Written evidence submitted by UK Screen Alliance

Written evidence to the Digital, Culture, Media and Sport Commons Select Committee on the impact of Covid-19 on DCMS Sectors

From the UK Screen Alliance on behalf of the Visual Effects and Post-Production Sectors

19th June 2020

1. Introduction and Summary

1.1. This written evidence is submitted by the UK Screen Alliance on behalf of the UK's Visual Effects (VFX) and post-production companies, a vital part component of the UK's film, TV, and advertising industries.

1.2. Covid -19 has caused an almost complete global shutdown in filming for TV, feature films and advertising since mid-February. Sound and picture from these productions normally flows after it has been shot into post-production and VFX companies, who edit and craft the raw material into the finished film, TV programme or commercial. To comply with social distancing, the VFX and post-production sector deployed technology solutions to allow most work to continue remotely from their artists' homes. However, whilst these companies had some work-in-progress within their pipelines, they have had to scale back operations to match demand, and with no new material new coming in from filming, more than 80% will have run out of revenue generating work by the end of July.

1.3. The British Film Commission has produced detailed guidance for filming to recommence safely in consultation with many industry stakeholders including DCMS. There are tangible signs that preparations are being made by production companies to recommence filming, but there are additional barriers to overcome for some types of production such as the lack of Covid-19 interruption insurance cover and the quarantine of inbound overseas on-screen talent and crew. Both problems need to be addressed by the Government. The earliest filming is likely to start is late July but, it will be a slow and steady ramp up rather than a sudden mass return.

1.4. The position of VFX and post-production in the latter stages of the process means that if filming can commence again later in the summer, we do not expect work to begin to flow into post-production until early October and in VFX where the lead time is greater, we do not expect activity to reach 50% of normal levels for 9 months after filming restarts. Government support measures such as the Job Retention Scheme (CJRS) should be extended for this sector to cover this consequential delayed hiatus and avoid redundancies between June and December. Currently post-production and VFX have made light use of CJRS as they have been completing project but will need it during Q3/Q4 when there is no work. However recent changes to CJRS mean that employees who had not been furloughed before June 10th can no longer be furloughed for the first time after July 1st. Rather than bringing additional flexibility the changes have denied our sector access to it, just when it is needed most and will therefore precipitate a significant round of redundancies for many employees who were expecting to be furloughed.

1.5. The decisions about where in the world any postponed or new projects will be placed is being made by US Studios and SVOD platforms in the next few weeks. Prior to Covid-19 the film and HETV tax credits were very successful in attracting filming to the UK and generated a significant return on investment for the UK. The same tax credits are applicable to VFX but are not structured in a way that offers a sufficiently competitive incentive compared to other territories who in recent months have increased their levels of rebate to attract VFX work. As countries begin to ease Covid-19 restrictions at different times according to their local conditions, it is vital to ensure that the UK's VFX and post-production industry is in the most competitive position by making emergency short-term adjustments to the UK's screen sector tax credits to attract inward investment from across the world regardless of where it was filmed.

2. About UK Screen Alliance

2.1. UK Screen Alliance in partnership with Animation UK is the trade association which represents Visual Effects (VFX), TV & Film Studios, Post-Production and Animation in the UK. It is the membership organisation for over 100 leading employers in this sector and its primary purpose is business advocacy for its member companies and the wider screen industries.

2.2. Our partner organisation Animation UK will be submitting separate written evidence on behalf of the UK's animation industry.

3. About the UK's Visual Effects and Post-Production industry

3.1. The UK's whole post-production sector which includes Visual Effects (VFX), is made up of **2,915 enterprises** employing **12,000 people**[1]. It turned over **£1.844 billion** in 2018, up 32.7% since 2014[2]. However only 160 companies turnover more than £1 million, and this 5.4% of the total number of enterprises accounts for 81% of the total turnover[3]. VFX makes up a substantial proportion of the post -production sector. The largest VFX companies employ between 500 and 1200 employees each and some turnover more than £100 million.

3.2. The UK's VFX industry is highly regarded in a fiercely competitive global market and attracts inward investment particularly from the USA on Hollywood feature films and box-set dramas for streaming video on-demand platforms. Many countries including the UK, offer tax incentives to bring this kind of work to their territories.

---

[1] ONS Inter-Departmental Business Register (March 2018)
[2] ONS Inter-Departmental Business Register (March 2018)
[3] ONS Inter-Departmental Business Register (March 2018)

3.3. The UK's film tax incentive returns £7.69 of GVA per pound of tax relief and the High-end TV relief returns £6.20 GVA per pound of relief[4].

3.4. Of the relief claimed via the screen sector tax credits, VFX spending accounts for 13% of the film incentive and 5.6% of the HETV incentive[5].

3.5. The UK's VFX industry generated £878.2[6] million GVA in 2016 from tax credit related work but a total of £1.043[7] billion GVA was generated by the industry when non-tax credit work including advertising was factored in.

3.6. Direct employment in the VFX industry was **8,140** in 2016, but this activity supported **17,940** jobs when induced, indirect and spill-over employment was factored in[8].

3.7. The average contribution to the UK economy of a VFX worker is £81,500 of GVA per head per year[9], which is £19,000 higher than the UK productivity average.

3.8. London is one of the world's top creative hubs for Visual Effects (VFX) and UK based companies have won numerous Academy Awards (Oscars) for their work on films such as *Gravity, Interstellar, The Golden Compass, Inception*, *Ex Machina* and *The Jungle Book*.

3.9. VFX sits at the important intersection of creativity and digital technology. Whilst most VFX output is entertainment and advertising based, there are many related areas that are influenced by techniques developed in VFX companies such as product design, architectural visualisation, medical training simulation, life sciences, autonomous vehicles, big data visualisation, AR and VR.

3.10. Constant innovation and improvement in the digital creation, manipulation and enhancement of images have enabled VFX to become an essential tool for filmmakers, enabling new ways of storytelling. VFX is key to the success of many high-grossing movies where Computer-Generated Imagery (CGI) makes the impossible appear possible. However, VFX is not just about creating monsters and spaceships or spectacular action sequences. Often "invisible" effects are used to digitally enhance the original camera image, enabling the creation of convincing historical settings or to allow UK filming locations to double for other parts of the world.

3.11. The film and TV industries were one of the fastest growing sectors following the 2008 financial crash and that continued for more than a decade right up until the Covid-19 pandemic. ONS reported in October 2019[10] that the motion pictures industry had significantly outperformed the whole service economy over the last two years by a staggering 24 points on the Index of Services. The growth continued in December 2019 with ONS reporting that *"information and communications sector was the biggest contributor to services sector growth, driven by motion pictures."*[11]

---

[4] BFI Screen Business report 2018
[5] BFI Screen Business report 2018
[6] BFI Screen Business report 2018
[7] BFI Screen Business report 2018
[8] BFI Screen Business report 2018
[9] BFI Screen Business report 2018
[10] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/august2019 Figure 3
[11] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/december2019

4. Summary of main recommendations

4.1. Action already taken

4.1.1. Sector specific Guidance by the BFC has been produced to encourage filming to recommence safely; an essential prerequisite to getting work flowing into post-production & VFX.

4.1.2. Sector specific Guidance for post-production and VFX has been produced by the UK Screen Alliance to document best practice for safe working under lockdown and to provide a route map for a safe return to normal working

4.2. Proposed measures

4.2.1. Proposals have already been submitted to HMT for a package of emergency measures to incentivise inward investment and safeguard jobs.

4.2.2. The government should become the insurer of last resort for Covid-19 interruption to TV and film production. Filming will not restart in earnest for many productions until the risk of Covid interruption can be covered which is an important prerequisite for film and TV production investment.

4.2.3. Introduce exemptions to the quarantine regulations for overseas travellers for on-screen film & TV talent and senior crew if appropriate safeguards can be met.

4.2.4. Nuance the rules for the Job Retention Scheme to allow workers in sectors with a delayed hiatus like post-production and VFX, to be furloughed for the first time when the lack of work becomes critical between July and October.

4.2.5. Freeze the expiry of Apprenticeship Levy contributions for at ;least 12 months whilst recruitment has been paused. Repurpose the frozen levy for sector appropriate training other than apprenticeships to be decided by publicly accountable industry representative bodies to address immediate skills gaps after the pandemic

5. Response to the call for evidence

5.1. What has been the immediate impact of Covid-19 on the sector?

How events unfolded

5.1.1. During February 2020, film, TV, and advertising productions realised that their insurance would not cover them for the novel coronavirus Covid -19 as underwriters could not quantify the risk. New policies contained specific exclusions for Covid-19. By 25th February, the spread of the virus from China to northern Italy had resulted in the worst outbreak in Europe where at that point there were two hundred cases and seven deaths. *Mission Impossible 7* had been due to shoot over the following three weeks in Venice and Paramount called a postponement to allow the crew to return home. This was first of many high-profile productions to suffer indefinite delay with subsequent knock-on effects throughout the supply chain, including to VFX and post-production in the UK.

5.1.2. On film sets it was difficult to comply with the new social distancing measures as close interaction between cast and crew is fundamental to many aspects of the operation. Within the space the first two weeks of March, all feature film and TV drama productions ceased across the world including all original series for Netflix and Amazon. BBC and ITV halted shooting on their continuing dramas and production on popular dramas like *Peaky Blinders* was postponed.

How post-production, VFX and animation adapted to allow work to continue

5.1.3. The unedited material from filming feeds into post-production and VFX companies who edit and craft the raw images and sound into the finished film, TV programme or commercial. To comply with government guidelines on social distancing and working from home wherever possible, the VFX, post-production and CG animation[12] sectors rapidly deployed complex cutting-edge technological solutions to allow work to continue remotely from their artists' homes. There was an increased cost of working in implementing this technology in such a short space of time.

5.1.4. Companies reduced their on-premises staffing levels to the bare minimum, with occasional attendance by skeleton crews to maintain the connectivity, keep the central servers and remote workstations running, thereby enabling everyone else to work from home. All companies are following government advice about cleaning, hand washing and social distancing in the workplace. Clients are being discouraged or banned from attending the premises, with remote viewing of work via the internet being offered as an alternative. Employers are being flexible about working times to allow any skeleton crew to travel to and from work more safely and to avoid public transport.

5.1.5. Editing and VFX has mostly been able to continue successfully, but not every service can easily be conducted remotely. Whilst some picture finishing, colour grading and audio dubbing can be performed in temporary home studios, depending on the programme genre, it is often desirable to use the high-quality equipment within suites and theatres on a post-production company's premises, especially for high-value feature film work. Producers are being asked to brief the key talent and trust them to get on with it alone. Very few companies are allowing allow any visitors or clients to attend sessions and even then, it will be limited to one producer and the craft talent sitting a very long way apart. Companies have closed communal catering and breakout areas and are keeping staff (and the very few clients) separated and isolated in their dedicated working areas.

5.1.6. Audio post-production is one area with significant challenges, especially the recoding of commentary, background crowd effects or orchestral soundtracks. Companies offering voiceover services or dialogue replacement (ADR) are disinfecting microphones and headphones between every session and maintaining strict social distancing. Voiceover artists with their own remote studios are an alternative. Audio mixing for high value theatrical releases is also difficult as it involves multiple sound engineers and sound editors working together in the dubbing suite.

The hiatus is delayed but work-in-progress is rapidly running out

[12] CG animation is computer generated as opposed to stop-motion animation using physical models

5.1.7. Whilst VFX and post production companies had some work-in-progress within their pipelines prior to the lockdown, they have already had to scale back operations, and with no new material new coming in from filming, many will run out of work altogether during Q3/Q4. UK Screen Alliance, in a flash survey of companies in post-production and VFX, found that more than 80% of companies will have little or no revenue generating work remaining by the end of July.

5.1.8. It is unlikely that filming will pick up again immediately after lockdown restrictions are eased or because of the introduction of the BFC's comprehensive guidance. The cast and crew will need time to reassemble and productions will have to come to terms with the inconvenience and additional costs of any remaining social distancing restrictions. The position of VFX and post-production in the latter stages of the filmmaking process means that there will be a further time lag between the recommencement of filming on location and the point at which that material begins to flow once again into these companies. If filming can commence again in summer, we do not expect business level to recover in post-production until early October and not return to normal levels until 2021. In VFX the lead time is longer with projects taking typically a year to complete. Crewing levels will only reach 50% of maximum level in VFX, 9 months after filming commences with full crewing reached in the final 6 weeks before completion of a project.

5.1.9. The table below shows that VFX has made very little use of CJRS until now, either in the numbers of employees furloughed or the compensation claimed; just 7.6% of normal monthly payroll. The worst of the hiatus is still to come from July through to the end of the year.

Sector	% of workforce on furlough (% of pre-Covid workforce)				% of monthly payroll costs claimed as furlough compensation		
	March	April	May	June (prediction)	March	April	May
VFX	3%	9%	13%	17%	0.2%	4.8%	7.6%
Post-production	4%	20%	30%	37%	1.3%	11.3%	18.9%

Source: UK Screen Alliance survey conducted at the end of April 2020 and updated at the end of May 2020
Sample: 32 companies with a total workforce of 2822 and total monthly payroll of £9.34m
The estimated full employee population is 12,000 (ONS ABS SIC 5912) and total sector payroll exceeds £411m

5.1.10. For some genres like factual TV, the lead time between filming and post-production is less, so their hiatus arrived earlier than in VFX and is also likely to recover faster. Post-production normally has a greater degree of client attendance on the premises and as this is not currently possible, the runners who normally look after the clients' hospitality needs, were furloughed early. This means that whilst there may be greater number of people furloughed in post-production, they tend to be the lower paid people like the runners, as the better remunerated creative staff are still working from home.

5.1.11. The Chancellor has made changes to the CJRS to allow flexible furlough from July 1st to the end of October. However, from 1st July (effectively 10th June) the CJRS is closed to employees that have not previously been furloughed. Companies will not be able to furlough more than the maximum number of employees furloughed in previous months.

5.1.12. The extension of CJRS until October is welcome (it may not be far enough) but the technical changes to enable flexible furlough mean that at the very point when these companies need it most they will be denied access to the scheme and many workers will now be made redundant, who thought they would be furloughed.

5.1.13. This change was communicated with only 12-day's-notice of its impact, when previously the Treasury had indicated that there would be no changes until August. This was insufficient time for companies to rearrange their workforce planning and project schedules.

5.1.14. Companies did not have the option of furloughing all their staff immediately by June 10th just to get flexibility later. They have contractual milestones to meet and to delay those would seriously impact cash flow. Companies have been keeping their most experienced workers off furlough to deliver current projects. Since they have not previously been furloughed, they cannot be after the projects finish in July and August and will now have to be let go. These employees have been trained, developed, and nurtured by their employers over many years and may now be lost to overseas competitors.

5.1.15. We are predicting between 1,500 and 3,000 redundancies or non-renewal of fixed-term contracts over the next 6 months in VFX and post-production which will reduce the sector's capability to recover quickly and may leave permanent impacts. There is a round of redundancy consultations happening across the industry now that affects around 800 workers (10% of the workforce) to lay them off by August, when the CJRS starts to taper and the work will have run out.

5.1.16. The median salary of VFX workers is £42,000 and therefore redundancies on this scale will deprive the exchequer of more than £43 million per year in income tax and NICs plus there will be subsequent claims for unemployment benefits.

5.1.17. In order to moderate the cost of extending the CJRS to the Treasury, our proposal would be that individual workers should have a maximum furlough period of 6 months that can be used at any time between March and the end of the 2020. This would allow VFX and post-production to furlough at the optimum point during their consequential delayed hiatus.

The financial impact

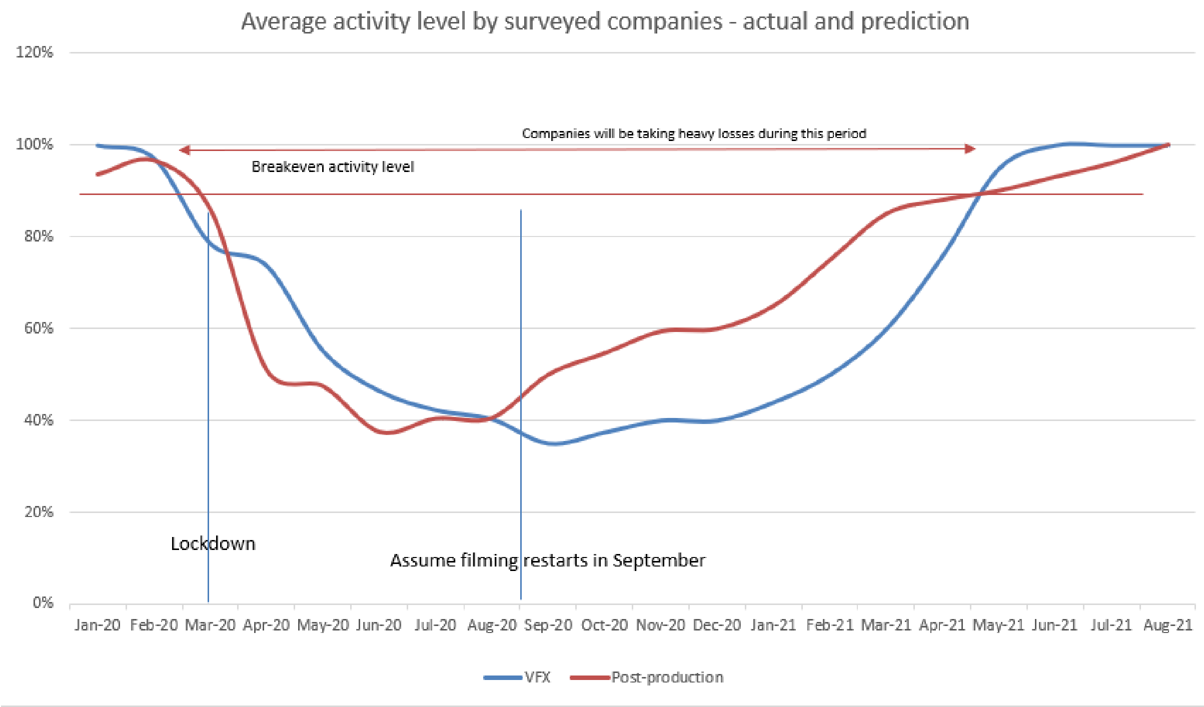
5.1.18. A filming hiatus of five months from February to July will cause a post-production and VFX hiatus of at least seven months across May to September. Given that VFX and post-production turns over at least £1.844 billion per year, this equates to lost revenue of at least £1.1 billion of which an estimated £160.75 million is VFX work related to the tax credits.[13]

5.1.19. UK Screen Alliance surveyed its members to model the impact, depth, and timing of the hiatus in work. They were asked to predict the level of activity they expect in coming months as a percentage of normal activity levels. The results are presented in the chart below.

---

[13] BFI Screen Business 2018 p147 – VFX annual spending related to tax credits £275.4m

Post-production were affected soonest by the halt in filming, but VFX had projects that were of longer duration as work in progress. We expect post-production to recover most quickly once filming recommences, particularly those working in factual genres. VFX for TV drama and feature film will take longer to recover with 50% crewing levels not being achieved for 9 months after filming recommences.



5.1.20. Post-production and VFX companies' costs are nearly all overheads and they have hardly any variable direct costs. The largest of which is remuneration for staff which makes up at least half the total costs. This is followed by high premises costs (rent, rates and service charges in city centre locations, mostly central London) and equipment leasing /software licencing costs.

5.1.21. A key performance indicator for post-production and VFX companies is occupancy by clients of the available production capacity. They and are not like retail businesses, where stock can sit on a shelf to be sold another day. Once a day, a week or a month has passed without bookings, that turnover is gone forever. Consequently, when their income stops, they haemorrhage cash.

5.1.22. Some of the costs can be mitigated by furloughing staff through the CJRS but the significant rent, rates and loan repayments remain. Post-production and VFX businesses have been excluded from the emergency business rates holidays and grants given to the retail, leisure, and hospitality sectors. Almost all occupy premises that are too large to receive the £10k grants given to companies claiming Small Business Rates Relief.

5.1.23. There was a very slow take up of CBILS and in the first two week of the scheme there was much confusion of eligibility and personal guarantees. Even though the

Chancellor's revisions to the scheme offered solutions to these problems, the banks were slow at processing the applications. The introduction of Bounce Back loans has helped the smallest companies but for many post-production, and VFX businesses , the limit of a £50k loan is too low to make an impact.

5.1.24. There have been additional costs of working during the pandemic for the provision of additional equipment to enable remote working from home. This is not just like connecting a laptop for general office use to cloud services via the internet. VFX data is large and requires sophisticated security provisions to protect valuable pre-release film content. Some companies moved 800 artists to work from home with provisioning costs of £2,000 each. Additionally, there are ongoing costs for the provision of increased internet bandwidth into workers homes and slower working due to the difficulties in managing creative teams efficiently when they are all remotely distributed.

5.1.25. Post-production and VFX companies will have significantly increased their indebtedness to cope with the collapse of incoming revenue whilst still faced with considerable overheads and increased costs of working. Landlords have not offered rent forgiveness but have mostly delayed rent demands. The costs are still there to settle in the future. Similarly, most companies have defrayed VAT payments, and some have time-to-pay arrangements for PAYE. Those who have taken out CBILS or Bounce Back Loans will have to start repaying the capital and interest in 12 months. Post-production will need to increase charge-out rates by 5% to 10% above pre-Covid rates to clear these debt repayments. It is a very competitive sector and we anticipate severe pressure from independent production company clients to maintain the rates as they were pre-Covid or even decrease them as their budgets will be cut by the broadcasters. There is a very real danger that companies may continue to fail on the way out the pandemic as well as during it.

The wider market impacts

5.1.26. It is likely that much of the lost turnover in VFX or post-production will never be recouped. We are not expecting an exceptional glut of work to flow once filming resumes. With the cinemas closed, release schedules have been pushed back so a logjam of delayed film work from 2020 clashing with new 2021 work is unlikely. In linear TV there are a finite number of broadcast slots for new content, so new commissions for 2021 could be displaced whilst programmes originally due to air in 2020 are broadcast. Only via SVOD is there infinite capacity to release new content, but it is a matter for conjecture whether 2021 commissions will be delayed. Many of the high-profile on-screen performers and key creatives are booked several months, sometimes years ahead, so there will be conflicts as to whether productions on hiatus will be prioritised or whether productions that were already scheduled for the autumn will take precedence.

5.1.27. Channel 4 has announced a £150 million cut in programmes budgets to cope with an advertising revenue slump of 50% over the next two months.[14] ITV is reducing its programme budget by £100 million, although some of that relates to the postponement of Euro 2020.

[14] The Guardian. April 8th 2020 https://www.theguardian.com/media/2020/apr/08/channel-4-cuts-content-budget-virus-ad-revenues-programming-furlough

5.1.28. The BBC is faced with uncertain revenues in future. The proposed decriminalisation of licence fee evasion could cost the BBC £200m per year[15] and should the BBC be forced to bear the cost of free TV licences for the over-75s, that would cost the Corporation £745 million per year, or a fifth of its budget[16]. The BBC has been estimating a £175 loss of revenue because of the pandemic. Whilst the BBC has stepped up to its public service remit during the pandemic, it has nevertheless been issuing commissions with unsustainable micro budgets that give inadequate support to the supply chain.

5.1.29. Overall, there could be a substantial reduction in programme spending by all PSBs and this will undoubtedly seriously affect their suppliers like post-production. This will disproportionately affect regional companies that are more reliant on the domestic broadcast economy. Given the disruption of Covid-19, the government should withdraw its proposals on decriminalisation and the over-75s licences to maintain the BBC's finances.

5.1.30. There has been anecdotal evidence of late payment by broadcasters, content owners and brands during the pandemic that seem to exceed the usual reticence to pay on time. Measures exist to charge punitive interest via the Late Payment of Commercial Debts Act but often suppliers are nervous about implementing them for fear of jeopardising future relationships. If customers can achieve liquidity through access to CBILS or other loans, then invoices should be paid on time, but if interest rates on these loans or overdrafts are excessive, the temptation for customers to repay debts rather than pay their suppliers will increase. At a time when cash flow will be vital, Government must ensure that banks do not charge excessive rates of interest on CBILS once the interest free period is over.

<u>The impact on skills and training</u>

5.1.31. VFX and post-production companies contribute about £1.5 million[17] in Apprenticeship Levy payments each year.

5.1.32. Recruitment and training have ground to a halt, as many businesses have been furloughing staff and making redundancies. Companies are not taking on new apprentices and many existing apprentices have been furloughed. There have been and will continue to be difficulties in recruitment and selection processes when face-to-face interviews or assessment centres are impossible due to social distancing requirements and travel restrictions. Some existing apprenticeship programmes are managing to continue the off-the-job training[18] by using online teaching methods but there are challenges in providing meaningful on-the job work experience when

[15] DCMS - TV Licence Fee Enforcement Review. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/445212/166926_Perry_Review_Text-L-PB.pdf
[16] https://www.bbc.com/aboutthebbc/reports/consultation/age-related-tv-licence-policy
[17] UK Screen Alliance survey
[18] Off-the -job training on apprenticeships for Post-Production Technical Operator, Junior 2D VFX Artist and VFX Assistant Technical Director have been converted to online delivery which has allowed existing apprenticeship to continue. Future recruitment to these apprenticeships is on hold.

employees are working from home or a large proportion of colleagues are on furlough.

5.1.33. We expect to see considerably less draw down of apprenticeship levy funds during the lockdown, which means more contributions will reach their 24-month expiry date after which they are no longer available to levy-paying employers to fund training. On the other side of this crisis we will need those funds to rebuild our workforces. There will be an even greater need for retraining of many workers whose employers have ceased to trade during the pandemic.

5.1.34. Employers are continuing to contribute to the levy, but we expect the level of contributions to fall as workers are laid off. It is through no fault of businesses that they cannot offer apprenticeships currently. With the current hiatus, we anticipate the rate of expiry of levy funds across the whole economy will increase significantly from the £82 million which expired in December 2019[19]. We expect approximately £1.1 million of contributions from post-production and VFX employers to expire in the next 12 months.

5.1.35. As these are exceptional circumstances, the government should extend the time clock for expiry of levy from 24 months to 36 months (or longer), effectively freezing the expiry of contributions that were due to expire between March 2020 and March 2021 and retaining them for the contributing business to use in the year following the pandemic.

5.1.36. The Creative Industries Council (CIC) has submitted a proposal to DfE with recommendations to make the Apprenticeship Levy work better within the Creative Industries. We advocate adopting these recommendations and in addition allow employers to bulk transfer all or some of the levy that would have expired between March 2020 and March 2021 to fund pilot schemes to test the CIC policy recommendations.

5.1.37. Firstly, the frozen levy could be used to restart and expand the existing ScreenSkills Freelance Agency Apprenticeship Pilot (co funded by DCMS, Netflix and Warner Bros.) which has currently been paused because of Covid-19.

5.1.38. One of the CIC proposals is to allow employers to bulk transfer a portion of levy contributions to accountable sector representative bodies to distribute for other types of appropriate non-apprenticeship training to fill skills gaps, which will be all the more apparent after the pandemic. Apprenticeships may not be the optimum vehicle to deliver sector specific training quickly but will remain an important part of the mix for new employee development for the mid-term. The CIC proposal for a flexible Skills Levy could be piloted in the screen sector by using the some or all the proposed frozen apprenticeship levy that would have expired between March 2020 and March 2021.

---

[19] https://www.bbc.co.uk/news/uk-politics-51505625

5.2. What will the likely long-term impacts of Covid-19 be on the sector, and what support is needed to deal with those? How might the sector evolve after Covid-19, and how can DCMS support such innovation to deal with future challenges?

5.2.1. Whilst the existing film and HETV tax credits work extremely well for filming, they are insufficiently optimised to attract short-notice post-production and VFX work with several restrictions and technicalities which can completely disallow relief for VFX work that is placed into the UK late in the production cycle. If the UK is to lessen the impact on VFX, these restrictions should be set aside, so as not to prolong the hiatus unnecessarily. It will be a very competitive environment with countries offering incentives to secure any available work for businesses in their territory and the UK must not be left behind in this respect.

5.2.2. All countries will be keen to ease Covid-19 restrictions but will do so on different dates according to their local conditions. It is vital that the UK's VFX and post-production industry is the most competitive position possible to attract and receive the output from film crews from around the world not just the UK.

5.2.3. This year, France has increased its 30% tax credit for film, VFX and animation to 40% for <u>all</u> French expenditure if the production spends over €2 million[20] on VFX work in France.

5.2.4. Since 2018, Bavaria, Baden Württemberg and Berlin regions of Germany have been offering 20% VFX and animation specific credits which are stackable with the 25% German federal credit, allowing an overall 45% relief[21].

5.2.5. Our closest competitor territories are now clearly intent on challenging the UK's VFX industry. The UK should respond by providing additional incentives and remove restrictions to use VFX and post-production, or else risk this sector declining in the UK and permanently losing our status as a world-leading creative hub.

5.2.6. Whilst the moves by Australia, France, Germany and recently Spain to increase their incentive is a new threat to the UK's VFX companies, the stiffest competition has always been Montréal with its 43% relief and no cap.

5.3. How effectively has the support provided by DCMS, other Government departments and arms-length bodies addressed the sector's needs?

5.3.1. DCMS officials have been very open and accessible through this pandemic which is the case in normal times too. There was little time prior to the pandemic to establish any direct relationship with the changed ministerial team, many of which were new to the departmental remit having only being appointed in December. In addition, this government is more centralised than many before it, with Number 10 and the Treasury being the key decision makers. It has therefore been challenging to gain

[20] https://variety.com/2020/film/global/frances-parliament-greenlits-40-tax-rebate-for-vfx-heavy-foreign-productions-1203455916/
[21] https://variety.com/2018/film/news/germany-rebates-expanded-vfx-1202982921/

traction at the right level with many of the detailed issues that are bespoke to our sector, particularly as the DCMS remit is very broad.

5.3.2. The decision to repurpose the BFI Screen Sector Task Force to deal with Covid-19 was sensible. The group was already formed to bring an industry wide focus to Brexit issues and has been able to do the same for Covid-19. The group is quite large and so it was necessary to split up into task and finish groups which has been an effective move.

5.3.3. The British Film Commission (BFC) have overseen the inward investment sub-group of the BFI Task Force which in turn had three further sub-groups. UK Screen Alliance chaired the post and VFX focus group. There was also a legal and business group looking at the tax incentives, but the largest group focussed on the barriers to be overcome to allow a safe resumption of production and produced the guidance which was approved by DCMS.

5.3.4. In tandem with the BFC, UK Screen Alliance published on June 1st its Guidance for Safe Working in VFX and Post-Production[22].

5.4. What lessons can be learnt from how DCMS, arms-length bodies and the sector have dealt with Covid-19?

5.4.1. As an independent membership body, UK Screen Alliance is not subject to the same public scrutiny or accountability as the BFC, but nonetheless submitted its Guidance for Safe Working in VFX and Post-Production to the DCMS approval process, so its guidance document would have the same credibility and accuracy of alignment with government recommendations and regulations as the BFC guidance document for production. The timescales for publication were very tight and unfortunately were frustrated by the last-minute requirement to align to a template document produced by EY, who had been contracted to triage the various sectoral guidance documents being produced. We feel the existence of the EY template and their involvement in the process could have been communicated to us by DCMS at an earlier stage which would have significantly eased the production of our Guidance.

5.4.2. The film industry has two arms-length bodies, the BFI and the BFC. Whilst it can be an advantage sometimes for the industry to speak with one voice, there are times when the issues specific to parts of the supply chain like VFX can become diluted in the overall conversation with government. VFX is significantly different to film production in many key aspects, such as modes of employment, durations of projects and contracts, requisite skills, and qualifications. In addition, the way VFX fits within the film and HETV tax credits is different and there is greater competition from overseas territories for this highly mobile part of the filmmaking process. It is therefore essential that the voice of the VFX companies is fully represented by its own trade body, the UK Screen Alliance, when speaking to government.

5.4.3. DCMS could do more in conjunction with ONS and BFI to provide more granular and timely data. The DCMS statistical grouping of Film, TV, Radio and Photography is far too broad and includes too many disparate sectors to be useful to industry. The BFI

---

[22] https://www.ukscreenalliance.co.uk/campaigns/guidance-for-safe-working-in-post-production-and-vfx-during-the-covid-19-pandemic/

could collect and publish more data through the Cultural Test certification process which would give greater insights into the effectiveness of the tax credits and how they could be optimised. This would have allowed an easier baselining of the effects on sub-sectors like VFX from the pandemic.