

UK Screen Association

Evidence submitted to the House of Lords Select Committee on Communications: The British film and television industries

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Submitted to: Ralph Publicover
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Introduction

- 1) UK Screen Association (UK Screen) is the trade body that represents the commercial interests of the UK facilities sector. The range of activities covered by the facilities sector is diverse but broadly speaking it includes: post production, visual effects, physical special effects, equipment hire, outside broadcast and studios. We have more than 150 member companies across the UK, providing creative and technical expertise, equipment, and accommodation to producers of moving image media.
- 2) Turnover in the facilities sector represents £2.4 billion per annum¹. The UK facilities sector services an estimated £5 billion domestic television, film, commercials and corporate production core sector. It also supplies overseas television, film and commercials production.
- 3) This document responds to each of the Select Committee's questions as laid out in the 'Call for Evidence: The British Film and Television Industries' as they relate to the UK facilities sector.

What do the UK film and television industries contribute to the UK economy and British culture? In what ways might this contribution be enhanced?

- 4) The film and television industries contribute significantly to the economy and culture of the UK and as such are at the centre of our creative industries.
- 5) The UK film and television industries are of the most prodigious and well respected in the world. To enhance their contribution both culturally and economically we must ensure we: retain a high level of commercial and non-commercial UK originated content; continue to attract overseas work to the UK and export content and services globally; retain a critical mass of infrastructure and a strong creative and technical skills-base; create stability and certainty through a long-term commitment to film funds, film tax incentives and public service broadcasting; align Government policies to encourage innovation, SME growth, connectivity and international competitiveness.
- 6) In October 2008 UK Screen commissioned a study into the UK facilities sector. The purpose being: to identify the economic characteristics of the sector together with its key market segments (size, structure, profitability); to quantify the contribution of the sector to the UK economy as a whole (direct, indirect and wider spill-over impacts); to understand better the role of facilities sector in the broader television, film, commercials and corporate markets within which it operates; to articulate the prospects and challenges for the sector over the coming years.

¹ UK Facilities Sector Report 2009 (as yet unpublished) Olsberg SPI for UK Screen Association

- 7) To our knowledge this is the first time anyone has attempted to comprehensively map the UK facilities sector. Therefore, we believe this will be a vital piece of research not only for the UK facilities sector but also the wider film, television and screen-based industries.
- The report will be published in April 2009 and we will be happy to supply copies of the UK Facilities Report as soon as it is available.

How do the current UK arrangements for distribution and exhibition of films affect the commercial success of the film industry? How might long run changes in international film production and distribution affect the UK film industry and its export potential over the next decade? To what extent is the raising of finance an inhibiting factor in UK film projects?

- 8) The current UK arrangements for distribution and exhibition of films restrict commercial success in the sense that the physical delivery of 35mm film to cinemas is costly, resource intensive and not eco friendly. Delivery to Public Entertainment Centres by satellite and digital distribution will solve these problems by making content freely available at a fraction of the cost and impact on the environment. Financial backing for UK film projects has been adversely affected by the 'credit crunch' and incentives need to be reconsidered by the Government.

Have the 2006 changes to the tax credit system been of benefit to the UK film industry? Have they had a perceptible effect on UK film production? Are the qualifying conditions, including the "Britishness" test, for the tax appropriate? Are any types of film or types of commercial arrangement unreasonably excluded?

- 9) Inward investment films (big budget films that are financed from overseas but are made wholly or partly in the UK) account for the majority of the total UK production spend, for example 68%, 69% and 58% respectively in 2006, 2007, 2008². There was a significant decrease in inward investment films in 2008 to £338 million compared to £523 million in 2007 and £558 million in 2006, however we believe this drop relates to a number of exceptional factors (US writers strike, threat of screen actors strike and adverse exchange rates) and is not a reflection of the new tax credit system. In 2009 opportunities for inward investment films are looking more favourable.
- 10) The UK facilities sector is one of the main beneficiaries of inward investment given its world-class visual effects, post production and studios. The changes to the tax credit system have brought stability and increased confidence in the UK as a destination for inward investment production and post production which has been received positively by the facilities sector. Furthermore, a high level of inward investment is critical in sustaining a meaningful level of infrastructure, including our creative and technical skills base, which in turn underpins domestic film production.

² UK Film Council Statistical Yearbook 2008

- 11) Co-production films (made both in the UK and abroad using UK crew, expertise and services) account for the minority of the total UK production spend, representing just 8% of spend in 2008 (£48 million). The attractiveness of the UK as a co-production partner has been diminished as a result of the new tax credit system which does not recognise production outside the UK.
- 12) For the UK facilities sector there has been a detrimental impact on the physical special effects, lighting, camera and crewing companies where deployment of their services on productions shooting overseas is no longer considered 'good spend' and is not eligible for the UK tax incentive. Additionally, lower budget co-production films have historically been the mainstay for many small-to-medium post production companies, with fewer co-production films over the last few years there has inevitably been less of this type of work available to facilities in the UK.
- 13) Domestic UK film production has grown considerably in 2008 now representing 33% of total UK production spend up from 21% in 2007 (£192 million and £158 million respectively).
- 14) Domestic films are a very important to, and are well supported by, the UK facilities sector.

Is the UK Film Council meeting its objectives of giving support to production and export of British films? Could it do more to assist the UK film industry's contribution to the UK economy?

- 15) The UK Film Council had a pivotal role in the review of the film tax incentives. It continues to work well with the industry as a whole, consulting every part of the production chain, sharing expertise and encouraging the alignment of interests (insofar as was possible) in order to positively impact public policy for British film.
- 16) UK Screen works mainly with the Office of the British Commissioner (OBFC) which focuses on inward investment opportunities. The OBFC has made good progress in building relationships with the US major studios and independents and in promoting the value, accessibility and simplicity of the new film tax incentives. It creates research and statistical production data which is useful to the industry; for example its support of research into the post production sector and more recently the cost comparative work. Its role in helping industry understand the Managed Migration Points Based System, and helping HMRC understand the exceptional nature of the film production was also important and continues as the new system beds down. As inward investment accounts for the majority of UK film production spend, and given its vast contribution to helping to sustain the UK film infrastructure, we believe an increase in the allocation of UK Film Council resources to the OBFC would significantly enhance the film industry's contribution to the UK economy.

17) The UK Film Council works closely with Skillset, The Sector Skills Council for Creative Media, and has been instrumental in supporting the creation of 'A Bigger Future' the film skills strategy which has invested some £28 million in the last four years³. Given the importance of the facilities sector to film production, especially in this digital age, it is surprising that such a small proportion (about 0.3%) has gone directly to companies to support their in-house skills and training development needs. We believe an increase in resources targeted in this area would enhance the film industry's contribution to the UK economy.

Is the current business infrastructure in the UK conducive to the acquisition of the managerial and technical skills required by the film and television industries? Is the business environment conducive to the emergence of entrepreneurial talent, which can take advantage of the opportunities in the creative industries?

18) To create truly sustainable production of British films and television we must continue to develop the infrastructure with an emphasis on those businesses which support and nurture the screen-based industries as a whole.

19) There are a relatively small number of large world-class companies operating in the facilities sector for both film and television. The vast majority are SME owner managed companies which have grown organically through creative endeavour rather than business prowess. In general terms it is true to say there has not been a structured approach to leadership and management.

20) We must encourage rigorous business practises which allow people to run successful and profitable companies in order that they can invest in skills (creative, technical and managerial) and be internationally competitive.

21) We need to encourage training initiatives and apprentice schemes by reducing the bureaucracy and apportioning financial benefits to the companies supplying them.

22) We need continuity and stability in Government interventions, incentives and policy making as this gives the market the confidence it needs to be bold and build for the future in a challenging economic climate.

How successful has the regulatory system been in supporting UK content in television? Are there particular types of programming, such as drama, children's or factual programming, for which more support is needed? Could more be done through regulation or incentive, for example, to encourage non-public service broadcasters to commission original UK content? Might financial measures, such as industry levies, be feasible and effective?

³ UK Film Council / Skillset 'A Bigger Future' - The UK Film Skills Strategy

- 23) The regulatory system has been hugely successful in supporting UK content in television. Production quotas for independent production, original commissions, regional production and regional programmes have encouraged a rich diversity of British content for terrestrial television.
- 24) Within this framework and through the operation of the Terms of Trade with the Broadcasters, the independent production sector has flourished and achieved commercial success (reporting a £156 million increase in UK commissions in 2007⁴).
- 25) There has been no such Government intervention in support of the facilities sector. Given the contribution this sector makes (especially in this digital age) we believe any regulatory system supporting UK content in television should be extended to include the deeper supply chain which underpins the creation of that content
- 26) Specifically this should include a commitment by Broadcasters (and by association independent producers) to: procure services from the independent facilities sector and procure regional facilities and services.
- 27) Support is evidently needed to ensure high quality British programme making in factual, children's and drama.
- 28) Any measures that encourage non-public service broadcasters to commission original UK television content would be welcomed by the facilities sector.

How will the structural changes facing the UK television industry, and particularly the public service broadcasting component, affect UK originated television content? To what extent are these effects irreversible? To what extent are they being offset by changes elsewhere in the creative industries sector? What are the implications for television content creation of digital switchover and widespread broadband availability?

- 29) There are profound challenges facing the UK television industry (decline in advertising spend, proliferation of digital television channels, growth in new platforms, approach of digital switchover etc) which will out of necessity drive new business models and impact on the levels of investment in, and quantity of, UK originated television content.
- 30) Despite increases in some digital channels' investment in UK programming in recent years the main public service channels (BBC channels, ITV1, Channel 4, S4C and Five) "account for over 90% of investment in new networked UK-originated television content."⁵ Therefore, the UK facilities sector is to a great extent dependent not only on the continuance, but the growth of, public service channels originated television content.

⁴ Independent Production Census, Pact 2007/08

⁵ Ofcom's Second Public Service Broadcasting Review - Phase One: The Digital Opportunity

Similarly, in this digital age the facilities sector is crucial to any ambitions that the UK may have for its broadcast industries as its technical and creative expertise is unparalleled.

31) Access to compelling content will continue to be the key driver to broadband take-up and consumer engagement with digital services.