

Written submission from Pact

Introduction

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.

Pact has over 800 members across the UK, including in the nations and regions, with around 54 companies based in Scotland. Pact members make programmes for a range of UK Public Service Broadcasters, UK commercial broadcasters and international broadcasters and SVODs, including Netflix.

While the indie sector is in a strong position, it has lost a substantial amount of revenue as a result of the COVID pandemic. UK TV sector revenues dropped to £2.875m, an annual decline of £450m. Domestic TV revenues were hit hardest by the pandemic, declining by £257m in 2020.¹ Despite this decline, proportion spent on commissions outside of London grew to 45%. However, primary commission spend in Scotland dropped from 10% to 5%. This is likely pandemic related and given the success of the indie sector in Scotland is likely to bounce back.

The change of ownership of Channel 4, and any change to its remit, would have drastic implications for the UK's world leading independent film and TV sector, impacting businesses and the 10,000 jobs the sector creates and sustains across the UK. Any change would have a particular impact on the indie sector in Scotland. Currently, 47% of Channel 4's spend on first-run originations comes from the Nations and Regions, with nearly 5.7% coming from Scotland.² Channel 4's analysis of potential privatisation suggests that the Nations and Regions would be disproportionately affected by changes to the current model. They estimate that the present value of GVA generated by Channel 4 in the Nations and Regions in its supply chain over a ten-year period could be 37% lower if Channel 4 is privatised and the publisher-broadcaster model is removed, compared to Channel 4's current model (£1.8bn vs. £2.8bn), due to a shift in commissioning spend towards in-house productions.³ It is unknown how quickly the sector will get back to its former growth trajectory post COVID and the Government's plans to change the ownership of Channel 4 in its current state puts at risk any shoots of recovery that we are seeing in the sector particularly for smaller independents.

¹ Pact Census Independent Production Sector Financial Census and Survey 2021, by Oliver & Ohlbaum Associates Limited

² Channel 4 Television Corporation Report 2020 and Financial Statements, Channel 4 Corporation

³ Assessing the impact of a change of ownership of Channel 4: An economic, social and cultural impact assessment of the impact of privatization, EY Report for Channel 4, September 2021

COVID Impact on Sector

The COVID-19 pandemic has had a substantial impact on the TV and film production sector. Production was shutdown virtually overnight at the start of the pandemic, which meant that many newly commissioned programmes that were due to begin filming, or were close to completion, have either been cancelled or postponed. Pact surveyed our members in April about the financial impact the pandemic has had on their businesses. This survey found that as a result of the production shutdown, producers lost more than £250m because of cancelled or postponed productions. This is an average of £2.6m per producer.⁴

Production is now back up and running thanks to COVID safety protocols and the Government's Film and TV Production Restart Scheme. However, the sector still needs to adhere to COVID safety protocols and industry guidance. Putting in place these measures requires significant additional costs. In consultation with Pact members, we found that complying with production guidelines will likely cost an additional 10-20% of increased budget costs to ensure the health and safety of productions.⁵ The broadcasters are all taking different approaches to these costs, with some are splitting these costs 50/50 with producers. However, in some cases all the financial burden is falling on producers meaning that these companies will need extra reserves in order to finance the additional COVID costs. With the COVID pandemic, diminishing many producers reserves its vital that broadcasters share in these COVID related safety costs.

The UK border restrictions put in place earlier in the pandemic also caused some distribution to the sector. Pact are pleased that the Scottish Government will be implementing a simplified international travel system. Talent such as actors, writers and 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.

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, 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 Scottish sector continues to see the benefits.

⁴ Pact member survey on the impact of the COVID-19 pandemic, 17 April 2020

⁵ Based on consultation with over 100 members

Support for the Sector

Pact recently published a long term COVID impact study which found that, the financial consequences of COVID effected 57% of companies ability to invest in further developing their business. Of these companies, the biggest impact is on their ability to invest in people (76%) followed by R&D (66%).⁶ Something which Pact were concerned about at the beginning of the COVID pandemic and has raised a number of times.

To help ease the financial pressures 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 allow producers to build up their development slate and win commissions. 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 markets begin to open up again.

While production is now back up and running, many producers are struggling to find the staff to meet the high demand. The sector is doing what it can to address the issue of skills shortages within the sector by paying into various ScreenSkills training funds, such as the Children's TV Skills Fund, High End TV Skills Fund and the newly launched Unscripted Skills TV Fund. However, to be able to meet demand Skills Fund and the newly launched Unscripted Skills TV Fund. To be able to meet demand, the sector needs to ensure that those currently working in the industry have the right skills, but also that there are new entrants into the sector. The Scottish Government should further investigate ways they can help support training within the sector, as well as encouraging new entrants into the sector.

⁶ COVID Long-Term Impact Study, produced by 3Vision of behalf of Pact, August 2021