Supplementary written evidence submitted by the British Film Institute

Response to DCMS Select Committee Inquiry
Impact of Covid-19 on DCMS Sectors

June 2020

About the BFI

At the BFI we support, nurture and promote the art of film, television and the moving image. A charity, funded by Government and earned income, and a distributor of National Lottery funds, we are at the heart of the UK's fast growing screen industries, protecting the past and shaping their future across the UK. We work in partnership with cultural organisations, government and industry to make this happen. We bring our world-class cultural programmes and unrivalled national collections to audiences everywhere, and promote learning about our art-form and its heritage. We support the future success of film in the UK by nurturing new voices and fresh ideas, enriching independent British film culture, challenging the UK's screen industries to innovate and defining Britain and its storytellers in the 21st century.

Founded in 1933, the BFI is a registered charity governed by Royal Charter. The BFI Board of Governors is chaired by Josh Berger CBE.

The UK screen industries are a global cultural and commercial success story – providing the public with one of the most accessible forms of culture and defining UK identity at home and around the world, while employing more than 166,000 people and growing faster than any other sector in recent years.[1] However COVID-19 is putting the sector's hard won success in jeopardy. This second submission to the DCMS Select Committee on the impact of Covid focuses on the measures needed to secure its successful recovery in the short to medium term. For more detail on the impact of the pandemic on the sector and the effectiveness of the Government response, please refer to our first submission to the Committee in May 2020.

Productions and cinemas have been forced to close down under lockdown rules at huge cost. Only £39m of the £1.1bn of film and HETV production spend scheduled for Q1 2020 was able to be completed before lockdown began. The enforced closure of cinemas culturally deprives audiences in all regions and nations and is incurring an estimated loss of £5.8m per day for the venues themselves. Measures such as enforced quarantine for international travelers and strict social distancing will impact both our reputation as a global production hub and put us behind other territories who have already implemented Covid recovery measures (financial and safety) to

[1] See Appendix 1 for more information on the screen industries

try to attract new inward investment and reassure audiences - approximately 40% of independent venues are unable to reopen in line with the current 2m social distancing measures[2]. Government intervention is urgently needed to ensure that all parts of the screen ecosystem can secure a long term future and are able to play a role in the UK's social, cultural and economic recovery.

The Screen Sector Taskforce, coordinated by the BFI in partnership with the British Film Commission (BFC), the Producers Alliance for Cinema and Television (Pact), the UK Cinema Association (UKCA) and the Film Distributors' Association (FDA), has developed a set of five policy interventions which sit alongside the existing industry devised (and Government approved) health and safety guidance for production, post-production and cinemas[3]. The Taskforce has also worked closely with Ukie, the video games body, where relevant on cross cutting issues. The interventions are tailored to different parts of the screen value chain and need to be implemented as one package at pace in order to ensure consistent recovery. They are outlined below:

1. **A production insurance guarantee fund** to provide specific Covid-19 cover which the market cannot currently provide – vital in enabling film and TV productions to shoot in the UK.
2. **Time-limited uplifts to the creative sector tax reliefs** to maintain our competiveness internationally, offset some of the increased 'Covid cost' of new health and safety guidance and support vfx who are out of sync with Covid impact on the rest of the pipeline.
3. **A quarantine exemption for key cast and crew** travelling to the UK to enable productions to resume as soon as possible (and prevent and relocation).
4. **A new Global Screen Fund** that replaces EU-funding to increase worldwide exports and mitigate market failures inherent in the independent film industry.
5. **Financial support for cinemas** to ensure a safe and successful reopening of all venues that is financially viable until audiences reach 80% of pre-Covid levels.

Further detail on each of these interventions and the critical issues they address is set out below.

PRODUCTION INSURANCE – led by Pact

The problem: Film and television production cannot secure the finance needed to enter the physical production phase without insurance. This must now include additional cover to include the costs of temporary shutdown and permanent abandonment of production in the event of a second wave of Covid-19, without it domestic production cannot resume as the risk it too great. The scale and novelty of the pandemic and the uncertainty about future government reaction to a new outbreak means the market has not yet been able to develop a solution. Financiers require the security that full insurance is in place and neither independent production companies nor commercial broadcasters can shoulder this level of risk. Without intervention, very few domestic film and TV projects will be greenlit impacting jobs, growth, our exports[4] and fundamentally reducing the pipeline of new content available to audiences. As evidenced by state backed interventions across Europe, Covid-19 insurance cover for production is a worldwide problem where Government intervention is the only option.

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[2] Survey undertaken in May 2020 by the Independent Cinema Office – 41% of respondents indicated that they could not reopen with 2m social distancing in place.

[3] Health and safety guidance for cinemas is currently awaiting sign off from HMG. Production and post production guidance has already received HMG and PHE approval.

[4] The UK is the second largest exporter of AV content in the world

The solution: A production guarantee fund must be introduced by UK Government for specific Covid cover for temporary shutdown and permanent abandonment in the short term until a permanent 'Pan Re' model for insurance across the economy is ready for implementation (similar to Pool Re for terrorism cover). This would be similar to the Trade Insurance Guarantee announced by The Treasury in May. A positive announcement in July would give confidence for pre-production to begin across film and TV projects – restarting domestic production. The immediate areas of need are for all UK film and TV, with the exclusion of sport and sole inward investment projects (100% studio or SVOD funded). Modelling an average 8 week shoot length and production spend, the most likely liability would be £190m, partially offset by a deductible in the event of a claim – this estimates that in a second wave, 95% of productions would temporarily shut down at 20% of budget costs and 5% of productions would permanently close at a cost of 70% of total budget. The benefits would far outweigh costs, securing approx £4bn in independent and domestic production spend and 75,000 jobs across the film and TV sectors, while underpinning £5bn in exports. This insurance solution is similar to interventions already introduced in France and Austria (although broader in scope).

TIME-LIMITED UPLIFTS TO FILM AND TELEVISION SECTOR TAX RELIEFS – led by the BFC and the BFI

The problem: Restarting production in accordance with the new Government approved health and safety guidelines will come at considerable extra cost for productions of all types and budget levels. The upfront costs for PPE, additional H&S staff etc combined with a reduction in productivity due to measures such as staggered breaks will increase costs and extend the length of shoots, estimated to be between an additional 9-29% of the original production budget. This increase in costs will lead to a drastic reduction in the number and quality of film and TV shows being commissioned and could mean some projects which had previously secured finance are no longer viable, particularly in independent film.

This in turn will destabilise the UK's world-class VFX and post-production sector, which faces a long period with little work later in the year due to the suspension of all production during lockdown as well as the extended time it will take productions to complete once they have got back up and running. With the end of the Job Retention Scheme leaving them facing very high fixed costs, prices will increase and undermine their ability to contend with international competitors that benefit from more advantageous reliefs. Industry predicts that this will result in considerable loss of business and jobs in the sector.

The additional costs and time associated with production and post-production will risk the UK's status as a world-leading production hub and our ability to secure continued inward investment. This danger has been exacerbated by the recent introduction of uplifts in tax relief by a number of international competitors including France, Spain, Italy and Australia.

The solution: A combination of time-limited amendments to the film and TV sector tax reliefs:

- An uplift in the rate of relief for independent film and domestic TV projects (including children's TV, animation TV and HETV)
- An uplift in the rate of film tax relief for productions with a VFX spend of £2 million or above, where 75% or more of the VFX spend is taking place in the UK

These would be introduced for a minimum of two years, with a commitment to review at this point. The Taskforce recommends that Government also uses this change as an opportunity to harmonise the cultural tests employed across film, HETV, animation and children's television tax reliefs to bring them into alignment.

The proposed solution would help avert a disruption to the VFX production pipeline, saving jobs and businesses, and enable the quality productions that the UK is renowned for and exports around the world to continue with no compromise on safety – offsetting the considerable increase in production costs due to H&S. It is estimated that the changes in relief would generate a considerable amount of additional business, with little cost to HM Treasury, and it would keep us competitive internationally as a favorable production destination. This proposed intervention builds on DCMS' advice to consider how successful existing policy interventions may be used to mitigate the impact of COVID-19.

QUARANTINE EXEMPTION FOR KEY CAST AND CREW – led by the BFI

The problem: The viability of many film and TV productions is dependent on the availability of a small number of key cast and crew, from high-profile actors to highly specialised workers like cinematographers, living and working around the world. While each of these workers may only be needed for a number of days at different points in the process, their presence is essential for production to take place - generating a huge number of supporting roles for the wider UK workforce. The availability of key talent is often also key to securing financing for new projects. The very small number of people from around the world filling these key roles means there is fierce international competition to secure this talent, with their schedules often fully booked for months if not years in advance.

If new requirements on those travelling to the UK to self-isolate for two weeks cause scheduling conflicts for key cast and crew, it may cause productions to collapse and jeopardise the UK's ability to attract new inward investment projects.

The solution: An exemption from quarantine requirements for international travellers for key cast and crew travelling to the UK. Introduced in tandem with strict alternative measures for crew safety, this would ensure production is not held up by the scheduling pressures on essential talent who may be unable to quarantine for 14 days, while preventing budgets from spiraling due to the cost of quarantining these workers. This is similar to other countries' approaches including New Zealand, the Czech Republic and Poland and will prevent us being perceived as a less desirable and unwelcoming production destination.

GLOBAL SCREEN FUND (partial replacement for Creative Europe MEDIA funding) – led by BFI in collaboration with DCMS

The problem: The UK independent film sector has benefitted from over a decade of European funding throughout the value chain through the Creative Europe MEDIA sub-programme. This support has targeted areas of market failure, like distribution and exhibition, incentivizing European businesses to invest in UK content. Europe represents 40% of the UK's export market and replacement funding including an expansion of scope to global markets is required immediately. The UK announced in February 2020 that it would not seek participation in the next Creative Europe programme, from 2021, but the various funding strands that the UK could quality for are already ending and could have a significant negative impact on UK sales at key international markets like Cannes (June).

Initial economic estimates were that in the long term the independent sector would shrink by 10% without a replacement fund, costing up to 1,200 jobs and the BFI has been working on a domestic alternative with Government officials for many months. However these estimates were made before the onset of Covid-19, which has ravaged the independent sector, threatening the future of independent production companies, distributors, sales agents, festivals and exhibitors. Going forward without Creative Europe, the UK will be exposed to market failures, a new competitive block in the form of the EU (who have Creative Europe continued support which incentivises them to buy each other's content) and the impact of Covid on all parts of the film ecosystem.

The solution: A Global Screen Fund of £17m per year, developed in collaboration with DCMS, would support all parts of the independent film value chain and accelerate export growth in key territories, whilst deepening cultural and commercial ties to the UK through soft power. The GSF will boost the UK's international competitiveness by tackling needs at each stage of the screen content supply chain. By linking training, development, data-driven research, production, promotion and distribution to deliver a strategy that is focused on global reach and impact, the GSF is a unique opportunity to leverage investment at each stage and supercharge UK exports.

A positive funding announcement is required as soon as possible to maxmimise its benefits and enable UK independent filmmakers to continue to export competitively and make new content of international scope, as much Creative Europe funding has now ended. Delaying its set up until 2021 would mean losing up to an additional 53% of current sales due to the international film market calendar.

FINANCIAL SUPPORT FOR DISTRIBUTION AND EXHIBITION – led by the BFI and UKCA

The problem: The forced closure of cinemas has halted virtually all of their revenue streams - ticket sales, concessions and advertising, while fixed costs including commercial rents continue to burn up reserves. Reopening threatens to make this situation even worse with strict capacity limitations due to social distancing, increased health and safety costs and audience anxiety resulting in severe losses for many months. Compliance with 2m social distancing guidelines will leave cinemas only be able to sell 20 – 25% of seats, increasing to 40-50% if this decreases to 1m. The sector estimates that revenues will fall by 60% while operating costs increase by 20 – 30%, making it financially unviable for many of the UK's 775 cinemas to open. 41% of independent venues report that they will not be able to open in line with social distancing guidelines, while major cinema operators expect to keep up to 30% of venues closed upon reopening. This poses an existential threat to many in the long term, including independent venues in particular who are often found in the more remote and culturally underserved areas of the UK.

The solution: A package of relief measures designed to help cinemas mitigate the costs of reopening and ensure that they break even in their first few months of trading when audience anxiety and social distancing are at their peak. For independent venues this includes grants for up front health and safety costs before reopening and top up resilience grants to enable independent venues to open without generating a loss, as well as support for a sector wide 'Back to the Cinema' Marketing campaign. This package would allow venues to reopen in a sustainable manner, securing the long-term health of the UK Box Office (worth £1.3bn in 2018) and providing communities across the UK with access to one of the most popular forms of culture nationwide. A successful reopening will also help lay the foundations in terms of audience confidence for other parts of the cultural sector like theatres, who will be reopening at a later stage.

Conclusion

The measures above outline the immediate support package required of Government to enable the immediate rescue of the sector – getting people back to work, reopening cinemas and resuming production. There are still longer term impacts of Covid-19 and possible solutions like VAT relief which need to be addressed and the Taskforce will refocus its efforts on these areas after the summer fiscal event (when hopefully sector support may be agreed). To fully develop proposals which support the long term health of the sector, the workforce and its position internationally, we must first collect data from audiences, venues, staff and businesses as they begin to reopen so that we have a complete picture of what more might be needed to secure its future.