BSAC

BRITISH SCREEN ADVISORY COUNCIL

EVIDENCE SUBMITTED TO THE HOUSE OF LORDS SELECT COMMITTEE ON COMMUNICATIONS:

THE BRITISH FILM AND TELEVISION INDUSTRIES

Introduction

The British Screen Advisory Council (BSAC) is an independent sector body which serves as a unique forum for identifying new business trends and provides advice to government, policy makers and the audiovisual industries. Its Members comprise the widest range of UK interests, knowledge and contacts in the audiovisual industries.

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

Film and television are at the centre of the creative industries. As Will Hutton's report for government, *Staying Ahead*, showed, other parts of the creative industries may generate greater turnover and employment, and other economic sectors are more important than the creative industries in terms of basic economic indicators, but we do not have to scratch very deep in our analysis before we come across evidence to show the extent to which film and television inform our perceptions of, and promote and support the other creative industries – for example fashion, publishing, videogames and music – and contribute to our sense of the world in which we live (just imagine trying to discuss food without reference to Jamie Oliver or the environment without being able to refer to David Attenborough …)

But to enhance film and TV's contribution, we need better to understand the undoubtedly positive spill-over effects between creative industries, and from creative industries into the wider economy: they are an essential part of the creative/business mulch. If we understood them better, however, we could be more focused and efficient when developing policy.

BSAC would warmly endorse the evidence submitted by Scottish Screen, both for drawing attention to the specific opportunities and challenges to be encountered by the nations, and for its very clear exposition of the economic benefits that can be attributed to the UK film and television sector. But we judge that, alongside the direct and evident economic contribution of the sectors – for example, in terms of employment, exports, attracting tourists, and enhancing the skills base, the environment and the infrastructure, there is the benefit in terms of the quality of life: enriching cultural life and celebrating Britain's cultural heritage.

Indeed, the considerable public support that flows into the sector, through the BBC licence fee, Channel 4, the national lottery, the tax credit, regional development etc., is justifiable not only on an economic basis but in terms of the difficult-to-quantify aspects of the quality of life, notably social inclusion and diversity.

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

The nimbleness and adaptability of the film and television sector is demonstrated by the way in which the theatrical exhibition sector, though the oldest part of the sector and the most rooted in the fabric of our towns and cities, has adapted and continues to adapt to technological, economic and cultural change.

The impact of current UK arrangements for distribution and exhibition of films on the commercial success of the film industry is felt in the difficulty of access for independent films. Current conditions might change given the plethora of new services springing up, the impact of the digitisation of cinemas, improved access to content via online, new approaches to licensing and distribution. But we have to ask ourselves whether the ultimate impact of this change might be that the incumbents become even more entrenched.

Over the last 10 years, more and more jurisdictions have begun to compete to attract inward investment into their film industries. They are also seeking to make more impact on the global market place with their product. Markets that were relatively self-contained, such as the Indian or Chinese markets, are now becoming active both as a target for companies from the developed world and as investors in the developed world's markets. As we seek to understand the source of the UK's competitive advantage and how tax incentives help to strengthen that competitive advantage, we must not overlook the extent to which the exchange rate, specifically the strength of sterling relative to the US dollar, affects the viability of both the production and the distribution sectors in the UK.

Regarding our export potential, we look to more and more opportunities for audiences abroad to enjoy UK-made content. The value and ubiquity of the English language is increasing, albeit that the UK is continuing to surrender its hegemony over the English language. The "UK" label may mean less and less: *Slumdog Millionaire* may owe its existence to a UK-devised TV game show, and it is the fruit of the art and imagination of UK talent, but it is about, and a function of, a global, not a specific UK culture. Moreover, we are not confident that the trends which are having such an effect on the shape of the audiovisual business necessarily lead to incremental revenue streams for UK content makers. The business models which have been successful until now for film and television are facing a number of challenges. If we consider just one facet of those business models – the sale of airtime to advertisers to generate revenue for broadcasters with which to buy rights and to invest in originated content – we observe that, the economic crisis aside, this model is being eroded by the flight of advertising from television to the internet, and flowing to players like Google rather than to content creators, and, at the same time, audiences are taking advantage of new platforms and technologies both to avoid spot advertising and to avoid having to pay for the content they watch. We also see that the revenues from DVDs are declining.

These trends were the subject of a report produced by BSAC in 2008, a copy of which is annexed to this submission.

We think the questions posed regarding the trends in international film production and distribution, and its export potential, should also be posed in relation to television production and distribution.

Turning to the raising of finance, we consider that this issue also needs to be raised not only in relation to film but also in relation to all content being seen by the public on the screen. Raising finance has always been difficult: Will Hutton, in *Staying Ahead*, emphasised just how much risk was involved in content creation. But the tax credit deters co-productions in a way which is at odds with government policy to increase the number of territories with which the UK has co-production treaties. Co-production is a useful way of spreading risk and of finding investment (not least from public funding bodies in other countries). The problems of funding are spreading to television production which is becoming more like feature film in terms of the shortage of finance and the need to pull together increasingly complex financing deals.

It is the collapse of the old business models and the slow emergence of the new business models which represent the most important inhibitors in the raising of finance for film. However, we recognise that, both for film and television, production budgets will need to be reduced to reflect restricted access to finance and question marks over anticipated returns.

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

BSAC participated in the Treasury working group which developed the tax credit. We see the tax credit as vital if we are to continue to produce UK independent films and in order to attract mobile productions without which the UK film infrastructure and therefore our own capacity to make films would suffer. The 2006 changes to the tax credit system have produced the benefits of stability, predictability and simplicity. The unwanted access to UK tax finance for films of no UK interest (either in terms of their production or their consumption) has been successfully restricted. But the changes have had two effects that run counter to the objectives of UK film policy:

- They have curtailed the attractiveness of UK producers as co-production partners

- They have inhibited the ability of UK filmmakers to make global films and reduced the attractiveness of using British talent when working abroad.

Both of these problems have been exacerbated by the imposition of the 80% cap in relation to the amount of the UK contribution to a co-production in respect of which the tax credit can be claimed.

Of course, the changes in the tax system have not made raising finance any easier and, as Scottish Screen describes in its submission, the issue of how much of the financial benefit of the tax credit flows into the productions themselves, has not been completely resolved.

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

The UK Film Council is meeting these objectives as far as it can. It could do more to assist the UK film industry's contribution to the UK economy but this would require an increase in the resources at its disposal. On the contrary, we face the prospect of the UK Film Council's resources declining, a function of an effort to reduce departmental spending in response to declining Exchequer receipts, to pay for bailing out the banks and to cover the costs of the 2012 Olympics, precisely at a time when other funding for film is also declining.

Also the UK Film Council's contribution to UK culture (and education) could be enhanced; one thinks immediately of the opportunities beyond of our grasp in relation to the UK film and television archives.

There are several areas where the UK Film Council has identified needs for which resources, both financial and human, have yet to be allocated. One is to improve the transparency of the film market by making available data about broadcasting, DVD and Video-on-Demand markets that would enable policy-makers and industry to understand much better than they currently do how the market is operating and what are the effects of digitisation – for example, in terms of what is consumed and how it is consumed. Another is a relatively simple measure – to have unique identifiers for films (using the ISAN system) – without which proper analysis of the film market is impossible – which will require human resources over and above what is currently available to inform industry and to build up its commitment.

We think it should also be recognised that the UK Film Council is charged with achieving economic objectives – such as attracting inward investment and increasing the levels of skills in the workforce – as well as cultural ones, and it would benefit from a closer integration with those parts of government that were focused on these economic objectives. Likewise, its educational functions would be enhanced were it more actively engaging with the parts of government responsible for education.
Separately, the UK Film Council has been less successful in delivering on diversity.

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

A few world–class companies have emerged in the UK, such as Working Title, Shine and Aardman Animations, showing that it can be done. But the small size of the vast majority of UK companies involved in film and in TV production makes it unusual to find top-class managerial skills in the sector. Moreover, there is a sense in which film and TV have not benefited from a greater focus among young people on entrepreneurial achievements rather than on big and ambitious social and cultural agendas. The importance of investing in skills and talent to ensure our competitiveness and a diverse workforce is clear. We need better to understand how the significant investment that has been made through Skillset is paying off in terms of both the creative and the business talent pool. It may also be that more work needs to be done to identify how we build the business skills necessary in order to capitalize on digital innovation – a task to which NESTA, notably, is very committed.

In addition, absence of clear entry and progression rates into the industry often means that people working cannot be supported properly by organizational structures (ie, HR) for their development. For the large number of freelancers operating in television and film when not working they are actively looking for work; therefore training is usually seen as a double expense of both time and money. Technological convergence and globalization are two key drivers of change that will continue to have an impact on the skills challenges faced by the film and television sectors.

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

The regulatory system has been very successful in supporting UK content in television. However, today the regulatory system is less successful and some aspects of regulation may be preventing the industry from responding as quickly as it should to the massive changes we are seeing, with damaging results for the creation of UK content, for example by forbidding product placement.

We are not persuaded by the need for incentives, except where there is clear market failure which may prevent the industry from delivering types of content which is for the public/cultural good.

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

The advertising financed model is declining although it should not be written off completely: it may no longer be a licence to print money but it should support good services, especially services that are able to seize digital opportunities. The recent decision not to permit product placement failed to recognize that this was possibly the only new revenue stream available at a time when new business models have yet to be developed and that prohibiting product placement has reduced UK competitiveness given that the practice is widely-used in US programming.

The effects that we are currently experiencing, in terms of a slump in investment in content creation, are likely to be permanent. Some genres such as children's programming may suffer market failure. However, political will can have important impacts. For example, it was the political will that led to the creation of television and film content outside of metropolitan London in places like Bristol and Nottingham. The BBC intends that Manchester will become a powerhouse much as Birmingham and Leeds used to be. Indeed Nottingham, through East Midlands Media, and Norwich, through a similar scheme involving its regional screen agency, Screen East, have created a venture capital model involving public-private partnership, regional development and UK Film Council resources, along with broadcaster investment.

Scotland would have its programme and film sectors being more vital and higher profile. The fact that ITV is no longer the vehicle for this political will is important but not determinant.

It is not a question of the changes affecting the film and TV sectors being offset by changes elsewhere: the creative industries sector will be stronger or weaker depending on the vitality of film and TV: games, non-linear services, music etc. No single part of the creative industries can flourish if it is disconnected from the rest. It will not attract the talent, the business skills or the finance.

Digital switchover has to be factored in. It changes the business models. It probably means that people will pay less or that revenues will be spread more thinly. The likelihood is that paid-for content will have to compete increasingly fiercely – for people's attention – with "free" (or "free at the time of use") content. We say "free" because no content is free: all content has to be paid for, if not by the consumer then by the tax payer or the citizen.

ANNEX: Blue Skies document