

Senedd Cymru / Welsh Parliament

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

Ymchwiliad i'r achosion o COVID-19 ac effaith y feirws ar ddiwylliant, y diwydiannau creadigol, treftadaeth, cyfathrebu a chwaraeon / Inquiry into the COVID-19 outbreak and its impact on culture, creative industries, heritage, communications and sport

CWLC COV63

Ymateb gan Pact. / Response from Pact.

Pact submission to the Culture, Welsh Language and Communications Committee inquiry into the COVID-19 outbreak and its impact on culture, creative industries, heritage, communications and sport

pact.

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Introduction

1. Pact is the UK trade association which represents and promotes the commercial interests of independent feature film, television, digital, children's and animation media companies.
2. Pact has over 500 members across the UK, including in the nations and regions, with around 29 companies based in Wales. Pact members make programmes for a range of broadcasters in the UK and internationally, including for BBC, BBC Cymru Wales, Channel 4 and S4C in both the English and Welsh languages.
3. The UK is a world leader in the sales of TV content globally and revenues continue to rise. Taken as a whole, the TV industry around the world is worth \$400 billion.¹ UK independent television sector revenues have grown from £1.3 billion in 2005 to over £3 billion in 2018 largely driven by a growth in international sales.²
4. Wales is the most significant production area outside of London, due to growth in recent large-scale drama commissions. Pact wants to ensure that the Welsh independent TV production sector remains in a strong position post COVID-19.
5. For further information, please contact Susie Heron Halliday, Policy Executive susie@pact.co.uk or on 020 7380 8232.

¹ Analysis for Pact by Oliver & Ohlbaum, published in 'A New Age for UK TV content and a New Role for the BBC', August 2014

² Pact Census Independent Production Sector Financial Census and Survey 2018, by Oliver & Ohlbaum Associates Limited

Overview

- 1.1 Production companies have lost a substantial amount of revenue very quickly due to the immediate shut down of the sector at the start of the current crisis. Pact surveyed 100 members at the beginning of the COVID-19 pandemic and found that producers have lost more than £250m in revenue due to delayed or cancelled productions. With two sets of Government approved guidance on safety measures related to COVID-19 up and running the sector is ready to go back to work. But the one thing stopping production from returning is the lack of liability cover.
- 1.2 The structure of insurance for the TV and film production industry will need to be restructured post pandemic. We know that Government are in discussions with insurance sector to develop a permanent solution such as a Pandemic Reinsurance Solution (Pan Re) but this is likely to take some time if similar to the UK's government-backed terrorism mutual, Pool Re. **There is an immediate need in order for shooting to resume** which cannot wait for that to be agreed and implemented. The uncertainty surrounding how to get production up and running safely means the risk of productions continues to fall on producers and broadcasters.
- 1.3 Pact and others in the industry have proposed that Government set up a short-term fund guaranteeing to cover potential COVID-19 losses with industry also contributing to the loss were it to occur. The Fund would come into effect for any COVID related suspension or abandonment of any production, not just when Government imposes a lockdown nationally or regionally.
- 1.4 As public health is devolved matter, the Welsh Government have responsibility for COVID-19 guidance and legislation in Wales. This has caused some confusion for our Welsh members who may work across the border, and vice versa. While we understand the need for separate guidance for the devolved Nations. There are some inconsistencies and confusion about certain areas of the guidance. For example, DCMS recently confirmed to Pact that independent producers who are filming or working for programmes commissioned by the PSBs in England are able to use hotels and other rented accommodation as workers in a critical sector. We are following up this specific example with the devolved Nations; however, inconsistencies such as these could prevent the Welsh sector in returning to work at the same pace as producers based in England. We do not want the Welsh sector to fall behind because of these

inconsistencies.

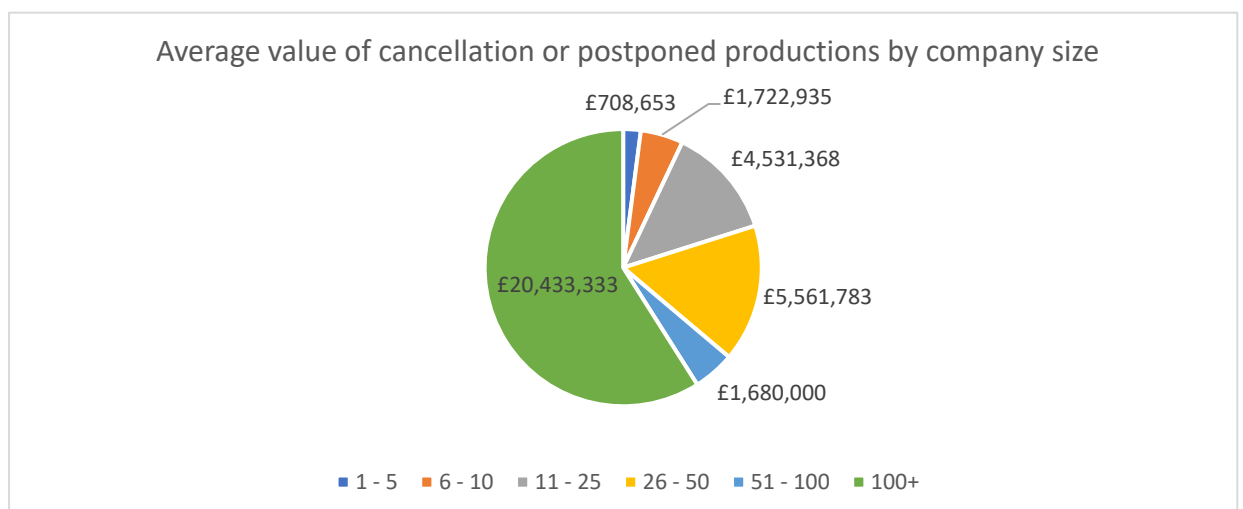
1.5 There is also more the Government could be doing to support producers during this time. For example, extending the Research and Development (R&D) tax credit so that those in the creative industries can apply would be of great use. Producers often use reserves to invest in the R&D of ideas. The competitiveness of the UK market means that investing in R&D is vital to secure a commission. SMEs who do not have reserves to rely on will likely have to close their business altogether the longer the crisis continues. Extending the tax credit to the industry would provide an additional financial incentive to producers and would help the industry be prepared once all production can fully begin again.

1.6 The longer the crisis continues the more substantial the financial impact will be on producers, and the UK PSBs. The PSBs are central to the production and broadcasting ecology, and many production companies based in Wales are solely reliant on the PSBs for commissions. The current crisis has financially impacted all the PSBs, in particular the commercial PSBs who are experiencing a drop in revenue due to the current decline of the advertising market. Channel 4 recently announced an £150m cut to their programme budget, and Channel 5 have also announced a 10% cut in their programme budget. The UK PSBs need additional support from the Government if they are to survive the current crisis. Pact does not want to see any of the PSBs close down as a result of the current crisis.

Inquiry Questions

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

2.1 The production shutdown at the beginning of the COVID pandemic meant that many newly commissioned programmes that were due to begin filming, or were



close to completion, have been either cancelled or postponed. We surveyed our members at the start of the pandemic about the financial impact the pandemic has had on their business. This survey found that as a result of the shutdown, producers lost more than £250m because of cancelled or postponed productions. This is an average of £2.6m per producer. Although the sector is in a strong position, no sector can withstand this sort of immediate loss in revenue. Figure 1 shows the average value of cancelled or postponed productions by company size. SMEs, many of whom are based in the Nations and Regions, have been hit hardest by the pandemic and may find it difficult to stay afloat due to a lack of reserves. 21% of respondents to Pact's April survey said they had either no reserves or expected them to last for a maximum of two months. Overall, 61% of respondents survey said they expect their reserves to last for a maximum of six months.³

Figure 1

2.2 It is a positive sign that the PSBs are still commissioning content, however these new commissions are likely to be at a lower tariff than usual due to the financial pressures the broadcasters are experiencing. The PSBs have announced very few, if any, large-scale, high-end commissions. Which is particularly worrying for the Welsh sector, whose growth and influx of inward investment is largely due to these high-end drama commissions. The majority of the newly commissioned content is smaller scale factual programmes, which can be produced with social distancing in place. Broadcasters very rarely fully fund productions meaning that producers have to find funding from a range of different sources. The financing models for productions is complex and if broadcasters are beginning to pay lower tariffs, producers will now have to work even harder to find the necessary funding to produce a programme. This issue is made more complex as production and broadcasters across the world are impacted. For some productions, distributors will provide financing up front if the production has been pre-sold into certain international territories. As productions are halted and the international market is looking to buy pre-made content to fill gaps in schedules, pre-sales are likely to decrease. Producers work hard to ensure that broadcasters get the highest quality for their money, with many forgoing any profit from making the production itself. Producers often make a profit not from production itself, but the international or secondary sales of the production. With international and domestic broadcasters all experiencing financial pressure, it's likely that revenues

³ Pact member survey on the impact of the COVID-19 pandemic, 17 April 2020

from international and secondary sales will be hit by the current crisis.

2.3 The Government recently greenlit proposals for the independent TV production sector to begin filming again. While this is a positive step, the key barrier for producers is the issue of insurance. The lack of adequate insurance for potential COVID-related liability means that most productions will likely not be greenlit and will not be able to find the financing necessary to produce the programme. Financiers will not want to take the risk of investing in a programme while there is still the risk of a second wave of COVID or an outbreak on set. This possibility has made it near impossible for insurers to assess the risks of COVID and quantify these into new policies/premiums. This leaves all risk to fall on producers, many of whom are SMEs and face possible risk of closure the longer this issue continues, and broadcasters, who are struggling to cope with the drop in their advertising revenues. Neither producers nor broadcasters can afford to take on the associated risk. If there continues to be a lack of insurance cover for the industry the following outcomes are likely:

- Significant economic impacts:
 - Lack of employment for both permanent and freelance staff in the production community this could include over 75,000 production staff.
 - Long term impact to the UK of productions moving to Germany, Canada, Australia/New Zealand in the short term. Once a production is set up in one country, it's hard to bring it back into the UK for returning seasons, even if that was the original intention.
 - The impact to the growth of the production sector in the Nations and Regions (a long-term UK Government objective) if productions are unable to resume/start shooting, areas which will undoubtedly be hit hard by any upcoming recession.
 - Loss of billions in production spend and subsequent reduced levels of revenues and exports currently worth £7 billion and £5.05 billion respectively.
 - Reduction in commissioning budgets as a result of increased repeats.
 - Business failure of around 250 companies by October.
- Slow restart in the UK Film and TV sector:
 - Minimal domestic productions able to resume shooting or start shooting.
 - No new content for audiences - ITV along with other broadcasters and SVODs have significant concerns and challenges with maintaining 24-hour schedules if there is a more sustained delay to the original content pipeline across all programme genres, but particularly scripted and entertainment. This is likely to hit SVODs as well by the autumn.

- Disruption to the film pipeline leaving cinemas with little to show.

2.4 The UK independent TV and film production sector as a whole is one of the most successful in the world, and punches well above its weight in the international marketplace. Pact is concerned that if the Government does not seek to address this issue soon, the UK sector could fall behind its competitors. This could have a detrimental effect on both the sector, and the UK economy as a whole. The sector is a key contributor to UK GDP and is growing at twice the rate of the rest of the UK economy. In 2018, the creative industries contributed £111.7bn to the UK economy, an increase of over 40% since 2010.⁴ While there is likely to be redundancies and company closures as a result of COVID-19, the longer production is delayed due to lack of sufficient insurance; the greater the damage to the sector, and the diversity of the programme supply market.

2.5 The UK programme supply market is large and highly diverse; with production companies varying in size, what genre of content they produce and who they produce for. A substantial amount of companies are solely reliant on commissions from the PSBs as their main source of income, whereas some produce for domestic broadcasters, international broadcasters and global SVODs. No one production company is the same, which is what makes the UK production sector so successful both domestically and internationally. While the whole production sector is under threat from COVID-19; it's the smaller producers, many of whom are based in the Nations and Regions, who are facing the greatest threat. Smaller production companies are also less likely to have a substantial amount of reserves, if any at all. Those without substantial reserves have had to rely on the various Government support schemes. However, many small businesses have been reluctant to use the Government's loan schemes due to their low operating margins and the future uncertainty of the sector. Many producers do not know when they will be able to repay the loans, or if they will be able to repay them at all. A recent survey of 170 Pact members found that 75% had not accessed any Government support schemes and did not intend to.

2.6 The UK market is relatively small, with the five main PSBs being the main commissioners of content and source of revenue for many production companies. International revenue is a key area of growth, with international revenue growing 20% to £962m in 2018.⁵ This growth is likely to decline the longer it takes producers to return to shooting. Currently many of our members who have large

⁴ DCMS Sectors Economic Estimates 2018: GVA, Department for Digital, Culture, Media and Sport, February 2020

⁵ Pact Census Independent Production Sector Financial Census and Survey 2019, by Oliver & Ohlbaum Associates Limited

back catalogues of content will still be able to continue to do business in the short term by selling to international buyers looking to acquire content to fill missing live schedules. Distributors have told us that international buyers are looking for feel good content as well as package deals to fill schedules. International broadcasters are also looking to acquire scripted formats, so once the production lockdown is lifted, they are able to quickly produce content. Some markets, such as the Nordics, which had slowed down acquiring foreign content before the COVID-19 pandemic have begun buying more due to demand in the country. However, many international commercial broadcasters are experiencing the same drop in advertising revenue that UK commercial broadcasters are experiencing. This drop in advertising revenue will mean that many broadcasters will have started reducing budgets as we are already seeing in the UK.

2.7 For companies who have an international distribution arm of their business, for example Banijay or All3Media, the current boom in international sales may help to temporarily alleviate pressure on the production side of the business and prolong the need to use reserves to keep the business afloat. However, the money from these sales will not be available immediately and archive content usually sells for a lower rate than new, never before seen content. Businesses cannot rely on these sales to stay afloat during the pandemic.

2.8 As the COVID-19 pandemic continues, the demand for new content will arrive and the supply is unlikely to be able to meet this demand for a number of reasons. One being that many production companies, particularly the smaller companies with less cash reserves, will have either folded or reduced their capacity. Production companies usually invest their reserves into the research and development (R&D) of new ideas. Given the competitive nature of the UK and international market, investing in R&D is vital if UK production companies are able to successfully compete internationally for highly sought-after commissions. As a result of the pandemic, many companies will have to use their reserves to stay afloat rather than invest in R&D meaning that the money to invest in developing new content will simply not be there when the demand returns.

2. How effectively has the support provided by the Welsh Government, the UK Government and arms-length bodies addressed the sector's needs?

3.1 Pact is appreciative of the measures the UK Government and Welsh Government have put in place to help businesses navigate the COVID pandemic, however not all of the Government support schemes have been utilised by those in the production sector. The Coronavirus Business Interruption Loan Scheme (CBILS) and other Government backed loan schemes such as the Bounce Back Loan are unattractive to many within the

creative sector and impacts overall corporate financing given that it increases a debt burden on SMEs. This means that when an SME within our industry wants to raise capital and scale up it will look less attractive to buyers if during the crisis, they had applied for a business loan because they will be carrying debts. Larger companies may be able to go to the money markets to service this debt, but SMEs will not have this option and would be relying on banks who often misunderstand the nature of creative industries which are built on ideas/IP rather than physical products. The aversion to the loans is evidenced in a recent snap poll we conducted with 170 members which found that 75% had not accessed the loan schemes and intended not to use any of the Government backed loan schemes. We welcome that the Government has listened to Pact and others in the business sector to make these loans more accessible to SMEs - for example, there is now no longer a need for a personal capacity guarantee to secure the CBILS. That said, the response of banks has been slow. To make this scheme more attractive to creative sector SMEs it is vital that the terms should be more flexible, and that serious consideration is given to other ways in which Government can help businesses inject capital back into their business as identified above.

3.2 While the support and Funds put in place by Creative Wales, S4C and Ffilm Cymru are welcomed, these Funds are small in size and will only help companies stay afloat for a limited amount of time. These Funds do not make up for production companies being unable to utilise the UK Government's loan schemes.

3.3 Insurance is the key barrier to producers physically being able to begin filming again. At the end of May, Pact surveyed our members to understand the barriers and associated costs independent producers are facing in restarting production. 89% of respondents highlighted a lack of insurance cover as the biggest barrier they are facing in restarting production. 49% of respondents have found that the cost of insurance has risen, and 33% cannot get insurance cover. While the Government may have greenlit proposals to start production; producers are unable to return to work until the issue of insurance has been addressed.

3.4 Pact along with others in the industry recently submitted a proposal to Government which outlines a potential short-term solution to the current insurance issue faced by producers. The proposed Production Guarantee Fund would cover any potential COVID-19 related losses with industry also contributing to the loss were it to occur. This would come into effect for any COVID related suspension or abandonment of any production, which would minimise the risk to producers and broadcasters and instil the confidence needed to begin production again. The fund would require between £190m - £580m, with the latter figure being the worst-case scenario. However, the benefit to the economy hugely outweighs the potential cost to the Government. In helping the production sector return to work, this intervention could secure an average of £7 billion per year in production spend, save more than 75,000 jobs and over £5 billion of exports. This

Government backed guarantee would only be available to UK productions, other than those which are fully funded by way of inward investment from a studio/SVOD (studios and SVODs typically self-insure) and sports.

3.5 Pact understands that the Government are in discussions for a PanRe solution, and we strongly support this as a longer term, more permanent solution. However, the sector cannot wait for PanRe to be agreed and implemented. There is an immediate need for the sector to begin shooting again. If producers are not able to begin shooting, they have no business. Pact does not want to see production companies at risk of closure and the longer they are unable to film; the more profound the risk is of widespread company closures and redundancy.

4 What will the likely long-term impacts of Covid-19 be on the sector, and what support is needed to deal with those?

4.1 On top of the problems outlined above, it is going to be difficult for the sector to re-start if reserves, primarily used for R&D, are being relied upon to stay afloat. The coronavirus pandemic has shown that the production sector generally operates precariously relying on debt to fund programmes with limited amounts being recouped. This means there are limited amount of reserves to keep companies afloat especially those in our membership that are SMEs. Furthermore, given that the production sector relies predominately on UK broadcasting commissions the current impact coronavirus is having on advertising revenues will also curtail the opportunities open to our members. We know that Channel 4, Channel 5 and Sky are undergoing cuts to their programming budgets as a result of the advertising downturn. The Advertising Association has reported in its annual report that the record ad spend in 2019 is set to drop by 16.7%.⁶ This drop in advertising revenue has resulted in the following reductions in programme budgets:

- In April 2020, total ITV advertising was down 42% impacted by covid-19.⁷ ITV will also be reducing their programme budget by at least £100m in 2020.⁸
- A Channel 4 press release dated 8th April 2020 states that the TV ad market is set to be down in excess of 50% over April and May. In this press release, Channel 4 also announced that they will be reduced their 2020 content budget by £150m.⁹

⁶ Advertising Association and WARC Expenditure Report 2020

⁷ [ITV Trading notice](#), May 2020

⁸ IBID

⁹ [Channel 4 press release](#), April 2020

- Channel 5 spends around £140m a year on original commissions and is believed to be cutting its programme budget by around 10% this year to combat the downturn in the ad market.¹⁰

4.2 While this reduction in content budgets is cause for concern for all independent producers in the UK, Channel 4 spends a large amount in the Nations and regions. In 2018, Channel 4 spent £13.8m on content from production companies in Wales.¹¹ PSBs will need support during the current covid-19 crisis and beyond if they are to continue commissioning a high volume of content from Welsh independent producers.

4.3 To help ease the financial pressure on producers and their cash reserves, the Government should consider re-appraising the R&D tax credit to allow companies in the creative industries to qualify for the relief. This would give companies a financial incentive to begin investing in R&D of ideas, which would help to mitigate any potential lag in production once producers can return to work. The Government could also investigate new forms of tax reliefs to help the industry recover following the pandemic. For example, some form of export tax relief. This would incentivise businesses to begin trading internationally again once the pandemic is over and markets begin to open up again. Given the success of the industry and the role it plays in promoting the UK's soft power brand overseas, the Government should ensure that the independent production sector is supported as much as possible.

4.4 Currently, social distancing is required for productions to begin shooting again. This is likely to continue indefinitely until the COVID-19 pandemic has eased. Putting in place social distancing measures will require significant additional costs especially when talent and crew are required to adhere to new work protocols in order to enable safety on set. After consulting with members, it is likely that the new production guidelines for the TV production industry will cost an additional 10-20% of increased budget costs to ensure the health and safety of productions.¹² In addition, as already identified it is likely that production companies will need extra reserves in order to finance additional costs related to getting production up and running safely.

4.5 The recent announcement on UK border restrictions will also impact production going forward if broadcasting is left off any exemption list that is being planned. If talent need to self-isolate for two weeks before being admitted onto a set this will impede productions from accessing talent quickly and ultimately getting UK and inward investment for productions up and running. Talent such as actors, writers and

¹⁰ Broadcast article, 24th April 2020

¹¹ Channel 4 Annual Report 2018, Channel 4, p 118

¹² Based on consultation with over 100 members

directors often help determine the value of a production and if high value individuals are prevented from easily accessing the UK it will have a knock on effect on a production company's ability to secure a commission, or to find the necessary financing for a programme. Key talent is one of the factors distributors within the film and TV production industry use to value content.

4.6 As previously mentioned, many producers, particularly smaller producers, do not feel they are able to utilise the Government's loan schemes because of future uncertainty surrounding the sector. Equity investment should be encouraged and facilitated as an alternative to these loan schemes. This could be done by making adjustments to the existing Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS). Currently creative businesses rarely utilise the EIS and SEIS as these types of schemes do not usually understand creative, IP driven businesses. Adjusting these schemes would ease the financial pressure on the sector and allow it to continue to grow.

5 What lessons can be learnt from how the Welsh Government, the UK Government, arms-length bodies and the sector have dealt with Covid-19?

5.1 Overall, Pact has been pleased with the support UK Government and Welsh Government have given during the COVID-19 pandemic. Pact has been in contact with UK Government officials at DCMS, Wales Office and the Treasury on a variety of issues, and the departments have taken onboard the issues the sector is currently experiencing and tried to rectify these where possible.

5.2 Pact has worked across the sector with the broadcasters and other industry bodies to come up with solutions to help navigate the COVID-19 pandemic. Pact and the UK broadcasters worked together to agree production guidance which would allow the sector to safely return to work. We have also worked with the BFI and others in the high-end TV sector to agree production guidance for producing feature film and high-end TV safely.

5.3 As lockdown eases in Wales and production gradually begins to start, continued engagement with the Welsh Government and others in the sector will need to continue to ensure that the sector is not damaged in the long term.

5.4 As public health is a devolved matter there have been some inconsistencies and confusion around certain specific issues, for example the definition of key workers and whether contestants and unpaid contributors are classed as workers in Wales. The difference between English and Welsh COVID guidance, and guidance given by Local Authorities in Wales has made returning to filming difficult for our Welsh members. The Welsh production sector is keen to return to work safely and any lag due to unclear

guidance risks the Welsh sector and the UK Government's levelling up agenda falling behind. At the start of this year, Pact set up a range of initiatives specifically designed to help our members in the Nations and regions and we want to ensure that the Welsh sector continues to thrive post COVID-19.

6 How might the sector evolve after Covid-19, and how can the Welsh Government support such innovation to deal with future challenges?

- 6.1 During the last recession broadcasters used the crisis as a way to extract more unfavourable terms from production companies and Pact is conscious that needs to be avoided if the sustainability of the sector is to continue, particularly those in the nations and regions. Furthermore, broadcasters were also wary of commissioning risky ventures and became more reliant on safe content and more specifically content that would return more IP to the broadcaster. We will want to avoid any moves that look to curtail the diversity of ideas and supply. In terms of differences the very fact that the liabilities of productions are currently impossible to cover by producers is the main significant difference between this crisis and the last economic recession of 2008 – if not resolved it is set to decimate the industry.
- 6.2 There is also a risk of diverse voices being excluded in the sector post COVID-19. Within the UK production sector active support and extended Government lending to the PSB broadcasters if needed, including S4C, will be vital for those smaller businesses whose main income is derived from UK broadcasting commissions. Many companies in the Nations and regions benefit from quota systems to access opportunities from PSB broadcasters, and Pact wants to ensure that the Welsh sector continues to see the benefits.
- 6.3 Given the reduction in advertising revenue that UK commercial broadcasters are facing it is likely that this will have a disproportionate impact on those production companies based in the nations and regions. Production companies based in the nations and regions tend to rely more heavily on the UK broadcasters for commissions as these tend to commission domestic factual programming and are the kind of production companies that do not necessarily have large back catalogues to rely on. Approximately 40% of first-run originations on the five main PSB channels are made outside of London. With the BBC spending £509m; ITV spend £241m; Channel 4 spend £174m; and Channel 5 spend £17m.¹³

¹³ [Regionality trends. A report for Ofcom, Oliver and Ohlbaum, 2018](#)