



British Screen Advisory Council

Old and New Challenges to British Film & Television Production

A Discussion Paper– May 2010

The aim of this short paper is to provide a series of key discussion points for BSAC Members on the important challenges facing British independent content production today. Long-term changes in the media value chain and mid-term upsets in the underlying economy are challenging the long established financing methods which once sustained audiovisual production financing at home and in global markets.

The points hereunder are based on empirical observation of what is working/not working at the coal face, where producers and their financiers interact, do deals and attempt to give consumers what they want. It is not focused on quantitative data but looks instead at the ways in which processes of film and television financing are being reshaped by changing markets and technologies. The paper is not exhaustive; it is designed merely to act as a primer for further discussion and to stimulate innovative thinking on the possible way(s) forward for UK content production to maintain quality and sustainability at home and in worldwide markets.

I. Television Production

1. The financing challenges facing independent feature films and some categories of television production (e.g. high-end drama) are becoming more convergent. As television funding is coming under continuous pressure, television producers are having to adapt by covering widening budget gaps through pre-licensing ancillary rights and/or securing pre-sales in foreign markets.
2. Television drama budgets in particular have decreased consistently over the past four years, challenging producers to cover gaps as wide as 15 to 20% (against only 3 to 4% a few years ago).
3. As programming budgets continue to contract producers of high-end television drama are caught between a rock and a hard place: DVD, once a reliable source of pre-licensing, has declined sharply in value, attracting lower pre-sales; simultaneously, the non-linear platforms offering television content remain economically fragile; even the market leaders

are only able to offer revenue sharing or only very small amounts in minimum guarantees.

4. The paucity of opportunities to pre-license rights from ancillary markets leaves producers more dependent on foreign pre-sales. However, the international market for British TV fiction is extremely competitive and pre-acquisitions tend to be limited to small proportions of a show's budget.
5. The secondary television market is controlled by a small number of large-scale distributors and is highly compartmentalised, with primary broadcasters and their distributors licensing primarily (but not exclusively) within their own platforms of secondary channels.
6. There are few examples of primary broadcasters partnering each other and splitting rights and windows in order to co-finance programming. The reticence to go down this path is explained in part by the need for broadcasters to maintain their brand through bespoke programming which viewers expect to see when tuning in to their services.
7. The potentially attractive value-for-money proposition to a broadcaster of paying only a proportion of production costs against securing broadcast rights may be largely offset by the competitive disadvantage of getting second or third window in a co-production structure, combined with the need to compromise on key ingredients such as script and cast, etc.
8. Primary terrestrial holdbacks are identified as a growing issue for independent producers; they would like to see shorter holdbacks so as to be able to tap into secondary licensing revenues earlier. From their perspective, short primary exclusivity would support their strategy of covering initial gaps in production budgets, in the context of a historic decline in primary broadcasters' ability to match 100% production costs with the value of the primary license.
9. The non-linear catch-up services owned and operated by the leading terrestrial broadcasters have added an opportunity for further revenue sharing with producers. Questions are being raised however, about the degree to which the catch-up window may cannibalise other commercial opportunities in non-linear.
10. The residual value of much of television programming is increasingly concentrated around a short period following a terrestrial premiere: e.g. there is a competitive obstacle to offering British television drama to iTunes because the exclusive 7-days' catch-up may conflict with the Apple branded service's policy of making content available to its users within 24 hours of the first terrestrial showing, in order to benefit fully from consumer awareness triggered by the network premiere. Is the catch-up compromising ancillary values which may help close production budget gaps?

II. Feature Film Production

11. Over the past seven years, the number of British independent feature films produced each year has dropped from 139 to 88 per annum. Over the past two years, the credit crunch, combined with the severe contraction in the international pre-sales market, the decline in DVD revenues and flat TV license fees, have compounded the trend.
12. Key foreign territories which were once dynamic sales prospects for British films have lost value and/or practically ceased to acquire: a wave of restructuring amongst Hollywood majors has seen the disappearance of some of their specialty divisions or the drastic curtailing of their buying power. New entities have emerged to fill the gap in the market but whereas the UK's most desirable independent projects could hope for 40%+ of budget from the US only a few years ago, today's advances rarely go beyond the half-million dollar mark for similar films.
13. Other territories which used to offer stable prospects for British features have become very difficult to penetrate: Japan, once a strong pre-sale environment, has re-trenched significantly. Some estimate that as much as 50% has vanished from the value of rest-of-the-world markets as compared to what it was four years ago.
14. The number of UK co-productions has fallen significantly over the past five years. This is due in part to the impact of the phasing out of Section 48 relief, which was a powerful motivating factor for the UK's co-production partners in the UK and Commonwealth. Some practitioners also observe that British producers have become more commercially-driven in response to toughening market conditions. This is sometimes not easily compatible with the compromises script and cast co-production may require.
15. UK independent distributors have become more consolidated, with market leaders such as Pathé and Optimum now backed-up by powerful international operators (Warner Bros, Studio Canal). Some are moving upstream into British film production in a bid to better control quality and throughput. However, the number of projects involved remain small and UK distribution advances remain a tall order for most independent features.
16. The value of film to UK television broadcasters has continued to decline, a fact reflected in both scheduling and acquisition prices for all but the premium Hollywood films. This trend is partly compensated by the stability of Film4 and BBC Films's engagement with UK talent and their investment in development and production. Although their license fees are not increasing, they are also equity participants in many of the projects they partner.
17. Widening financing gaps for independent films are remedied in part through reducing budgets and deferring fees. There are limits to this

strategy however, as below-the-line rate cards and talent costs not having shrunk commensurately, due to the ongoing success of the UK in attracting large-scale international film production.

18. Another route to covering financing gaps is for producers to enter into partnerships with one-stop-shop financial operators offering discounted pre-sales, advance against estimates on unsold media and territories, cash-flowing of the tax credit, etc. The presence of such operators allows projects to be put into production than may otherwise have been written off. However, the deals carry heavy transaction costs as these operators seek downside protection in the context of a difficult international market. The credit crunch also means that projects supported through such deals are now the minority, with operators far more demanding on the quality of the films.
19. In spite of over a decade of a public policy aimed at remedying structural deficiencies in domestic film production, the British production sector remain primarily a cottage industry. Their place in the recoupment order makes it unlikely for them to achieve any significant return on investment from all but the biggest international hits. As a result, they are unable to support their own R&D and are having to raise development funds on each individual films rather than having the capability to spread risk over slates of projects.
20. The issue of producer's ROI has triggered public debate. The trade association PACT recently published a proposal to shore up production companies' sustainability without calling on the public purse. Under this model, all funds recouped from UKFC investment would be treated as producer's return, with 70% put in a 'lock box' for reinvestment into development. The proposal also holds that the UK tax credit should be treated as the producer's equity, thereby improving his/her position in the revenue waterfall.

End.