

Agenda – Culture, Welsh Language and Communications Committee

Meeting Venue:

Committee Room 2 – The Senedd

Meeting date: 20 June 2018

Meeting time: 09.15

For further information contact:

Steve George

Committee Clerk

0300 200 6565

SeneddCWLC@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

2 Film and major television production in Wales: Evidence Session 14

(09:15 – 10:15)

(Pages 1 – 17)

Ron Jones, Founder and Executive Chairman of Tinopolis, Chair of the Welsh Government's Creative Industries Sector Panel and a member of the Media Investment Panel.

Break (10:15 – 10:30)

3 Film and major television production in Wales: Evidence Session 15

(10:30 – 11:30)

(Pages 18 – 31)

Ken Skates AM, Cabinet Secretary for Economy and Transport

Dafydd Elis-Thomas AM, Minister for Culture, Tourism and Sport

Mick McGuire, Director Business and Regions

Joedi Langley, Head of Creative Sector

4 Paper(s) to note



- 4.1 The Welsh Government's relationship with Pinewood**
(Pages 32 – 79)
- 4.2 Film and major television production in Wales: Additional Evidence from the Welsh Government**
(Pages 80 – 83)
- 4.3 Film and major television production in Wales: Additional Evidence from the Arts Council of Wales**
(Pages 84 – 86)
- 4.4 Film and major television production in Wales: Additional Evidence from Euros Lyn**
(Pages 87 – 89)
- 4.5 Film and major television production in Wales: Additional Evidence**
(Pages 90 – 92)
- 4.6 Correspondence from the Welsh Language Commissioner**
(Pages 93 – 95)
- 5 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**
- 6 Consideration of Evidence**
(11:30 – 12:00)

Agenda Item 2

Document is Restricted

Agenda Item 3

CULTURE, WELSH LANGUAGE AND COMMUNICATIONS COMMITTEE WRITTEN EVIDENCE – INQUIRY INTO FILM AND MAJOR TELEVISION PRODUCTION IN WALES

The purpose of this paper is to provide written evidence to the Culture, Welsh Language and Communications Committee on their inquiry into film and major television production in Wales. This paper gives an overview of what has been done to date to establish Wales as a centre of excellence for production.

1. Welsh Government's policy aims for funding film and major television production in Wales; why and how decisions are made in this area

Historic approach

In 2010 the creative industries was recognised as a priority sector for Welsh Government. Strategy and delivery of support for the sector focused on the provision of funding through grants, loans and commercial investments, with strategic priorities being:

- delivery of the Pinewood collaboration agreement, including the Media Investment Budget;
- bringing high value film and TV to Wales through Welsh Government financial incentives;
- funding high value digital media projects.

This was accompanied by logistical support for productions through the Wales Screen service, and a push to develop a range of studio facilities along the M4 corridor between Chepstow and Swansea.

In 2012 officials in the Creative Industries Sector team undertook an exercise to prioritise support across the various subsectors of the creative industries; as a result, the Sector Panel advised that government should focus support on those subsectors that were likely to generate the greatest economic impact on Wales and would provide the best opportunities for industry growth in Wales. These were identified at the time as screen (in particular high end TV) and digital media. The creative industries sector is much wider than film/TV and digital, but these were the areas which, at the time, we had opportunities to capitalise on and had the potential for greatest growth.

By 2013 the number of productions being produced in Wales (by Welsh producers and inward investors) was at a crucial tipping point. Experience with projects such as *Hinterland*, *Atlantis* and *Da Vinci's Demons* led to the introduction of bespoke mechanisms that could be implemented for a Welsh Government production fund to attract key investments to Wales, and also enable indigenous businesses in this area to expand production capability.

The main objective was to make it easier to lever additional private investment into Wales, delivering immediate economic benefits through production expenditure and also supporting Welsh businesses to develop and exploit their intellectual property in international markets.

The number of productions being produced in Wales at that time was significantly lower than it is now, meaning that many Welsh freelancers were travelling outside Wales for work. In addition, many of the indigenous companies in the sector at the time were reliant on S4C commissions. This production funding was instrumental in unlocking the potential in some of these companies and providing opportunities for the freelance community.

The importance of studio infrastructure was also considered to be crucial to the development of the film and TV industry in Wales. Dragon Studios was aspirational and too early in the growth of the sector to be a success. However, it became a key part of our strategy to develop studio infrastructure along the M4 corridor. This started with Bay Studios, which was home to three seasons of *Da Vinci's Demons*, and has continued through the development of Pinewood Studios Wales and Wolf Studios Wales.

Figures from 2016 demonstrate that the sector as a whole is flourishing:

- The total number of people in employment in the creative industries sector in Wales in 2016 was 48,600, a 52.4% rise from 2006.
- The number of enterprises active in the creative industries sector in Wales in 2016 was 5,705, a 43.3% increase on 2006 and a 5% increase on 2015.
- Total turnover of creative industries companies in Wales in 2016 was £1.73 billion. There was a 12.5% rise in turnover from the sector between 2006 and 2016.

The Pinewood deal had three key strands aimed at furthering our film and TV strategy:

- to further develop studio infrastructure along the M4 production corridor through the establishment of a professional studio facility at Wentloog run by a globally recognised brand;
- to establish a Media Investment Budget, an evergreen fund to invest in film & TV enabling Welsh Government to benefit from the commercial upside alongside the economic benefits;
- a sponsorship deal to promote Wales internationally across the Pinewood global network.

Having such a well known brand in Wales has been invaluable for the Welsh film and television sector. Pinewood has helped to elevate Wales as a premier production location and has given Wales a global advantage over other regions.

The auditor general for Wales has completed a facts based review into the Welsh Government's relationship with Pinewood. The report will be published on 12 June 2018.

The investment into Bad Wolf was to further this growth through the development of a sustainable TV drama production hub in Wales, led by internationally successful and highly experienced executives and delivering significant long-term economic benefits to Wales. It anchored a 10 year slate of high end TV drama series to Wales, securing the sustainability of the crew and supply chain base in Wales.

This approach has proven successful, with Wales now being a real competitor in the high end TV drama sphere; we have seen our enquiries and number of productions filming here soar. This has also led to a significant increase in the amount of money these productions spend in Wales on the Welsh supply chain, and in the wider Welsh economy. Last year (2017-18) we doubled the amount spent by WG-supported productions in Wales.

Future support – Creative Wales

We fund film and TV productions to bring in benefits to the region's economy through local spend by productions filming in the area. Local spend is immediate and upfront, and can have significant economic impact. Going forward, we need to consider what has worked in the past against the context of the changing industry landscape. A strategic shift is needed to shift from the current funding to traditional film and TV, and move towards funding for

'screen' (which could include video-on-demand (VOD) content and platforms, games and animation).

Since 2015, industry growth has changed the landscape considerably and it has been recognised that whilst the support available remains effective, there are further activities that needed to be prioritised to maintain and accelerate sector growth, namely:

- skills and supply chain development;
- improving networks and access to specialist industry-led advice;
- better exploitation of social media and digital platforms for service provision;
- bespoke support for access to capital (private and public);
- improving creative businesses' ability to create, retain and exploit their intellectual property in the Welsh economy.

Hence our commitment to refreshing and re-launching our support for the creative sector; as a discrete function called *Creative Wales*. We recognise the need for a more rounded approach and the requirement for bespoke support to aid business growth. Government needs to respond more flexibly to a sector that moves quickly and sometimes unpredictably. Creative Wales will be our vehicle for doing this, offering a streamlined, dynamic and innovative service to this sector.

Creative Wales' support needs to concentrate on those opportunities presented by digital platforms, and on the companies best placed to respond to those opportunities. This approach reflects the increasing convergence and synergy across the subsectors.

Maintaining a pipeline of productions, developing and strengthening the film and television supply chain and continuing to position Wales as a top location for film and television production will remain a priority for Welsh Government's support for the creative industries.

Future funding must be able to adapt to support production of visual creative content on any platform (existing, nascent, or as yet not invented). The funding model needs to be flexible, broad, and able to change rapidly. It should be able to support emerging technologies, new platforms, new types of creative content and new ways of monetising them.

In 2018, the creative industries sector in Wales is at a vital tipping point where opportunities are converging. With the right support over the coming years, growth and success could be significant.

2. The support given by the Welsh Government to develop the film and television industries in Wales including:

a. Economic impact, and how this is spread across Wales

Latest figures show that over the last five years, film and TV productions funded by Welsh Government have spent in excess of £178m in Wales, benefitting local supply chains and supporting hundreds of businesses here. Last year (2017-18) £64m was spent on Welsh goods and services by productions filming here supported by Welsh Government - double the previous year's figure.

This does not include spend by productions supported by our Wales Screen Service through logistical support for crew, locations, facilities and services; this figure is in excess of £75M over the last five years.

North Wales

Productions filming in the region have included:

Requiem, a six part high end drama series for BBC1, which was filmed in locations across Wales, including Dolgellau in North Wales.

King Arthur: Legend of the Sword showcased some of Wales epic landscapes which inspired international audiences to find out more about Wales' wealth of legends and links with Arthur. The locations from the film included Llyn Gwynant, and Capel Curig.

Take Down filmed partly in Anglesey and received commercial investment from the WG Media Investment Budget,

CBBC's *Rocket's Island* from Lime Pictures filmed at Penrhyn Beach (a 13x30m children's drama series aimed at 7-14 year olds).

The second series of ITV drama *Safe House* also filmed key sequences in Trearddur Bay, Amlwch, Porth Trecafell and the village of Aberffraw.

Hidden/Craith filmed in Snowdonia was backed by BBC Wales, S4C and all3media international. The eight-part drama premiered in the Welsh language on S4C early in 2018 as *Craith*. A bilingual version *Hidden* is currently showing on BBC One Wales and BBC 4.

Wales Screen's North Wales office in Caernarfon supports the region's economy in relation to film and TV production. It holds an extensive database of local crew, technical facilities, local services and locations and liaises closely with the local authorities, police in north Wales and national bodies such as Natural Resources Wales, CADW and the National Trust. The database of contacts is constantly expanding so that Wales Screen can offer the largest variety of local facilities and crew possible, ensuring that as much money as possible is spent within the north Wales economy.

Regionally significant film and TV companies in North Wales are:

Rondo Media is one of Wales' largest independent production companies with offices in Caernarfon, Menai Bridge and Cardiff.

Cwmni Da has built a reputation as one of Wales' leading and most well-respected indies. It now employs 73 staff, all staff located in Doc Fictoria, Caernarfon,

Chwarel Cyf in Criccieth. is the only TV production company situated on the Llŷn Peninsula offering studio facilities to outside clients, be they film makers or photographers. The studio space also enables them to pitch for TV series which incorporate a studio based element thus ensuring further job creation

All companies have received support (financial and non-financial) from Welsh Government.

South West Wales

We continue to support and grow the film and television industry in South West Wales and Wales Screen, part of the Welsh Government's Creative Sector, is constantly promoting the Welsh locations and local facilities providers.

Bay Studios in Swansea has been home to three seasons of *Da Vinci's Demons* generating £28.5m of Welsh spend into the local economy alone. The production was shot

across multiple South West Wales locations, with the prime location being Margam Park and Castle. The facility has also been home to the Media Investment Budget funded *The Collection*, a high-end TV drama series of 8 x 60 minute episodes written for Amazon Prime Video. Set in 1947 Paris just after the end of World War 2, the series was filmed on location in Paris, at Bay Studios, near Swansea and across various South West Wales locations. The production spent £5.2m in the local Welsh economy.

Apostle, a new feature film starring acclaimed Welsh actor Michael Sheen and star of *Beauty and the Beast* Dan Stevens, was filmed in South West Wales. US-based producers XYZ Films linked up with Cardiff-based production company, Severn Screen to produce the latest film from acclaimed Welsh director Gareth Evans, whose previous films *The Raid* and *The Raid II* were global hits. *Apostle* was commissioned by Netflix and will debut exclusively on the streaming service worldwide in September 2018. Support from the Welsh Government has ensured that the entire shoot and all post-production work on *Apostle* was undertaken in Wales, providing a £5m plus boost to the economy, filming took place in Swansea Bay Studios on Fabian Way and on location in Margam Park and Castle.

Media Investment Budget funded crime drama *Bang*, filmed in Port Talbot was shortlisted for a prestigious Writers' Guild Award. The series, which was shown on S4C in the autumn was nominated for an award in the Best Long-Form TV Drama category alongside *Line of Duty*, Series 4 (Jed Mercurio) and *Taboo*.

Welsh Government supported the successful and record breaking BBC drama, *Un Bore Mercher/ Keeping Faith* which was produced bilingually and showcased top Welsh talent. The show first aired in Welsh on S4C with Eve Myles (who plays the main character Faith Howells) learning Welsh specifically for this dual-language series. The court scenes were filmed at the Guildhall in Carmarthen and the Guildhall in Swansea. Many of the striking exteriors were filmed in Laugharne; the police station was based out of a station in Pontardawe and the backdrop of Port Talbot is used in some of the exteriors, including the North Bank Fishery.

South West Wales is frequently used as a filming location and further examples include;

- *Their Finest Hour and a Half* - a period romantic comedy filmed extensively in Swansea, Haverfordwest and Freshwater West. The crew spent seven weeks filming in Wales and had location assistance from Wales Screen, and the film was backed by the Welsh Government's £30m Media investment Budget. The production spent £1.6m on goods and services in Wales.
- *Dan y Wenallt* - a film interpretation of Dylan Thomas' classic play Under Milk Wood was filmed in Solva a harbor village on St Brides Bay, Pembrokeshire;
- *Set Fire To The Stars* - a feature film about Dylan Thomas starring Elijah Wood and Celyn Jones filmed primarily in Swansea. The feature was shortlisted for an Oscar in the 'Best Original Score' category and was nominated for seven BAFTA Cymru awards in 2015, winning two.
- *From A Jack To A King* - YJB Films' first feature film, a documentary telling the story of the last 10 years of Swansea City as it rose from the lowest division in English football to the Premier League.
- Sky's high profile drama series *Britannia* also filmed key sequences at Rhossili, on the tip of the Gower Peninsula in Swansea.

Yr Egin – The Welsh Government has invested £3m to support Yr Egin. This will support the construction of a new building intended to provide accommodation for companies, incubator space to develop new businesses in the creative and digital sectors as well as

event space, an open auditorium and production and edit suites that could be used by both companies and the University of Wales Trinity Saint David. The University intends that Yr Egin will be the catalyst for a cluster of creative businesses in Carmarthen, with S4C as its anchor tenant. It hopes that this will in turn help the local economy, bring additional, high quality jobs to Carmarthen, cement links between academia and creative businesses and support our wider commitment to promoting Welsh as a living and vibrant language.

Tinopolis is one of the creative industries sector's anchor companies. Based in Llanelli, it is one of the UK's leading production companies – and one of the last remaining independents. The Executive Chairman of Tinopolis Group is Ron Jones, who is also Chair of the Creative Industries Sector Panel and a member of the Media Investment Panel. Tinopolis is behind TV shows including Question Time and Crufts and is producer of BT's Premier League and Champion's League coverage. Tinopolis has made several big deals in the US in recent years, including beating ITV to buy Magic Elves, the maker of hit shows including Master Chef.

As a key independent TV production company, Tinopolis plays an important role in the film and TV subsector in Wales. Its success is both domestic and international, and it has achieved sustained growth through investment to become a major TV content provider.

South East Wales

The south east is the largest cluster for film and TV production in Wales. Many productions have filmed and continue to film across South East Wales. Highlights include:

- *Born to Kill* - a critically acclaimed four part drama series aired on Channel 4 in 2017 with support from BBC Worldwide and the Welsh Government.
- *Decline and Fall* - a three part comedy drama adaptation of Evelyn Waugh's 1928 novel screened in on BBC One in April 2017.
- *The State (formerly known as Crossing the Border)* - Archery Picture's high end TV drama for Channel 4 was filmed across multiple locations in Cardiff.
- *Requiem* - a six part high end drama series for BBC1, filmed in locations across Wales, including the Rhondda Heritage Park and Cefn Tilla near Usk.
- *Kiri* - a 4 x 60 minute drama series for Channel 4, co-produced by All3 Media and Hulu filmed in South East Wales. The show was written by Jack Thorne, the second in his trilogy of dramas exploring the collision between media and controversial criminal/legal cases.

Bad Wolf

In June 2015 the TV production company Bad Wolf committed to basing its operations in Wales. Bad Wolf Ltd is headed by Jane Tranter and Julie Gardner, ex-BBC Worldwide executives who intend to exploit their US relationships and IP to secure, develop and produce a high-value slate of TV drama projects in Wales.

Bad Wolf has identified a pipeline of TV productions with budgets totaling over £290m over the next 10 years. Officials included £108m¹ of this Welsh production expenditure as a pre-condition of the Welsh Government's offer of support of up to £9m. In order to secure Bad Wolf and its slate of productions to Wales, Bad Wolf was awarded a Welsh Government funding offer made up of a repayable advance and grant. Bad Wolf Ltd has

¹ Bad Wolf has since been able to confirm that this expenditure will increase to £128M as part of the Wolf Studio Wales agreement.

now established offices in Cardiff and Los Angeles (LA) and has taken over BBC Worldwide Productions' development slate of 45 projects, beginning with two long running returnable series which have been commissioned by UK broadcasters:

- Deborah Harkness' All Souls Trilogy, the first of which is *A Discovery of Witches*. The first season was filmed in Wolf Studios Wales and on location in Wales. Bad Wolf will look to adapt all three books in the series for television.
- Phillip Pullman's *His Dark Materials*, an adaptation of the contemporary classic trilogy of novels for the BBC. It has a £48m budget of which 60% (£28.8m) is expected to be spent in Wales. The series is likely to run over five seasons, with eight episodes currently filming in Wolf Studios Wales and on location in Wales.

Off the back of Welsh Government's production funding, Bad Wolf has secured other major investments into the company:

- Access Entertainment, a division of Access Industries, has taken a 24.9% stake in Bad Wolf;
- Sky and HBO have each taken a minority stake and seats on the board. As part of the deal, Bad Wolf will supply drama for the recently-announced co-production partnership between Sky and HBO, which is aimed at funding large scale dramas for the international television market.

Mid Wales

Hinterland / Y Gwyll is a contemporary television detective drama series set in and around the town of Aberystwyth. *Hinterland* brought together S4C and BBC Wales on a drama for all of Wales.

Three series were filmed across multiple locations in and around Aberystwyth and Ceredigion with English and Welsh language versions of the programme produced simultaneously. *Hinterland / Y Gwyll* delivers quality drama not only to a domestic audience via broadcasters S4C and BBC Wales but also to a UK wide audience via its transmission on BBC4, and to an international audience via distribution partner ALL3MEDIA. This project supports the Welsh Government's objective of assisting indigenous Welsh companies in exploiting international markets.

Hinterland / Y Gwyll was winner in the Best Drama category at the Celtic Media Festival 2014. The series was also nominated in the Best Drama and Best Actor categories at Monte Carlo.

b. Cultural impact and the Welsh language

Media Policy

Welsh Government worked closely with the BBC to ensure that the new BBC Charter gives the BBC a much stronger public purpose to reflect, represent and serve the diverse communities of Wales. We can now expect more and better content and programming for Wales, about Wales, and in Wales across the BBC's services. Our direct involvement in the Charter renewal process was vital in securing these improvements. To deliver this, appropriate funding is required and we have consistently stressed that any new money promised for Wales has to be genuinely additional. We therefore welcomed the announcement in February 2017, that BBC Cymru Wales will receive additional budget for

programming, and will launch some new services. Some increased budget was made available in 17/18, rising to the full additional increase of £8.5m by 19/20. This will be made available to commissioners to deliver new English language programming for Wales, an increase of 50% over the budget they currently have available. This will enable the BBC in Wales to commission more programmes that truly reflect the lives of people in Wales and to make sure that more of this programming is seen across the UK network.

The new funding is supporting a major expansion in drama, comedy and landmark factual programming, including the biggest ever slate of English language TV drama set in Wales. Three major dramas shot in Newport, Carmarthenshire and North West Wales will be aired on the BBC in 2018. Two have already been broadcast, garnering both critical acclaim and popular success with audiences – *Keeping Faith* starring Eve Myles and *Requiem* starring Lydia Wilson and Richard Harrington. Welsh Government co-funded both these productions with the BBC (and in the case of *Keeping Faith* S4C), to ensure that maximum economic and cultural benefits are retained within the region.

A new network drama commissioner for Wales, Chris Aird, has also been appointed to ensure Wales is better reflected on screen.

In addition, Welsh Government has for some time been asking Ofcom to set more challenging out-of-London production quotas for the public service broadcasters. We therefore welcome the major new commitment from Channel 4 to significantly increase its Nations & Regions content spend from its current quota of 35% to a new voluntary target of 50% by 2023. This will result in a cumulative boost of over £250m in Channel 4's Nations & Regions commissioning spend.

Channel 4's '4 All the UK' strategy is a significant and welcome new approach to the nations and regions, one that as a whole should deliver real benefits for the creative industries sector across Wales. We agree that Wales would be a great home for Channel 4. Our creative industries are booming and we have an international reputation as a home of drama, production, skills and talent.

The Welsh Government will work to directly support the development and delivery of a great future for Channel 4 in Wales and officials are already in discussion with Cardiff Council and its partners. We expect that this offer will increase opportunities and deliver benefits for people and businesses across Wales.

There were bids from other areas of Wales to host the new Channel 4 national HQ or one of its creative hubs. It is disappointing that none of the other bids are going forward, but we are already discussing the potential to build on those bids in other ways with the authorities concerned.

Welsh Language productions

Welsh Government support or investment is available for film and TV projects in both Welsh and English. Our support is conditional on a number of criteria being met, including the need to demonstrate an international market, spend a significant amount of the production budget in Wales and the strength of the likely economic return. However, the primary aim of all Welsh Government support is to strengthen the film and television sector in Wales, through ensuring that Welsh people, Welsh locations and Welsh companies benefit through any investments made.

Since 2011 and up until the 30 May 2018, Welsh Government has actively supported 14 Welsh language productions, alongside S4C, with associated funding being offered in excess of £2.3m:

Production Title	Location	Value of Offer
<i>Igam Ogam</i>	Animation Studio, Cardiff	£75,000
<i>Y Syrcas</i>	On location, West Wales	£20,000
<i>Dan Y Wenallt</i>	South West Wales	£35,000
<i>Boj</i>	Cloth Cat Animation Studio, Cardiff	£200,000
<i>Twt</i>	Cloth Cat Animation Studio, Cardiff	£550,000*
<i>Cestyll</i>	North Wales	£45,000
<i>Y Gwyll Series 1</i>	On location, Ceredigion	£215,000
<i>Y Gwyll Series 2</i>	On location, Ceredigion	£304,000
<i>Y Gwyll Series 3</i>	On location, Ceredigion	£250,000
<i>Un Bore Mercher</i>	On location, West Wales	£328,000
<i>Mynddoedd Y Byd</i>	International locations	£30,000
<i>Y Wal2</i>	International locations	£45,000
<i>Bang</i>	On location, Neath Port Talbot	£350,000
<i>The Rubbish World of Dave Spud (Illuminated Productions Ltd)</i>	Cloth Cat Animation Studio, Cardiff	£90,000

* Business Finance Funding to Lupus Films Ltd up to a maximum of £550,000 of which £350,000 was allocated to *Twt* and £200,000 to TV animation feature *Ethel & Earnest*.

Welsh Government continues to support high-end audio visual Welsh language media through our indigenous companies such as Boom Cymru, Rondo Media, Cwmni Da, Telesgop and Avanti Media.

We have also seen major progress in the Welsh language being promoted and recognised as an international language, with both *Y Gwyll* and *Bang* being successfully sold worldwide.

Welsh Government does support Welsh businesses in other ways. For example, we have recently supported Boom Cymru, one of the largest TV content producers in Wales, to consolidate its presence at the Welsh Government's flagship creative industries building Gloworks in Porth Teigr with the assistance of a Welsh Government Business Finance grant of £115,125 (part repayable, part non-repayable).

Boom Kids is a division of Boom Cymru and is the major producer of pre-school and younger viewers programming in the S4C *Cyw* and *Stwnsh* strands. They are one of the largest producers of children's TV in the UK 6-13 years old range. The division employs over 50 full time staff and the Welsh Government grant will help secure 41 existing jobs.

In addition to securing the future of Boom Cymru, the facility will showcase the Welsh TV industry and encourage and promote the Welsh language and culture.

Their relocation involves the building of a state of the art studio facility and associated services from where Boom Kids would produce *Stwnsh* and *Cyw*, as well as increasing its public profile and providing an invaluable cultural and educational service to Welsh learners and Welsh children in the heart of Cardiff Bay. The company aims to attract children to interact with the facilities by taking part in studio activity and offering set visits.

In considering future applications for funding, Welsh Government will continue to take the cultural benefits into consideration. Projects that demonstrate a strong commitment to Wales, in terms of key talent, a long term base, commitment to significant Welsh spend and training will be prioritised for support.

c. Value for money

Business Finance / Wales Screen Fund

Production Projects that receive grant funding are expected to spend a significant amount of money on local suppliers, cast, crew and facilities i.e. 'Welsh spend'.

Since 2012-13, Welsh Government has been using a target ratio of 12:1, where projects must demonstrate at least £12 investment induced for every £1 of Welsh Government spend.

This ratio is a target and lower ratios might be accepted for projects with longer terms benefits (e.g. permanent base in Wales, key Welsh talent attached to the production, significant training opportunities) and / or a strong strategic fit e.g. (high-end TV drama).

The value of spend in Wales as a result of film and TV production is identified in project records and documentation submitted to the department at project close.

Since 2012-13, Welsh Government has achieved an average ratio of 10:1 – that is almost £11m in funding has generated £120m of defrayed expenditure directly into the Welsh economy. This figure only includes those projects that have fully completed and confirmed their Welsh spend.

Desktop research has been undertaken by officials into benchmarks of funding-to-local-spend ratios in other UK regions. It was found that there is considerable variation in expected returns, according to region and type of project. For example, Northern Ireland Screen has an indicative ratio of 8 to 1 (although this can change according to the type of production and investment).

Media Investment Budget

For productions supported via the Media Investment Budget, the criteria to date has been that projects must undertake 50% of principal photography in Wales and spend a minimum of 35% of their budget on local below the line expenditure². However, this is combined with a requirement for all commercial funding to be compliant with the Market Economy Operator Principle (MEOP) and repaid in full.

The commerciality of projects applying for funding via this route is ratified by external media experts and then considered by a panel of media specialists. Any project not considered to be MEOP compliant would not be recommended for funding.

The specialist panel assesses the level and type of funding being requested and considers the probability of its potential to provide a return on investment, based on but not limited to, independent sales projections, how other projects of a similar genre have done in the market place and track record of the production team.

² Below the line expenditure can be defined as all production costs excluding the creative talent – such as Actors, Director, Producers, and Writers from the other crew.

Value for money cannot be considered in the same way as for grant funded projects as there is a balance to be struck between the potential for commercial return and the benefits to Wales. For example, a project that might receive £1m in funding may only spend £2m on local Welsh good and services (a 2:1 return); however if and when that funding is fully repaid to Welsh Government it would be £2m spend at nil cost.

It must be acknowledged that full repayment of any commercial investment into film and television production is completely dependent on the success of the film and / or TV production.

Officials have recently been exploring how to revise the sector's VFM calculations and rationale for funding to film and TV to better reflect changes that have taken place in the market and to set a solid foundation for future support of the sector via Creative Wales.

3. How support for the sector may be affected by the Welsh Government's new Economic Action Plan

We believe that the Economic Action Plan (EAP) and our commitment to establishing Creative Wales are well aligned; both support a holistic approach, improved regional working and acknowledge the need for broader measures of impacts. Creative Wales will embrace EAP's emphasis on fair work and the promotion of skills.

EAP's economic contract chimes with the synergies between the arts and the creative industries and their ability to create economic, social and cultural benefits. This requirement to be even more socially responsible will be hard-wired into our future work with the sector.

The new criteria for funding will provide opportunities for creative industries companies and may boost areas which fit with our strategic plans. For example:

- Creative industries companies are ahead of the curve in terms of capacity for innovation and trying new things.
- Entrepreneurship is common in the sector and something we want to encourage.
- The digital nature of much of the sector's output is easy to export across borders (if the requisite copyright and IP protections are in place) and we would like to see more international trade.

Therefore there are opportunities to align, whilst acknowledging the different mechanisms and actions that need to be brought to bear in supporting the creative industries.

Evidence has demonstrated that the main growth opportunities across the sector most likely to lead to job and wealth creation are to be found in the exploitation of creative content (intellectual property) on digital platforms.

Therefore the activities of Creative Wales will be complementary to the EAP in order to support these new industries that create wealth and jobs through the creation, acquisition, retention and exploitation of IP.

We acknowledge that there are areas where we will need to work with the new model to ensure it can adapt to some of the characteristics of the creative industries sector, such as:

- Over 90% of the sector is made up of small, micro and zero companies, and some requirements should therefore be proportional to the capacity of the companies.

- Many companies in the sector do not produce products or services, but more intangible intellectual property.
- Use of freelancers is endemic and may make it difficult to evidence fair work.

4. To investigate how Ffilm Cymru Wales (FCW), the BFI and others support the sector, and how this work complements the work of the Welsh Government in this area

FCW supports Welsh or Wales-based writers, directors and producers with development and production funding, industry assistance and mentoring opportunities, whilst BFI's remit in funding is to support UK filmmakers and films.

The work of the Welsh Government's creative industries sector team focuses primarily on the expansion and economic impact of the film and TV industry in Wales. Therefore it is to be expected that there are occasions where a production will align with the aims of all three organisations, and in fact the Welsh Government has co-invested into the following productions with Ffilm Cymru Wales:

- Red and Black Films (Don't Knock Twice Ltd.'s) feature film *Don't Knock Twice* Media Investment Budget (£629,516) and Business Finance (£75,000)
- Vox Pictures (Eternal Beauty Productions Ltd 's) feature film *Eternal Beauty*, Media Investment Budget funding into (£1,050,000)
- Red and Black Films (Pandora Films Ltd.) *The Machine*, Repayable Business Finance de minimis (£80,000)
- le le Productions Ltd.'s digital platform for the feature documentary *American Interior*, Digital Development Fund (£49,900)
- Severn Screen Ltd.'s (Coracle Picture Limited) feature film *Denmark*, Business Finance (£85,000)
- fFati fFilms feature films *Y Syrcas* Repayable Business Finance de minimis (£20,000)
- fFati fFilms *Dan Y Wenallt / Under Milk Wood* WG sponsorship (£35,000)
- Set Fire To The Stars Productions Ltd feature *Set Fire to the Stars* Repayable Business Finance de minimis (£48,000)
- Lupus Films Raymond Briggs Animated feature *Ethel and Ernest* for BBC 1 Business Finance (£200,000 of £550,000 offer which included £350,000 allocated for Twt)
- Gritty Realism Productions Ltd *Heart of Darkness* Business Finance (£150,000)

The Welsh Government has co-invested into the following productions with the British Film Institute:

- Journey's End Films Limited for their feature film *Journey's End* Media Investment Budget (£850,000)
- Vox Pictures (Eternal Beauty Productions Ltd 's) for their feature film *Eternal Beauty* Media Investment Budget (£1,050,000)

5. The support given to develop skills and address skills shortages in the industry, whether there is sufficient data to map existing skills.

Welsh Government's Creative Industries Sector team's remit has not historically focused on skills, but rather growing the sector and supporting businesses to grow. That notwithstanding, by 2012 it had become apparent that any growth momentum in the screen industry could not be maintained unless there was support for developing industry skills and improving the talent pipeline. In order to achieve this, we have:

- wholly funded a series of full time placements which enabled six trainees to work on the production of *Da Vinci's Demons*;
- funded It's My Shout and West Glamorgan Youth Theatre for specific projects;
- established working relationships with educational institutions and organisations including Schools, Careers Wales, FE/ HE institutions (Creative Industries leads at Coleg Cambria, Coleg y Cymoedd, CAVC, USW, Cardiff University, etc.);
- co-funded the Screen Alliance Wales education project with Creative Skillset;
- funded a report into raising funding to develop 'beacons of excellence' for youth drama across Wales.

Work planned in the near future includes:

- Diversity in Film and TV event – Scoping an intensive day with follow up mentoring and support to increase the diversity of the screen industry in Wales and improve access for under represented groups of people.
- Ensuring Welsh Government has a good working relationship and strategic alignment with Creative Skillset; Creative Skillset has been awarded the contract to deliver the BFI Film Futures skills fund, which is a £20M pot to improve film skills across the UK over the next five years.

Welsh Government's Wales Screen service (part of the Creative Industries Sector team) has been involved in addressing some of the skills gaps in the industry by carrying out exit interviews with producers that have received funding from Welsh Government and monitoring where there have been gaps; what improvements could be made etc.

Wales Screen also:

- provided funding to Sgil Cymru's 'Stepping Up' scheme (2017-2018) a training initiative for TV drama professionals in Wales, allowing those already working in the industry to advance in their career, and also for those highly trained qualified specialists who want to move across to TV. WG funding was matched by monies from Creative Skillset's High End TV Levy.
- regularly promotes locally based crew and facility companies via an extensive online database, to productions shooting throughout Wales;
- shares job opportunities on productions that are crewing up in Wales via social media channels, reaching out to those not registered on the database;
- hosts networking events throughout the year, introducing new inward investment productions to the crew and facilities based here and allowing local producers to meet with companies establishing new bases in Wales;
- encourages facility companies to establish Welsh branches allowing producers more choice when it comes to their 'Welsh spend';
- promotes relevant industry training courses run by the Production Guild, Sgil Cymru and Creative Skillset etc.

Future skills support

With the setting up of Creative Wales comes an opportunity to review and improve the provision of support for skills and training in the film and TV sector in Wales. On behalf of Welsh Government, Creative Wales will be involved in policy and activity to generate a larger and more skilled workforce to service the sector.

It is clear that to fully take advantage of the boom in production, Wales needs to be able to supply more, and better trained, crew. This will involve both training up new entrants with the skills required, and up skilling existing workers in the industry.

There is a clear argument for Creative Wales, as an economic development body, to involve itself in skills support. The economic success of the film and TV industry in Wales is dependent upon the skills of the people working in it. This is an area of activity undertaken by both Creative England and Creative Scotland.

One particular area where improving skills will make a direct economic impact is making sure productions filming in Wales can maximise their Welsh spend. The skills gaps outlined above force some roles to be brought in from outside Wales because suitably skilled people cannot be sourced locally.

Creative Wales will need to work with Welsh Government Skills colleagues, with FE and HE institutions and industry representatives to consider the effectiveness of current provision and future requirements.

To maximise economic returns for Wales and development of the sector, the role of Creative Wales should thereafter encompass a range of activity which constitutes a top level co-ordination role. Creative Wales should use partnerships and networks, develop market intelligence and provide information, and leverage funding where it can.

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Ms Bethan Sayed
Chair of the Culture, Welsh Language and
Communications Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Reference: HVT/2853/caf

Date issued: 11 June 2018

Dear Bethan

Auditor General Report: The Welsh Government's Relationship with Pinewood

I am pleased to enclose an embargoed copy of my report on the Welsh Government's relationship with Pinewood which I am publishing tomorrow, Tuesday 12 June. Translation of the report is being finalised later today and a Welsh language copy will be with you by tomorrow.

This report, which I have prepared on a 'facts only' basis (and so contains no audit conclusions or recommendations), examines the Collaboration Agreement entered into by the Welsh Government and Pinewood in February 2014 to promote TV and film production in Wales. It also sets out the facts leading to the termination of that agreement, together with details of the successor Management Services Agreement that commenced in November 2017.

I am aware of your Committee's ongoing inquiry into Film and Major Television Production in Wales, and I hope that my report will be of some assistance to that work. Should you wish to discuss any aspects of the report then my Project Director, Mike Usher, would be very happy to do so.

I am copying this letter, together with the report, to Nick Ramsay as Chair of the Public Accounts Committee.

Yours sincerely



HUW VAUGHAN THOMAS
Auditor General for Wales

Enc: The Welsh Government's Relationship with Pinewood

cc: Mr Nick Ramsay AM, Chair, Public Accounts Committee

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The Welsh Government's relationship with Pinewood



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Act 2006.

The Wales Audit Office study team comprised Ian Hughes and Anwen Worthy under the direction of Mike Usher.

Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

© Auditor General for Wales 2018

You may re-use this publication (not including logos) free of charge in any format or medium. If you re-use it, your re-use must be accurate and must not be in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

For further information, or if you require any of our publications in an alternative format and/ or language, please contact us by telephone on 029 2032 0500, or email info@audit.wales. We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Contents

Our review examined the Welsh Government’s relationship with Pinewood. This commenced with the Collaborative Agreement entered into by the Welsh Government and Pinewood in February 2014 to promote TV and film production in Wales. We set out the facts leading to the termination of this agreement, together with details of the successor Management Services Agreement that commenced in November 2017.

Summary report	6
What this review is about	6
Key findings	8
Part 1 – Establishment of the Welsh Government’s Collaboration Agreement with Pinewood in February 2014	12
Welsh Government Ministers entered into a Collaboration Agreement with Pinewood to promote TV and film production in Wales	12
The Welsh Government established a £30 million budget to invest in film and TV production, and appointed Pinewood Film Advisors (Wales) Ltd to identify projects suitable for investment	22
Part 2 – Operation of the Collaboration Agreement until October 2017	25
The Welsh Government established an independent Media Investment Panel to decide which projects put forward by Pinewood should be supported by the investment budget	25
The Media Investment Budget’s performance did not meet the panel’s expectations	27
Pinewood Studios Wales Ltd was unable to operate the studio as a going concern without the support of Pinewood Group Limited	30
Part 3 – The revised management arrangements from November 2017	33
In October 2017, the Welsh Government terminated its Lease and Collaboration Agreements with Pinewood, and Pinewood ceased to manage the Media Investment Budget	33
In November 2017, the Welsh Government entered into a new three-year ‘management services agreement’ with Pinewood Studios Wales Ltd	33

Appendices	39
Appendix 1 – Our audit approach and methods	39
Appendix 2 – Timeline of events	40
Appendix 3 – The Welsh Government’s overall approach to promoting Wales as a venue to produce high-impact film and TV productions	41
Appendix 4 – The seven types of investment that the Welsh Government can make in TV and film productions	42
Appendix 5 – Productions supported by the Media Investment Budget, 2014-2018	44

Summary report

What this review is about

- 1 In February 2014, the Welsh Government purchased the former Energy Centre site at Wentloog¹ for £6.3 million to develop as a film and TV studio in collaboration with Pinewood Shepperton Plc (Pinewood).
- 2 Shortly afterwards, Welsh Government Ministers entered into a 'Collaboration Agreement' with two newly established subsidiary companies of Pinewood. The agreement involved the Welsh Government:
 - leasing the Wentloog studio to Pinewood;
 - establishing a £30 million Media Investment Budget (for which Pinewood would source productions suitable for Welsh Government investment); and
 - sponsoring Pinewood to market and promote both the studio and the investment budget.
- 3 By entering into this Collaboration Agreement, over five years, the Welsh Government expected to generate an estimated £90 million production spend in Wales, creating or safeguarding at least 1,950 full-time equivalent job years.
- 4 In order to deliver the benefits of the Media Investment Budget, the Welsh Government created an independent Media Investment Panel to scrutinise the investment proposals identified and put forward by Pinewood.
- 5 Members of the Panel² decided in August 2016 that the Collaboration Agreement was unlikely to meet the Welsh Government's expectations for the performance of the investment budget. In January 2017 Pinewood confirmed its willingness to renegotiate the terms of the Collaboration Agreement.
- 6 Following negotiations, the Welsh Government and Pinewood entered into a new 'Management Services Agreement' on 1 November 2017.
- 7 There has been political and media interest in the new agreement and the events leading up to it. An Assembly Member has raised concerns with the Auditor General about the terms of both the original collaboration agreement and the new management services agreement.
- 8 The National Assembly's Culture, Welsh Language and Communications Committee is currently conducting an inquiry into major film and television production in Wales.

1 Located between Newport and Cardiff.

2 In conjunction with members of the Welsh Government's Creative Industries Sector Panel.

- 9 This 'facts only' report sets out the key matters relating to the Welsh Government's agreements with Pinewood. We have not examined the value for money the Welsh Government has obtained from the Collaboration Agreement or the effectiveness of its work in promoting this sector of the Welsh economy.
- 10 **Appendix 1** sets out our audit approach and methods, and **Appendix 2** sets out a timeline of key events.
- 11 **Appendix 3** sets out the Welsh Government's overall approach to promoting Wales as a venue to produce high-impact film and TV productions, whilst **Appendices 4 and 5** provide further details about the Media Investment Budget.

Key findings

- 12 In February 2014, the Welsh Government purchased the former Energy Centre site at Wentloog for £6.3 million to develop as a film and TV studio in collaboration with Pinewood. The building was renovated at a cost to the Welsh Government of £3.1 million. This included unforeseen roof repairs of just under £1 million.
- 13 The Welsh Government also acquired a Grade II Listed Farmhouse as part of the purchase. This needed improvements of around £360,000 to meet required standards. Although the farmhouse was seen as a potential valuable asset, it has not been renovated as planned and remains derelict on land adjacent to the main Wentloog site.
- 14 Shortly after the Wentloog site was purchased, Welsh Government Ministers entered into a 'Collaboration Agreement' with Pinewood Shepperton Plc to promote TV and film production in Wales. The agreement involved the Welsh Government:
 - leasing the former Wentloog Energy Centre to Pinewood Studio (Wales) Ltd over a 15 year term;
 - redeveloping the site and branding it 'Pinewood Studio Wales';
 - creating a £30 million Media Investment Budget, to be made available over a period of five years for investment in film and TV development, production and distribution. Pinewood Film Advisors (Wales) Ltd was established and appointed to identify and formulate production proposals to utilise the budget; and
 - 'sponsoring' Pinewood Studio (Wales) Ltd to market and promote the new film and TV studio and media investment budget at an annual cost of £525,600 over a five year term.
- 15 The Welsh Government established a new and independent Media Investment Panel to decide which productions sourced by Pinewood should be supported by the investment budget and by what type(s) of funding package.
- 16 By August 2016 members of the Media Investment Panel and Creative Industries Sector Panel had become dissatisfied with the performance of the Media Investment Budget, which was lower than anticipated.

- 17 The latest available figures show that £13.8 million of the £30 million budget has been invested across 14 projects. A total of £4.3 million has so far been recouped from the projects supported. One project has recouped more than its original investment; four projects have recouped some of their original investment and nine projects have not yet recouped any of their original investment. These projects are in various stages of development; some have not yet benefitted from international cinematic release or TV broadcast, and funds will continue to be recouped through auxiliary sales.
- 18 Welsh Government officials advised the Cabinet Secretary for Economy and Infrastructure in August 2016 of their concerns about the budget's performance. These concerns were:
- a greater number of higher-risk investments being put forward by Pinewood because productions could obtain lower-risk funding from other sources;
 - Pinewood's operating model meant it was reluctant to invest its own money in these higher-risk projects alongside the Welsh Government; and
 - Pinewood might be conflicted in its involvement with the budget as it also had an interest (not prohibited under the Collaboration Agreement) in providing its own London-based services to the industry. Welsh Government officials felt that a perception had arisen amongst other companies that Pinewood had an unfair competitive advantage in securing post-production work in Wales. They therefore considered that this had the potential to reduce the economic benefits to Wales.
- 19 By January 2017, Pinewood had been acquired by new owners, and informed the Welsh Government of its willingness to introduce a new arrangement for operating the studio. By this time:
- Pinewood had adopted a new international business model, focussing on the provision of studio facilities instead of investing directly in TV and film productions;
 - the height of the eaves at Pinewood Studio Wales (25 feet) had been identified as a limiting factor, as the site was unable to accommodate higher-budget film productions which required aerial panoramic perspectives; and
 - the anticipated demand for the studio had not materialised, resulting in it being run at a loss to Pinewood once the initial two-year rent-free period had ended.

- 20 Pinewood executives told us that the opening of a new film and TV production studio by Bad Wolf Studios (Wales) Ltd in Trident Park, Cardiff, in May 2017 had a detrimental impact on the occupancy of Pinewood Studio Wales. The number of enquiries they received for it had fallen as a consequence, although demand for Pinewood studios within the UK remains strong.
- 21 Bad Wolf has benefited from a £9 million funding package from the Welsh Government which is structured as an initial £4.5 million repayable loan that can be converted into non-repayable grant funding if certain milestones are met in relation to production spend in Wales. The Welsh Government will release the remaining £4.5 million as grant payments if additional production spend targets are met. In addition, the Welsh Government leases to Bad Wolf, on commercial terms, the Wolf Studios Wales facility in Cardiff Bay.
- 22 Welsh Government officials told us that demand for studio facilities will fluctuate as productions come and go but, in their view, demand for the Wentloog site had been affected by a change of focus after a change in ownership at Pinewood.
- 23 Welsh Government officials do not believe there has been a drop in enquiries for Pinewood since Wolf Studios Wales opened its doors. In the last 12 months, Wales Screen has conducted studio visits with major productions on ten occasions. Pinewood was not included on only two of these occasions and both were a result of producer choice. The Welsh Government considers that Wales Screen³ promotes all facilities in Wales equally, however that assertion is contested by Pinewood. To date, Wolf Studios Wales has only been home to Bad Wolf productions, whereas Pinewood has been used for productions from the BBC, Channel 4 and independent film companies.
- 24 In October 2017, the Cabinet Secretary for Economy and Infrastructure accepted his officials' advice to terminate both the Lease and the Collaboration Agreement with Pinewood, and to place the Media Investment Budget on hold.

3 See Appendix 3 for more details about Wales Screen.

- 25 On 1 November 2017, the Welsh Government entered into a new three-year 'management services agreement' with Pinewood Studios (Wales) Ltd. This new agreement contains two complementary parts; the sales and marketing of the studio and the studio operation and management services. The Media Investment Budget is now being managed by Welsh Government officials.
- 26 The annual net cost to the Welsh Government of the management services agreement is estimated to be £392,000 (plus an additional annual management fee to Pinewood, which has been redacted from this report on the grounds of commercial sensitivity⁴).
- 27 This net cost estimate assumes that the annual revenue forecast of £714,000 which was included in the submission to the Cabinet Secretary is realistic. However, that annual revenue forecast was supplied by Pinewood based on the pipeline of projects in March 2017 and before the opening of Bad Wolf Studios. Pinewood had added the caveat at the time that these revenues could be lower due to increased competition from Wolf Studios. Welsh Government officials told us that the reliability of the revenue forecast was tested and scrutinised by officials and also by independent property advisors.
- 28 Welsh Government officials recognise that these financial projections do not represent good value for money. However, in their view it was more financially advantageous to enter into a three-year agreement with Pinewood⁵ with the prospect of generating some commercial revenues, compared to the costs that the Welsh Government would have incurred by leaving the site empty whilst they searched for a new tenant.

4 See Paragraph 3.13, Exhibit 10 and Footnote 29 for further explanation of the reasons for this redaction

5 This agreement included a clause permitting either party to terminate with six months' notice, after the initial 12 months.

Part 1 – Establishment of the Welsh Government’s Collaboration Agreement with Pinewood in February 2014

Welsh Government Ministers entered into a Collaboration Agreement with Pinewood to promote TV and film production in Wales

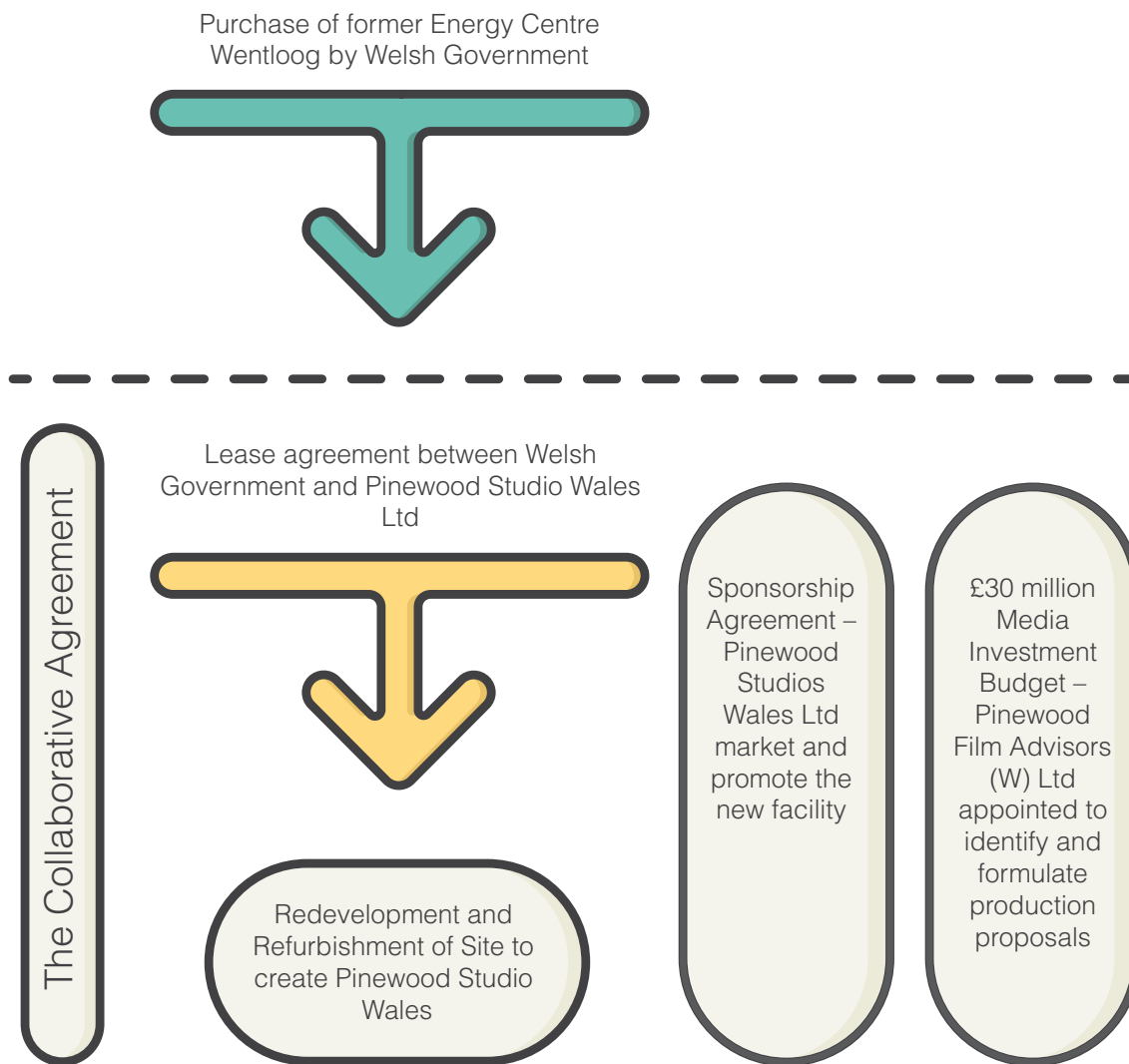
- 1.1 During 2013-14, Welsh Government officials held discussions with Pinewood executives about establishing a world-class studio facility in Wales. This would form part of Pinewood’s global network of film studios. To complement the studio, the Welsh Government also developed plans to create a £30 million investment budget to support film and TV productions in Wales. This would be operated by Pinewood Film Advisors (Wales) Ltd on behalf of the Welsh Government.
- 1.2 A keystone element of the proposal, distinct from the Collaboration Agreement itself, was the Welsh Government’s acquisition of the Energy Centre building at Wentloog. This was to be redeveloped by the Welsh Government and Pinewood as the studio facility. The studio would be run by Pinewood Studio (Wales) Ltd, another newly established subsidiary company of Pinewood.
- 1.3 The Welsh Government anticipated a rental income of £1.6 million from Pinewood Studio (Wales) Ltd for the studio facility over the first five years of the agreement.
- 1.4 Pinewood had already worked with the Isle of Man Government to introduce the Isle of Man Media Development Fund in 2012; this was a fund of £25 million to be used on film and TV productions. This fund built on a range of creative-sector initiatives introduced by the Isle of Man Government since 1995. Independent economic analysis of the Isle of Man’s support for TV and film productions, concluded that it had generated a direct local spend of £100 million and 2,140 full-time equivalent jobs since 1995.
- 1.5 Both the Scottish Government⁶ and the Northern Ireland Assembly⁷ were also expanding their dedicated studio facilities to cope with increasing demand from the film and TV industry.

⁶ Scottish Government website, [Creative Industries: Film and TV production in Scotland](#)

⁷ Northern Ireland invested in new sound stages in October 2012 to provide additional studio space at Titanic Studios, Belfast.

1.6 On 17 February 2014, the Welsh Government and Pinewood concluded their negotiations and Ministers entered into a 'Collaboration Agreement' with Pinewood Film Advisors (Wales) Ltd, as shown in **Exhibit 1**.

Exhibit 1: The key elements of the Collaboration Agreement



Source: compiled by the Wales Audit Office from information held by the Welsh Government.

- 1.7 According to projections, the Welsh Government could expect to see an estimated £90 million of film and television production expenditure in Wales over the next five years through this Collaboration Agreement. This spend would create or safeguard at least 1,950 full-time equivalent job years. These projections drew on an independent economic analysis undertaken in respect of the Isle of Man fund. Pinewood's internationally recognised brand name was seen as being central to the success of the proposal.
- 1.8 Welsh Government officials had undertaken financial due diligence on the financial forecasts provided for the activities to be undertaken by the two Pinewood subsidiaries; Pinewood Film Advisors (Wales) Ltd and Pinewood Studio (Wales) Ltd. The Welsh Government concluded that the financial risks of entering into the deal were low, based on the assumption that both businesses would be financially supported by Pinewood Shepperton Plc.
- 1.9 Officials also commissioned a media industry specialist to provide accountancy advice, and to conduct a desktop review of Pinewood's business plan. That review concluded that the potential weaknesses identified were individually, and in aggregate, insignificant compared to the upsides of increased UK studio capacity, the establishment of a regional film studio, job creation and economic benefit for Wales. However, the review did flag up the potential challenges of attracting film and TV productions to the Wentloog site, given there was already some four million square feet of potential studio space within the M25.
- 1.10 Officials in the Welsh Government's Creative Industries sector team also analysed the business case for the proposals, and concluded that it represented a sound investment. This conclusion was based on a detailed analysis of the business plan provided by Pinewood, and consideration of industry demand for a film and TV studio and access to an investment budget in Wales.

The Welsh Government purchased the former energy site in Wentloog to develop as a film and TV studio

- 1.11 As a prelude to the agreement and in order to be able to establish a film and TV studio, the Welsh Government needed to purchase a suitable site.
- 1.12 A search was undertaken by Welsh Government officials to identify suitable sites based on Pinewood's specific requirements. Pinewood shortlisted two sites and subsequently identified the former Energy Centre building at Wentloog as the better of the two shortlisted options. The building was being actively marketed by agents at a purchase guide price of £8.34 million (including VAT). It was known that there was market interest in the property on both a purchase and rental basis. Purchase of the site to include the freehold interest was considered by the Welsh Government to represent better value for money than a lease of the site⁸.
- 1.13 An independent valuation of the building established a market value of £6.54 million (including VAT). Officials therefore considered that the £6.3 million purchase price negotiated by the Welsh Government in the autumn of 2013 was a good deal. The owners indicated to the Welsh Government that they were prepared to conclude the sale if contracts could be exchanged within a month.
- 1.14 The condition of the building⁹ at the time was observed and reported by the independent valuers as follows:
 - 'the building appeared to be in a generally reasonable state of repair commensurate with its age and use. No urgent or significant defects or items of repair were noted which would be likely to give rise to substantial expenditure in the foreseeable future or which fall outside of the scope of the normal annual maintenance programme'.
- 1.15 In December 2013, the Minister for Education, Science and Transport approved proposals submitted by officials for the purchase of the premises by the Welsh Government for £6.3million¹⁰.

8 Welsh Government officials explained to us that leasehold interests are considered 'wasting assets', whose value would reduce over time.

9 For completeness, it can be noted that there is a large wind turbine also present within the Wentloog property which, at the time of acquisition by the Welsh Government, was subject to an existing lease to an energy supplier.

10 Together with associated professional fees of up to £30,000.

- 1.16 The submission to the Minister stated that under the Heads of Terms, the Welsh Government would invest £1.8 million (inclusive of VAT) on improving the building, matched by an £800,000 investment by Pinewood¹¹. The agreed physical works would be carried out by the Welsh Government, or alternatively by Pinewood under the supervision of the Welsh Government. Upon satisfactory completion of the works, the occupational lease would be granted to Pinewood.
- 1.17 Welsh Government officials advised the Minister that, although the Collaboration Agreement with Pinewood had not yet been signed, the purchase of the Energy Centre at Wentloog should nonetheless go ahead.
- 1.18 This presented a risk in that, if the Pinewood project did not progress, the Welsh Government neither had the skills nor the expertise internally to develop and manage an international studio facility. However, officials identified that these risks could be mitigated if needed via a range of actions. These included contracting out the management of the facility through an open-market procurement process.
- 1.19 The acquisition of the Wentloog site by the Welsh Government was completed on 7 February 2014. The precise extent of repairs and improvements needed for the building had not been agreed or finalised between the Welsh Government and Pinewood at the date of the purchase.
- 1.20 Shortly before Pinewood moved into the building, a number of water leaks became apparent, mainly in the vicinity of the rainwater gullies. The required roof repairs could have been restricted to these areas. However, in order to minimise operational and reputational risks Welsh Government officials opted to implement a more extensive scheme costing £979,000. This provided a coating for the entire roof and had the benefit of extending the life of the roof¹². In the view of Welsh Government officials, this would assist with the ongoing management of the property and would also add value should it seek to dispose of the property in the future.

¹¹ See paragraphs 3.10 and 3.11

¹² A 20-year manufacturer guarantee was provided.

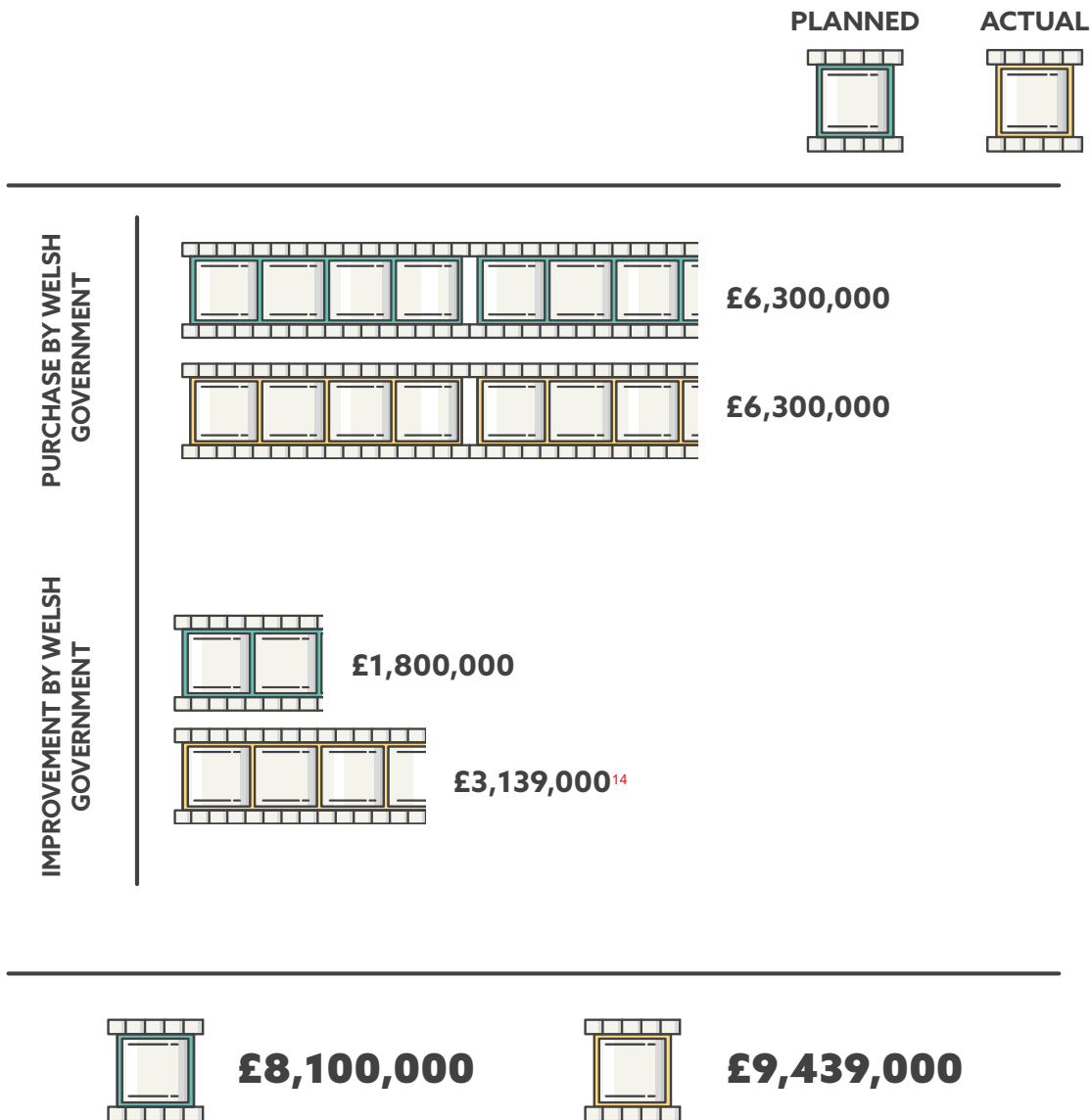
Exhibit 2: The Grade II Listed Building adjacent to Pinewood Studio Wales



Source: Wales Audit Office site visit April 2018

- 1.21 As part of the site purchase, the Welsh Government also acquired a derelict Grade II listed farmhouse located adjacent to the main building. In purchasing the farmhouse, the Welsh Government came under a statutory obligation to renovate the building at an estimated cost of £360,000 (including VAT). Welsh Government officials anticipated that, once renovated, the farmhouse could become a valuable asset that could be leased or sold, either with or separate to the main building.
- 1.22 During the lease negotiations, Welsh Government officials and Pinewood discussed whether the farmhouse should be renovated and included with the studio for ancillary-use purposes. It was eventually determined that Pinewood would only lease the industrial property. With no certain use for the farmhouse, the Welsh Government decided not to invest in the renovation works for the time being. Welsh Government officials told us that it may form part of a future project, or else be disposed of separately.

Exhibit 3: The costs incurred by the Welsh Government on the acquisition and renovation of the former Energy Centre at Wentloog¹³



Source: Welsh Government.

¹³ All figures include VAT where applicable. The Welsh Government elected to tax the building in order to recover VAT costs.

¹⁴ Composed of £1,800,000 planned improvements, £979,000 roof repairs and £360,000 office refurbishment.

The Welsh Government leased the Wentloog site to Pinewood Studio (Wales) Ltd, and agreed to contribute the majority of the funding required for its refurbishment

- 1.23 Welsh Government Ministers signed the Collaboration Agreement with Pinewood Shepperton Plc on 17 February 2014, a few days after completing the purchase of the Wentloog site. The agreement facilitated the leasing of the site to a newly-established subsidiary of Pinewood; Pinewood Studio (Wales) Ltd.
- 1.24 The lease between Welsh Government Ministers and Pinewood Studio (Wales) Ltd was not signed until 20 October 2016, although an Agreement for Lease was signed on 16 July 2014. Pinewood occupied the site and started production work from early 2015.
- 1.25 The terms agreed were for a 15-year, full repairing lease on standard letting and market terms from January 2015, with the first two years being rent-free. Under the terms of the lease, Pinewood Studio (Wales) Ltd had an option to break the lease during the fifth and eighth years of the term, upon the repayment of appropriate tenant incentives. The initial rent of £546,876 per annum was agreed to commence from 12 January 2017.
- 1.26 Over the first five-year term of the lease agreement (to January 2020), the Welsh Government expected to generate rental income of £1.6 million¹⁵ from Pinewood for the studio facility.

Pinewood Studio (Wales) Ltd was sponsored by the Welsh Government to market and promote the new film and TV studio at an annual cost of £525,600 (including VAT) over a five-year term

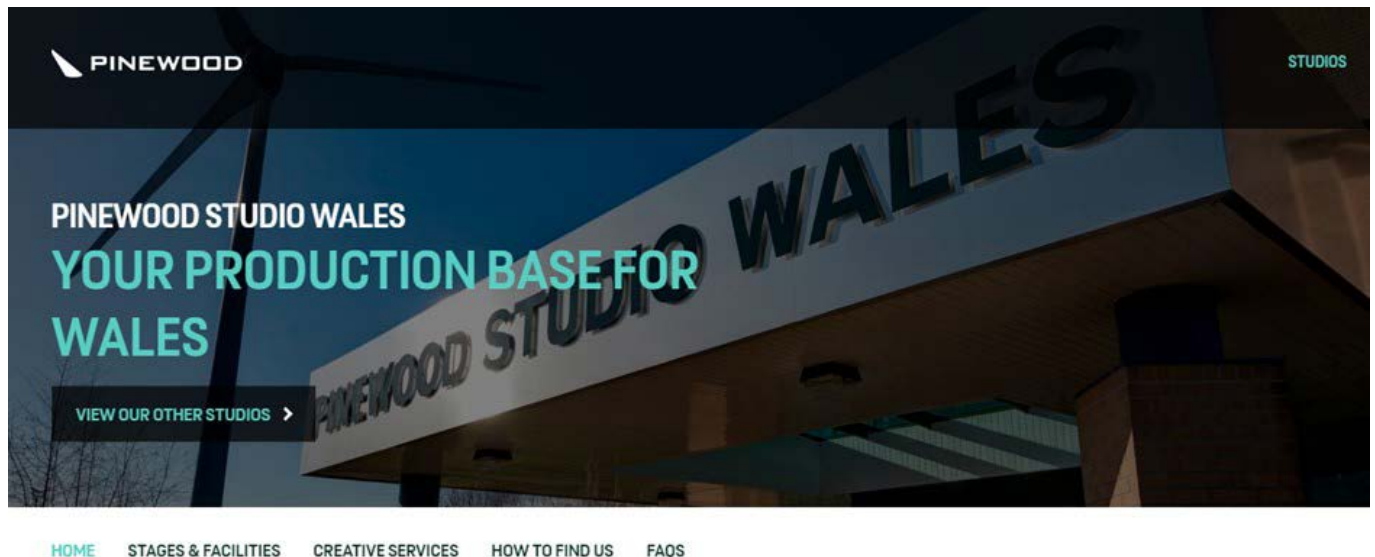
- 1.27 As part of the Collaboration Agreement signed on 17 February 2014, the Welsh Government also entered into a 'sponsorship agreement' with Pinewood Studio (Wales) Ltd at an annual cost of £438,000 for the five years from 1 March 2014 to 31 March 2019.
- 1.28 Shortly after the Collaboration Agreement was signed, Welsh Government officials recognised that VAT had been omitted from the original sponsorship agreement. The Minister's approval was therefore obtained to increase the annual sponsorship by £87,600 to £525,600. The total payable to Pinewood over the five-year sponsorship agreement would therefore be £2.63 million.

¹⁵ Being three years' rental income, following the initial two-year rent-free period.

- 1.29 The sponsorship agreement specified that the studio would be named 'Pinewood Studio Wales' and would be promoted and marketed internationally as a film and television studio, alongside other international Pinewood Group facilities¹⁶. This was expected to build on Wales' reputation as a great location in which to film and linking in to the services of the Wales Screen Commission.
- 1.30 The studio at Wentloog would be the first Pinewood-branded studio in the UK outside of south-east England. **Exhibit 4** shows how the studio is currently promoted through a dedicated website established by Pinewood.

¹⁶ Across Pinewood sales teams in London, New York and Los Angeles and at film festivals.

Exhibit 4: Home page for Pinewood Studio Wales



Source: Pinewood Studio Wales website, as at May 2018.

- 1.31 Under this agreement, Pinewood agreed not to offer branded studio facilities (other than any with its current partners or affiliates) in Scotland, Northern Ireland, Merseyside or Avon and Somerset, without the approval of the Welsh Government. The Welsh Government also agreed to sign up to a five-year exclusivity agreement not to build another studio in Wales without Pinewood's approval. This agreement placed certain restrictions on what Ministers would be able to do in the future with regard to other studios.
- 1.32 Welsh Government officials were aware that it was crucial they could justify the annual fee, given it was significantly more than the value of other sponsorship arrangements they had entered into. They were also aware that the fee should not constitute unlawful State Aid to Pinewood. Welsh Government officials satisfied themselves that the fee represented good value for money and was on market terms. They concluded that these arrangements would provide mitigation against the risk of any legal challenge.

The Welsh Government established a £30 million budget to invest in film and TV production, and appointed Pinewood Film Advisors (Wales) Ltd to identify projects suitable for investment

- 1.33 As part of the Collaboration Agreement, the Welsh Government committed to create a £30 million film and TV investment budget. This Media Investment Budget would be managed by Pinewood Film Advisors (Wales) Ltd on behalf of the Welsh Government. It would operate on a pilot basis, initially for five years, and be subject to an interim review after 18 months.
- 1.34 The Media Investment Budget would be used to finance the development, production and distribution of filmed entertainment projects or any other media projects submitted to the Welsh Government by Pinewood Film Advisors (Wales) Ltd. The Welsh Government expected to benefit from its collaboration with Pinewood because of its sector expertise, knowledge and networks, and experience of collaborating in a similar arrangement in the Isle of Man.
- 1.35 The Welsh Government intended to recoup its investments through repayments of loans and returns on equity, and for those income streams to be reinvested in further production projects. This had the potential to create a self-renewing or 'evergreen' fund. Officials anticipated that the Media Investment Budget would invest between £12 million and £15 million per year¹⁷.
- 1.36 Pinewood Film Advisors (Wales) Ltd did not receive funding from the Welsh Government for undertaking this management role. However, under the Collaboration Agreement it would be able to generate revenues from the businesses making productions funded from the Media Investment Budget, to include:
- Pinewood could negotiate production/arrangement fees with the production company, which should be included in the production budget and paid by the production company.
 - Pinewood could receive distribution fees and/or costs when the acquisition of UK distribution rights was included in the approval. These fees and costs would be receivable by Pinewood from the collected receipts from the distribution rights, with no recourse to the Welsh Government for payment.
 - Pinewood could also, at its discretion, invest its own funds into these productions.

¹⁷ Investments would be made between 1 April 2014 and 31 March 2019. All supported production and post-production activity would need to be completed by 31 March 2020.

- 1.37 The Media Investment Budget and Pinewood Studio Wales were officially launched at an event in Cardiff on 17 February 2014.
- 1.38 **Exhibit 5**, taken from Pinewood Studio Wales' website as at July 2017, summarises Pinewood's promotion of the Welsh Government's Media Investment Budget.

Exhibit 5: Pinewood's promotion of the Welsh Government's Media Investment Budget

Key considerations of the Welsh Government's Media Investment Budget:

- Production must be able to shoot 50% of principal photography in Wales;
- Pinewood Pictures and Wales Screen can provide information on shooting in Wales. For an overview, please go to www.wallesscreen.com;
- In addition, Pinewood's own studio facility in Cardiff is available for film and TV productions:
 - Including 2 sound-treated stages at 20,000 sq ft each and an additional 30,000 sq ft of shooting floor;
 - 70,000 sq ft of mixed use production space, including production accommodation and modern, flexible offices and amenities;
 - Close proximity to central Cardiff and a variety of **stunning locations**;
 - For more information please go to www.pinewoodstudiowales.com.

Previous projects include TAKE DOWN, DON'T KNOCK TWICE, and THEIR FINEST HOUR AND A HALF.

Source: Pinewood Studio Wales website as at July 2017.

- 1.39 There are seven types of investment that the Welsh Government is able to make into productions via the Media Investment Budget. Projects can use just one type of funding, or a combination of them. On occasion, the Welsh Government can opt to provide grant funding alongside the commercial investment funding. However, each type of investment attracts different timescales and risks, as shown in **Exhibit 6**. **Appendix 4** contains more details about each type of investment.

Exhibit 6: The seven types of investment that can be made via the Media Investment Budget

TYPE OF INVESTMENT	DESCRIPTION	TIMESCALE
Tax Credit	Cash advances against the tax credits the production is eligible for	Usually within 12 months of production being completed
Pre Sales	Cash advances against sales already made to distributors	Within six months of the final cut being approved
Gap	Commitment against unsold sales territories based on sales estimates	When sales begin, following sales screenings after the final cut is approved
Mezzanine	Funding based on the film receiving higher sales than estimated	Close to or following the production's release
Equity	Final investments repaid, requiring the production to sell well to distributors	After all other funding has been fully repaid
Repayable Business Finance	Discretionary financial support on a repayable or non-repayable basis	Pinewood advised on when funding can be recouped if repayable
Development Funding	Funding for the development stage of a project, repaid if the project enters production	Repaid on the first day of principal photography

 **LOW RISK**
  **MEDIUM RISK**
  **HIGH RISK**

Source: compiled by the Wales Audit Office from information held by the Welsh Government.

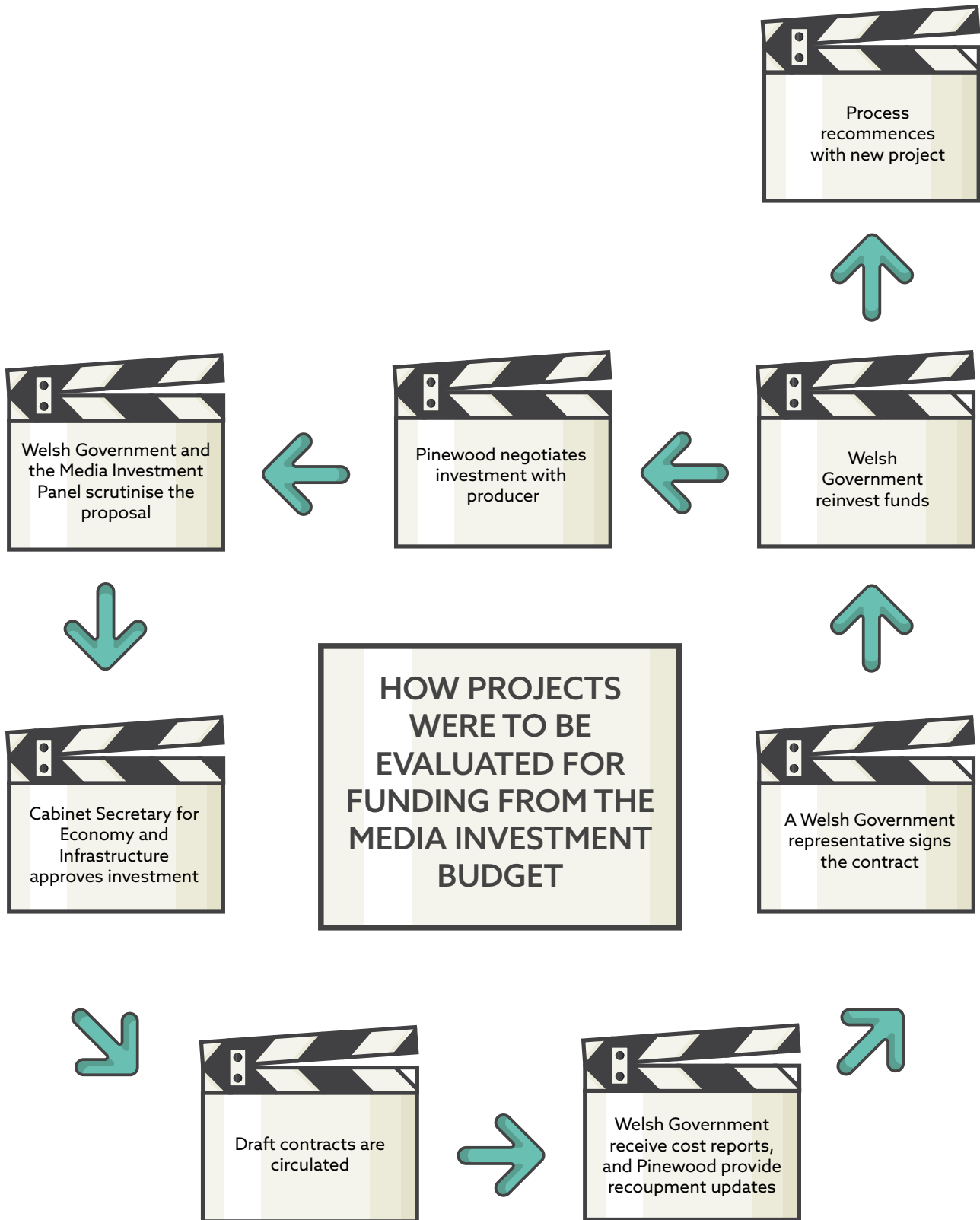
Part 2 – Operation of the Collaboration Agreement until October 2017

The Welsh Government established an independent Media Investment Panel to decide which projects put forward by Pinewood should be supported by the investment budget

- 2.1 The Welsh Government anticipated that its Media Investment Budget would normally only invest in projects costing over £1 million to produce. The Minister for Economy, Science and Transport approved the establishment of a private-sector-led Media Investment Panel which would provide the required expertise to scrutinise and approve these projects. The Media Investment Panel would be set up as a task and finish group for an initial period of 18 months, and would be chaired by an industry expert¹⁸.
- 2.2 The Media Investment Panel was established in April 2014 as a publicly appointed panel of sector experts.
- 2.3 Welsh Government officials would also undertake independent due diligence reviews of all proposed projects, and would be responsible for undertaking compliance reviews to ensure funding terms and conditions were being met. In particular:
 - at least 50% of production must be shot in Wales;
 - 35 to 40% of 'below the line' production budget must be spent on Welsh production expenditure; and
 - the Welsh Government would share in the commercial upside from film and TV productions.
- 2.4 **Exhibit 7** summarises how projects were to be evaluated for funding from the Media Investment Budget.

¹⁸ With appropriate arrangements being put in place to manage any actual or perceived conflicts of interest.

Exhibit 7: how projects were to be evaluated for funding from the Media Investment Budget



Source: compiled by the Wales Audit Office based on information held by the Welsh Government.

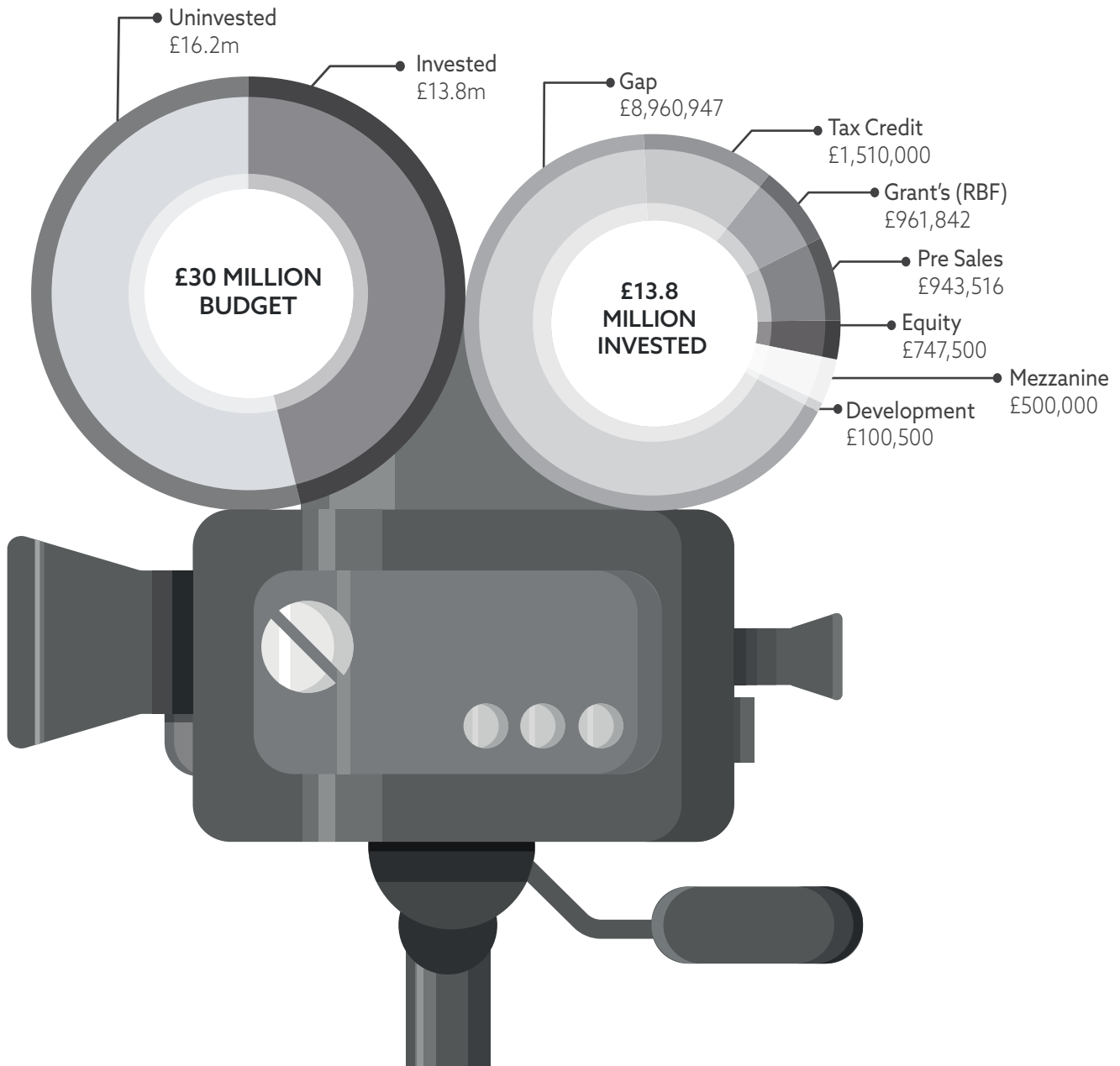
The Media Investment Budget's performance did not meet the panel's expectations

- 2.5 By summer 2016, members of the Media Investment Panel and Creative Industries Sector Panel had become dissatisfied with the performance of the Media Investment Budget. The Chair of the Creative Industries Sector Panel accordingly advised Welsh Government officials that the budget should be opened up and made non-exclusive to Pinewood.
- 2.6 Welsh Government officials wrote to the Cabinet Secretary for Economy and Infrastructure in August 2016, setting out the following concerns that they had about the budget's performance:
- a greater number of higher-risk investments being put forward by Pinewood, because productions could obtain lower-risk funding from other sources without the requirement to be filmed in Wales;
 - Pinewood's operating model meant it was reluctant to invest its own money in these higher-risk projects alongside the Welsh Government; and
 - Pinewood might be conflicted in its involvement with the budget as it also had an interest (not prohibited under the Collaboration Agreement) in providing its own London-based services to the industry. Welsh Government officials felt that a perception had arisen amongst other companies that Pinewood had an unfair competitive advantage in securing post-production work in Wales. They therefore considered that this had the potential to reduce the economic benefits to Wales.
- 2.7 On 2 November 2016, Welsh Government officials wrote to Pinewood to set out issues with the Media Investment Budget and the Collaboration Agreement. Two issues were of particular concern to them:
- **Compliance** – there was a perceived lack of transparency regarding the extent of wider Pinewood Group involvement in productions. This perceived lack of transparency had exacerbated concerns about the financial advantage Pinewood may have had over other companies through its exclusive access to the Media Investment Budget¹⁹.
 - **Contract Performance** – the original business plan had estimated an overall Welsh spend figure of £90 million, which represented a leverage ratio of 1:3 in terms of public to private funding. According to Welsh Government officials, at this time the actual ratio was 1:1, significantly reducing the potential for the Media Investment Budget to become self-funding.

¹⁹ The risk that this perception might be created was either not identified or considered immaterial by Welsh Government officials at the time of the February 2014 submission to the Minister that had recommended approval of the Collaboration Agreement, as the submission paper is silent on this point.

- 2.8 We questioned Pinewood executives about these concerns. Pinewood told us that they did not recognise the rationale for the Welsh Government's expressed concern about Pinewood's perceived reluctance to invest in projects alongside the Welsh Government, and stated that they had done so for nine projects. Pinewood noted that it was yet to recoup any of its investment in two of these projects. By investing in projects such as 'Show Dogs', Pinewood had enabled these projects to close financing while shooting in Wales. In the case of 'The Collection', Pinewood considers that the offer of funding from the Welsh Government alone would not have been sufficient to relocate the shoot away from Yorkshire. In Pinewood's view, their own investment in that project had tipped the funding balance to move the production to Wales.
- 2.9 Pinewood executives also assured us that they had addressed the Welsh Government's expressed concern about compliance by confirming to them that productions were entirely free to choose either to accept Pinewood's post-investment proposal to provide production services or else to make their own separate arrangements to use another company instead. As examples of this, Pinewood cited to us the producers of 'Journey's End', who had decided to use a post-production house independent of Pinewood and not based in Wales. Similarly, the producers of 'The Collection' had opted to use another non-Pinewood studio for their stage and backstage filming.
- 2.10 As regards the Welsh Government's concern about contract performance, Pinewood executives told us that their records reflect an approximate 1:6 funding to spend ratio on projected recoupment.
- 2.11 We have established that Pinewood Film Advisors (Wales) Ltd has generated a total of £1,180,421 in production/arrangement fees from productions funded by the Media Investment Budget. As noted above, any additional income generated by the company from the provision of post-production services has been derived from open competition, rather than the provision of taxpayer-funded support. We have therefore not included that revenue stream within the scope of our audit examination. We note that the published accounts of Pinewood Film Advisors (Wales) Ltd disclose a retained loss of £320,000 on the company's activities at the year ending 31 March 2017.
- 2.12 The latest available figures provided to us by the Welsh Government show that £13.8 million of the £30 million budget has been invested across 14 projects. **Exhibit 8** analyses the £13.8 million over the seven types of investment vehicle available to the Media Investment Budget.

Exhibit 8: investments made from the Media Investment Budget²⁰



Source: information held by the Welsh Government.

²⁰ This diagram includes all projects funded by the Media Investment Budget (to May 2018), including those sourced by Pinewood and those subsequently sourced under the Welsh Government's management. See Appendix 5 for further details.

2.13 Welsh Government figures show that a total of £4.3 million has been recouped so far, from five of the 14 projects supported:

- one project has recouped more than its original investment;
- four projects have recouped some of the original investment; and
- nine projects have not yet recouped any of the original investment.

These projects are in various stages of development. Some projects have not yet benefitted from international cinematic release or TV broadcast and funds will continue to be recouped through auxiliary sales.

2.14 **Appendix 5** shows further details of the productions supported and their recoupment.

Pinewood Studios Wales Ltd was unable to operate the studio as a going concern without the support of Pinewood Group Limited

2.15 Between November 2016 and October 2017, negotiations took place between Pinewood and the Welsh Government, focussing on:

- changes to the role of Pinewood in the Media Investment Budget; and
- Pinewood's management of Pinewood Studio Wales, which was not fully occupied and had become loss-making for Pinewood²¹.

From 25 June 2017, Welsh Government agreed that Pinewood's obligation to pay rent for the Wentloog facilities would be suspended, pending finalisation of the negotiations²².

2.16 During this period, there was a change in ownership and leadership at Pinewood²³. In discussions between Welsh Government officials and the new Pinewood executives, it became apparent that there was a shared desire to agree a new operating model for the studio.

21 Although by September of 2016 Pinewood had successfully staged six productions and licensed business space at the studio for 20 companies, the level of occupation by film-production companies had not reached the level originally expected.

22 As noted in paragraph 3.8, all unpaid rents were subsequently settled in full as part of the renegotiation of the agreement.

23 Pinewood Shepperton Plc was sold to Venus Grafton Sarl in October 2016.

- 2.17 In 2017, Pinewood management decided to end activities relating to fund management, investment advisory services to third party funds and investment of its own funds in film and television productions. This decision was taken as these activities did not represent Pinewood's core offerings, nor did they represent a significant proportion of its turnover.
- 2.18 As the Collaboration Agreement was contractually linked to the lease of the studio, the termination of the Collaboration Agreement allowed Pinewood to terminate the lease early.
- 2.19 We met with the Chairman and Acting Chief Executive of Pinewood, together with the company's Corporate Affairs Director on 16 April 2018. They told us that the opening in May 2017 of a new film and TV production studio by Bad Wolf in Trident Park, Cardiff, had in their view a detrimental impact on the occupancy of Pinewood Studio Wales, and that the number of enquiries they received had consequently fallen.
- 2.20 Bad Wolf Studios Ltd has benefited from a £9 million funding package from the Welsh Government. The funding is structured based on an initial repayable loan of £4.5 million, which can be converted into a grant as soon as performance milestones are achieved within a 10-year period. These milestones relate to both the profitability of the company and the amount of production spend that is generated within the Welsh economy as a result. The remaining balance of £4.5 million is payable as a grant, subject to achievement of additional production spend targets. In addition, the Welsh Government leases to Bad Wolf Studios Ltd, on commercial terms, the Wolf Studios Wales facility in Cardiff Bay.
- 2.21 Unlike Pinewood Studio Wales, which has a maximum eave height of 25 feet²⁴, Wolf Studios Wales is the only facility in Wales able to offer a stage space with an eave height of 57 feet. This eave height was referred to in a Welsh Government press release on 15 May 2017 which promoted Wolf Studios Wales as 'an attractive proposition for high end television productions and big budget feature films from around the world'.

²⁴ The maximum eave height of 25 feet is recognised by both Welsh Government and Pinewood to be a factor that can limit the suitability of the studio to certain types of productions.

- 2.22 Welsh Government officials told us that demand for studio facilities will fluctuate as productions come and go but that, in their view, demand for the Wentloog site was affected by a change of focus after the change in ownership at Pinewood. They do not believe there has been a drop in enquiries for Pinewood since Wolf Studios Wales opened its doors. In contrast, Pinewood executives told us that Pinewood's focus remains the selling of space at studio facilities, and that it is Pinewood's expertise in this field that the Welsh Government has sought to retain under the new Management Services Agreement (covered in [Part 3](#) of this report). Pinewood also told us that demand for other Pinewood studios in the UK remains strong.
- 2.23 According to Welsh Government officials Wales Screen has conducted ten studio visits with major productions in the last 12 months. Pinewood was not included on only two of these occasions and both were a result of producer choice. To date, Wolf Studios Wales has only been home to Bad Wolf productions, many of which required the higher maximum eave height, whereas Pinewood has had productions from the BBC, Channel 4 and independent film companies.
- 2.24 Welsh Government officials emphasised to us that Wales Screen continues to equally promote Pinewood Studios Wales, Wolf Studios Wales and other studios in Wales. In the Welsh Government's view, a high level of demand for the Pinewood studio facilities is likely to continue into the autumn. However, Pinewood executives told us that they believe that the opening of a competing studio has impacted on demand for space at the Wentloog site and that equal promotion by Wales Screen does not address this.

Part 3 – The revised management arrangements from November 2017

In October 2017, the Welsh Government terminated its Lease and Collaboration Agreements with Pinewood, and Pinewood ceased to manage the Media Investment Budget

- 3.1 In the light of the position described in Part 2 of this report, Welsh Government officials provided formal advice to the Cabinet Secretary for Economy and Transport on 29 September 2017 and requested his approval to:
 - terminate the Collaboration Agreement with Pinewood;
 - terminate the existing occupational lease agreement of the studio to Pinewood on 31 October 2017; and
 - put the Media Investment Budget on hold.
- 3.2 On the advice of the Creative Industries Sector Panel and Media Investment Panel, the Media Investment Budget subsequently came under the management of Welsh Government officials.
- 3.3 In the meantime, negotiations continued with Pinewood to introduce a new studio management agreement by the lease termination date of 31 October 2017.

In November 2017, the Welsh Government entered into a new three-year ‘management services agreement’ with Pinewood Studios Wales Ltd

- 3.4 Welsh Government officials took advice from independent experts on the drafting of a new operating model for Pinewood Studio Wales. Pinewood had committed to acting in good faith to negotiate a new deal that could be signed by the termination date of the Collaboration Agreement and lease.
- 3.5 A new ‘Management Services Agreement’ was put to the Cabinet Secretary for Economy and Infrastructure by his officials on 30 October 2017. It contains two complementary parts:
 - the sales and marketing of the studio; and
 - its operation and management.

- 3.6 Under the terms of the new agreement, Pinewood would continue to operate the studio on behalf of the Welsh Government. The Welsh Government could terminate the agreement on six months' notice at any time after the first anniversary of the agreement, which commenced on 1 November 2017. Pinewood would also continue to promote Wales as a centre of excellence for TV drama and film.
- 3.7 Under the agreement, the costs of running the facility, together with payment of a Pinewood management fee, would now be met in full by the Welsh Government. In return, all revenues received by Pinewood for promoting and licensing the studio would be retained by the Welsh Government. These would off-set the operational costs of the building. Any profits generated from the operation of the studio would rest with the Welsh Government.
- 3.8 All outstanding financial commitments such as unpaid rents would be settled in full as part of the termination arrangements.
- 3.9 The key elements associated with terminating the Collaboration Agreement and moving forward with a new Management Services Agreement as reflected in Ministerial Advice are summarised in [Exhibit 9](#).

Exhibit 9: key elements associated with terminating the Collaboration Agreement and moving forward with a new Management Services Agreement

The Welsh Government would:	Pinewood would:
Incur the annual costs of managing the property (including facilities management, rates and insurance)	Receive an annual management fee from the Welsh Government.
Acquire the value of all tenant's improvements to the Wentloog facilities.	Receive reimbursement by the Welsh Government of its production services costs (subject to an annual cap).
Retain all future revenues generated by the studio.	Receive a compensation payment from the Welsh Government for rental payments made during the renegotiation period.
Contract directly with licensed occupiers of the offices and production companies which hire the studio space.	

Source: information held by the Welsh Government.

3.10 The Ministerial Advice prepared by Welsh Government officials dealing with the termination of the existing contracts (Collaboration Agreement and Lease) stated that Pinewood had carried out works and investments in equipment at around £800,000. It went on to say that the termination agreement would contain a narrative that the benefit of any modifications to the building made by Pinewood (tenant's improvements) would remain in place and become the property of Welsh Government. However, Welsh Government officials have told us they do not have a schedule of the tenant's improvements that have been completed to date and that have now been acquired by the Welsh Government.

- 3.11 Pinewood executives told us that there were discussions prior to the original contracts around the contribution they would make to the studio. They stated that the Heads of Terms (which were subject to contract) provided that the Welsh Government would do the fit out works and that Pinewood would make a contribution of £800,000²⁵ or Pinewood would complete the fit out works and Welsh Government would contribute £1.8 million (including VAT) towards the cost. They went on to say that the Agreement to Lease makes no reference to the £800,000 but does specify the works the tenant is required to undertake and requires the Welsh Government to contribute £1.8 million.
- 3.12 The Cabinet Secretary for Economy and Infrastructure approved the termination of the existing contracts and the new management services agreement came into effect on 1 November 2017, for a period of three years.
- 3.13 Under the terms of the Management Services Agreement, there is a net annual cost to the Welsh Government, as shown in **Exhibit 10**. One of the cost components, the annual management fee payable to Pinewood, has been redacted from this report at the request of Pinewood²⁶. The net annual cost is therefore shown as £392,000, plus the annual management fee.

²⁵ Over the 15 year term of the lease.

²⁶ The Auditor General has accepted Pinewood's contention that placing this information in the public domain would be likely to cause substantial harm to the commercial interests of Pinewood by giving its customers, competitors and suppliers an unfair advantage in future price negotiations.

Exhibit 10: The annual net cost to the Welsh Government of operating the management services agreement²⁷

	£
Annual studio running costs	890,000
Reimbursement of Pinewood production costs	216,000
Less: Projected studio revenues	(714,000)
Net annual operating cost before management fee	392,000
Plus: Management fee payable to Pinewood	[redacted]
Net annual operating cost	[redacted]

- 3.14 The annual studio revenue forecast of £714,000 was supplied to Welsh Government officials by Pinewood, and was then included in the submission to the Cabinet Secretary. The net operating cost totals in [Exhibit 10](#) assume that this figure is realistic. Welsh Government officials told us that the reliability of the forecasts were tested and scrutinised by officials and also by independent property advisors. However when the figure was provided, Pinewood added the caveat that revenues could be lower due to increased competition from Wolf Studios.
- 3.15 Welsh Government officials recognise that these financial projections do not represent good value for money. However, in their view it was better to enter into a three-year agreement with Pinewood with the prospect of generating some commercial revenues, when set against the costs of simply leaving the site empty whilst they searched for a new tenant.

²⁷ The figures in this exhibit are inclusive of VAT, where applicable. The recoverability of some VAT elements may slightly improve the overall out-turn, but this is unlikely to be material.

3.16 In a briefing to the Cabinet Secretary for Economy and Infrastructure on 29 October 2017, Welsh Government officials stated that if a new agreement with Pinewood was not entered into, then the Welsh Government would incur annual property holding costs of around £890,000 (including VAT), and could expect only around £124,000 of annual income from the letting of office space. If these estimates were accurate, then the likely net annual cost to the Welsh Government under that alternative scenario would have been £766,000.

Appendix 1 – Our audit approach and methods

Scope

The scope of this report is confined to our examination of the agreements entered into by the Welsh Government and Pinewood subsidiaries between 2014 and 2017. Specifically we have looked at:

- the acquisition of the former Energy Centre at Wentloog, Cardiff in February 2014;
- the Collaboration Agreement between the Welsh Government and Pinewood Film Advisors Wales Ltd dated 17 February 2014; and
- the Management Services Agreement between the Welsh Government and Pinewood Studio Wales Ltd on 1 November 2017.

We have also examined the governance arrangements in place for the Welsh Government's Media Investment Budget. However, we have not considered the value for money of the Media Investment Budget as a whole, reviewed any individual projects benefitting from the budget or examined the Welsh Government's arrangements for monitoring compliance with the terms and conditions of funding.

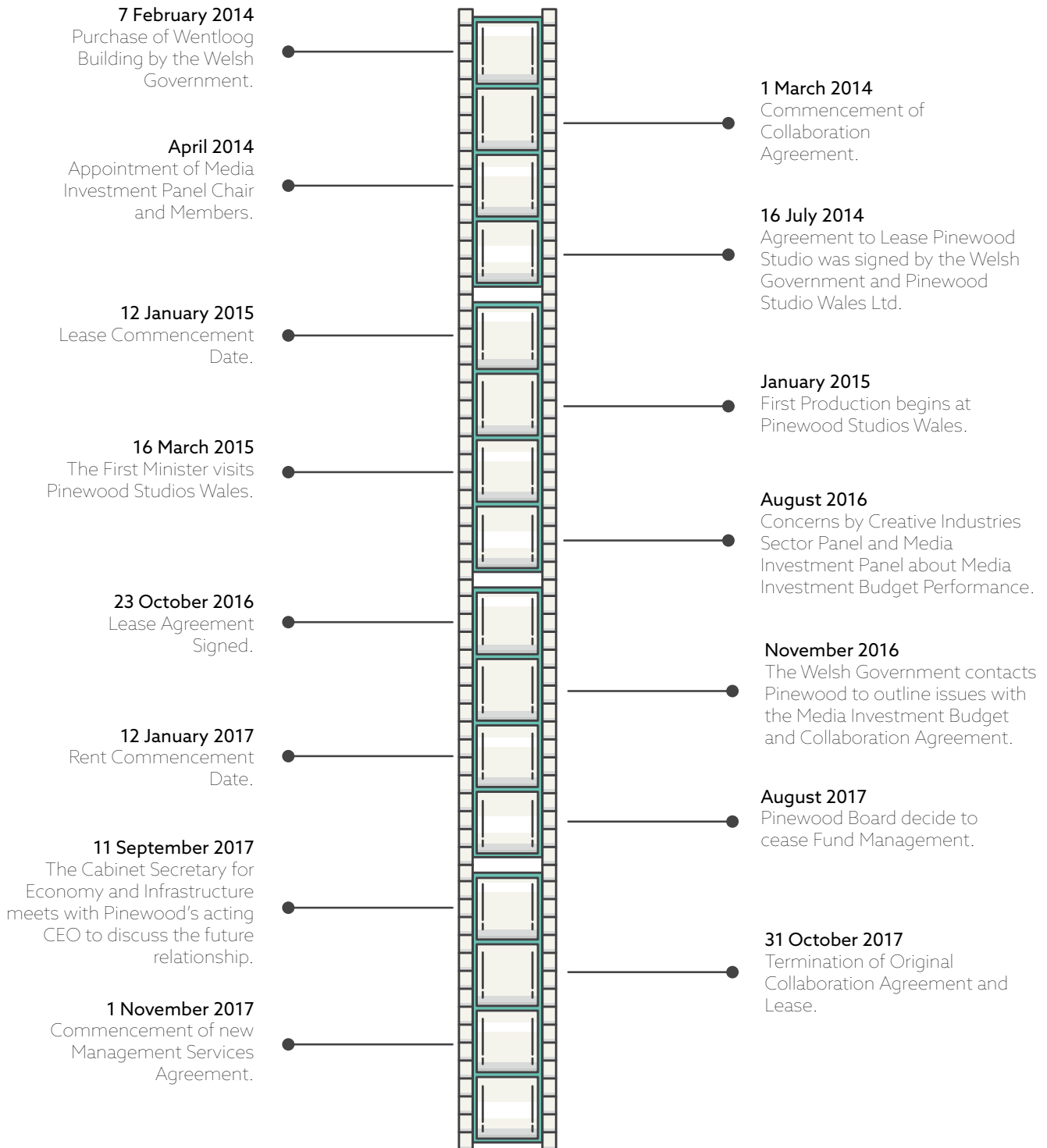
Our report is made on a 'facts only' basis, and we have not therefore drawn conclusions or made recommendations arising from our audit work.

Methods

In undertaking the review we:

- reviewed documentary evidence provided from the Welsh Government and made further enquiries of Welsh Government officials based on our review of the key documents;
- undertook a site visit to Pinewood Studio Wales and met with executives from Pinewood Group Limited; and
- prior to publication, we agreed the factual accuracy of our report with the Welsh Government and the named third parties.

Appendix 2 – Timeline of events



Appendix 3 – The Welsh Government’s overall approach to promoting Wales as a venue to produce high-impact film and TV productions

The Welsh Government uses several methods and organisations in order to encourage producers to choose Wales as a venue.

Financial and Strategic Support

The Welsh Government has given support to both Pinewood Studios and Wolf Studios for the establishment of studio space within Wales.

Creative industries in Wales are also able to access Welsh Government Repayable Business Finance (including the Wales Screen Fund) and the Wales Economic Growth Fund.

Media Investment Budget

£30 million of commercial funding for TV and film productions.

£13.8 million of funding has been awarded to date.

Wales Screen

A team based within the Welsh Government’s Creative Industries sector.

Wales Screen provides a free service to support film and TV productions through location scouting, logistical arrangements and assistance sourcing crew and facility companies.

Sky Vision Fund

The Welsh Government has invested £200,000 in conjunction with Sky Vision to fund new factual and entertainment programmes.

Development, pilot and top-up funding is available, the Welsh Government portion of which is non-repayable.

Funding is available for independent production companies based in Wales and UK-based companies producing shows in Wales.

Promotion of Wales by Pinewood

Originally, Pinewood were sponsored to promote Pinewood Studios Wales and Wales in general as a location for filming and post-production.

Under the revised agreement, Pinewood is paid to promote Pinewood Studios Wales.

The agreement details that promotion should be through film festivals, television markets and sales teams.

Appendix 4 – The seven types of investment that the Welsh Government can make in TV and film productions

Tax credit

Films with a budget under £20 million can claim 25% of UK expenditure as a tax credit. Films with a budget over £20 million can receive 25% of the first £20 million and 20% of any additional expenditure. Tax credit investments involve advancing funds to the production for the tax credit which will be received. These investments are therefore seen as the safest type of investment that can be made as the prospect of recoverability is high. The money is usually guaranteed to be returned in full within 12 months of production being completed.

Pre sales

Pre sales are made to distributors in advance of the film being made. Pre-sales investments are similar to tax-credit investments as they involve advancing cash against confirmed figures for sales already made. This means that the investments are almost always recouped in full within six months of the final cut being approved. There is therefore a high prospect of recoverability from the investments.

Gap funding

Gap funding is committed against unsold territories and based on sales estimates provided by the sales agent. Pinewood would assess the sales agent's estimates and produce a 'cover' figure, which would be based on a low number of sales with associated fees subtracted. This results in a safe figure which should be at least partially recouped unless the production was a flop and there was little or no take up of the film. The prospect of recoverability is therefore medium. Recoupment would occur when sales are made after the final cut is approved.

Mezzanine

Mezzanine funding is based on productions achieving higher sales than the low estimates used for gap finance. Higher sales could be due to the production having a well-known cast or a sales agent who has a reputation for delivering strong sales. As the investment is based on exceeding the safe figure, the prospect of recoverability is low and would involve a higher premium. Recoupment would begin after all of the above financing has been recouped, normally close to or following the production's release.

Equity

Equity funding is the highest-risk financing available under the Media Investment Budget, as equity investments are usually the last production finance recouped. The production needs to sell well and fully recoup its other investments for equity investors to receive a return. The prospect of recoverability is low, and will involve high premiums.

Business Finance

Repayable Business Finance is discretionary financial support to eligible businesses to fund capital investment and job-creation projects. Support is available to eligible film and TV productions at a negotiated level. The support must be below state-aid ceilings and must be the minimum required for the project to proceed. Funding for mobile projects, where the project could be undertaken in another country, is non-repayable and funding for non-mobile projects is 100% repayable. Although the level of risk for productions will be individually assessed, overall the prospect of recoverability is low.

Development funding

Development funding finances the development of productions, prior to commission. As part of the development deal, the Welsh Government are assigned 50% of development materials and copyright which would be re-assigned to the production on repayment of the funding. They are also given the option to provide full production funding, if they wish. The Welsh Government also receive a 50% premium on their investment, which is repaid on the first day of principal photography. The prospect of recoverability is low, due to the number of productions which never progress from development to commission.

Appendix 5 – Productions supported by the Media Investment Budget, 2014-2018

These tables include the individual loans investments, the funding recouped (banked) to 31 May 2018 and the balance of each project that has been supported by the Media Investment Budget.

These figures were provided by the Welsh Government in June 2018, and it should be noted that the projects are in various stages of development. Some projects have not yet benefitted from international cinematic release or TV broadcast, and funds will continue to be recouped through auxiliary sales.

Pinewood have also provided us with their own analysis, although there are some small timing differences in the recoupment values, the largest being in respect of The Collection, which they show as having recouped £192,631.

The Media Investment Budget was managed by Pinewood until September 2017, and has subsequently been managed by the Welsh Government.

Exhibit 11: projects funded by the Media Investment Budget under the management of Pinewood (February 2014 to September 2017)

Project	Investment Value (£)	Amount Recouped to May 2018 (£)	Net Gain/(Loss) to Date (£)
Take Down	3,144,000	959,824	(2,184,176)
Their Finest	2,000,000	2,049,985	49,985
The Collection	1,750,000 ²⁸	119,075	(1,630,925)
Show Dogs	1,565,789 ²⁹	0	(1,565,789)
Journey's End	850,000	630,860	(219,140)
Don't Knock Twice ³⁰	629,516	496,064	(133,452)
Minotaur	25,500	0	(25,500)
Lionel the First	25,000	0	(25,000)
Jack Staff	25,000	0	(25,000)
Total	10,014,805	4,255,808	(5,758,997)

²⁸ The investment value includes £600,000 of grant funding from the Media Investment Budget.

²⁹ The investment value includes £361,842 of grant funding from the Media Investment Budget.

³⁰ Don't Knock Twice also received £75,000 of grant funding under the Welsh Government's Business Finance scheme.

Exhibit 12: projects funded by the Media Investment Budget under the management of the Welsh Government (September 2017 onwards)

Project	Investment Value (£)	Amount Recouped to May 2018 (£)	Net Gain/(Loss) to Date (£)
Trampires ³¹	2,000,000	0	(2,000,000)
Eternal Beauty	1,050,000	0	(1,050,000)
Bang	350,000	0	(350,000)
Tiny Rebel	317,500	0	(317,500)
Goose Green	25,000	0	(25,000)
Total	3,742,500	0	(3,742,500)

Exhibit 13: overall Media Investment Budget Investments

	Investment Value (£)	Amount Recouped to May 2018 (£)	Net Gain/(Loss) to Date (£)
Total:	13,757,305	4,255,808	(9,501,497)

31 Trampires also received £52,572 of grant funding under the Welsh Government's Business Finance scheme.

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in
Welsh and English.

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

Rydym yn croesawu galwadau
ffôn yn Gymraeg a Saesneg.

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru

Agenda Item 4.2

Information for CWLC committee

Following the Committee meeting on 10th May, additional information was requested in connection with the Wales Screen Fund (see the email below) - please find enclosed information which I hope will be helpful in responding to the committee's request.

What is the purpose of the Wales Screen Fund (WSF) and how does it differ from the Media Investment Budget?

The Wales Screen Fund is a scheme registered under the EU General Block Exemption Regulations (GBER), a European Regulation which provides [State aid](#) cover for categories of aid which are exempt from the European Commission's (EC) formal notification process. The Wales Screen Fund is not a fund in its own right. This registered scheme gives Welsh Government legal cover in line with GBER to provide grant funding for audio visual projects, including TV and film productions; this can be made via a combination of domestic resources and European structural funds. Any grant funding is delivered via the Welsh Government's Business Finance scheme.

The registered objective of the Wales Screen Fund is:

"The Wales Screen Fund will provide support for scriptwriting, development, production, distribution and promotion of audio-visual works. The Wales Screen Fund will further develop and maintain a high quality audio-visual infrastructure in Wales, through supporting and promoting Welsh productions and attracting major foreign productions to Wales. This will provide a vehicle through which Welsh facilities, talent and culture can be promoted and contribute to the overall economic growth of the Sector."

Funding awarded under the terms of Wales Screen Fund scheme is only repaid if specific repayment terms are agreed prior to awarding the grant, or if standard grant conditions are not met.

In comparison, the Media Investment Budget is a fund in its own right and is the route through which Welsh Government provides commercial investment for TV and film productions in Wales. Any commercial funding provided via the Media Investment Budget is expected to be repaid, and Welsh Government may also benefit from a proportion of any profits made. Commercial investments via the Media Investment Budget are outside the scope of the Wales Screen Fund scheme, as it operates under the Market Economy Operator Principle (MEOP) when making these investments. MEOP is a European Commission concept which states that economic transactions carried out by public bodies do not constitute State aid if they are carried out in line with normal market conditions i.e. acting in the same manner as a private sector undertaking would in the same circumstances.

Whilst these funding routes are separate they can be used in a complementary way to create a bespoke package of support.

What has been funded under the terms of the Wales Screen Fund?

The table below shows funding made through the Wales Screen Fund – as at 30 May 2018. To note this list excludes those projects that did not go ahead.

Key

1. Final payment - Grant reduced for not meeting target for Welsh spend (a condition of offer)
2. Grant approved for Pilot and 1st Series. Amount paid for Pilot, Series not taken up by Network Channel, no further payments.
3. Filming underway
4. Recently approved
5. Final Payment yet to be made.
6. Project completed. Payment yet to be made.

Financial Year of Offer	Name of Production Company (SPV*)	Production Title	Value of Offer	Amount Paid to Date
2012/13	Tonto Films and Television Ltd	Da Vinci's Demons Series 1	£495,000	£495,000
2012/13	Urban Myth Films	Atlantis Series 1	£250,000	£250,000
2012/13	Pesky Productions Ltd (Boj & Buddies)	Boj & Buddies	£200,000	£200,000
2012/13	Fiction Factory (Hinterland Films Ltd)	Hinterland Series 1	£215,000	£215,000
2012/13	Tonto Films and Television Ltd (DVDS2)	Da Vinci's Demons Series 2	£990,000	£990,000
2013/14	Urban Myth Films	Atlantis Series 2	£250,000	£250,000
2013/14	Lime Pictures Limited	Rocket's Island	£142,886	£142,886
2013/14	Mirror Productions	Petroleum Spirit	£51,000	£51,000
2013/14	Modern Television	A Poet In New York	£53,009	£53,009
2013/14	Adastra Creative and Shrinking Cap Productions Ltd	Grandpa in my pocket	£128,967	£128,967
2013/14	Three Stones Media (The Rastamouse company)	Rastamouse Series 4	£145,000	£145,000
2013/14	Lupus Films	Toot the Tiny Tugboat / Ethel & Ernest	£550,000	£550,000
2013/14	Green Bay Media Ltd	Castle Builders	£45,000	£45,000
2013/14	YJB Films (From a Jack to a King Ltd)	From a Jack to a King	£100,000	£100,000
2013/14	Hartswood Television Ltd	Lady Chatterleys Lover	£125,000	£125,000
2014/15	Gritty Realism Productions Ltd	Heart of Darkness	£150,000	£6,615 ⁵
2014/15	TCFTV UK Productions Ltd	The Bastard Executioner	£2,500,000	£2,500,000
2014/15	Cwmni Da Cyf	Country Fair	£125,000	£20,296 ²
2014/15	Animortal Studio (Trampires Ltd)	Trampires	£673,784	£652,572 ¹
2014/15	Tiger Aspect Productions (Tiger Aspect (D&F) Ltd)	Decline and Fall	£100,000	£100,000
2014/15	Touchpaper Televison Ltd	Coming up	£80,000	£80,000

2014/15	Fiction Factory Films Ltd (Hinterland Films Ltd)	Hinterland 2	£304,000	£304,000
2014/15	Fiction Factory Films Ltd (Hinterland Films Ltd)	Hinterland 3	£250,000	£250,000
2015/16	Bad Wolf Ltd	Bad Wolf Productions	£9,000,000	£4,500,000
2015/16	Hartswood Films (Sherlock TV Ltd)	Sherlock Season 4	£240,000	£240,000
2015/16	Heel Stone Pictures Ltd	Crossing the Border	£201,504	£161,204 ¹
2015/16	Ninth Floor UK Productions Limited	Will Season 1	£1,500,000	£1,000,00 ⁵
2015/16	Lookout Point Ltd (Pinewood Films 14)	The Collection	£600,000	£600,000
2015/16	Red & Black Films (Don't Knock Twice Ltd)	Don't Knock Twice	£75,000	£75,000
2015/16	Vertigo Television Ltd	Britannia VFX	£1,100,000	£55,000 ¹
2016/17	Beakus Ltd	Toggle Top	£75,513	£75,513
2016/17	Cloth Cat Animation Ltd (Clothcat LBB Ltd)	Luo Bao Bai	£225,000	£0 ⁶
2016/17	Riverstone Pictures (Showdogs Ltd)	Showdogs	£361,842	£361,842
2016/17	Vox Pictures (Keeping Faith Ltd)	Keeping Faith	£328,000	£328,000
2016/17	Green Bay Media	Mountains and Life	£30,000	£30,000
2016/17	New Pictures (Requiem Productions Ltd)	Requiem	£400,000	£0 ⁶
2016/17	Severn Screen Ltd (Apostle Films Ltd)	Apostle	£385,000	£0 ⁶
2017/18	World Productions (BTK 2016 Ltd)	Born to Kill	£200,000	£200,000
2017/18	The Forge Entertainment Ltd	Kiri	£200,000	£188,382 ¹
2017/18	Coracle Pictures Limited (Denmark)	Denmark	£85,000	£0 ³
2017/18	Rondo Media Cyf	The Wall	£45,000	£0 ³
2017/18	Touchpaper Television Ltd	4Stories	£40,000	£0 ⁴
2017/18	Illuminated Productions Ltd	The Rubbish World of Dave Spud	£90,000	£0 ⁴
2018/19	Eleven Film Ltd	Schooled	£484,879	£0 ⁴

Agenda Item 4.3

Cynnydd Celfyddydol Cymru / National Assembly for Wales

Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu / The Culture, Welsh Language and Communications Committee

Cynyrchiadau Ffilm a Theledu Mawr yng Nghymru / Film and Major TV Production in Wales

Ymateb gan Cyngor Celfyddydau / Evidence from Arts Council Wales

The Arts Council of Wales is primarily concerned with the cultural aspects of film. We entirely recognise that for this to be sustainable, it must form a part of a wider film ecology in Wales. Such an ecology has to nurture diverse home-grown creative talents and emerging companies to go out into the world as well as offer the infrastructure and skilled workforce to attract the best international productions to be filmed or based in Wales.

Skills and training

1) The availability of a suitable skilled workforce in Wales. Are there any gaps?

- Any training/support required (including the education system).
- Ffilm Cymru's suggestion of "re-instating a more focused screen sector training panel",
- Ffilm Cymru's suggestion of more investment in "business support and high-level company training".

The creative industries are a complex amalgam of creative and technical skills. We therefore welcome multiple pathways into the creative industries and the work being done to support this from BBC, S4C, Ffilm Cymru, Ffilm Hub Wales and independent businesses such as Bad Wolf. All have a key role to play in helping to support, recruit and train. But if we are to see a generational shift, we need to be thinking long term; thinking about the type of creative people we need for jobs that haven't been invented yet, not just the immediate technical skills gaps.

To ensure the widest possible inclusion, this has to start from a young age, in schools and communities. We'd point to our Creative Learning Through the Arts partnership with the Welsh Government's Education Department as a world-recognised best practice model for this. It's important that creative learning in schools is continued beyond this project tenure. With this, and the Donaldson curriculum review including expressive arts and digital, we have a once in a

generation opportunity to change how and what children learn to reflect the attributes future generations will value and need.

We would also highlight the specific film education and skills development work that Ffilm Cymru Wales, Film Hub Wales, Into Film, Bafta Cymru and the projects they in turn support (such as Wicked and WOW Film) on the ground across Wales.

We also need to work together for the bigger prize.

When Skillset Cymru closed there was no longer a platform for key parties to come together to share best practice, identify areas of collaboration and (or avoid duplication) dovetailing and move on cross-cutting issues like inclusion. The re-establishment of some similar mechanism could facilitate this cross-sector approach; it's about co-ordination rather than a single solution. A priority has to be making the options and pathways obvious to young people and communicating them clearly.

Arts Council of Wales believes that as well as having the skills and assets to attract the best in the world, we should be supporting our own creative talent to be world class. To that end we would share Ffilm Cymru Wales's position that we must encourage the growth of creative indigenous companies. These companies need ongoing, bespoke business support until they are fully viable. This is something that Ffilm Cymru Wales is leading on, growing their offer as the companies themselves grow. We see this as fully consistent with Prosperity for Wales, Welsh Government's Economic Action Plan.

2) The availability of workforce statistics in Wales.

This was the charge of Skillset Cymru. We believe that a workforce report is expected from Skillset (UK) that will include Wales and efforts are being made by Wales partners to ensure that it is as accurate as possible. Again, this is the kind of work that a steering group might lead on, ensuring that such surveys are fit for purpose in terms of comparison and understanding Wales-specific considerations and such as our language, or sector priorities that might differ from the other nations and regions.

3) Skillset Cymru

As above, there were some functions of Skillset Cymru as an umbrella body for skills development that were not replaced when funding was removed. Whereas there is a number of delivery agencies that have continued to operate and/or have stepped into pick up on activity. It is the lack of strategic overview and direction that is most keenly felt.

4) Screen Alliance Wales.

Screen Alliance Wales is a new organisation that we've not worked with directly but our delegates, Ffilm Cymru Wales, already have positive relationship with, looking to collaborate on projects such as Foot in the Door. We welcome businesses in Wales taking responsibility for – and investing in – future skills infrastructure and the particular commitment being made through Screen Alliance Wales to support an indigenous workforce from school to employment.

Cynulliad Cenedlaethol Cymru / National Assembly for Wales Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu / The Culture, Welsh Language and Communications Committee Cynyrchiadau Ffilm a Theledu Mawr yng Nghymru / Film and Major TV Production in Wales Ymateb gan Euros Lyn / Evidence from Euros Lyn

Here's a link to British Columbia's excellent Creative BC Website:

<https://www.creativebc.com/>

Essentially it serves as a 'one stop shop' for co-ordinating support for the creative industries in the province. It offers a great template for how information can be pooled to best advertise one's offer, and I think we in Wales could draw inspiration from it. The website also has the means by which one can apply for the tax credit.

Their film & TV industry is supported in the following ways:

- Two Province-level tax-credit schemes – one for foreign production companies, the other for Canadian controlled companies.
- They connect Producers to Canada-wide schemes, which includes a federal tax credit scheme.
- Development programmes for supporting British Columbia-based companies to develop projects and attract investment.
- Connect international Producers with local Producers with a view to encouraging co-productions.
- Support Producers with help in finding locations, filming permits, studio space, crew and post-production resources.

Here is a link to the BC Tax Credit factsheet which outlines the financial and cultural conditions attached to their support:

<https://www2.gov.bc.ca/assets/gov/taxes/income-taxes/publications/cit-009-british-columbia-film-television-tax-credit.pdf>

When I directed shows in BC I didn't have personal contact with the Creative BC team as this was done by my Producers. The CEO of Creative BC is Prem Gill whose contact details are:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Irish Film Board have a similar portal:

<https://www.irishfilmboard.ie/>

which draws together all the various project funding, tax breaks and production support that's available for Film and TV production in Ireland. Their CEO is James Hickey and his contact details are:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Like British Columbia's site, it gathers together all the information on what public support is available in one place in simple, clear language.

As I mentioned when I spoke to the committee, I think it would be great to attach certain cultural conditions to the Welsh Government's financial support of Film & TV Production eg

- Offering greater financial assistance to projects which represent Wales as Wales on-screen and make a contribution to Welsh culture.
- Offer greater financial support for productions where a certain quota of on-screen and behind-the-camera heads of department are resident in Wales.
- Offer support to productions below £1M per hour (ie most Welsh-based (and Welsh language) productions).
- Make an approach to the UK government to extend the TV Tax Credit to drama productions made for less than £1M per hour (ie opening this break to Wales-based and Welsh language TV-drama production).
- Include a condition that the Producers are committed to employing a diverse and gender-balanced workforce.
- Encourage Producers to consider the environment during production.
- Find an economical means for auditing that these conditions have been met by production companies – eg spot checks – so that companies resist the temptation to bend the rules.

Do please let me know if there's anything else I can help with.

Agenda Item 4.5

Cynulliad Deudrefol Cymru / National Assembly for Wales
Pwyllgor Diwylliant, y Gymraeg a Chyfathrebu / The Culture, Welsh Language and Communications Committee
Cynyrchiadau Ffilm a Theledu Mawr yng Nghymru / Film and Major TV Production in Wales
CWLC(5) FILMTV32

I am writing to you to give you a view/account of the experiences of a “self-employed” background actor.

First and foremost, there is hardly any information regarding acting – not from school (as they’ve dropped it altogether in certain comprehensives), and especially not from the industry or government. Everything I’ve come to know has been from learning the hard way and experiencing it.

I state “self-employed”, as, we are expected to file/present ourselves as a business – yet, we receive no aid from industry/government, and as a background actor you are most likely never going to breach the £11.2k bracket.

It’s all upfront costs, with no guarantee of national minimum wage – in fact, after costings and travel are deducted, many productions work out as below minimum wage/ costing you to fulfil the work.

It’s almost a double standard of – they expect the best, but want you to pay for being a part of it.

The acting industry lacks such regulation in the UK that, in part, that’s why so many companies are coming to film here (as it’s cheaper to film here than in the US – because of the unions and legislative backing of their government). The knock on effects are that, for a background actor, we are basically on zero hour contracts, but with added scrutiny and acceptable prejudice (due to the nature of the work). You are contacted for availability, and the day before filming, you are contacted with travel details – of which the work could be in Cardiff/Bristol/London with a call time of 5/6am.

Film companies basically treat SA’s like dirt, where I’ve only found exception on few sets. We’re expected to fulfil all these criteria, pay upfront – and expect not to get paid for 10–12 weeks (which is industry standard).

A further problem, is the monopoly of certain agencies, and how they have sole access/control to certain companies, and how they use their power.

For example: I had to wait 17 weeks for payment. I followed the protocol of waiting 10 weeks before asking about payment. I was given 3 payment dates, of which 2 were not stuck too and the 3rd was delayed but eventually arrived – however – because I asked about where my money was, I was let go from the agency.

As I'm not in a union (Can't afford it), there is no support and as a result I've lost 80% of my work (in tv and film) because of the monopoly of said agent (██████████).

The very thing that bodes in the film industries favour is the fact that the work is magical, and people will always be fascinated about how it's made – and they actively take advantage of those people, by not paying them a minimum wage (yet alone a living wage), not paying them for performing certain things on/off camera (i.e. If you're not aware of what a "walk-on" is or a "stand-in", or that you were one – you won't be reminded by the company or paid for it).

For myself, this is my only line of work next to music due to the nature of my illness that sporadically affects me (where this kind of sporadic work, works for me as I can't maintain a conventional 9–5), however – from being powerless in the hands of agencies who slap you with the hand that (seems) to feed you, from an industry that has banked off of zero hour contracts, that suckers many to pay fees to agents who've done no work and don't work for you, having a standard of waiting 12 weeks for payment... these are things that prevent me from being able to reinvest in my art/skills, as I struggle to get by, literally hoping that jobs come through in order to afford the car I bought in order to get to these jobs.

I feel that as an actor, it's a minefield trying to understand tax – or where we lay in between the taxman and our pay, I fear that being self-employed – it's not affecting my stamp but will eventually effect my state pension, I feel powerless when asking about where the money I've earned for fear of losing another agent, I feel anxious when asking the AD at the end of the day whether or not the action I did on camera constitutes extra payment (when I know it does) for fear of not getting rebooked, and I fear that I can't sustain this any longer and have no idea as to how else to make money as a creative. All I want to do is entertain and educate,

but the systems that are in place to help don't, and to be frank – I don't know how the industry will change or what change could be brought in for the better.

Ideally, some form of differentiation between part-time “do it for the fun” extras, and full time “this is my day job” background actors, because the former affect the latter largely as many in the industry have second jobs where acting facilitates “pocket money” for them, where in reality – it's the only accessible (essentially non skilled) work available in these areas.

Eluned Morgan AM
Minister for Lifelong Learning and Welsh Language

05 June 2018

Dear Eluned,

The position of the Welsh language in apprenticeship programmes in Wales

I write to you following the debate on the Economy, Infrastructure and Skills Committee's report, 'Apprenticeships in Wales'¹ at the Assembly on 9 May and the discussion on the Welsh language in apprenticeship programmes.

It was noted in the report and during the debate that the use of Welsh in apprenticeships is low, and that factors such as a shortage of teaching staff prevent progress. Reference was also made to the fact that the Government chooses to combine data on Welsh medium learning, bilingual learning and with an element of Welsh when reporting on the use of Welsh in the sector. You said that it is possible to study any apprenticeship through the medium of Welsh if there is a demand, but that only a small number of learners access this opportunity. You also said that many learners choose to undertake apprenticeships bilingually.

In my briefing note², published in November last year, I highlighted the fact that many factors are likely to impact the use made of the Welsh language in apprenticeships. These include a lack of interest from learners as you noted but

¹ <http://senedd.assembly.wales/documents/s72280/Report%20PDF%201.4MB.pdf>

² <http://www.comisiynyddygybraeg.cymru/English/Publications%20List/20171114%20S%20Nodyn%20briffio%20Prentisiaethau%20FERSIWN%20TERFYNOL.pdf>

Comisiynydd y Gymraeg
Siambrau'r Farchnad
5-7 Heol Eglwys Fair
Caerdydd CF10 1AT

Welsh Language Commissioner
Market Chambers
5-7 St Mary Street
Cardiff CF10 1AT

0845 6033 221
post@comisiynyddygybraeg.org
Croesewir gohebiaeth yn y Gymraeg a'r Saesneg

0845 6033 221
post@welshlanguagecommissioner.org
Correspondence welcomed in Welsh and English



Comisiynydd y
Gymraeg
Welsh Language
Commissioner

there are also other important factors. These include a lack of availability of Welsh medium and bilingual qualifications and assessments and a lack of education workforce who are able to teach and assess through the medium of Welsh. The Economy, Infrastructure and Skills Committee's report supported some of these points, noting that 'there remains a gap between the likely demand and ability to meet it'.³ In the context of all these conclusions, I therefore do not agree that it is possible to study any apprenticeship through the medium of Welsh if students wish to do so. Additionally, I would like to know the Government's view on the impact of the action taken to increase the use of Welsh in apprenticeships presented under the 'Aligning the Apprenticeship model to the needs of the Welsh economy' (February 2017) scheme; and also, whether you intend to develop further strategies to address the range of other factors which hinder progress.

I would also ask you to consider the practice of combining data for Welsh medium learning with data for learning bilingually and with an element of Welsh, a matter which was of course noted in the debate on 9 May. This was done, for example, when reporting on the position of the Welsh language in the work-based learning (and further education) sector in the Welsh Language Strategy Annual Report 2016/17. Combining these categories could undermine the reliability of the data; weaken the meaning of 'bilingual'; and lead to confusion regarding real progress in the sector. I raised similar concerns in correspondence to the Welsh Government's Chief Statistician on 21 February this year. Again, the Committee's report stated that a lack of accurate, publicly available data makes it difficult to address the issue of the gap between the likely demand for Welsh language apprenticeships and the ability to meet the demand⁴.

I trust that you will find my comments above useful. I would also welcome the opportunity to discuss the points in our next meeting.

Yours sincerely

Meri Huws
Welsh Language Commissioner

³ Ibid. p. 16

⁴ Ibid. p.16



Comisiynydd y
Gymraeg
Welsh Language
Commissioner

Copy to:

Kirsty Williams AM, Cabinet Secretary for Education

Bethan Sayed AM, Chair of the Culture, Welsh Language and Communications
Committee

Russell George AM, Chair of the Economy, Infrastructure and Skills Committee

Lynne Neagle AM, Chair of the Children, Young People and Education Committee