toronto	12	45	233	188
	Vancouver Film Studios	Vancouver	16	23	237	
China	Wuzi Studios	Shanghai	6	12	58	
Czech Republic	Barandov	Prague	14	45	180	104
France	Cité du Cinema	Paris	9	21	93	93
Germany	Studio Hamburg	Hamburg	9	24	69	
	Babelsburg	Berlin	16	79	260	
	Pinewood Berlin	Berlin	10	28	130	
Hungary	MAFilm	Budapest	4	10	33	23
	Korda	Budapest	6	63	200	
	Stern	Budapest	2	24	44	
	Raeleigh	Budapest	8	47	194	
Ireland	Ardmore	Dublin	5	15	40	
	Ashford	Dublin	3	25	55	55
	Solas	Galway	2	8	14	
Italy	Cinecitta	Rome	21	28	178	
Luxem-bourg	Delux		4		31	
	Carousel		2	42	64	
New Zealand	Stone Street	Wellington	4	25	59	
	Henderson Valley	Auckland	4	11	36	
Romania	Castel	Bucharest	9	35	110	
Russia	Russia World Studios	St Petersburg	4	8	40	40
Spain	City of Light	Alicante	6	24	111	111
South Africa	Dreamworld	Capetown	4		75	
Sweden	Film I Vast	Trohatten	2	10	11	
	Stockholm	Stockholm	4	5	12	
U.K.	Pinewood	London	16	45	214	
	Shepperton	London	15	30	71	
	Pinewood/London	London	6	8	26	
	Three Mills	London	11	13	89	89
	Ealing	London	4	9	22	
	Leavesden	London	6	32	134	
	Elstree	London	7	16	60	
	Longcross	London	4	42	76	76
	Dragon International	Cardiff	4	69	20	69
	Ramsey	Ramsey	1	11	11	
	Titanic Studios	Belfast	6	25	106	106
	Linen Hall	Belfast	2	72	5	77
US	Silvercup	New York	19	18	220	
	Steiner	New York	13	27	153	
	Kaufman Astoria	New York	6	26	80	
	Raleigh Baton Rouge	Baton Rouge	7	31	148	148

Private Investors

2.12 While large scale studios have attracted state support, maximising the role of the private sector in their development is highly desirable for operational as well as financial reasons. Production companies could have a role in this. Some production companies have actually acquired studios such as Warner Brothers' acquisition of Leavesden in England where the Harry Potter series was made. Others have taken medium to long term leases, such as Disney in part of the Pinewood complex, London. Ownership or leasing of a studio by a production company may deter other companies from using the facilities so that any producer-owner needs to be in a position to channel a high volume of business through his studio.

2.13 Partly for that reason, ownership of foreign studios by production companies is rare. On the other hand, it is not uncommon for successful individual producers to become involved in studios, though not necessarily as owners. In these cases the involvement of producers assures a sustained volume of business to the studio owners while the producers have priority access to valuable infrastructure. The participation of the producers helps make the studio a 'bankable' proposition. But how bankable depends on the nature and permanence of the involvement of the producer in the absence of an equity stake.

2.14 The Pinewood group is another model being a chain of studios linked by minority share holdings and/or management agreements. In addition to the UK it has studios in Canada, the US, Germany, the Dominican Republic and Malaysia. Pinewood is therefore able to offer facilities on a global scale to production companies and to assure a flow of business to the studio owners. The Raleigh Corporation, with management of studios in the U.S. (outside the west coast), China, Hungary and, Toulouse, France (under negotiation) is another example.

2.15 Then there are stand-alone companies which own and manage studios like any other property related business – ware-housing, offices, shopping centres. Admittedly, the studios have some rather unique features: principally the short term nature of their occupancy. Managing a studio requires an astute, flexible management style and effective marketing.

2.16 Any but the last might be interested in participating in an Irish studio and would bring resources not available in Ireland - at least not available in the required scale. The ideal is an entity which can bring capital, technical knowledge and a flow of business such as to require the least involvement by the state.

2.17 The summary points from the review of competition and of the data in Table 2, and the graph are

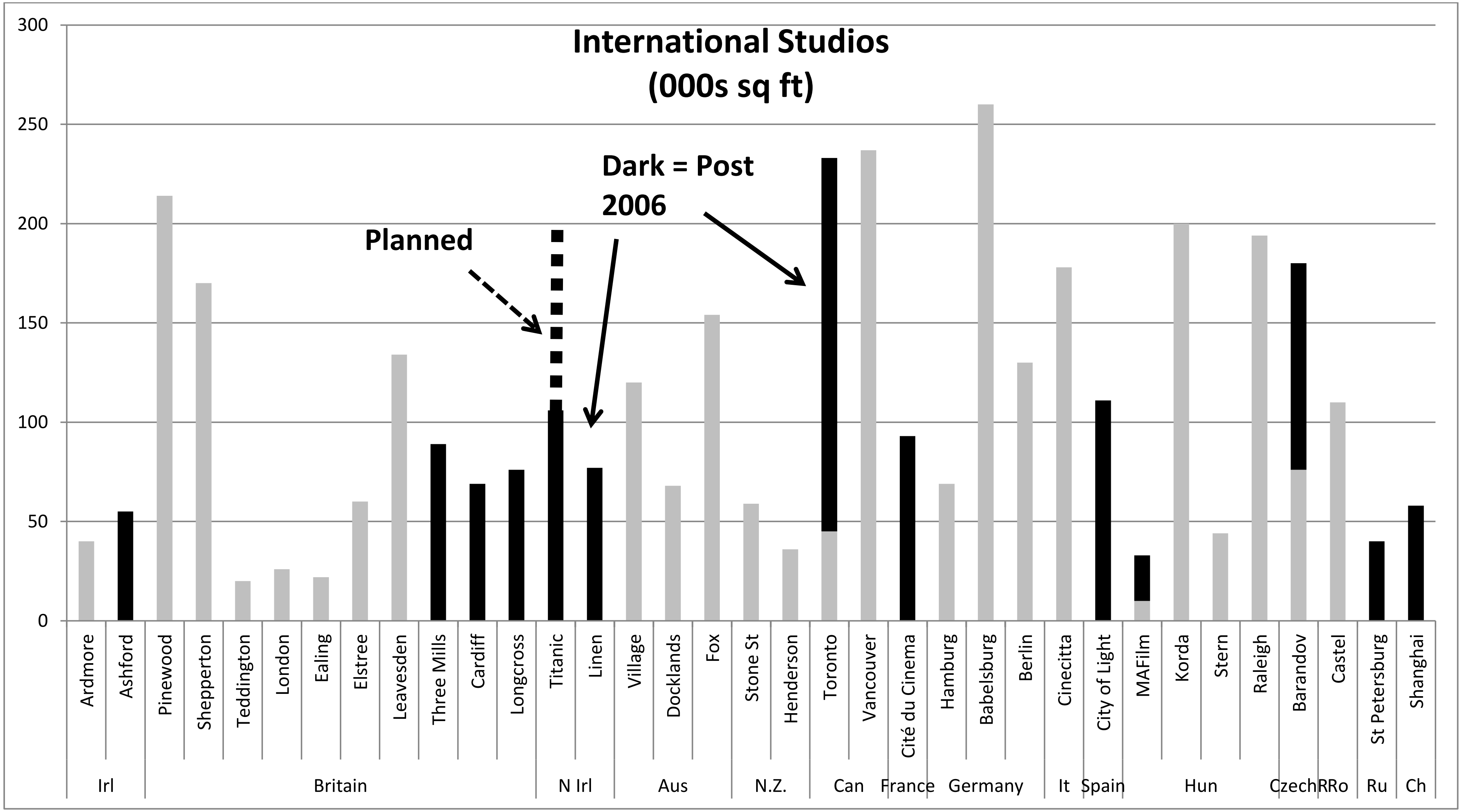
- Ireland is competing for international productions with a large number of facilities abroad with 100,000 square feet or more which is about the sum total of what is available in Ireland even after the more than doubling in recent years due to the completion of Ashford Studios.
- There have been significant new additions to the global stock of space since the PWC 2006 report (shown in dark on the graph) and others are under consideration;
- While many of these are in countries with large domestic demand (e.g. England, Australia, Italy) all the studios in the table are competing with Ireland for international projects. Close to

home, new studios have opened in Cardiff and Northern Ireland which are bigger than either of the Irish studios and are directly competing with Ireland. Furthermore, Titanic studios will add 2 x 21,000 square foot studios in 2014 and has plans for 2 x 25,000 square foot studios;

- Many of the larger studios have ancillary facilities and complexes of services which is an added attraction for incoming productions;
- Many studios have, or have had significant state involvement in the form of land transfers, grant aid, rental agreements, concessionary loans and so on. These types of assistance were involved in new developments such as those in Northern Ireland, Wales,[9] Spain, Malaysia, Toronto, the Dominican Republic, France (Cité du Cinema) [10] and Three Mills (London).

[9] In the event, grant aid promised for Dragon International was not paid when the enterprise went into administration.

[10] Screen Daily, 'EuropaCorp denies Cité du Cinéma embezzlement claims.' http://www.screeendaily.com accessed 11 November 2013.


International Studios
(000s sq ft)
Dark = Post 2006
Planned
300
250
200
150
100
50
0
Ardmore
Ashford
Pinewood
Shepperton
Teddington
London
Ealing
Elstree
Leavesden
Three Mills
Cardiff
Longcross
Titanic
Linen
Village
Docklands
Fox
Stone St
Henderson
Toronto
Vancouver
Cité du Cinema
Hamburg
Babelsburg
Berlin
Cinecitta
City of Light
MAFilm
Korda
Stern
Raleigh
Barandov
Castel
St Petersburg
Shanghai
Irl
Britain
N Irl
Aus
N.Z.
Can
France
Germany
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Spain
Hun
Czech
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III IRISH STUDIOS

3.1 The PWC report reviewed the studio situation in Ireland in 2006 which then consisted of Ardmore, two smaller studios and a number of temporary locations without sound stages. The two smaller studios have disappeared but one which was in Spiddal in the west of Ireland has been replaced by Studio Solas. However, it is primarily for low end TV production and is not a factor in international competition. The major development since 2006 has been the development of Ashford Studios, the facility at Ballyhenry, Ashford, County Wicklow.

Ardmore

3.2 Not a great deal has happened to change the physical situation in Ardmore in the last seven years. In recent years the facility has successfully accommodated a couple of major TV series (*The Tudors and Camelot*) and is engaged in another currently *(Penny Dreadful*). In addition, new management recently installed, a new business model and new services, together with the successful attraction of the current series will undoubtedly help to improve its relative position in the market.

Ashford Studios

3.3 At the price of being a little further from Dublin, Ashford Studios has substantial advantages over Ardmore in terms of size, the ready availability of locations (other than city centre locations), a large backlot (potentially several hundred acres in the ownership of the proprietor of the studio), and modern ancillaries like production offices, work-shops, cafeteria and parking. The disadvantage is that, as it stands, like Ardmore, Ashford is small by international standards in terms of total size and the number of stages which are accommodated in one building. For these reasons it would find it difficult to handle a major feature film. Even with the lesser demand of the high quality TV series it is handling at the moment, it cannot easily accommodate another production at the same time. As noted above, studio economics would suggest that viability depends on having the capacity to accommodate a number of small to medium sized productions at the same time as one larger one. This facilitates 'loading the plant' i.e. increasing aggregate utilisation rates by fitting medium and smaller productions in the spare capacity around a large budget production, and reduces the risks of dependence on one client. Ashford has ample readily available space for expansion.

'Pop Ups'

3.4 'Pop up' studios are temporary studios fashioned out of empty warehouses, industrial premises and decommissioned military sites. As these buildings are usually acquired on an opportunistic basis pending the arrival of a permanent tenant or purchaser, they tend to be of lower quality. Few studio operators are in a position to invest in upgrading the stage spaces or production offices for relatively short term use. Pop up studios therefore tend to be used for low end TV productions and some small, indigenous feature films. As these have tight budgets there is not much scope for returns to operators of these facilities. In the current economic climate the supply of potential 'pop up' studios is probably fairly large in the Dublin area. In fact at least one operator has acquired leases on industrial premises from receivers and invested enough to make them attractive to a number of production companies. While these arrangements represent a sensible use of otherwise unused properties, they are unlikely by themselves provide the range of facilities required by high end productions.

3.5 However, in Ireland and the UK pressure on studio space at the moment is such that the better type of unused facilities (i.e. commercial structures with sound proofing, good location, power supply, etc) are attracting more attention and investment. In Dublin there are known to be large industrial premises which are now empty and if purchased or leased on a long term basis, and therefore capable of being upgraded, might be the basis for a high quality studio (strictly speaking they would not then be 'pop ups').[11] However, it seems likely that it would be necessary to acquire a number of buildings, not all of which would be adjacent to each other, to assemble enough space to offer a range of stages of different sizes with adequate back lots, production offices and workshops. A studio with physically separated facilities is not an optimal solution. These types of buildings have a role but are unlikely by themselves to be the basis for the development of an internationally competitive film production industry.

3.6 In the PWC 2006 report the consultants considered that at that time there were three options for Irish studio development (estimated costs are exclusive of site purchase):

A. Redevelop Ardmore with the addition of another 10,000 square foot sound stage at a cost of €3.9 million;
B. Build a new studio with eight stages and 130,000 square feet on a green field site at a cost of €59 million;
C. Develop a new studio around an existing state owned building (to be donated to the project) with five stages and 53,000 square feet. It would cost about €25 million.

The consultants recommended Option C as a good blend of services and economical cost: BSE/IFB favoured A on the grounds that, at that time, sites were not freely available for either of the other options and Ardmore had potential space. What happened in terms of size, as a result of private investment in Ashford was closer to Option C (though without state aid and a new build). However, what is now needed is closer to B in terms of size and quality, though not necessarily on a vacant site.

[11] The Linen Mills in Banbridge and the Paint Hall in the Titanic 'quarter' in Belfast, Northern Ireland are examples of industrial structures that started as 'pop up' facilities and have now graduated to permanent audiovisual studios.

IV TAXATION

4.1 The focus of the RFT is primarily focus on incentives and aids for capital development. However, incentives which impact on operational costs and cash flows of film studios, either through reducing the tax burden or by providing services at subsidised costs, can help leverage capital development on commercial terms. It seems appropriate to consider their role in a discussion of the development of audiovisual studios. The contrary also applies to any legal or fiscal provisions which tend to raise costs. In relation to this, the question of local authority charges is specifically mentioned in the RFT.

Section 481 of Tax Consolidation Act (TCA) 1997

4.2 The main form of state aid to film and TV programme production in Ireland is Section 481, to be replaced in 2015 with a new 'tax credit'. Investors in approved film productions can set their investment against their marginal rate of tax (i.e. 41%) and the reduction in net cost is shared with producers thus lowering their cost of production. The successor scheme will take the form of a credit direct to producers at a lower nominal rate (32%) but hopefully, because it will be direct, it will have the same or bigger impact on production costs at less cost to the Exchequer. Section 481 and the tax credit scheme yet to come, like their analogues in other countries, are aimed to encourage indigenous and international production activity within the state. Section 481 has been successful in generating a good volume of audiovisual activity in Ireland. Such is the degree of international competition, however, that high levels of profitability have proved elusive in many sub-sectors of the industry. Given the economics of studios, as discussed in Section 2, and the prevalence of government support for new facilities abroad, Irish studios, though busy at the moment, face particular challenges in generating sufficient cash to reinvest in refurbished or expanded studio space.

Capital Allowances

4.3 Discussion about incentives for studio development has included consideration of the use of capital allowances (CAs) for the promotion of investment in audiovisual studios. As matters stand, audiovisual studios are not classed as 'industrial buildings' and so are not eligible for capital allowances CAs. That is, they are not allowed to charge to taxable profits any allowance for the deterioration of the fabric. This is something of an anomaly and probably relates to an out of date concept of what constitute 'industry'. It would be a comparatively simple amendment to Section 268(1) of the Tax Consolidation Act (TCA) 1997 to add them to the schedule. Indeed the Commission on Taxation recommended that eligibility for CAs should be extended.[12]

4.4 However, capital allowances for buildings are normally limited to 4% per annum for twenty five years. Considering the risk involved this might not stimulate much investment in a film studio. Making film studios eligible for *accelerated* capital allowances (ACAs), which would concentrate and bring forward the benefit, would be more effective but also a somewhat larger step in the sense that it would be going against the trend in recent Irish tax legislation which has been to eliminate building related tax incentives. However, somewhat at odds with this trend, capital allowances at the rate of 15% per annum for six years and 10% on the seventh are provided for in the 2013 Finance Act in relation certain

[12] Commission on Taxation, Report, 2009. P.203.

aviation related activities and inner city development. Consequently, it requires no very great stretch in current policy to extend the treatment to the audiovisual sector. Any such provision would require the approval of the European Commission, as do the two items in 2103 Finance Act, and a reasoned case would have to be presented[13].

4.5 Capital allowances on plant and machinery are more generous than the standard for industrial buildings reflecting the generally shorter life of this class of asset. The standard capital allowances for plant and machinery is 12.5% a year. Accelerated depreciation for plant and machinery has been in the tax code in various forms in the past (e.g. 50% to 100% in the first year) though again, as in the case of buildings, the recent tendency has been to curtail them. Even so, the current tax code provides for 100% allowances (i.e. the full cost of the investment can be charged to profits in the first year of acquisition) for specified forms of energy efficient equipment. Unlike most industrial buildings, e.g. factories, audiovisual studios do not contain much plant and machinery: cameras, mobile lighting equipment, cranes and so on are supplied by the production company. How useful any concession in this area would be would depend on to what extent the Revenue would regard air conditioning, lighting, generators and so on as 'plant and machinery' rather than part of the building.

4.6 The main difficulty with capital allowances as an incentive to investment in audiovisual studios is that they only constitute a concession when profits are being earned and for reasons already discussed, the profitability of studios is problematic. In these circumstances, the concession would be of value if the film studio business could be grouped with other profitable corporate activities. Even then, however, the value is mitigated by the fact that tax rate in question is the relatively low corporation tax rate of 12.5%. Also, of course, the profits of the other business are not guaranteed.

4.7 The incentive effect of tax concessions becomes greater (by approximately three fold) if the CAs can be allowable against personal tax rates since the relative rate is the marginal rate of 41%. There were a number of building-related schemes of this type in the early 2000s. But these have generally been closed off although the Business Expansion Scheme (BES), now the Employment and Investment Incentive Scheme (EIIS), and Section 481 are non-building related exceptions. However, over-arching all incentive schemes, other than the EIIS, is the Higher Earnings Restriction (HER) which imposes tight limits on the amount of income which a higher earners can shelter from any form of incentive. The closure of these schemes and the HER was adopted for a number of reasons including concern that they promoted excessive investment (e.g. hotels), were costly to the Exchequer and were inequitable.

Business Expansion Scheme/ Employment Investment Incentive Scheme (BES/EIIS)

4.8 The BES was introduced in 1997 and after a number of developments has now been replaced by the Employment Investment Incentive Scheme (EIIS). The scheme is intended to promote the development of small and medium sized enterprises (SMEs) which have high potential but also high risk. The incentive takes the form of an offset of the amount invested in shares in the enterprise against the investors' income tax. This can be at the marginal rate of 41% though there is a limit of €150,000 on the maximum that an investor can claim in one year. The pay-off to the investor is

[13] The two incentives in the 2013 Act have not yet been activated pending a decision by the Commission.

intended to be sale of the equity after a relatively short period (but not less than three years). There are a number of features of the scheme which would appear to negate its usefulness as an incentive to investing in additional film studio space in the State, the most obvious being that as things stand film-related activities are explicitly excluded. Also, medium sized enterprises can only benefit if they are in the 'assisted areas' of the country which excludes the Dublin region where a studio would need to be located.

Local Authority Rates

4.9 Local authorities impose rates on commercial enterprises inside their jurisdiction. They are a significant source of revenue accounting for about 35% of aggregate local authority resources. The amount of rates payable by each enterprise is a function of the value of the premises (the 'Net Annual Value') which is determined by the Valuation Office and a multiplier (the 'Annual Rate on Valuation') determined ('struck') annually by the Local Authority. The valuations are intended to reflect the annual rental value of the property and are based on rentals obtaining on comparable buildings in the same area. Obviously there can be elements of subjectivity about valuations, especially where buildings are in some way unique. Rates are a highly inflexible form of taxation and at any one time may not accord with prevailing economic conditions while revaluations are infrequent. Furthermore, properties having been valued, the Local Authorities have no scope to vary the Annual Rate of Valuation as a function of the economic condition of any class of ratepayer.

4.10 The economic burden of rates is likely to be higher on film studios than on most other forms of industrial of commercial structure for a number of reasons including:

- Buildings, which bear the rates, are the predominant physical asset of studios, and are large relative to the numbers who use them and the turnover per square foot. In these respects they differ to factories, which have plant and machinery, and offices and retail premises which are intensively used.
- For reasons already discussed, profitability is likely to be highly volatile with a general tendency to be low.
- The further problem for film studios is that they are often not fully occupied and sometimes in any twelve month period, may not be occupied at all.

4.11 With regard to the latter point, the only concession for temporary occupancy is 'Vacancy Relief', that is that rates are not payable (or in some local authorities half rates are payable) if the premises are empty throughout the year. Otherwise, once a building is occupied at the time rates are 'struck' (usually early in the year) rates in full are payable. If occupation commences after that, rates are *pro rata* for that year but are payable in full for subsequent years, even if the premises are periodically empty.

Local Authority Development Charges

4.12 A related issue, which is also characterised by inflexibility, is that of local authority development charges. These are contributions levied by local authorities on developments and are intended to be contributions towards the cost of providing local authority infrastructure (roads, water, sewerage and amenities) to the development.[14] The contributions are levied on the basis of floor space and the rate per square foot varies between residential and commercial developments and between developments in urban and rural areas but not between different types of commercial use (e.g. retail, office, factory, etc). Considering their large size, and in comparison with factories and offices, studios place relatively little load on local infrastructure. Elected members of local authorities have scope to devise rates of contribution between different types of development (industrial, office, retail, etc). It would seem a relatively simple matter within the existing legislation for them to adopt schemes of contribution which differentiate between more and less intensively-used commercial properties, such as audiovisual studios, and apply a lower charge to the latter.

[14] They can be rebated when the developer provides some of the infrastructure as part of the project.

V CAPITAL AIDS

State Aids Doctrine

5.1 Under Article 107 of the Treaty on the Functioning of the European Union (TFEU) state aids which distort competition within the EU are prohibited. State aids include grants by public authorities (governments, regional authorities, state agencies, and the like) to private enterprises. They also include purchases and sales at preferential rates and land transfers. The term also includes tax privileges.[15] However, under 107(3) some forms of aid are considered compatible with the internal market. One such form of aid is aid to promote culture - the Cultural Derogation – as specified in Article 107 (3) d of the TFEU. However, in the 'Cinema Communication' the European Commission makes clear that the exemption is not complete and that there are certain conditions which must be observed if aids to audiovisual production are to be permitted.[16] Following submission to the Commission for its approval, Section 481 and the similar incentives in other EU states meet these conditions.

5.2 The exemption does not automatically extend to aid to studios which therefore fall under the normal state aid rules. Considered as infrastructure studios might, until recently, have been exempt from state aid controls since infrastructure (roads, bridges, water mains, sports arenas, opera houses) can usually not be built without state aid. But the Commission's jurisprudence has been changing on this and in a recent case (Leipzig Halle airport) the European Court of Justice upheld the decision of the Commission's Competition Directorate (DGIV) that aid to an airport did come within the scope of State Aids. More pertinent is the Ciudad de la Luz case. This is large film studio in Alicante, Spain which the Commission decided had benefitted from illegal aid by the regional government of Valencia. It ordered the Spanish government to recover €265 million from the project.[17] Significantly, the Commission denied that the studio was infrastructure, that it promoted culture (and so did not qualify under the Cultural Derogation) or that the aid was proportional.

5.3 On the face of it, it would seem that a straight grant, land transfer, non-commercial equity or soft loan from the Government or its agencies to a studio development could come under the scrutiny of DG IV. A good deal has changed in the industry since the Ciudad Decision (2010); audiovisual production has increased, Ireland is falling somewhat behind the competition in Europe and it can be argued that further studio investment is beyond the un-aided resources of the Irish audiovisual industry. That said, aid would have to have some reasonable prospect of commercial sustainability, testified by, for example, significant involvement by a private investor, and be proportionate.

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[15] The Irish Export Tax Relief Scheme, which rebated all tax on profits from exports was considered one such and in response the Government changed it to a 10% tax on all manufacturing. This was subsequently extended to include enterprises in the IFSC. However, as standard corporation tax was about 40% the 10% rate for some sectors was judged distortionary by the Commission and the Government established 12.5% as the universal level for corporation tax.

[16] *Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee and the Committee of the Regions on certain legal aspects relating to cinematographic and other audio visual works*. Com(2001) 534 final.

[17] JO C134/21

Bord Scannán na hÉireann/Irish Film Board

5.4 The BSE/IFB has a broad mandate to promote the development of the Irish audiovisual sector the most important of which is production finance, which leverages investment from private sources and so makes an important contribution to the sector. It also supports a wide range of promotional and educational activities. These obligations absorb its budget which is dependent on a Grant in Aid which, as for most other public bodies, has been reduced during recent years. In principle the BSE/IFB could assist studio development and indeed has provided some support for the refurbishment of Ardmore. However, the scale of resources required to incentivise a large studio development is beyond the normal resources of the BSE/IFB.

Enterprise Ireland

5.5 Enterprise Ireland (EI) provides a range of support for indigenous industry which includes the Irish audiovisual sector. These include grants for training, R&D, export promotion, management development and finance for plant and equipment. However, fixed asset finance is not a large part of the Board's incentives. When it is deployed it is generally provided in the context of development programmes for its client companies and therefore includes the other aids. The agency is focused on employment creation and film studios, while they host enterprises which employ people, do not directly employ many people.

5.6 However, it has provided about €500,000 a year in support for firms in the animation and post production segments. In its role in supporting Irish exports EI has also helped fund participation in trade fairs for production companies. It could support marketing efforts by a studio company to market itself to major overseas producers. No doubt this would help defray operating costs, but this is a long way from the scale of assistance required by a studio development.

5.7 EI is the owner of a one third share in Studios which it inherited from an earlier effort by the state to support the studio. The other two thirds are held by private entrepreneurs. EI is not represented on the Board of Ardmore and has not shown any inclination to invest in the enterprise. It would in any case have difficulty in doing this given that the other shareholders either are not inclined, or have not the means, to fund the development of the studio. The absence of any sign of progress from either the agency of the private shareholders is a major obstacle in the future development of Ardmore.

Industrial Development Authority

5.8 As distinct from EI which deals with the promotion of indigenous companies, the IDA is charged with attracting foreign companies to invest in Ireland. It has an interest in the 'media and entertainment' sector which includes support to companies working in the computer related areas of visual effects, animation, games, and post production. Promoting inward film and TV production is not in the IDA's remit but the IDA does have resources for identifying, targeting, and attracting the interest of foreign investors. Given suitable policy direction the agency might have a role in promoting inward investment in a studio. The IDA also has an 'advance factory' (and offices) programme which in principle might have a role in attracting inward investment in a film studio. However, under current policy the sums available are below what would be necessary to promote a studio development.

NewERA/Ireland Strategic Investment Fund

5.9 Under the 2013 National Treasury Management Agency (NTMA) Amendment Bill, announced by the Government in May 2013 and expected to be passed into law in the next few months, the Ireland Structural Investment Fund (ISIF) will be established under the management of the NTMA. The legislation will also provide a statutory role for the NTMA in advising the government on the management of its portfolio of investments in state companies. The developments are part of the Government's 'NewERA' programme - the mobilisation of resources for economic development and job creation in an environment of fiscal constraints and economic adversity.

5.9 The National Pension Reserve Fund (NPRF) was set up in 2001 to meet the costs of Ireland's public and social welfare pension needs from 2025 onwards and was funded by annual allocations by the Government. As of 2012 it had €14.7 billion under management. Up to 2009 it operated as a conventional pension reserve fund with a global portfolio of investments, designed to maximise long term returns within acceptable risk parameters. In 2009 the NPRF was directed by the Minister for Finance to acquire stakes in the two largest Irish banks. The remainder for the NPRF, known as the 'Discretionary Portfolio', and amounting to €6.7 billion, will now be reconstituted as the Ireland Strategic Investment Fund (ISIF) and its resources will be focused increasingly on Irish investments.

5.10 The ISIF's mandate will be to invest on a commercial basis to support economic activity and employment growth in Ireland. In anticipation of the change in the NPRF's legislative mandate and while operating within its existing mandate, the NPRF Commission, which is the NPRF's governing body, formed a view that up to 20% of the Discretionary Portfolio could be committed to investments in Ireland. In that light, it has committed capital to a number of funds investing in SMEs, venture capital and infrastructure. The infrastructure element includes wind farms, telecoms and toll roads. It will also provide finance to Irish Water.

5.11 A film studio would not normally be regarded as sufficiently large or having sufficiently assured revenues to attract a pension fund investment, However, as is clear from its mandate, the ISIF has a wider role than that of a normal pension fund. Film studios can be classed as infrastructure and in the Irish context a film studio investment has potential for economic development. Whether the ISIF could become involved would depend on the exact details of the proposition, but investment in a film studio would seem, in principle, to come within the ISIF's mandate.

5.12 As noted above, the NTMA will be responsible for advising the government on the management of its shareholdings in state companies. The government could consider extending the mandate to advise on state company shareholdings in private enterprises such as the EI stake in Ardmore. A more activist approach to this stake might open the door to reinvestment in the refurbishment and extension of the studio.

National Asset Management Agency

5.13 National Asset Management Agency, (NAMA) is the owner of a large number of loans secured on land and buildings which were transferred from the banks under the National Asset Management Agency Act in 2009 in exchange for government securities. Although NAMA doesn't own the lands and buildings it can have the final say in the disposal or development of the sites and buildings where the borrowers are insolvent. NAMA's remit is to obtain the best commercial results possible from its loans portfolio so that it can pay off its own obligations. Section 2 (viii) of the Act requires NAMA to

'…contribute to the social and economic development of the state'.

5.14 Under this heading NAMA has participated with a number of agencies and government departments in locating appropriate sites and properties and giving first refusal to the entity concerned. Obviously, bound by its commercial objective, NAMA does not make properties available on concessionary terms. However, this has not prevented it in supporting social housing in conjunction with local authorities and housing associations, nor commitment of 'huge sums' for a 1916 monument in Moore Street.[18] With a large number of properties under its control NAMA could have a valuable role in locating and making available sites or structures suitable for a film studio.

Public Private Partnerships

5.15 Under public private partnerships (PPPs) a private investor builds and operates a piece of public infrastructure, such as a school or a tolled road, for a fixed number of years. In return the investor is assured by the government or one of its agencies of a certain level of payments and, where the asset is revenue earning, the state can participate in some way in any surpluses that might be generated. The public sector gains through what is hoped to be the superior efficiency of private sector management and the fusion of responsibility for construction and operation. In addition, the capital burden is deferred and hopefully reduced through the commercial success of the project. The private operator has at least some assurance of recovering his investment and may profit additionally from the revenues.

5.16 The nearest analogue to a PPP-financed studio would probably be the National Convention Centre in Dublin. Convention centres are a recognised class of asset in major cities throughout the world and are aimed at attracting convention business to their host cities. It is argued that while convention centres generate revenues, they are usually not enough to remunerate their capital. On the other hand they generate substantial travel and tourism activity for hotels, restaurants and shops in the cities in which they are located. They therefore have some of the risk and 'infrastructure' characteristics of a film studio.

5.17 One other approach to PPPs should be mentioned. This is when the state builds the infrastructure and leases it to a private sector operator under terms and conditions which assure the provision of service and, depending on commercial success, the remuneration of the state's capital. This may be a simpler arrangement than the more common type of PPP. As in the case of the more common form of PPP, much depends on the attribution of risks and responsibilities between the partners. In the current economic climate it is a disadvantage of this approach that the state's financial involvement is up-front to the extent of 100% of the cost.

[18] Jimmy Deenihan, TD, Minister for the Arts, quoted in Irish Times, December 4, p.8.

VI ASSESSMENT

6.1 Historically, the Irish government has adopted an interventionist approach to the promotion of industrial development. The result since the foundation of the state has been extensive use of monopolies, state companies, tariffs, subsidies, capital grants and tax privileges. Currently, the main instruments take the form of capital grants and tax incentives, most of the other instruments having been abandoned for various reasons including free trade, the EU's Single European Market, the need to promote competition and greater confidence in the contribution of the private sector. There are no aids explicitly for investment in film studios in Ireland, but preceding sections have looked at some of the programmes and incentives which exist for other sectors and which could be relevant to studio development. Assessing the costs and benefits of these is rather difficult since, in the first place, some would need significant change to bring film studios would within their ambit, and it is not clear how easy or quickly these changes could be made. Second an exact evaluation can only be made when a project is proposed of a specific size and configuration and with assessable risk characteristics.

6.2 However, in the absence of this type of information it is possible to set out the factors which are most likely to come into consideration when evaluating different means of promoting investment in film studios. Obviously, anything which incentivises film production activity like the existing Section 481 will encourage investment in the physical capacity of the industry. But the focus in what follows is on incentives which might be applied directly to investment in film studios or enhancing the financial aspect of studio operation. The discussion in each case is organised around a number of different dimensions of costs and benefits including administrative difficulty and impact on the Exchequer and economic effects.

Capital: Grants

6.3 A capital grant to a studio project would be along the lines of the aids historically given to investments in plant and machinery by the industrial development agencies. This approach to industrial development has been altered and scaled back in a number of ways from what it was twenty years ago. But it still exists in the industrial sphere as also in agriculture, energy, R&D and other commercial applications. Also included in this category would be transfers of land at below market cost and equity investments by state entities such as the state development agencies, NAMA and NewERA. But not all state capital transactions are positive: development levies by local authorities are capital transactions which add to the cost of investment and have the same but opposite impact of grants.

6.4 Grant types of assistance have a number of positive and negative features, especially in relation to tax based incentives (see below). Grants are targeted in the sense that they give the granting authority control over the type of development which takes place: size, configuration, location, function, timing and so on. Secondly, they are certain and limited: the amount involved is known at the outset. Thirdly, grants offer the possibility, which may not be realised in practice (also see below), that the amount can be calibrated to produce a given result: awards can be varied up or down depending on potential demand. At the limit that means that the authority is assured that the investment will take place (assuming it is prepared to offer sufficient inducement). In all these respects grants are superior to tax related incentives and alleviations where the volume and type of response cannot be known for some time after its introduction. This may be a serious risk in policy execution especially when, as in the case of studios, there may be a future shortage of supply. The Exchequer costs of tax based incentives are also open ended.

6.5 Administration of grants can be simple: the BSE/IFB has the mandate to give grants for the film industry and therefore it is a simply matter to expand its grant in aid appropriately. For other state agencies aids for a studio development might prove a bit more difficult to procure since they are not primarily concerned with that sector and are under different Government Departments. It could be that some forms of capital aid from some agencies would require legislation which would be more difficult again and would take more time. However, all of these administrative and legal obstacles can be overcome if the matter attracts priority.

6.6 What can be difficult about grants is deciding on the amount that needs to be given to produce the desired result and no more than that. Too small a rate of grant and nothing happens, which produces delay while grant levels are being reviewed; or, if investment materialises, the grant is insufficient to ensure viability in the face of commercial conditions. Too much assistance and there is a risk of deadweight. This is where the investor would have invested with a lower level of grant or the investor is tempted to provide an overspecified facility (gold plating). There is also what might be termed reverse deadweight: the net cost to the investor is so reduced by the grant that he is under little pressure to put the studio to use!

6.7 At the limit, where it is apparent that a high rate of grant is necessary to elicit the necessary investment, the Government is tending to substitute its judgement for that of the market which is a negative indicator of future viability. Of course in reality, in the context where there is likely to be only one or two awards of grants, the State cannot avoid becoming involved in decisions about location, size, configuration and so on.

6.8 But the largest difficulty with capital aids is that they involve a large up front disbursement by the state in a time of fiscal stress and where there are absolute limits to the resources available. This applies very evidently to cash grants from Government Departments or the state development agencies. It would also apply, though less evidently, and only in the long run, to below cost transfers of land and property and to investments by NewEra/ISIF.

Capital: Equity

6.9 In principle, the state could promote the development of a studio through proposing an equity contribution to a private investor or investors. The financial characteristics are the same as for a grant except that there is a chance of a return and perhaps recovery of the investment in the event of success. On the other hand, while grants can be repayable in the event of failure, equity means higher risk. Unless the state is a majority partner, in which case the venture is a state company, minority ownership does not convey great power over management of the venture. Equity seems to carry few advantages over other forms of capital incentive and has several of their disadvantages.

Public Private Partnerships (I)

6.10 Reference was made in Section V to the form of PPP which involves the construction by the state of an asset and leasing it or licensing its use, subject to conditions, to a private operator. This is included here since, in shouldering the entire cost of the facility, it is the extreme case in terms of financial commitment by the State. The advantages and disadvantages of this approach are immediately apparent by reference to the preceding paragraphs. On the positive side, the certainty and control features of grant aid over the investment are enhanced. Furthermore, the conditions of the license will ensure the volume and type of exploitation which the Government requires. Finally, there is the possibility that, should the venture be a success, the Government can financially benefit from license fees and profit share (depending on the terms of the license). In the event of success the state could also recover all of its investment, and perhaps more, through privatisation of the asset. The approach has upside potential that most other forms of state involvement do not.

6.11 One other potentially valuable feature of the arrangement is that it might be more likely to attract occupancy by studio management companies and/or production companies than investment incentives per se. Unlikely to be interested in making capital commitments these types of operator could prove effective conduits for the attraction to Ireland of international productions.

6.12 On the other hand the disadvantages include:

- Risk factors are also increased since the Government is deciding what the market needs. While the Government can take advice from consultants and other experts, this is of a qualitatively inferior quality to the guidance which comes from a private investor with something to lose.
- In place of deciding on the amount of aid which should be granted by a means of a grant, the Government has the problem of deciding on the terms of the license. The same problem of striking a balance between leniency and stringency occurs. Negotiation with potential licensees could prove long drawn out.
- Another risk is that the configuration of the facility may not be exactly what the licensee requires and the result may be sub optimal. This is one of the reasons for the Build Design Operate Manage and Finance (DBOFM) PPPs where the partner operates the facility which he has designed and built.
- But the major drawback to such approaches is the budgetary one. As for all forms of capital aid: the Government has to put up funding at the outset (in fact it has to start perhaps two or three years before a licensee can commence operations) and, unlike grants, has to do so for 100% of the cost.

Tax Based: Capital Allowances

6.13 As noted discussion about the promotion of investment in film studios has included suggestions about making studios eligible for accelerated capital allowances. It was noted that including them in Section 268 of the TCA 1997 would not be a very big change to the provisions of the Section., Permitting accelerated capital allowances (ACAs) (as in 15% for six years plus 10% in the seventh) is a slightly larger step give that such allowances are rare. Administration of the concession is simple – certainly by comparison with any scheme involving cash disbursements.

6.14 Like grant schemes and rate remissions which are open to all, ACA's do not permit the authorities to exercise much control or direction over the investments which qualify. The reliefs are open ended in as much as the revenue lost is a function of the number of takers.

6.15 The main disadvantage is that, by themselves, it is not clear what their effectiveness would be. In the first place the financial impact is moderate: the net present value at 5% of ACAs over seven years against profits taxed at 12.5% is to knock about 10% off the capital cost of the asset. Faster rates of ACA could be permitted against plant and machinery but this is a small part of a studio building.

6.16 The second difficulty with capital allowances as an incentive to investment in audiovisual studios is that they only constitute a concession when profits are being earned and for reasons already discussed, the profitability of studios is problematic. In these circumstances, the concession would be of value if the film studio business could be grouped with other profitable corporate activities. Even then, however, the value is mitigated by the fact that tax rate in question is the relatively low corporation tax rate of 12.5%. Also, of course, the profits of the other business are not guaranteed.

6.17 The incentive effect of tax concessions becomes greater (by approximately three fold) if the costs can be allowable against personal tax rates since the relative rate is the marginal rate of 41%. However, reversing the trend in recent years to close off building related investments against the marginal tax rate, and also relaxing the Higher Earnings Restriction (HER) for the single exception of film studios, would be difficult at the political level.

6.18 Tax based schemes have the very large advantage over capital schemes in that the cost, in terms of revenue foregone, is spread over a number of years, and also do not formally appear in the budget. Indeed, if the counterfactual is that without the ACAs the investment would not take place, then nil revenue is foregone. However, this does not hold if the ACAs are offset against non-studio profits. In these cases the ACAs are the equivalent of a straight, though deferred, grant from the Exchequer.

Tax Based: EIIS

6.19 The foregoing discussion has anticipated many of the positives and negatives of changing the EIIS to embrace investment in film studios. Like other tax related schemes administration is light, but control is limited unlike capital aid schemes, revenue foregone is open ended, but up front outlays are avoided and so on. Major difficulties occur in the legislative/political aspects. As noted above in Section IV, the EIIS cannot be used for film related activity as that industry is specifically excluded. Secondly, under State Aids limits, the main benefit of the scheme is confined to projects in the assisted areas whereas it is in the unassisted area (i.e. the Dublin region) that facilities would be provided. There are other conditions in the scheme which might prove to be obstacles. One of these is the upper limit of €2 million on the amount of EIIS funding for any project. This is small in relation to the likely total cost of a major studio. Altogether, trying to get around these features would be tantamount to new legislation.

6.20 But the largest question is whether the scheme would be effective in eliciting investment given the uncertain commercial prospects for a film studio. Unlike Section 481, there are no guaranteed exits for investors: EIIS funds are genuinely at risk and the risk in a studio is high.

Rates

6.21 In the model of studio economics presented here, in which revenues are likely to be volatile, it is clear that fixed costs pose particular hazards. Rates are almost certainly the largest of these as far as studios are concerned and all the more so since it seems likely that rates will be high relative to studio rentals.

6.22 Improving the ease with which studios can invoke vacancy relief would clearly reduce the risks from operating studios. The object would be to levy rates as a function of the amount of the year for which studios are in commercial use, rather than the existing regime which, as described in Section V is highly inflexible.[19] It might be of particular benefit to 'pop-ups' given their tendency to temporary and transient occupation of facilities. It would have the incidental benefit of extracting some use from the many industrial buildings in the hands of receivers and administrators. There would be some loss of revenue from facilities which are now paying whole year rates on temporarily occupied premises. But the stimulative effect could exceed that, and in addition there would be the other knock on economic benefits of increased production. The change would require a small alteration in the legislation. On the other hand, it should not be difficult to administer since there are only a small number of potential beneficiaries. What might be termed 'fiscal creep', the tendency of a concession in one sector to be demanded by and awarded to other sectors, might arise at the political level, since other industries can claim temporary usage as a result of e.g. seasonality.

6.23 Complete abolition of rates on film studios would correct a strategic weakness as well as dealing with the problem of temporary occupation. This could be done by including studios in Schedule 4 as cultural structures like the National Concert Hall, and so qualify for complete exemption from rates. But structures in Schedule 4 (other than agricultural buildings) are not for profit organisations and including commercial enterprises in Schedule 4 would violate the principle underlying the Schedule. Indeed the Commission on Taxation was critical of complete exemption from rates for some Scheduled institutions (like educational institutions) which generated significant revenues while still not being profit making overall.[20] The costs and benefits outlined above with regard to temporary rates would apply here, most of them on a larger scale. There would be some dilution of revenue from existing studios which would be no longer obliged to pay rates. The legislative change would be quite significant since an important principle in Schedule IV would be altered. Presumably, because the value of abolition is much larger than the temporary waiver, the lobbying for extension to other industries would be more intense.

6.24 An alternative approach to total exemption, which would meet some of the disadvantages yet would still retain significant stimulative effect, would be to permit the temporary abatement of rates for new facilities. Rebating rates for the purposes of promoting development is not unprecedented: there was a provision in the 1986 Industrial Development Act, now extinguished, which allowed local authorities to rebate up to 66% of the rates on industrial structures for nine years after their construction. The buildings had to be certified by the IDA as part of the programme of industrial development. Resuscitating this provision, replacing the IDA with the BSE/IFB and applying it to audiovisual faculties would seem to be the most promising approach to dealing with the problems that rates pose for film studios. The stimulative effect would not be as great as total abolition but would have a valuable effect in bringing the facilities into existence, and would eventually generate rates. It

[19] The Commission on Taxation urged such an approach to vacancy relief. Report. Of the Commission on Taxation, 2009 p.424.
[20] Ibid p. 437.

might accelerate investment if qualifying investments had to be made within two or three years of commencement of the clause.

6.25 Presumably the change could be implemented by amending existing legislation. The administration would be trivial since there would be very few applicants. Pressure from other industry lobbies would be somewhat dampened if the clause itself was temporary. Since it would apply to new facilities there would be no dilution of local authority income through claims from existing studios.

Public Private Partnerships: (II)

6.26 Conventional PPP schemes have all the control and effectiveness advantages of grant schemes without the upfront capital cost. The control aspects extend not just to the investment but also to the operation of the asset: the terms of the agreement can specify the amount and type of activity to be undertaken. As for the other type of PPP (PPP (I), it might prove an attractive route for international operators to participate in the Irish film industry. Depending on the agreement and the degree of commercial success, PPPs can give the Government some upside possibilities from revenue and/or gain on disposal.

6.27 The success of a PPP-financed studio would depend on the mixture of incentive and assurance to the private investor. Too much assurance and there is no incentive for the private partner to generate business. Too heavy reliance on revenues for remunerating the capital, and the operation may struggle to raise finance.

6.28 The outstanding disadvantage is negotiating a PPP which strikes the right balance between these opposites. In the case of a structure with unique features, like a film studio, completing PPPs has proved extremely difficult in Ireland. Legal agreement has to cover all eventualities and for a unique project these are hard to anticipate. Thus, the PPP for the National Convention Centre, and also for other projects which in the event did not go ahead (e.g. the National Concert Hall), took years to complete. However, it should be noted, that in the particular example of the film industry where the object is to promote one large development, decisions on grants (or equity) would pose similar problems.

SUMMARY: INCENTIVES FOR INVESTMENT IN FILM STUDIOS								
	Vacancy relief. Remission on temporarily empty	Rates Rebate for limited time and less than 100%	Grants	Equity	PPPs (reverse)	Accelerated Capital Allowances	EIIS	PPPs (License)
Administrative burden in set up and on going	Difficult to assess validity of claims	Simple	Difficult decisions to determine amount of grant and recipient(s)	Difficult decisions to determine amount and recipient(s). Ongoing monitoring.	Very difficult	Simple	Simple	Very difficult
Statutory Change	Amendment to existing clause only	Amendment to statute	None	None	None	Amendment to existing clause	Major amendment. New principles in EIIS statute.	None
Political	Some from local demand for extension to other industries	Some from local demand for extension to other industries	None	None	None	None. ACAs already exist. Would not add to existing pressures (if any)	None. EIIS exists. Would not add to existing pressures (if any)	None

Economy (cost of implementation to Exchequer)	Loss of revenue on existing facilities. But revenue likely from more development (especially pop ups).	Applicable to new facilities so revenue loss likely to be small. Long run gain.	Significant upfront cost.	Significant upfront cost. But some possibility of pay back.	Significant upfront cost. But some possibility of pay back.	Moderately significant as offset to already existing taxable profits.	Possibly none given that investors might invest in another EIIS scheme anyway	Risk that it could be high. But also chance of payback.
Efficiency (likelihood to encourage investment)	Some chance to stimulate some investment.	Moderate chance of stimulating investment given burden of rates in volatile business	Highly efficient in producing investment	Moderate to high chance of stimulating investment.	Highly efficient in producing investment	Moderate chance of stimulating investment.	Not likely because of high risk. Also, limits are low relative to total cost.	Moderate to good chance of eliciting investment.
Effectiveness (likelihood any investment will encourage overall film production)	Effective but on a small scale.	Moderately large impact	Large impact foreseeable.	Large impact foreseeable.	Large impact foreseeable. Attractive to international operators	Moderate impact	Moderate impact.	Large impact foreseeable. Attractive to international operators

VII CONCLUSION

7.1 The Government has a large number of organisations and instruments for the promotion of economic development. None of these is specifically devoted to the development of audiovisual facilities, other than the BSE/IFB which has a general mandate to promote the industry, but lacks resources. However, in principle many of the organisations and incentives reviewed could participate if appropriate policy priority was accorded to the project. The incentives evaluated each have specific advantages and disadvantages. The approach to be adopted depends on the priority attaching to ease of administration, speed of execution, degree of control, budgetary implications and so on. But there is no doubt that there are means available for the state to ensure that audiovisual facilities in Ireland are developed.

7.2 The foregoing review presents a first step towards the formulation of an approach. To progress matters further, specialist evaluation of the provisions of the existing tax code, and of feasible changes thereto needs to be made. Domestic and EU law on state aids also needs to be considered by specialists.

APPENDIX LIST OF PERSONS INTERVIEWED

Peter Allecatero, Manager of Production, MGM

Nick Ashmore, National Pension Reserve Fund

Naoise Barry, Film Commissioner, Irish Film Board

Eileen Bell, Enterprise Ireland

Ann Byrne, Finance Department, Wicklow County Council

Mary Cannon, Projects Department, Office of Public Works

Killian Carroll, Financial Director, Convention Centre Dublin

John Conlon, Industrial Development Authority

Linda Crosbie, Enterprise Ireland

Deenihan, Torlach. IBEC Audiovisual Federation

Emmanuel Dowdall, Industrial Development Authority

David Ferris, Edwards Symons, Bristol

Owen Hanrahan, Enterprise Ireland

James Hickey, Chief Executive, Irish Film Board

Eddie Lewis, Lecturer, Institute of Public Administration

Colm Lynch, National Development Finance Agency

Alan Maloney, Parallel Films

Teresa McGrane, Deputy Chief Executive, Irish Film Board

Paul Mee, Mazars

Pauline Moore, Planning Department, Wicklow County Council

James Morris, Chairman, Windmill Lane Pictures

Vivian O'Brien, Revenue Commissioners

Conor O'Carroll, Blackthorn Studios

Joe O'Connell, Ashford Studios

Morgan O'Sullivan, Managing Director, World 2000 Entertainment

Súin ni Raghallaigh, Chief Executive Officer, Ardmore Studios

Gary Tobin, Department of Finance

Martin Whelan, National Asset Management Agency

Robert J. Wilson, Linen Mills Film Studio