

Written evidence submitted by Pact

Introduction

1. Pact is the UK trade association which represents and promotes the commercial interests of independent feature film, television, digital, children's and animation media companies.
2. Pact works on behalf of its members to ensure the best legal, regulatory and economic environment for growth in the sector. Pact has around 550 member companies based across the UK and the majority of these are SMEs (small and medium sized enterprises) with a turnover of less than £50m a year.
3. The UK is a world leader in the sales of TV content globally and revenues continue to rise. Taken as a whole, the TV industry around the world is worth \$400 billion.¹ UK independent television sector revenues have grown from £1.3 billion in 2005 to over £3 billion in 2019 largely driven by a growth in international sales.²
4. Independent producers are using the resulting revenues to become significant investors in the creation of UK content creation and are vital part of the UK's creative industries. 161 inward investment and co-productions accounted for £3.1 billion of the total £3.6 billion film and HETV spend (86%) for the latest 12 month rolling period. This is the highest ever total inward investment and co-production spend reported for April-March rolling periods.³
5. The creative industries are a source of strong UK job growth, with employment in the sector growing by 30.6% in 2011-2018, compared to a national average of 10.1%⁴.
6. For further information, please contact Pact's Head of Policy, Emily Oyama, at emily@pact.co.uk or on 020 7380 8232.

¹ Analysis for Pact by Oliver & Ohlbaum, published in 'A New Age for UK TV content and a New Role for the BBC', August 2014

² Pact Census Independent Production Sector Financial Census and Survey 2020, by Oliver & Ohlbaum Associates Limited

³ <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-film-other-screen-sector-production-uk-q1-2020-v1.pdf>

⁴ DCMS Economics Estimates 2020, DCMS 2020

Overview

The creative industries are highly successful and a key contributor to the UK economy, in 2018 the creative industries contributed £111.7bn to the UK economy, an increase of 43.2% in real terms since 2010.⁵

Many UK TV productions have been delayed, and some productions have been cancelled because of the COVID pandemic. This has had a substantial effect on many production companies; a Pact survey of members earlier in the year found that producers have lost more than £250m in revenue due to delays and cancellations. The UK broadcasters have also been impacted financially by the COVID pandemic, with many broadcasters reducing their programme budgets to offset the decline in the advertising market, although this is now recovering. While this will impact producers across the UK, producers based in the nations and regions will disproportionately be impacted because they tend to rely more heavily on the UK broadcasters for commissions; approximately 40% of first-run UK originations on the five main Public Service Broadcaster (BBC, ITV, Channel 4, Channel 5) channels are made outside of London. The TV and Film industry is primarily made up of small and medium sized businesses - 80% of our membership are SMEs.

Production companies have also struggled to acquire commercially viable insurance, and this has prevented productions from starting or re-starting during the year. With concerted effort from Pact and others across the sector Government has agreed to the £500m Re-start Production scheme which sees the Government provide cover for any COVID-19 related losses that a production company and broadcaster may incur. This has been a considerable boost for production, and we are now seeing up to 90% of productions coming back as a result. The Scheme is significant in supporting thousands of jobs as productions have been able to get back up and running in an industry that relies on freelance workers. Freelancers within the industry have found it difficult during the pandemic because often they would not qualify to access Government funding, therefore getting the industry to quickly restart has been vital. It is likely that the scheme will need to continue for a further six months at the minimum seen as commercial insurers are still unlikely to be able to bring a commercially viable option to market. Given the continued uncertainty about the next stage of the pandemic Pact and others across the industry are in direct discussions with the Government about the possibility of extending the scheme, which is due to end in February 2021. Despite the announcement of a vaccine roll out the benefits of this will not impact businesses immediately and the timeline continues to be uncertain.

The Production Restart Scheme has been a considerable support and benefit to the TV and Film industry, but Pact also considers there are some outstanding issues that would further support the sector. Pact considers any capital that can help keep businesses solvent is vital for the success of the industry. The industry suffers from a lack of reserves given that it operates on a project to project basis with little room for maneuver in times of crisis. We

⁵ DCMS Sectors Economic Estimates: GVA 2018

briefly outline below other ways in which the Government could further support businesses in order to maintain and create jobs particularly within the TV /Film production sector.

Other government interventions to help secure jobs within the TV/Film production sector

- **Extending Government support to all SMES:** Pact considers support grants for the retail, hospitality and leisure businesses should be extended to all SMEs within the economy. As outlined above, capital to help manage an SME's reserves are more important in our industry as most SMEs work on a project basis and have little to no cash reserves often relying on third party deficit financing to help make a programme. In a recent survey we carried out with members we found that 26% of companies had reserves to last them between 4-6 months with 24% of members having reserves that would last them 6-12 months.⁶ Of our members only 1% who responded to our survey had reserves that would last them longer than a year.⁷
- **Sustainability and building on the existing R&D Tax credit and other creative sector tax credits to support SMEs in the creative sector:** As outlined briefly above, the creative industries and those within the TV and Film sector have limited capital reserves to draw on in times of crisis. This is because margins have been considerably low over the last ten years as broadcasters and buyers of content have continued to squeeze producers. Those larger companies within our membership have more resilience in terms of using development funding to help develop ideas but once the crisis is over it will be hard for the existing diverse supply market to recover quickly and provide ideas to those buyers looking for content particularly within the Nations and Regions. As a way to continue the diverse supply the Government should extent the R&D tax credit to apply to SMEs within the creative industries. By enhancing the scope of officially recognised Research and Development to include R&D undertaken as part of the creative process,⁸ it could provide the development funding needed to keep companies afloat and ready to provide content during the crisis as well as dramatically increase incentives to invest in and commercialise creative R&D, in particular through enabling businesses to benefit from existing R&D tax incentives for these activities.
- **Export support:** As the crisis continues many countries will be aggressively competing to take advantage of the UK's diminished capacity as countries begin to recover from coronavirus ahead of the UK. Additional support maybe needed to ensure British businesses get back to the export position it held pre-crisis. Other countries often take larger delegations to trade shows and provide additional financial support to businesses trading internationally. For example, the Korean Government funds the development of an idea if this deal was completed off the back of attending a trade show. This type of support from the Government would help many producers who have been hit financially by the current pandemic. Pact has been hugely disappointed recently by actions undertaken by DIT who have cut funding for tradeshows at last minute and as a result it has hampered the chances of companies attending virtual shows – as even virtually a lot of shows have a high participation cost which many smaller companies cannot afford. Linked to this the Government could also investigate new forms of tax reliefs to help the industry recover following the pandemic. For example, some form of export tax relief. This would incentivise businesses to begin trading internationally again once the pandemic is over and

⁶ Pact survey monkey results based on 100 respondents completed April 2020

⁷ IBID

⁸ Defining R&D in the creative industries, Nesta/AHRC/UCL, April 2017

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markets begin to open up again. Given the success of the industry and the role it plays in promoting the UK's soft power brand overseas, the Government should ensure that the independent production sector is supported as much as possible.

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