Supplementary written evidence submitted by UK Theatre and Society of London Theatre

UK THEATRE AND SOCIETY OF LONDON THEATRE'S SECOND SUBMISSION TO THE DCMS SELECT COMMITTEE ENQUIRY: THE IMPACT OF COVID ON DCMS SECTORS

Submitted 1 June 2020

1. **About us**
   1.1. Society of London Theatre (SOLT) and UK Theatre are the trade associations and members' organisations representing the interests of those engaged in the production and presentation of medium to large-scale dramatic and lyric theatre in the UK. Their memberships are drawn from both subsidised and commercial theatre.
   1.2. The combined box office income of SOLT and UK Theatre's membership was more than £1.28 billion across London and the rest of the UK, with 34 million tickets sold in 2018.
   1.3. SOLT represents approximately 230 London-based producers, theatre owners and managers, including all the major subsidised theatrical organisations in London.
   1.4. UK Theatre represents approximately 240 theatres, concert halls, dance companies, producers and arts centres throughout the UK. UK Theatre also operates as a professional association, supporting over 1,400 individuals working professionally in theatre and the performing arts in the UK

2. **Why we are submitting evidence**
   2.1. Following on from our first joint submission with FST, Theatre NI and Creu Cymru, and ahead of UKT / SOLT giving oral evidence on 9 June, we submit this evidence separately as UKT / SOLT. As this submission is over 3000 words, we provide you with a short summary first (numbered 3-7). Then the main body is numbered 8 onwards.
   2.2. This submission has been compiled across the sector and presented by SOLT and UK Theatre.
   2.3. The main body of this submission were submitted to the DCMS on Thursday 28 May 2020. We have removed specific case studies as they mention some companies financials, which we cannot share publicly.
   2.4. Since our last submission, things have significantly worsened for the sector. Theatres across the UK have already gone out of business as a direct result of the crisis (Southampton, Southport, Leicester among others), while others are on the verge of major redundancy consultations with most of their staff. Government support – both vocal and financial – is needed now.

3. **Recommendations for Government to consider**
   3.1. Theatre and the performing arts play a huge role in enriching our national identity, our economy and our local communities. Theatre employs 290,000 workers. Over 70% of those jobs are now at risk.
   3.2. Amidst warnings from venues that 70% of theatres will run out of cash by the end of the year, this submission presents the urgent measures needed to rescue the performing arts sector.
   3.3. We need government to ensure that the insurance industry will provide the cover needed for the sector, and that there is clarity over liability for all organisations.
   3.4. Due to legislative timings for redundancy consultations, coupled with decision making needed to safeguard charities, trusts and companies for the long-term, government support is needed now with clear decisions no later than early July if we are to prevent the terminal decline of this world-leading sector.
   3.5. We call for these three things:
      3.5.1. **Sustain the workforce,** through the continuation and development of the Job Retention Scheme and a new package to support the army of freelancers and self-employed artists who create so much of our work.
      3.5.2. **Support theatre recovery**, through adaptations to the existing theatre production tax relief scheme, support for businesses that supply theatres, and aid with making venues Covid-19 secure.

3.5.3. **Safeguard the future of the theatre industry**, through an Emergency Relief Fund and the creation of a new Cultural Investment Participation Scheme for the sector from government: a national pledge for culture.

4. Headline threat

The UK Theatre and Performing Arts sector (**"the Sector"**) has grown over centuries. Its contribution to the British economy, domestic public life across the whole country and international standing is profound and epic. The necessary measures taken in response to COVID-19 have brought the Sector close to terminal closure. If fundamental and comprehensive action is not taken now, this major part of the UK will be lost.

5. Key statistics

5.1. Venues represented by The Society of London Theatre and UK Theatre alone created:

5.1.1. ticket revenue of £1.28bn

5.1.2. 290,000 workers (70% self-employed/freelancers including all actors and musicians)

5.1.3. audience of 34m people

5.2. 10m tourists visiting the UK a year engage with the arts and culture (c.33% of West End audiences)

5.3. Creative industries in the average local economy increased by 11% from 2011 to 2016, doubling the increase in the overall economy (NESTA & Creative Industries Council, 2018)

6. Economic damage to the Sector and to the UK

6.1. With all theatres closed for over two months, **box office income and ancillary trading is at zero**.

6.2. Fixed costs remain high, including listed building overheads at £70,000 to £100,000 on average per month. **70% of organisations will run out of cash by end of 2020** (across venues / producers and London / rest of the UK)

6.3. Theatres across the UK **going out of business**, including Leicester, Southampton and Southport

6.4. Job Retention Scheme has avoided large-scale redundancies to this point. Without intervention, **job losses** are likely to number over 200,000 (employed and freelancers).

6.5. Loan schemes very challenging to access, for example because of charitable status restrictions and financial structures of commercial operators unable to accommodate debt

6.6. **Social-distancing measures will allow for only c.20% of capacity** – this is not an economic business model for the sector, where 50% to 70% occupancy is typically needed to break even and means **theatres cannot operate**.

6.7. Ecosystem of the sector cannot easily be rebuilt from scratch if lost.

6.8. **Loss to HMT of VAT payments** (over £130mn for West End theatres alone) plus enormous economic impact on all related hospitality and related businesses – multiplier estimated at 5-6 times in major cities – if theatres are forced to shut down permanently.

6.9. **Major risk to towns and cities around the UK** where investment in venues and jobs has led to regional powerhouses of production, including regional strength for sector in North East, Manchester, Midlands.

7. Contributions to the UK

7.1. Significant soft power in promoting the United Kingdom, including its values and international trade, to the rest of the world, through the exchange of human capital, ideas, culture and language.

7.2. Preserving and promoting British culture, across all regions of the country, enhancing the diversity of national identity and strengthening the United Kingdom

7.3. Empowering individuals from all communities, through greater confidence and communications skills, engagement with new issues, people and places, and giving inspiration and hope to break out of socio-economic entrapment – plus direct impact on mental health initiatives, care for the elderly and opportunities for people with disabilities and those with special educational needs

7.4. The UK's global competitiveness in film and tv is threatened as a result of the absence of talent and script development that theatre provides.

THEATRE & THE PERFORMING ARTS SECTOR – COVID-19 AND THE CHALLENGE OF RECOVERY

8. Introduction

8.1. **British theatre (from drama to musicals to opera to dance) is a world-class cultural and economic force** with British theatrical productions filling cultural venues and theatres from Broadway to Beijing.

8.2. From small studios to big-budget stages, **theatre and the performing arts (including multi-use venues, orchestras and concert halls, herein collectively referred to as "theatre" in this paper) are part of the fabric of British life**.

8.3. In 2018, venues represented by The Society of London Theatre and UK Theatre generated ticket revenue of £1.28 billion, employing 290,000 workers and **reaching an audience of 34 million people**. More people see a theatre show each year than attend all League football matches in the whole UK.

8.4. This success is fed by commercial producers, the nationwide network of not-for-profit producing theatres, and a whole cohort of smaller companies. All of these have extensive outreach programmes that bring transformative creative opportunities into the lives of communities of all ages in every city and region in the country.

8.5. **British theatre is also an economic growth engine.** The cultural sector contributed £32.3 billion to the UK economy in 2018, an increase of 21.9% in real terms since 2010. This extraordinary growth is fuelled by live theatre, which is vital to the success of the UK's multibillion-pound film and television industry by launching the careers of actors, writers, directors and producers.

8.6. The creative industries are a motor of growth in local economies from the South East to the North West, from Yorkshire and the Humber to the West Midlands. The creative industries in the average local economy increased by 11 per cent in the five years to 2016, twice as fast as in the rest of the economy. (*Nesta & Creative Industries Council 'Creative Nation' report, 2018)*

8.7. Live theatre is also a major and integral component of the travel, hospitality, and retail sectors, and is one of the UK's "great exports around the world".

9. The Impact of Covid-19

9.1. Theatres across the UK moved rapidly in response to Government advice to protect public health with every UK venue now dark.

9.2. The lockdown in response to COVID-19 has forced a total closure of the sector, removing all our trading income at a stroke and throwing the sector into crisis. Limited cash reserves have cushioned the immediate blow of closure and the Job Retention Scheme has kept organisations from needing to make immediate redundancies, but the continuance of social distancing makes the prospect of reopening, with any prospect of even covering costs, impossible. With sellable seats reduced by on average 80%, no theatre or cultural space can even approach a break-even position.

9.3. Overall, the impact has been immediate and devastating; the medium and long-term consequences see threats to economic, social and cultural wellbeing in communities all over the country.

9.4. **An ecosystem as intricate and evolved as the performing arts cannot be rebuilt from scratch**. It is the product of decades of capital projects worth billions of pounds. Its buildings are unique and not easily repurposed. Its talent is truly specialist. The British performing arts and theatre sector is not merely treasured, but priceless and must play a crucial role in both the economic, and the social recovery of the country and the wellbeing of its people.

9.5. Theatres across the UK have already going out of business as a direct result of the crisis (Southampton, Southport, Leicester among others), while others are on the verge of major redundancy consultations with most of their staff. Government support – both vocal and financial – is needed now.

9.6. We estimate the need to be approximately £330mn for every three months that closure continues.

9.7. **Any sector-wide reconstruction would be far costlier than this rescue package and a managed recovery.**

10. Background: the extraordinary success and impact of British Theatre

10.1. British productions fill cultural venues and theatres from New York's Broadway to Beijing and everywhere in between. In conjunction with the UK's TV and film industries (for which theatre is a vital training ground), theatre is a major component of our global standing, soft power, and tourism appeal – 10 million tourists visiting the UK a year engage with the arts and culture.

10.2. In 2018, venues represented by The Society of London Theatre and UK Theatre generated ticket revenue of £1.28 billion, reaching an annual audience of 34 million[1] – more people than go to ALL football league games in the whole of the UK each year.

10.3. London theatre alone generated £133m in VAT payments for the HM Treasury, with 300,000 people, including international tourists that make up an average third of the audience, visiting London's West End theatres every week.

10.4. Between them the nation's opera houses employ an additional 4,000 people, including over 1500 orchestral musicians and attract over 500,000 visitors a year; classical orchestras outside of the opera houses employ an additional 1,000 and the nation's ballet companies a further 500, all of whom are interconnected in terms of training, building revenue and tourism generation.

10.5. According to DCMS, the Creative Industries contributed £111.7bn to the UK economy in 2018, an increase of 43.2% in real terms since 2010, with the Cultural Sector contributing £32.3bn to the UK and employing 659,000 people (being 2% of all UK jobs). This extraordinary performance is fuelled by the talent pipeline of British Theatre and the performing arts.

11. <u>How the Theatre sector works</u>

11.1. The success of UK theatre relies on a complex ecosystem comprising three main pillars (all pillars include both venues and production companies):

11.1.1. **Commercial theatre,** venue operators and shows, that are generally produced by an independent producer or production company, and funded solely through private investment and ticket sales;

11.1.2. **Not-for-profit companies** who receive funding from the Arts Councils and generate other earned income to supplement income from ticket sales; and

11.1.3. **Independent charitable trusts** who receive no Government subsidy and rely solely on philanthropic donations, ticket sales, and ancillary income.

11.2. These three pillars are inextricably linked: an intricate cross-country network of collaboration that has evolved over the past 70 years. No one theatre can grow talent by itself, and national theatre companies cannot tour without a confident network of theatres to receive the work. **Without support for each element, the entire ecosystem falls apart and cannot be rebuilt from scratch.**

11.3. Data from the Theatres' Trust shows the huge range of theatre buildings throughout the UK:

	Wales	England	Scotland	Northern Ireland	UK
Charity	26	507	37	11	581
Local Authority	18	117	4	13	152
Non-charity companies	3	76	4	2	85
Theatre/Entertainment/Hospitality Groups	0	92	6	0	98
Leisure Trusts	5	26	18	0	49
Universities and other HE	4	38	2	1	45
Schools and FE	3	28	0	1	32
Unincorporated (mostly owned by amateur societies)	4	37	4	0	45
Total	63	921	75	28	1087

[1] UK theatres: 18.8 million attendees with a Box Office turnover of £509m; London theatres: 18,000 performances with £799m in Box Office revenue

12. People

12.1. Theatre's workforce of 290,000 people includes 70% who are self-employed and move freely between scales and sectors. Its people – from actors to costumiers, technicians to producers – are the gold standard, often developing into world leaders in TV, film and digital arts.

12.2. The UK's Performing Arts sector has shown global leadership in consistently promoting the diverse talents of our nation on our stages. From Sam Mendes, Phoebe Waller-Bridge, Cynthia Erivo, Anthony Minghella and Stephen Daldry to John Boyega, Sally Hawkins, Cush Jumbo, Wayne McGregor and Olivia Colman, the international success story of UK creative talent is deeply rooted in theatre.

12.3. The last few years has seen our sector embrace an explosion of world leading Black, Asian and ethnically diverse artists who have transformed major UK theatrical organisations, including pioneering regional theatres and cultural institutions. Our programming choices have demonstrated that inclusivity is a major contributor to the theatre sector's success.

13. Public Investment

13.1. The UK has a major track record in showing that public investment can lead to long-term returns for organisations, and for HM Treasury. Important examples include:

13.1.1. The production of the play "The Audience" directly led to Netflix commissioning the TV show "The Crown" and spending over £300mn to produce the series in the UK;

13.1.2. Cameron Mackintosh's decision to develop Les Miserables within the RSC in 1985 led to a global success grossing over $6.3 billion so far which continues to deliver a commensurate return to H.M. Treasury in Domestic and Export terms and millions of pounds back to the not for profit theatre sector.

14. Soft Power

14.1. The soft power impact of the performing arts sector on the UK's international standing is incalculable. Major performing arts institutions are held as exemplars of best practice worldwide with influence stretching across Europe, US, the Middle East, China and further afield through international production transfers from the West End, worldwide theatre dance and ballet tours, opera dance and ballet co-production networks, strategic partnerships with new performing arts centres (such as in Beijing and Shanghai), and participation in high profile cultural exchange festivals and programmes such as the forthcoming UK/Australia and UK/France festivals. This international leadership position is a hugely important and central strand of the GREAT campaign, and represents a major asset to the country's international reputation at a pivotal moment in recalibrating our relationship with the world.

Current situation: absorbing the shock of sudden closure

14.2. Lack of income

14.2.1. Theatres have been closed since mid-March. Box Office income and ancillary trading have fallen to zero, meanwhile people costs remain significant and building overheads remain fixed (for example, fixed building overheads even when closed can average £70-100k per month, with some much higher). Beyond a small amount of residual subsidy for some organisations, theatres and productions have no income, envisaged to continue for some considerable time, with consequently no income for the entire supply chain.

14.2.2. All theatres, including those whose funding model includes an element of public subsidy, are heavily reliant on income from ticket sales. In addition to the loss of performance fees and box office sales, theatres and theatre companies have suffered loss of income from all associated/secondary income (including bar/restaurant/café sales, event hire fees, merchandising and theatre rental income).

14.2.3. The creation of new productions has ceased, and many existing productions have been mothballed or cancelled indefinitely, with associated impacts across our industry on jobs and lives. 70% of the roles in our industry are freelance and the income for these people has immediately ceased.

14.2.4. Some of the UK's biggest theatre-related events are outdoors and/or seasonal, with the Summer 2020 season now missed. The timing of the lockdown has been particularly challenging with one organisation telling us that it 'hit at the point when our cash position is always at its lowest point for the year as winter expenditure had all been committed.'

15. Buildings

15.1. Theatre buildings are complex and, in many cases, historic and listed assets which need regular and often costly specialised care. A prolonged period of hibernation risks business critical deterioration of the fabric of the buildings, the scale of which will only be realised as they reopen.

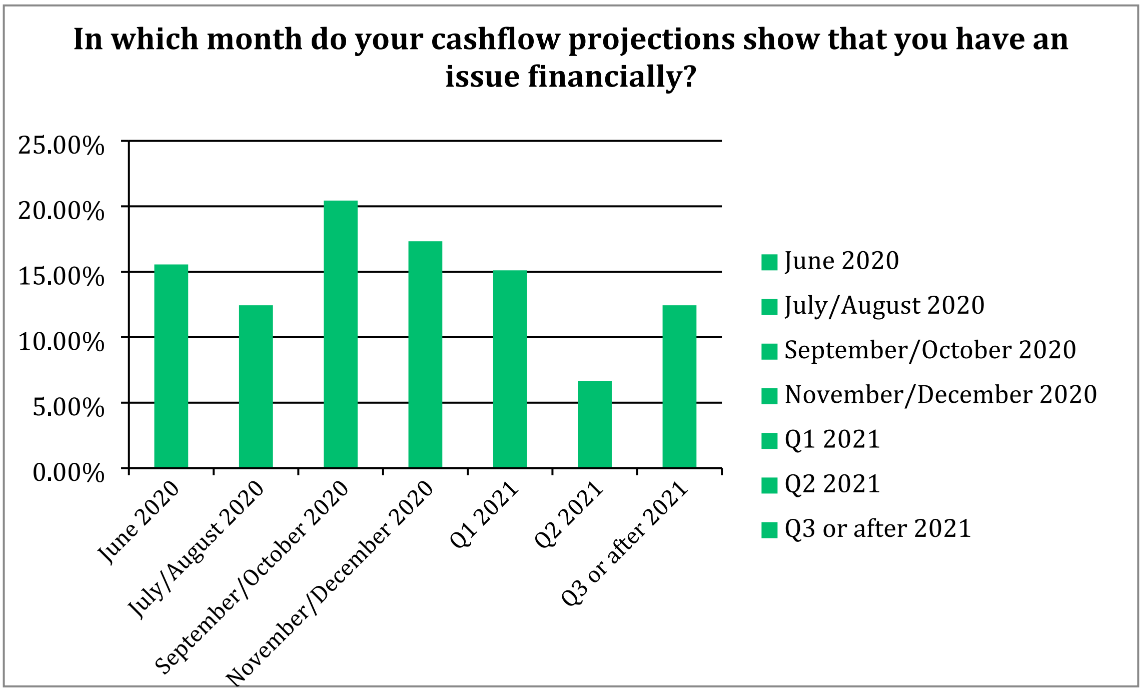
15.2. Increased pressure on many organisations comes from major building renovation projects which have ceased with no current prospect of restarting, such as the investment in Opera North's £17mn rehearsal and production centre. As well as creating a backlog which will need to be addressed from 2021-22 onwards, this has a vast impact on many businesses now.

15.3. Local communities have lost key cultural assets, which are often seen as the 'living rooms' of a town or city, a place that is key to providing civic and community identity and cohesion. Theatres up and down the country provide education and training, deliver activities aimed at community groups including the young and the elderly, and enable specific groups to access the pleasure of engaging with live performance. Many theatre organisations have been increasingly involved in 'social prescribing', using participatory and engagement activities. These services are now not running, and although many theatres and producers have moved quickly to online provision which is often offering a lifeline of support for isolated people in their communities – this activity is now at risk from a lack of funding.

16. Data

16.1. SOLT & UK Theatre's recent survey of the sector provides some clear, but worrying, analysis of the situation. Key findings include:

16.1.1. Around 70% of organisations (with a consistent result between venues and producers, and between in London and UK-wide) will run out of cash by the end of the year:



16.2. The JRS scheme has proved to be essential for businesses: nearly 68% of organisations have furloughed more than 50% of full-time staff, and over 55% have furloughed more than 50% of part-time staff.

16.3. 96% of theatres said they could not reopen their theatre whilst the current social distancing measures are still in place and break even (assuming that a full programme is in place).

16.4. The current loan schemes (CBILS etc) largely do not work for the theatre sector, for a mix of reasons including that many charities are restricted in their ability to take out loans, and that commercial operators are unable to take on debt given their existing financial structures.

17. Organisations' survival

17.1. With box office income reduced to zero, the ***commercial sector***'s business model is completely inoperable and the successful development of commercial income streams by ***not for profit theatres*** has made them equally vulnerable to the crisis. The successful diversification of their business models has required growth in workforce and leaves them with very substantial net monthly outgoings.

17.2. The ***four largest organisations*** regularly funded by Arts Council England, all occupying listed buildings, employ over 2,500 staff and engage thousands of freelancers. This totals £9m per month, and they will all exhaust their cash reserves between September 2020 and January 2021. With Arts Council England emergency funding only covering the period until September 2020, all not-for-profit theatre companies, subsidised or not, are modelling extensive redundancies from the moment wage support is removed. Many arts organisations carry very significant fixed performer salary costs, committed several years in advance. Indeed, the cost of redundancies may well be a significant issue for some organisations too.

17.3. ***Theatrical charities without public funding*** are perhaps the most vulnerable of all theatres, with national icons such as Shakespeare's Globe and the Old Vic, announcing this week that their businesses are completely inoperable in the current economic climate. This is mirrored in hundreds of venues throughout the UK that are operated by independent charities and trusts.

17.4. The medium and long-term negative impact on the talent pipeline, on communities, and on the economy will be severe and sustained. The Bristol Old Vic, Manchester Royal Exchange, Sheffield Crucible, Chichester Festival Theatre, Nottingham Playhouse, Sadlers Wells, the Roundhouse – up and down the country, iconic organisations will confront insolvency, and our cultural infrastructure will be dismantled.

17.5. For the Theatre sector, both commercial and not-for-profit, artists and skilled craftspeople are the equivalent of the National Collection for the museums sector. Being freelance, the vast majority of them have currently, and for the immediate future, lost all sources of earned or trading income. Unless organisations can ensure these talent-pools are protected, supported, and actively maintain their skills, this world class creative resource, which also feeds commercial theatre and performance, film, TV and digital arts, will quickly lose its world-leading edge.

18. The challenge of re-opening

18.1. By December 2020, for the companies that survive, commercial and not-for-profit organisations will have spent their reserves, lost 100% of their advance ticket sales and vastly exceeded their insurance caps (if indeed they had viable pandemic cover). They will be operating with zero cash.

19. Social Distancing

19.1. SOLT & UK Theatre as well as many theatres across the UK have considered whether theatres can realistically reopen with social distancing and safety measures in place. At present all government communication and planning is built around 2m social distancing being maintained in most circumstances. (Moving to the WHO guideline of 1.5m makes little difference to the modelling for theatres.)

19.2. Estimates for different auditoria with social distancing in place takes capacity down to an average of around 20% of normal capacity (between 13% and 30% depending on theatre configuration. While there are admirable attempts being modelled, these are temporary solutions. For all, social distanced performances are uneconomic and not a viable option. (There will be some small exceptions to this such as open-air theatres). Ordinarily, a show would need to sell 50-70% of tickets to break even. Theatres simply cannot open their doors and staff their buildings with 20% of their income

19.3. Unable to break even (let alone operate profitably) under social distancing, theatres will need new standardised COVID-safe protocols for audiences to return as regulations ease and allow us to approach the capacities which make us viable. We welcome the work underway feeding into the Entertainment & Events Working Group – but all signs are that re-opening soon with full capacity is some time away.

20. Buildings

20.1. Deterioration of **Physical Infrastructure.** Theatre buildings are complex and, in many cases, historic listed assets which need regular and costly specialised care. A prolonged period of hibernation risks business critical deterioration of the fabric of the buildings, the scale of which will only be realised as they reopen.

21. <u>Finances</u>

21.1. Organisations are carefully analysing their level of reserves to decide if "mothballing" for a period to try and enable resumption in 2021 is the best option. This will lead to much reduced economic activity and sizeable staff reductions, and without additional investment many theatres may have to take this option.

21.2. There is a substantial risk to **Philanthropic Donations** which is already being seen by organisations throughout the UK. Most non-commercial arts and culture organisations receive some form of private investment, and in 2017-18, that totalled £545 million. This staggering annual extra investment is dependent on activity. Much comprises cumulative small donations at point of sale. At a more significant level, the individuals, trusts, foundations and corporate partners need confidence that organisations will survive to deliver the outcomes of their investment.

21.3. Feedback from two major foundations who support the sector is worrying for the future:

21.3.1. Paul Hamlyn Foundation reports that majority of the 2020/21 funding from the Arts Councils in England, Scotland, Wales and Northern Ireland has been committed to the arts sector to support them with the emergency response – which could result in a greater than usual demand on trusts and foundations that commit funds to the arts sector when things return to normal;

21.3.2. Funding applications to the The Andrew Lloyd Webber Foundation demonstrate that performing arts organisations delivering to those who are socially, economically, geographically disadvantaged as well as to BAME, disabled and LGBGT+ people were already under-funded. In addition, these organisations will be further impacted by the pandemic, which is now evidenced to disproportionately negatively impact the health of socially disadvantaged and ethnic minority groups. As a result of COVID-19, local councils are diverting extra funds to immediate social care and most will have little or nothing left for cultural activities despite the recognised health benefits of theatre & arts engagement.

22. <u>Audiences</u>

22.1. Prior to the pandemic, UK theatre reached **audiences of 34 million people** each year.

22.2. We won't see audiences at this level for some time and we certainly won't attain our previous attendance rates at the the point we are able to reopen. Around a third of London's West End audiences are tourists, and these volumes are unlikely to return for many years. Meanwhile, our current research reflects that UK audiences are anxious about safety and that consumer confidence is at an all-time low. These factors, in combination with an anticipated period of economic instability, lead us to believe that we must be prepared for losses upon our return.

22.3. In addition to the significance of the economic impact is the social impact of our towns and cities losing their cultural hearts. Theatres foster a sense of community, they support mental and physical health and wellbeing and they help our children and young people become active and engaged citizens.

22.4. Theatres across the country offer participation and outreach schemes that change the lives of the most isolated and disenfranchised people in society, including young people, those who identify as BAMER, d/Deaf or disabled, or from lower socio-economic backgrounds. The pressure on our arts organisations' finances will mean that vital schemes across the UK will be decimated.

22.5. Our customer research indicates that audiences will need significant reassurance to enable them to feel safe to attend. SOLT & UK Theatre are currently developing a **UK-wide marketing and publicity campaign** to promote the return of theatre. We look forward to working with Government, local MPs and LGAs to create specific messaging for the general public to know that it is safe to return to theatres and they are encouraged to gather again.

22.6. As stated in the summary, urgent measures are needed to rescue the sector and allow theatre to contribute to the future success of the UK:

22.6.1. **Sustain the workforce**, through the continuation and development of the JRS for both retained staff and a new package to support the army of freelancers and self-employed artists who create so much of our work

22.6.2. **Catalyse the recovery**, through adaptations to the existing and hugely successful theatre production tax relief scheme, support for the supplier network, and aid with making venues Covid-19 secure

22.6.3. **Safeguard the strength and UK-wide impact of this vital sector**, through a combination of one-off investment and a new Cultural Investment Participation Scheme

22.7. The costs of remounting productions (whether new or existing shows) are substantial and incurred upfront. Shows will need casting, rehearsing, new technical rehearsals and remarketing. Commercial theatres will need to pay rent, subsidised to carry overheads. And all this before a single ticket is sold. There are clearly also substantial risks associated with starting to incur these costs and then there being further restrictions as a result of a further wave of infections. Most performing arts venues have paid down all their reserves to survive through the closure period, making the reopening and recovery impossible without new capital.

22.8. If theatres are unable to open for the Christmas period, it will be devastating for many. Decision points for production of pantomimes and other seasonal shows is at the latest in August (after this time substantial money is spent and contracted on casting, scenic construction etc), so time is short for theatres to know they can sell sufficient seats and build audience confidence.

Responding to the Crisis

23. Financial Discipline.

23.1. Theatres and production companies have responded to the crisis by immediately implementing cost-saving measures. Capital expenditure, recruitment and training were halted, radical pay cuts were implemented across the sector, and agreements were rapidly reached with unions around freelance and casual staff.

23.2. Substantial numbers of advance bookings were successfully converted into credit vouchers or donations, and organisations are examining potential income streams and beginning to restructure how they could work with greater impact in a post-Covid world.

24. Community Engagement

24.1. Across the UK, theatres and artists have engaged with community, youth and education work, and are supporting their constituents online. For example, RSC actors have been teaching Shakespeare in schools while Manchester Royal Exchange has evolved a community production into a digital festival.

24.2. Meanwhile, many furloughed staff have voluntarily put their skills to use costume staff are making PPE and set builders and designers are supporting hospitals and their local schools.

25. Digital Content & Innovation

25.1. The sector's commitment to providing culture and entertainment has continued wherever possible and companies have created new content or made previous broadcasts available to the public. The National Theatre's digital streaming alone has generated over 10 million views in 6 weeks, illuminating huge ongoing public demand for performance. In addition, many theatres have been actively involved in the BBC's Culture in Quarantine strand.

25.2. Organisations have innovatively thought through new ways of performing in the coming months such as ENO's open-air opera with people in cars.

25.3. We will continue as a sector to be both entrepreneurial and ingenious – but we can only do that if our organisations can weather the financial storm.

26. The support needed to protect the sector

26.1. SOLT & UK Theatre and other bodies have consulted widely across the commercial, subsidised and not-for-profit sectors to establish the measures that would firstly rescue and protect the UK's performing arts industry, and then enable them to re-open so they can continue to entertain, educate and help power UK growth.

26.2. If we act decisively, this vital part of the British economy and society can be a powerful force within our post Covid Recovery, and the theatre buildings which it occupies, a crucial part of the UK's architectural heritage protected and sustained for generations to come.

26.3. This decisive support is needed in several forms – the following list is not a priority list, but we believe the combination works as a mechanism to save organisations, and incentivise production/re-opening when that is possible:

1) **Sustain the workforce during the crisis:** we need to protect both the specialist staff on whose expertise the whole industry relies, and the vast freelance/self-employed part of the workforce (numbering around 70% of total workers, including all actor, musicians and most creatives) who create and perform work. We need two key components:
A) The **extension of the JRS** to October at 80% but fully funded by the government at the 80% level as theatre organisations cannot afford to contribute with zero income for months[2]. Depending on the progress within the "Entertainment and Events Working Group" on re-opening, the industry may need additional support on JRS, or an alternative scheme like short term wage subsidies, to allow planning for the gap between October and commercial reopening.
B) A unified scheme to **support and sustain the freelancers** who create so much of our work must be identified. The theatrical benevolent charities are already reporting real need in this population, and this must be addressed swiftly either through an extension of the SEISS scheme, or through a new tailored scheme for this sector. We believe we could aid government in fixing the gaps that exist, for example by validating all those who graduated into our sector in summer 2019. ***NOTE if these measures can only partly be achieved, the Emergency Rescue Fund (below) will have to do more work.***
2) **Catalyse the recovery:**
A) **Temporary increase to Theatre Production Tax Relief.** We believe a series of changes to existing tax rules, including a modification to the Theatre Production Tax Relief for three years, could aid recovery as the sector re-establishes. Details in **APPENDIX 2**
B) **Insurance and liability** – our work with the insurance industry tells us that most venues and producers will not be able to access appropriate insurance to enable re-opening as the risks to organisations will be too high, and often unquantifiable. Indeed, from the recent SOLT & UK Theatre survey only 12% of organisations believe they will be able to get the insurance they need to re-open or produce new work. We have pulled together a working group on this, with a view to making proposals on how a national government insurance backed scheme could solve this issue for the next few years.
C) **Support for the wider ecology of theatre –** the thousands of small companies that form the bedrock of the industry (from producers' offices, to workshops, to costume and set makers, to agents and casting directors) as well as the major technical suppliers to the industry face many similar issues to theatre venues and productions – it is vital that any sector support applies to them as well. Crucial to this group is the JRS extension, the support for freelancers and that measures introduced to help theatres are extended to "theatre supporting companies".
D) Organisations will need to equip themselves for the revised ways of working to ensure **COVID-19 secure venues,** including potential capital investment on toilet facilities, temperature monitoring, and other related costs such as additional H & S precautions, PPE, increased costs of working, etc
3) **Safeguard the strength and UK-wide impact of this vital sector** – for many organisations, solving the measures in section A around workforce will not be enough to survive. In a sector where there is a high proportion of charities/trusts and where reserves are low, these reserves

[2] Announcement of JRS continuance in this way will need to be clarified soon otherwise many theatres will commence redundancy consultations with staff soon, and at the latest by mid-June, due to the laws surrounding staffing consultations.

are rapidly being eroded in absorbing the costs of closure, and for many in the maintenance of our historic theatre buildings. These urgent needs, might be addressed by a combination of:
A) an Emergency Rescue Fund, that needs to work across all parts of the sector, and
B) a new Cultural Investment Participation Scheme, available to both not for profit and commercial organisations. As covered in section 3, the existing loan schemes introduced by the government do not work for our sector for a variety of reasons. Our proposal is that an alternative investment scheme would ensure the swift economic recovery of the sector in the twelve-month period following the full re-opening of venues, with built-in incentives to private investors and philanthropists and whilst providing the government with in-kind social benefit and a potential financial return from the activities of both charitable and commercial organisations within the sector. This will allow companies to re-stabilise their businesses, giving them the necessary risk protection in the reopening period without fear of imperilling their financial future through long term loans. Boards of trustees or equivalent (for not for profit organisations) would be accountable for the decision to apply for such a scheme giving HMT/HMG assurance of the viability of each participating theatre. **Details for this are in APPENDIX 1.**
C) Local authorities – many regional theatres have some support from their LA, and in discussions with the Local Government Association as well as local councils themselves, we are concerned that leisure budgets will be reduced leading to more income pressures for regional theatres – we ask government to provide sufficient support to LAs so that they can continue to invest in theatres at this time.

27.4 **Overall, we estimate the package needed to be around £330mn for every three months that closure continues.**

27.5 We very much look forward to discussing these proposals further when we give oral evidence on 9 June and to providing additional detailed financial information, so that we can move forward with agreeing strategic measures with government to rescue and reenable British theatre to do what it can for the country now, and throughout the UK's recovery from this pandemic.

27.6 The theatre and performing arts sector need knowledge by early July at the latest on support to prevent collapse of 70% of the sector.

27.7 We believe culture should be at the centre of how the nation heals from COVID-19 and will be the difference between the success or failure of the nation's recovery.

Appendix 1 - Cultural Investment Participation Scheme

The Cultural Investment Participation Scheme (CIPS) ensures the swift economic recovery of the theatre sector in the twelve-month period following the full re-opening of venues by providing an effective government investment scheme for charitable organisations and built-in incentives to private investors and philanthropists whilst providing the government with in kind social benefit and a potential financial return.

Some benefits of the scheme:

- CIPS provides additional support to the sector post-reopening through a mechanism that allows for a return on investment rather than straight relief funding.

- CIPS serves as a national pledge for culture, and delivers a strong public narrative that the theatre sector institutions and productions are committing to provide returns for any such investment whilst delivering a much-needed societal benefit.

- The mechanism ensures that charitable organisations are able to effectively leverage continued philanthropy to support education and community work.

- The partnership of charitable and commercial funding offers the genuine prospect of financial return for the government.

- By investing in the sector's charitable organisations, government provides reassurance and impetus to philanthropists and ensures the continuance of the projects and social benefit that philanthropists most care about.

- CIPS acts as a catalyst for private investment and allows the commercial sector to leverage its proven investor relationships, with private investors by providing at least 70% of the required investment.

- CIPS kickstarts the theatre sector's economy, retaining institutional workforces, generating re-employment for freelancers, maintaining the skills base, rebuilding confidence and encouraging audiences to spend money in related sectors such as hospitality.

The fund would operate in different but complimentary ways for each of the charitable and commercial sectors.

1. <u>The Charitable CIPS</u>

Many major arts institutions are charities and cannot trade their way out of the current crisis. Even the best-run institutions are close to technical insolvency and raising additional commercial debt would further impact on the long-term recovery of the industry.

The Charitable CIPS would provide financial assurance to charitable organisations which will have uncertain income levels in the twelve-month period following the full re-opening of theatres.

By placing public recognition and value on the expert social mission work of cultural organisations, any contribution by government not returned in cash from commercial surplus is accounted as government spending on social benefit.

Charitable organisations in the sector traditionally operate on the basis of a break-even budget. Through CIPS, whilst organisations will be incentivised to return the sum provided as swiftly as possible, avoiding any fixed obligation to repay in cash terms ensures that the long-term recovery and sustainability of the organisation is not hampered.

1.1 How the Charitable CIPS would work

For the twelve-month period following the full re-opening of theatres, the government will invest up to 50% of the theatre's operating costs in return for a social return and economic participation in the institution.

The government funding would be unlocked following the participating organisation providing an approved annual budget forecast which shows the sources of the remaining balance of necessary annual funding.

The participating organisation provides returns on the CIPS investment over a 25 year period as follows:

- The value of the investment shall be offset against 100% of the value of the organisation's activities (set in terms of expenditure or funds raised) that provide social benefit in each financial year, such as outreach projects relating to education, emerging talent, deprivation, wellbeing and community cohesion, and accessible ticket schemes.

- The participating organisation would make payments in respect of the balance of the CIPS investment of 20% of any commercial surplus in a given financial year.

1.2 Delivery

The amount of the Charitable CIPS investment provided to each participating organisation would be determined by reference to their relative needs..

Participating organisations would be subject to strict eligibility criteria and loans granted subject to the appropriate documentary evidence. The CIPS would be provided on standard terms agreed between government and the industry at the outset.

The funds would be administered directly by DCMS to the participating organisation.

1.3 Benefits

The government can justify the investment on the basis of repayment through the twin mechanisms of social benefit and cash as:

- Many institutions provide a material level of social benefit which is presently viewed as outsourced provision from government to NFP cultural organisations that is not properly accounted for; and

- Should the participating organisation have a major commercial success, the benefit would flow back to Treasury through the 20% financial participation.

2. The Commercial CIPS

Commercial theatrical productions are usually capitalised on a per show basis through private investment in the order of in aggregate £150million in an average year.

The Commercial CIPS would create built-in incentives for private investment in commercial theatre productions in the UK for the twelve-month period following the full re-opening of theatres.

These businesses will be unable to access other government business support programmes because they will be pre-revenue and pre-profit. The scheme will deliver new government funding which will be unlocked by private investment.

Commercial theatre productions can repay capital investment in a relatively short time period. Most plays are structured to repay investment within 16 weeks, and most musicals within 12 months.

2.1 How the Commercial CIPS Would Work

For a twelve-month period following the full re-opening of commercial theatre venues in the UK, commercial theatre productions which fit specific financial criteria may apply for up to 30% of the production's total capitalisation.

The government funding would only be unlocked following the participating production raising the balance of the finance required from private investors.

The participating production would start to pay returns on the CIPS investment at the point at which aggregate net operating profits equals the sum of monies provided by private investors.

Following the repayment of 100% of the CIPS investment, private investors and government shall each receive a pro rata share of net adjusted profits on a pari passu basis on standard theatre investment terms.

2.2 **Delivery**

The Commercial CIPS Fund investment amount provided to each participating production may range from £50,000 to £500,000.

Investment decisions would be subject to strict eligibility criteria and in accordance with commercial investment guidelines drawn up by Treasury and SOLT/UK Theatre and be on agreed standard terms.

The scheme could be delivered through existing bodies, for example, the Theatre Investment Fund Limited t/a Stage One (Charity Number 271349), which already provides strict commercial criteria for investment decisions.[i]

Next Steps

Representative members of SOLT and UK Theatre offer to work with HM Treasury and DCMS to further develop, quantify and document the scheme.

Macquarie Bank (Matthew Booth, Senior Managing Director) and Hogan Lovells (Philip Brown, Partner, Finance Practice) have agreed to act pro bono on behalf of the sector.

Appendix 2 – Theatre Production Tax Relief

The Theatre Production Tax Relief (and other creative industry reliefs such as those for orchestras) has been transformational in terms of new productions in UK theatres. It has also led to individuals that invest in film and TV feeling that theatre is treated in similar terms.

We believe that TPTR has the ability to help incentivise recovery – especially as it is paid for "new" activity.

We propose that the rate of TPTR is increased to 50% (of 80% of qualifying expenditure) for a period of three years to include any productions which have commenced their production phase and that have been affected by Covid-19, and that HMRC should issue guidance that expenditure associated with resuming performances can be qualifying expenditure.

This would mitigate losses already sustained by the sector such that productions that were affected by Covid-19 are more likely to resume once theatres re-open. It would also provide producers and investors with greater confidence to ensure that new and larger-scale productions are greenlit whilst the sector rebuilds its audience, ensuring greater employment.

Importantly, the relief should also be paid on productions that are put on solely for digital distribution – this is currently prohibited – this would enable some organisations to contemplate shows for online audiences while auditoria are closed. Alternatively, the TV and film reliefs could be extended to include theatre productions that are produced solely for digital distribution that might not otherwise qualify for relief.

The relief should also be structured to allow productions to claim such relief prior to the financial year end, and to make relief claimable against operating costs which also are currently excluded.

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[i] https://www.stageone.uk.com/media/files/Investment%20Guidelines%20for%20Sub-Committee%2027_09_19%20FINAL.pdf