



Select Committee on Communications

Corrected oral evidence: Public service broadcasting in the age of video on demand

Tuesday 14 May 2019

4.40 pm

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Members present: Lord Gilbert of Panteg (The Chairman); Lord Allen of Kensington; Baroness Benjamin; Baroness Bonham-Carter of Yarnbury; The Lord Bishop of Chelmsford; Baroness Chisholm of Owlpen; Viscount Colville of Culross; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin.

Evidence Session No. 10

Heard in Public

Questions 93 - 101

Witnesses

I: Charles Lauder, Chief Executive Officer, Indie Club; John McVay OBE, Chief Executive Officer, PACT.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Charles Lauder and John McVay.

Q93 The Chairman: Let us get on with the second session this afternoon of our inquiry into the future of PSBs. Our witnesses are Charles Lauder, CEO of the Indie Club, and John McVay, chief executive of PACT, representing producers and production businesses. Thank you both very much for joining us today. I will ask you to introduce yourselves in a moment. The session today will be broadcast online and a transcript will be taken. I ask both our witnesses to introduce themselves and their organisations, and to start by giving us a brief overview of the changes taking place in the UK production sector and their assessment of how PSBs will respond to those changes and the challenges that come with them. I think both our witnesses heard our previous evidence session, but we very much look forward to hearing their perspective on these issues.

John McVay: Thank you very much. I will try to keep this brief because it would be good to get into some of the debates on these questions. I do not pretend to have all the answers but it is right that we question this. I am chief executive of PACT, the producers' trade association. The other day I had to check out our certificate of incorporation and found out that we were incorporated in 1991, so we will be 30 years old quite soon. More interestingly, we were incorporated on 4 July, Independence Day.

I have been in the business most of my adult life. I started as a musician and then became a producer and trainer. Latterly I have been involved in a lot of work around the creative industries sector deal. I have worked a lot with Baroness Benjamin on kids' issues and have been involved in getting through the Contestable Fund for kids, so I was interested in some of your questions about that.

On the challenges facing us as an audiovisual economy, I do not often say this but I think generally we have never had so much money pouring into UK content from various sources, both domestically and, critically, from America. We are taking what I often call OPM—other people's money—and investing in British creativity, British talent and British excellence. That is why we are the second biggest audio-visual economy on the planet. We punch way above our weight. That is not without challenges, but when I see challenges around rising costs and talent inflation, I think I would much rather have to deal with first-world problems than with issues of unemployed writers, actors, directors and entire creative industries. There are challenges and those challenges will never stop, but we are now in a world where these questions will be part and parcel of every single executive's everyday life: how do we react, how do we compete and how do we respond?

Your investigation is timely. There are some substantive issues to understand, but by and large the remedies will come from making great content. What we have seen since UK broadcasting moved away from the schedule school of American acquisition to high levels of British original content is that the more we give people, the more they want,

and they want it quicker and better. We have risen to that challenge as a community and as a culture, and that is a good thing. Competing countries—some in Europe, where they are subsidised by cultural levies and bureaucracy, and even Canada, which sits next door to the biggest audio-visual economy on the planet—are suboptimal. We have a market-focused economy based on audience, excellence and performance, and those are the three things that will see us through this. There are challenges but I think the fundamentals are very strong.

Charles Lauder: Thank you my Lord Chairman and I welcome the opportunity to speak to you all. My background is that I was at Granada Television for a long time—I recognise Charles Allen—then left the industry to do something else because of, for want of a better term, the challenges that came from being someone like me trying to make a career in the industry: someone who lived up north and found that, as a freelancer, he was consistently having to travel down to London and ignore the growth of a young family.

In terms of what Indie Club is, we are dedicated to a multiplicity of voices being articulated in UK television and a belief that in order to do that you need to invest and nurture truly diverse talent and support sustainable and robust creative ecologies throughout the nations and regions. The reason why I say that at the start is because I think that most dispassionate observers would suggest that PSBs have been a bit slow in recognising the impact of the changes on the industry, and in focusing now, a lot of that has been seeing those changes as threats.

I agree with what John has just said: this issue must be considered in the context of content. And so from our point of view, if those changes and meeting those changes and those challenges result in a greater engagement with the nations and regions, and the voices in the nations and regions, as a means of making the kind of content that will continue to be the best, then that is an opportunity. Among other things, it will take us a little closer to fulfilling what was the spirit of the legislation that you and your colleagues in the other place enacted in 2003.

Q94 **Baroness Bonham-Carter of Yarnbury:** You have just said that you were very optimistic and that the success the whole UK TV industry enjoys is based on audience, excellence and performance, but there is evidence that young people are not responding and watching in numbers that make it look very healthy for the future. What do you think the PSBs should do to change that? This also rolls into the question of reaching out to a greater variety of groups. As Alastair Fothergill said, Netflix is appealing to a greater variety of young people than maybe our PSBs are. This is rather a big question.

John McVay: Interestingly, younger people are probably the focus for all this but 78% of all audiences surveyed by Ofcom claim that they watch television because they want to watch something new. Repeats are not so good; filler programmes of old repeats do not work so well unless they are classics. We all want new stuff, and young people, being young, want more new stuff than anyone else. They want something that distinguishes them as being young and rebellious or diverse in their

views. That is a content-editorial challenge and something that the PSBs are well placed to deal with. We will see what Channel 4's new strategy is, and that relates to out of London as well.

I think the BBC has dropped the ball. BBC Three has not reached the audience online that the BBC claimed it would. It basically followed the kids to YouTube with a distribution-led strategy but it is still not getting the numbers. As for the BBC's current proposition to extend the content that it can put up on iPlayer, if you put 100,000 hours of BBC content on iPlayer but no one in that demographic wants to watch it, they still will not watch it. If you commission stuff that they really want to see, they will come and watch it. That is an editorial challenge. The problem—and this is a decision that all broadcasters, whether commercial PSBs or the BBC, face—is where you spend your money and who you are trying to engage with. If I were ever in the position of trying to decide where the BBC should spend more of its money, I would say that it would be on that demographic and giving them compelling and engaging content to convince them to be licence fee payers of the future.

Build your audience, in the same way that I hope the new children's Contestable Fund will build audience on the PSBs for kids watching those channels, rather than just watching YouTube. It is not, "Distribute it and they will come"; it is, "Create it and they will come", because that is what we all want. I do not think anyone aged from 18 to 34 is different from me. They just like different things.

Charles Lauder: I will start by recounting a tale told at Edinburgh last year by a young woman called Grace Victory. She had become quite known in the vlogosphere, and had then been attracted to work with one of the PSBs. She said that the reason she ended up doing stuff online was that, "I had been watching telly for ages and I didn't see anything on it that reflected people who looked like me or spoke about anything I gave a damn about".

She then said that having been persuaded or seduced—whatever the expression is—to work with a PSB, having brought her in, they spent most of their time telling her how not to do the thing that had seen her do and had brought her on board to do in the first place—so much so that she was considering leaving and going back to vlogging.

For me, the answer is to engage with young people, ask what they want and include them in the decision-making about what you make for them. I was chair of Contact Theatre in Manchester, one of the leading young persons' theatres. One of the things that marked Contact out as being different from others was that the young people were part of all the decision-making relating to both the building in which they were operating and the product produced in that building.

John says it is about content, and that is it. It is about who makes the decision about what the content is. If the young people you are hoping will watch are not part of that process, the chances of your making the right stuff are already diminished.

Baroness Bonham-Carter of Yarnbury: Picking up on what you both

said and something that was in your written submission, the BBC—I am picking on the BBC here—overemphasises the competitive challenge from the SVODs. Would you agree with that: it is more about what the BBC supplies than the competition out there?

Charles Lauder: What the BBC does for children, it does wonderfully well and part of that is because of what informs the decision-making, in terms of what it puts on for children. I suggest that if it uses a not-dissimilar model for how to engage with those who move from being children to young adult era that maybe they would see similar success.

John McVay: According to the BBC's own public-interest test, if the BBC was able to extend viewing of their current content by at least 12 months, that would come second-to-last in the reasons why 16 to 34 year-olds would watch more BBC.

It is not about giving them more, it is about giving them what they want. We have talked about the BBC about this. We recognise that distribution is changing, we recognise that news patterns are changing—one would be stupid not to—but we hear a lot about more distribution and more content being made available across more channels, more real estate.

We keep saying, "But what's your content strategy?" That is the most exciting thing you can talk about. It is about inclusion, nations and regions, and a whole range of things that I know concern you and colleagues in the other place as well.

We live in a nation that is changing fast, and broadcasting should be at the front of that and catching that, not saying, "If we just put more of the same up, somehow that will sort it". It just does not make sense to me.

Q95 **Baroness Quin:** Charles, what you said in your opening comments about the nations and regions certainly resonated with me as a north-easterner. I would like to explore that a bit more with both of you. How much do you feel that public service broadcasters are doing to appeal to and represent the regions and nations of the UK, including supporting local production?

In answering that, could you flag up any parts of the UK that you think are falling behind or where there are skills difficulties or other difficulties that might be making them underrepresented in the sector?

Also, picking up on something that John said about money coming in from the United States and so on, does that money get spread around the UK, or does it tend to get concentrated in particular areas?

I would like comments from both of you on these issues.

John McVay: Inward investment will go where there are locations or studios, or for editorial reasons.

"Outlander", which is made by Starz, a big American SVOD, is made in Cumbernauld, and has economically regenerated what was not the most economically dynamic place. If we look at "Game of Thrones" in Belfast,

God knows how much money has been spent in Belfast over the run of the series—and no spoilers from me if you have not caught up yet.

The key issue for public service broadcasters, and what we have been pushing in the Ofcom review, is that the way you drive production economies in centres such as Newcastle and Birmingham, which used to have thriving production economies, is through returning series—long-running work in which you can retain talent and develop the high-level skills needed. Short runs and singles do not do that, because people like Charles, who have families, cannot get work, take alternative employment or move to London.

It is about long-running series, and we are encouraged by the BBC's ongoing commitment in the charter to spend 50% on network out of London. It will have to work hard to make that meaningful. Also, Channel 4 has increased its voluntary commitment, which is 50% of their programming spend by 2022.

The Chairman: What is the BBC currently at?

John McVay: It meets the 50%, although that 50% does not just go to independent producers, but to in-house production as well. It just has to spend half its budget on network—BBC Studios could take 30% of that and the BBC would still qualify. It is not just spent on independent producers.

For Channel 4, it must be spent on independent producers, because it does not have in-house production. That is a huge opportunity. Having gone around the country working with screen agencies, LEPs and combined authorities, we have just opened an office in Leeds, where we have set up a new, out-of-London base. We are developing two new growth accelerator programmes to help companies scale up, get work and get international, because once you go international you have a mixed economy; you are not relying just on UK revenues. Half our members made over half a billion pounds last year on non-UK original commissions, for the first time in history—an undernoted achievement.

There is a huge opportunity and challenge that will involve local authorities, talent, skills and the broadcaster, to ensure that this money leads to returning series in all the major cities, including Newcastle.

I reflect that although Netflix often gets a hard time here, "Sunderland 'Til I Die" was Netflix's top documentary last year, a brilliant piece of work about a very special local football team, and all that money was spent in Sunderland. Maybe not your special local football team—

Baroness Quin: It is, actually.

The Chairman: Briefly on that, there is transparency about the percentage of PSB production made outside London, but are there any figures for the non-PSB commercial broadcasters and the SVODs?

John McVay: No, because they do not have any specific out-of-London commitments. Only the PSBs are given that, under licence. It is in effect a public policy agenda on the PSBs, which some of them—maybe not so much now, but in the past—saw as a burden.

The Chairman: So the data is not available?

John McVay: Not for the commercial companies that I know of. Adam Minns of COBA may be better placed to answer that.

Charles Lauder: The figures relating to the PSBs are quite stark. Of the revenue generated by independent production operations in 2017, 90% was in London. It is very clear that there is a disparity that could and should be addressed by the PSBs.

John mentioned returning series, of which 86% were made by production companies based primarily in London. It is not only about returning series, but also about new series. You would rebalance the equation by saying that if there are returning series, get some new series that may themselves become returning series, and make something like 75% of them in London.

There is a really interesting thing about how one would seek to address getting that multiplicity of voices that I referred to. Some of what John has talked about regarding screen skills and so on is quite important. It is also about saying that this is how we are going to make content that will be fresh.

There are not that many stories to tell, so it is a question of who is telling them. It was said earlier that audiences value content that reflects their experiences. That will not happen if they are not made by the people who actually have lived those experiences and understand them. One thing that would help that in terms of moving things on—I expect we will get to it later—is about where the commissioners are based.

The Chairman: We will come to that. It is important.

John McVay: When I use the phrase “returning series”, I mean that in the sense that, obviously, a series begins as a new series and becomes a returning series—not just “lift and shift” as it is called. I was talking about new series based in those places which can become returners.

The Chairman: Your point about the importance of returning series to creating sustainable structures is well made.

John McVay: It is fundamental. We did research for the Ofcom review and found that there was an asymmetrical structure between out-of-London companies and London-based ones, including BBC Studios, which showed that most London companies got shorts—that is, one programme—singles or short runs of three programmes.

There were very few returning series and that is what changes the entire production economy.

Baroness Quin: What can or should government be doing to get a better regional and national spread across the UK?

John McVay: I will give you a very practical example from my experience. We have opened up in Leeds and are working very closely with the combined authority there, which has been working closely with Channel 4. When we looked at the funds, the local authority came to us

and said, "Great, you're opening in Leeds. That's brilliant. We'd like to give you some money".

When I looked at the money, it was all about creating full-time jobs or buying kit. I asked why they could not take some of that money and turn it into a fund for local companies to invest in ideas. We are in the business of ideas and in a competition to produce the best ideas from whatever background or view we have to sell into the market.

If you said, go buy a camera, make 10 ideas and one of them might get commissioned, you would get economic growth. I do not need a camera until I get commissioned to work. Central government could help—this comes from the Treasury—by allowing those authorities to use capital investment funds in a different way for the creative industries.

Our capital is our ideas and creativity. I do not need a camera or a computer. What I need is a pitch to take into ITV to convince Kevin Lygo that I have a big series to make in Newcastle and I have done my homework on it.

That would be a very helpful development. One of the things I am proudest of is that I was able to convince the Government to put some of the £60 million children's Contestable Fund aside for a development fund for kids' producers. Development money is the hardest money to get because you might not get a commission and recoup it.

If we are moving into a more productive view of the economy, rather than just a creating employment view, the development of ideas and innovation is what we should be focusing on, not just physical warehouses, kit and bums on seats.

The Chairman: Thank you. Now, Charles, what about the role of government?

Charles Lauder: One thing that could be done is to look at how we arrive at a legal definition of "freelance". For many people who are freelancers, not having a set of criteria that relates to who and what they are is quite debilitating. You might earn enough money but, because of the precariousness of the way you work, you find yourself unable to get, for example, a mortgage or access to other forms of capital.

So it would be useful to have something that looks at exactly how freelancers are seen. The vast majority of people working in the industry are freelancers in one form or another, although they are completely mixed—some are never anything other than PAYE but are on short contracts that are consistently returning, while others are small businesses or microbusinesses. There is no congruity in how they are perceived.

The Chairman: This is interesting. Have you discussed it with the Government? Is it on their radar? It is clearly a modern workforce issue that is increasingly important.

Charles Lauder: Absolutely. It has been raised. An interesting report has just come out through the University of the West of England, which

looks at that in much more detail—primarily regarding the freelancers in Bristol, but it is replicated elsewhere in the country.

You talked about the combined authorities and the areas that are looking at this—actually seeing what the creative industries and television do as part of their industrial strategy. I think they would approach things completely differently from the way they do so now if that was happening.

Q96 The Lord Bishop of Chelmsford: Thank you. I am fine with all that you have said, but you have answered the question purely from a local production point of view; another angle is how we represent ourselves in the PSBs as a nation.

It seems to me that usually we represent the nation by representing the regions. I am not saying that that is not a relevant way of doing it, but I feel it is rather outdated.

For instance, a young Muslim growing up today finds their identity through their faith community. That is vital for them, whether they live in Glasgow or Southampton. I wonder whether the PSBs have woken up to that level of how we gain identity in a multifaith society.

Also, on the example you gave about your daughter—one of the very focused examples of the subcultures through which young people in particular gain identity—my concern is that the PSBs do not seem to have engaged fully with representation in that way.

Charles Lauder: It is clear, when you look at the numbers, that BAME communities, people with disabilities and others are not involved enough in the decision-making. The question that needs to be asked of the PSBs is, within those contexts of working, where there have been innumerable trainings and initiatives, why is it that people from those communities are neither retained nor promoted within the organisations? In the end, that is part of how you will determine what kind of content is made. It is about who makes the decisions. Without that kind of representation—

The Chairman: Is this the same point that you made earlier about younger people: it is about engaging them in the production and the whole set of management processes rather than making content for them?

Charles Lauder: I think that is partly it. I also think there has been a missed opportunity because, consistently, we talk about how important it is to be diverse and yet, consistently, there is very little movement in the context of the numbers.

You ask what a young person with a faith sees that reflects them. But until things change, there isn't anyone commissioning who is making a decision from that perspective. Until that decision-making strata of public sector broadcasters in particular but of content makers generally, is changed, we will see more of the same.

We have already seen that it has narrowed down the offering. There are lots of references to the fact that how the country was thinking about

“that other topic” was never reflected, simply because the people who were doing the writing and making the decision about what to write were not themselves experiencing those differences. The same applies when you consider that something like 4% of people making programmes are from BAME backgrounds.¹ People from those backgrounds are not represented among those in the upper echelons of making decisions, such as directors, DoPs and executive producers.

The Chairman: Mr McVay, did you want to come in on that?

John McVay: Yes. I think you should take evidence from the CDN, which publishes the data on diversity in broadcasting. I do not recognise Charles’s numbers. The definitive data collected across the PSBs and Sky is through the CDN Diamond system. I do not disagree with some of the issues around the culture of television, but I do not recognise those numbers.

To your point—which is very well made—on the question of who we are, how we are perceived and what we create, I think you have to ask the broadcasters about what they commission. I am not a broadcaster and I do not try to tell them what to do. I leave it to people with more experience and knowledge than me to help influence that, but I take the point. As you probably recognise, I am Scottish, but does that mean that I should make only Scottish things? Why can I not make science fiction? Why can I not make a programme about faith?

We have to be careful that we do not end up with some sort of postcode-created lottery, where because I am from Newcastle I can make only things about Geordies, or because I am from Brum, I can make only things about engineering or the car industry. We have to allow everyone’s talent, as diverse as possible, to find a voice. It is up to the broadcasters to work out who the audience is for that voice and what they are trying to communicate, and then find and develop the talent to do that.

Baroness Kidron: Charles, I can tell that you want to say something.

Charles Lauder: It is not just about who makes what; it is about the perspective from which it is made.

Baroness Kidron: Charles, your freelance point is something that we as a Committee have tried to grapple with. As a point of information, I was going to ask you to submit to us the report that you mentioned so that it becomes evidence. Do you think that they have cracked the definition of a freelancer, or have they just exposed the problem? Structural issues are where we perhaps have most of our authority, and the question of what a freelancer is seems a very beguiling one.

¹ Note by witness: In television a report by Directors UK revealed only 2.31 percent of UK television is made by directors of Black, Asian and Minority Ethnic (BAME) background. According to the British Film Institute only three percent of the UK film industry’s production and post-production workforce are from a Black, Asian and Minority Ethnic background.

Charles Lauder: I am not sure they have cracked it, but they have exposed some of the component parts that might assist those who wish to do so. I am more than happy to submit the report.

Baroness Kidron: I would be grateful.

Q97

Viscount Colville of Culross: We have heard a lot of evidence about how the arrival of the SVODs into the market has increased production costs greatly, and that has made it very difficult for me PSBs to compete in making high-quality programmes. Jane Turton said last week that if there were a really commercial idea, she would not even bother to go to the PSBs to pitch it. Obviously that is great for us producers, but where does it leave the PSBs?

John McVay: She may not go to some of the PSBs—particularly the BBC, which has been taking more of a policy position about not co-producing with Netflix although it is the single biggest user of co-production from SVODs. Our recent BSAC report, based on BFI analysis, showed that last year the BBC was the highest user of co-production coming from SVOD funding. That has been brilliant for us: we have been taking American money and putting it into great British content; we then get the premiere and they get a pay window. That is a good thing. It may be that Jane has other budgetary considerations but I am not detecting from across my membership that co-production is necessarily chilling. You heard from the previous witnesses that if we cannot do a BBC/Netflix deal then we might do a BBC/HBO deal. The UK is seen as one of the global leaders for co-production, particularly in high-end drama but also in factual and natural history. That is a good thing. We have been very good at taking other people's money and bringing it into our economy, and I would caution against anything that would discourage that.

Charles Lauder: I am not sure there is a great deal that I would like to add to that.

Viscount Colville of Culross: You say in your submission to us that producers are being required to deficit-finance some of the series, and that that actually incentivises them to make high-quality programmes. However, the producers I talk to say that one of the problems in dealing with PSBs, particularly the BBC, is that there is a difference between the tariff and the cost, and increasingly they are being asked to cover the gap, which makes it very unattractive for them to produce those programmes.

John McVay: Yes. We are very happy to supply you with the full detailed reports that we have done for the current BBC public interest test, which detailed the deficit financing required across mid-range drama, children's programming and high-end drama. The BBC, while being publicly funded and in receipt of the largest amount of money available for PSB programming, actually pays the least of all the PSBs for its programming, leaving a bigger deficit for the producer to raise. We do so by mortgaging our rights to other funders such as Netflix, HBO and

international sales. We do not make any money until all that money is recouped by the distributor or whoever has advanced against it.

UK independent producers across all genres have become adept and world-leading in co-financing. On the one hand, we do not like it; on the other hand, we have a competitive advantage because people want to co-invest with British production because we are very high-quality and can bring that money into our system, put that value on the screen and then make our return on the back end from the commercial returns. We have become more entrepreneurial. I would hope that the BBC would still encourage my members to be able to raise money from Netflix, Amazon or anyone else interested in investing.

Baroness McIntosh of Hudnall: May I stop you on that point? When your members are making those deals and pulling in money from the new, rich SVODs that we are all told we have to worry about, can they do deals that leave them with something from which they can subsequently make money, or does the money come at the cost of everything they could otherwise do?

John McVay: No. The great thing in the UK is that because we have terms of trade that guarantee producers' rights, if I do a co-production with the BBC and an SVOD, I will sell to the SVOD only a window for its use. I will retain the copyright in the further rights in that programme, which means that international sales, format rights, repurposing rights and merchandising will all fall within my business and I will make money from what is called the back end as that content is exploited.

Baroness McIntosh of Hudnall: Yes, but is there any sense, in the way the deals are now being struck, that there is pressure for those terms of trade to be amended?

John McVay: No. Without the terms of trade, I do not think we would have been able to navigate the changes in British broadcasting over the past 10 years.

Baroness McIntosh of Hudnall: No, I can see that they have worked, but I am talking about what the future might look like in terms of where the money will be available to do the work and what price might have to be paid for getting the money.

John McVay: My colleagues in continental Europe, where they work for Netflix or domestic broadcasters, have no terms of trade and have to give up their entire copyright to all their buyers. Unlike them, as a producer in the UK, I can choose. I might decide that I want to work with Netflix and it pays me 100%—or 120%, or whatever the margin is—and it takes full copyright in that work and will use and exploit it. I might want to do that because I need some money. Or I can work for the BBC—maybe on a co-production, maybe not—and I will own the IP in that, which gives me asset value in my business and means that I am investable. If we were put back into a situation like continental Europeans and American independent producers, where I had no copyright or IP ownership in any programme, then the sector would collapse. It is the IP ownership that makes clear that we are investable.

Baroness McIntosh of Hudnall: I am sorry to press the point, but I understand how it works at the moment and that it has terrific advantages that are not enjoyed by your colleagues in other territories. What I am asking is whether you see any danger of pressure coming on those terms of trade.

John McVay: Pressure has been on those terms of trade since the legislation was passed. It has come from the incumbent broadcasters, which did not like the transfer of value. We have had several reviews; indeed, just two years ago the then Secretary of State John Whittingdale required a further review. That review found that there was no case to answer and that the market had not changed so much. The great thing about the terms of trade—I cannot say too much about this, because I am currently in the middle of a negotiation with a major PSB—is that we adapt them to the market. We have adapted them for ITV, we have just concluded a deal with Viacom, and we are in active discussions with another broadcaster about what we can do to make sure that it survives and can navigate the future while at the same time we survive as a production community based on IP ownership. Most production has a very low margin and if we do not own our IP, we cannot raise the money and survive on the exploitation revenues, which is what is so critical.

Baroness Kidron: I want to ask about one point of information. You just said that the BBC has a policy of not co-producing.

John McVay: That was communicated to me by a member who had been talking to someone in BBC business affairs who was seeking to do something with our SVOD provider and was told, “Our policy is that we do not do co-production”.

Baroness Kidron: The thing that my colleague was trying to tease out is that we have heard some evidence that “We don’t do co-productions” comes increasingly from the SVOD side, now that they have direct relationships with talent, but we have just heard from you—it was news to me but I have no reason to disbelieve you—that it is coming from the BBC. Then there is the question of terms of trade and owning a piece of the action, to put it crudely. Our worry, or the thing that we are trying to unpick, is that if the PSBs do not have the money to make programming because of inflationary costs but there is no co-production, producers are naturally forced to where the money is but the money comes in this other package without terms of trade.

In that new equation, is there a problem that the producers end up selling the crown jewels, the PSBs cannot make the programmes and the big winner is the SVODs? Could that picture happen?

John McVay: It is a hypothetical picture.

Baroness Kidron: It is one that has been presented.

John McVay: Maybe to argue for some other interventions. Currently, if I as a producer cannot do a co-production with an SVOD, either because it does not want to or because the BBC does not want to, I can try to raise the money elsewhere, but I can do that only if I have rights

available to do so. That is why the terms of trade adapt and change, and why entrepreneurial producers will find the money.

Over the past 10 years, independent producers have put £2.5 billion of deficit finance into the public service system, which is their risk capital, and which they have raised in the market, supporting British public service broadcasting. Bringing that investment in is a phenomenal free-market achievement.

I do not think that it is a given that Netflix are going to walk away with the crown jewels. I have had this conversation with both Ian Katz and Tony Hall, saying, "Right, your opportunity here is maybe you cannot go as big budget but you can be more British, you can be more distinctive, you can be more what we care about as British audiences, because they want something that works on the global stage". That story might work on the global stage—

Baroness Kidron: Is this the super-league story that we heard about?

John McVay: Yes. If you look at things such as "Three Girls", "Sunderland 'Til I Die"—things that are really British—they - resonate with us and can be made at budget levels that are perfectly reasonable and doable. It should not all be pegged on this idea that because Netflix can spend £6 million an episode, we must be able to spend £6 million an episode.

Q98 **Baroness Kidron:** So you do not buy the argument that inflationary costs mean that you could not make "Three Girls" for the budget?

John McVay: Not for "Three Girls", no. If you are trying to make a big period drama, for which you need lots of extras and lots of CGI to make it look authentic, you are into that budget realm, but you would be in that budget realm anyway, because it is the nature of that genre now, globally. That is why we got the high-end tax credit introduced.

Viscount Colville of Culross: John, you mentioned the importance of keeping the rights for the producers. However, increasingly, we are seeing from the SVODs—particularly Netflix and the American companies—and the company I am working for at the moment, CNN, that they pay you for making the programme and keep all the rights.

John McVay: Not all of them. Some do.

Viscount Colville of Culross: That is increasingly what is happening.

John McVay: Amazon does not do that; it will license. I know producers who have windowing deals on Netflix. It is not an absolute given. Over time they may all adopt that, because that is the American structure of how broadcasting works, but there are also competition issues.

If you are one of those big players, wanting to compete against Netflix and attract the best talent, you might say, "We won't take all the rights, we will take a window and after time you get your copyright back and then be able to license it and use it for your own ends". That would be a competitive response.

I do not think this game is fixed. It is always described as a fixed thing. I think we are in a massive competition and a period of change.

Charles Lauder: It is also fair to say that those terms of trade are one of the reasons most of the smaller producers want to work with the PSBs—because having the IP gives you lifeblood to sell elsewhere. It is what keeps those small indies going. Therefore, for all the reasons that John has given, it is one of the advantages that the PSBs have—because those kinds of programmes will be the first port of call for small indies every time.

John McVay: As a point of illustration, last year I was lucky enough to be invited to a dinner with Reed Hastings, the CEO of Netflix. We were in a post-dinner chat with Jane Featherstone, one of our leading, most successful international drama producers. Reed was saying, “Don’t you love us? We spend all this money, it’s great, we give you all this money.” She said, “I do love your money and I have worked for you, but I will also work for the BBC, because I am building a company up, and I want IP—which you won’t give to me”. That is the clever thing that we can do in the UK: play both sides off a market. We can either go for money to make something, or we can go for IP. That is what builds businesses—whether you are in London or Sheffield.

Baroness Kidron: But only if you can afford to make it, period.

The Chairman: We need to move on. This is a fairly interesting set of issues, but we have further witnesses coming in our direction, whom we need to explore this with at length.

Q99 **Lord Gordon of Strathblane:** From your opening statement, you clearly have some very happy members at the moment. Things are booming. However, we have done a fair amount to stimulate the demand side, with high-end tax relief and so on. Do we need to do something to stimulate the production side? Is the production estate sufficiently geared up or do we need a huge increase in capacity?

John McVay: In two weeks’ time, I will be speaking with a major facilities company at an event trying to convince senior editors to relocate to other parts of the country, because there is a lack of sufficiently skilled jobs, which have been sucked into London. That is where the work of the combined authorities, the broadcasters, us and others can try to get the investment going into the skills required to maintain high levels of production, so that people have careers.

It is not the first job that is the problem, or the second or the third. It is the seventh, eighth or ninth job, when you want to get more senior, you want to progress, you want to earn more money. That is the challenge. If everyone is focused on progression—that also relates to inclusion and Charles’s point earlier—and on those issues, you build sustainable production centres. If it is only about new entrants, you do not build those skills fast enough to the levels required to sustain the work.

Lord Gordon of Strathblane: Taking the upper level of skills, it has been put to us that the higher end of production is severely overheated—

that it is producing huge inflation. If that is true, how do you do anything about it, because you cannot train people overnight to be expert cameramen?

John McVay: We should have been doing more of this sooner, but we have to recognise that a lot of the inflation is because we have high levels of inward investment, another first-world problem and a huge contribution to our economy. We have to react to that and invest in it. My members pay various training levies to try to deal with that.

We need to make more investments; I am currently in discussions about raising another levy to go into factual skills. All of that needs focus and the understanding that these are real careers, real jobs. My experience of talking to lots of the combined authorities and LEPs is that they are more focused on opening a factory that makes widgets, while I say, "Actually, if you get a big returning series like 'Game of Thrones', you've got a major game changer in your economy".

Lord Gordon of Strathblane: I did not want to intervene, but I was intrigued by your response to Baroness Quin, that you want to subsidise ideas, not new cameras. What was the response of the local authority?

John McVay: Thankfully, Leeds is on the front foot with this and is currently considering the whole range of different funds they have.

Lord Gordon of Strathblane: So Leeds is prepared to invest?

John McVay: Yes, but because that money comes from central government with certain strings attached, wherever you are in the country wanting to do something innovative on this, particularly in the creative industries, which are the fastest-growing part of our economy, you are hampered because of central government prohibitions on what the money should be spent on. My conversation has always been that we should be focusing on productivity, not employment. Productivity is where we have a problem.

Lord Gordon of Strathblane: Previous witnesses have said that a lot of money is not wasted but not used to its optimum in the apprenticeship levy.

John McVay: Yes.

Lord Gordon of Strathblane: Have you put proposals to the Government for better use of the apprenticeship levy in the creative industries?

John McVay: Yes. I led the creative industries sector deal, and we had a very able, very senior level working group, chaired by Dinah Caine. We met with the Department for Education multiple times, seeking changes.

There have been some changes, but by and large across the creative industries, the apprenticeship system does not work, because we are not fixed employers with fixed employment bases. It needs to become far more flexible. When we were doing the deal, the Government said, "What are you putting on the table? We are going to give you all this money to do things for the creative industries". I said, "The £78 million

in apprenticeship levy that we gave you and which we are not getting back, would be a good place to start”, because that is the truth. That money would help a lot of these issues.

Also, it is really important if we want to be more inclusive and diverse. I do not see why people should get into debt to come to London to find a job, when they could be paid as an apprentice in Newcastle to do a job and not go into debt, getting a fantastic career and vocation in our industry which would be open to everyone, rather than the bank of mum and dad, with all the discrimination that brings.

Lord Gordon of Strathblane: We are due to interview the Minister later in our inquiry. Any information that you can give us on this issue would be greatly valued.

John McVay: I will send you all the information that we provided when we were doing the sector deal.

Lord Gordon of Strathblane: My final point is about the high-end television training fund you have introduced in PACT. How well is that working?

John McVay: It is collecting about £3.3 million per year. We have just increased the ceiling, so the amount to be deducted from a production making contributions has gone up. I think that is right and proper. When we did the first tax credits—I have been involved in three of them—the message was clear from the Treasury: “We will give you a benefit. What are you doing in return?” Investing in skills and inclusion is the best way to spend that money, and it is money being spent across the whole UK.

Charles Lauder: There are instances of apprenticeships that work, which might be worth investigating. For example, SharpFutures in Manchester is engaging with undergraduates and people coming in at entry level, including a programme of “people on demand”. In essence, it would prevent the situation we have in certain instances of runners being brought up from London to be on a production. Instead of that, you can go to SharpFutures and have people who are ready to do the work and can be available as and when you want them, rather than necessarily for the whole of the production.

There are innovative initiatives out there that need to be looked at to see how they can be supported and rolled out further. The other thing to say about apprenticeships is that perhaps some of the money that John has talked about could go to indies, which do not pay the levy but would be grateful for access to apprenticeships. If that money is not being spent by the people who are paying the levy, maybe the indies would be in a position to make use of it.

The Chairman: Have you proposed that to government?

Charles Lauder: We have not been party to that conversation at this point.

The Chairman: It is a further interesting point for us to look at. Baroness McIntosh.

Baroness McIntosh of Hudnall: We do not have much time, do we?

The Chairman: No, we do not.

Q100 **Baroness McIntosh of Hudnall:** I have a question about the high-end tax relief. It has clearly done very well in that it has pulled in a lot of money and contributed to a lot of work being created. But we have also had it put to us that it has contributed to cost inflation within productions.

So, two things. First, how well do you think it has done the job set for it? Secondly, do you think anything should now be done to look at how it operates, perhaps to extend its reach? Do you think the £1 million per hour ceiling is the right ceiling? Is it too high or too low? What would you now recommend?

John McVay: I was involved with Mr Osborne at the time in bringing that tax credit in. There was a lot of debate about whether it should just be a generic tax credit for scripted programmes. The problem with that is that it is quite hard to show that there is a market failure in domestic scripted programming. The real issue was that the UK, one of the world's best audio-visual economies, was not competing in an international market dominated by America. The question was: how do we change that?

That is why the tax credit was brought in. It was deliberately constructed to go up-budget—to be inflationary. The highest premium a domestic broadcaster would pay you was about £800,000 per hour, and what you needed to make the show with the creative ambition originally intended, was normally around £1 million to £1.2 million. By making it above a million, you protected the broadcasters' investment—they did not net off the benefit of the tax credit—and you gave the producer close to 100% funding to go and raise the rest of the money in the market. That led to UK drama, in a few short years, becoming more internationally competitive and higher quality. I would argue that one of the benefits of that is that UK audiences got better drama and better programming, quicker than under any other intervention.

The Chairman: Charles, did you want to add anything?

Charles Lauder: Only in the context that, if it is working that well, perhaps it might be looked at as another way of engaging with areas that are not being improved such as, for example, representation.

Sir Lenny Henry and Adrian Lester, among others, sent a letter suggesting that we might look at the tax credit process as a means of dangling a carrot towards better representation. So directors of photography, directors or writers from disabled or BAME backgrounds could be part of that process. If it worked well, we could maybe extend it to other areas.

John McVay: I have one final point, because it is an interesting question. Any activity that can demonstrate a clear market failure should be considered for some sort of benefit. That is the point about market failure. Whether it is low-end drama or some other genre or area of the

creative industries, plenty would like one. The principle for the taxpayer is that the benefit should be addressing some sort of market failure. When we did this with drama, I had members saying, "I won't make as much money". My response was that the public should not be paying you to make as much money. That is not the point. There needs to be a market failure, a fundamental, principled view to justify why you are doing it in the first place.

Baroness McIntosh of Hudnall: What is the measure in the end? You have pulled this money in. You have increased the volume, the output, the standard and the quality of the high-end television produced in this country. It is therefore, presumably, sold more successfully abroad and better valued in the home market as well. What are the measures in the end that allow you to say that something is really serving its purpose? Is it the number of awards it wins, or the number of markets it is sold into? What are the key criteria?

John McVay: The Treasury has its own criteria.

Baroness McIntosh of Hudnall: Yes, but what are they?

John McVay: It is generally a return on investment. It is about an eight-to-one return.

Baroness McIntosh of Hudnall: On the Treasury's pound?

John McVay: Yes, about an eight-to-one return on the public pound, which is very high compared to some other public interventions. That is the Treasury's measure.

My measure is that it maintains one of the world's leading, most vibrant creative economies. It generates huge amounts of soft power. Think of "Sherlock" or the soon to be broadcast—we hope—"Dracula" from one of my members, Hartwood, a small family firm. This is massive cultural soft power around the globe. It means that people are always interested in and excited by us. We are always new, distinctive and interesting. That is perhaps money better spent than on some massive British marketing campaign. It gets to people's real lives.

The Chairman: Charles, did you want to add anything?

Charles Lauder: Only about what John said: that it adds to and makes for better productions. When I made that reference to using the money in another way, it is because I think that a multiplicity of voices will, as I said, result in better product.

Baroness Kidron: I am sorry to bang on about the money, but you just said, in answer to my colleague, that broadcasters would pay £800,000 and with £1.2 million it could be fully funded. This is what we are trying to get our heads around. If it is not £1.2 million any more, does the £800,000 work?

John McVay: At the time, we analysed a whole lot of production budgets. We found that the original budget was about £1.2 million. The top price that a domestic broadcaster would pay would be around £800,000, although not always. It is not a science; it is variable. The

question was then: if you could generate the 20% benefit, where would that take you? How close would you be to raising the rest of the finance?

Baroness Kidron: Absolutely. I get that point. My point is that, if the £1.2 million has gone to £2 million, how does the £800,000 work in that new context?

John McVay: The broadcasters have taken significant benefit because they might still pay only the £800,000 but they are getting a £2 million show for that. Other people are paying the difference.

The Chairman: You have been very generous with your time but, sadly, we are running out of time. One final question from Baroness Benjamin.

Q101 **Baroness Benjamin:** Charles, picking up on what you said about the levy that Lenny Henry was talking about, I do not know whether you noticed that at the BAFTAs on Sunday there were, I believe, no BAME or diversity practitioners behind the camera among the winners to ensure better representation. You are right. Something needs to be done. We have Sir Lenny coming in to tell us what he believes should happen.

Talking about independent productions, there has been headline news about iconic figures such as Sir David Attenborough going over to the other side to make programmes, leaving the BBC. There may be more defections to come. What more do the public service broadcasters need to do to encourage independent production companies to work with them? Is it just about money? Why does PACT believe that extending the BBC iPlayer rights window to 12 months is a threat to independent producers? There are two questions there, but they are linked.

John McVay: Currently, in the complex world of financing—it is very complex, and we will send you additional evidence and material on this—if the BBC will not pay me 100% of the costs for certain high-quality product, I have to raise the money from the market. That will inevitably mean knocking on the door of an SVOD. The SVOD will want a window to show it on its UK service within a certain period of months after transmission on the BBC. If the BBC says that it wants at least 12 months' exclusive on iPlayer, the SVOD may no longer invest, meaning that I cannot raise the money. If I cannot raise the money, that may threaten the quality.

We do not understand, therefore, why we cannot still give exclusivity. We might be able to see more ways in which we can do that with the BBC, but why should we close the door on investment when the BBC has not yet articulated where we would find the money? That is the big problem. If it said, "Don't take money from them, we will give you it all", that is fine. That is a perfectly reasonable conversation to have. The only problem is that the BBC has not said where it will find the money, and we do not know where it can find the money, given that its programme budgets are already under massive pressure.

It is a question of closing the financing, and that applies to small companies and big companies. The BBC does not fully finance the

majority of its programming if you are a small, large or medium-sized company, so we have to go to the market.

Baroness Benjamin: Then how can the BBC encourage independent production companies to keep working for it?

John McVay: It could be more open to new ideas and different voices, particularly on the discussion around younger-skewed programming, bringing those voices in and encouraging the next generation of young companies.

Charles Lauder: Part of the way we do that is to challenge the BBC to do as well as—if not better than—Channel 4, by having commissioners within the regions and nations, so that they get to know what is on the ground and which people are making what. We also try to change the mentality—from looking at new voices as a risk to seeing them as an investment. That means new voices across the board, including BAME and people with disability, so that we stop being risk-averse by seeing at them as risks and instead see them as investments, because that is where the new ideas will come from.

Lord Gordon of Strathblane: One possible source of funding would be a levy.

John McVay: I will answer briefly. My problem is: who pays the levy, and what does that mean for the original investment currently on the table?

When Canada got a \$500 million levy on Netflix, none of the Canadian producers was commissioned by Netflix for the following two years. While the state took the money, the businesses did not get it.

Institutionally, I have difficulty with funding going to state bureaucracy, which then decides what we make or do not make. That should be a matter for the creatives, the commissioners and the audience. The more government gets involved in deciding what is a good programme, the more worried I get.

The Chairman: Charles, on that point.

Charles Lauder: If it is levied on the work that is coming in, the money should go back into the industry.

The Chairman: Thank you. Sadly, we have to leave it there. It has been a very interesting session. You have given us some evidence that we had not seen before, which we can test with witnesses further down the line. You have been buzzing with ideas too, have given us some ideas we would like to take up, and there have been some recurring themes.

Charles and John, thank you very much indeed for your very useful evidence. Thank you also for offering to write to us elaborating on some of the issues. There is quite a list of further evidence that you promised us; we look forward to receiving it.