

Film
i Väst



Analysis.

PUBLIC FILM FUNDING AT A CROSSROADS

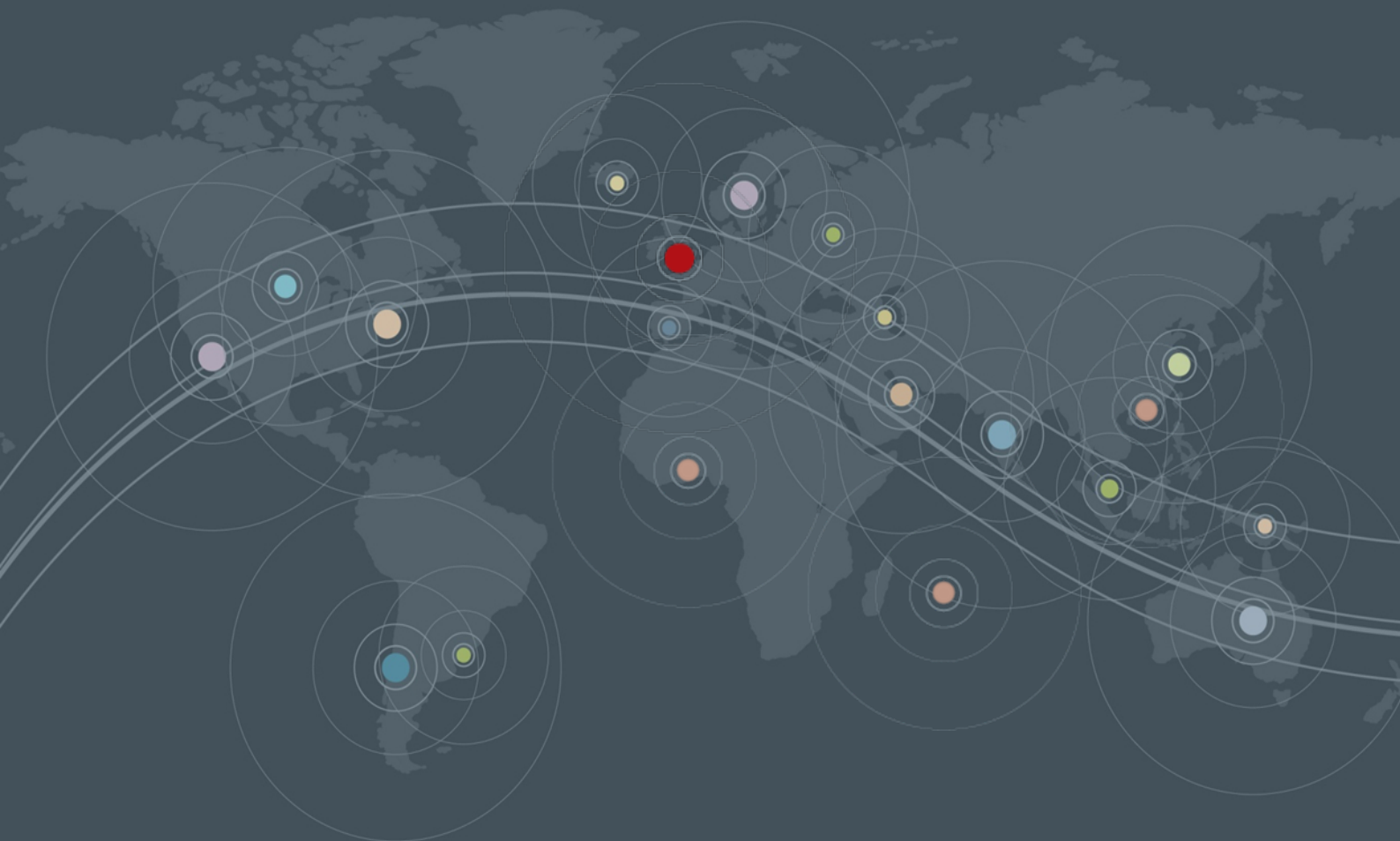
Appendix: UK

Authored by Leon Forde, Olsberg SPI.

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Public Film Finance at a Crossroads – UK Executive Summary

Report for Film i Väst
by Olsberg • SPI



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1. INTRODUCTION

Olsberg•SPI has been retained by Film i Väst to undertake the UK element of its pan-European study *Public Film Finance at a Crossroads*. This document summarises the results of 24 confidential consultations undertaken across the UK film sector value chain.¹ As with other sections of this study, 'film' is used in a broad definitional sense to also include drama series and other relevant formats.

Like other European territories, the UK film sector is experiencing disruption from wider structural shifts that are also having impacts globally. In addition, there are also developments and challenges that are specific to the UK, and which are further shaping the future of the sector.

The research undertaken into the UK has identified six key themes relevant to the focus of Film i Väst's study. These are:

1. Ongoing Challenges in the UK's Independent Film Sector
2. The UK Government's 'Levelling Up' Agenda
3. Talent Development
4. Support for Distribution
5. Evolution of Exhibition
6. Commercial Awareness.

These are further explored in the following sections.

2. ONGOING CHALLENGES IN THE UK'S INDEPENDENT FILM SECTOR

The UK has experienced record-breaking sectoral growth in recent years. In 2021, combined expenditure on film and high-end television (HETV) production reached £5.64 billion – the highest figure ever recorded.²

Despite this major overall growth, there is recognition that there are ongoing challenges for the UK independent film sector across all parts of the value chain.³ The growth of the overall sector in the UK has been largely driven by inward investment.

In film terms, US studio films accounted for £991.8 million, or 64% of the total spend of £1.55 billion in 2021. Domestic independent films spent just £220.9 million in 2021, or 14% of the total. This was lower than the £283.7 million spent by independent inward investment projects. The remainder of the total was spent by independent co-productions (£57.8 million).⁴

In the HETV sector, inward investment and co-productions contributed £3.44 billion in 2021, or 84% of the total spend of £4.09 billion. Domestic UK HETV productions spent £647.5 million.

There are a range of factors behind the wider challenges being faced by the independent film sector. For example, the costs of talent and crew have increased as a result of immense demand for UK-based production. In addition, COVID-19 protocols have also pushed up the costs of production.

¹ Categories of consultees are included in Section 8

² *Official 2021 BFI statistics reveal a record £5.64 billion film and high-end TV production spend in the UK*. Accessible at <https://www.bfi.org.uk/news/official-2021-bfi-statistics>

³ Challenges to the sector have been examined closely in recent years, including in the Pact study *The State of the UK Independent Film Sector*, undertaken by Olsberg•SPI and accessible at <https://static1.squarespace.com/static/5f7708077cf66e15c7de89ee/t/60282f507b99c930e7f7f025/1613246292485/The-State-of-the-UK-Independent-Film-Sector.pdf>. The BFI also convened a commission on UK independent film, which delivered a report in 2018 – accessible at: <https://core-cms.bfi.org.uk/media/741/download>

⁴ *Film, high-end television and animation programmes production in the UK: full-year 2021*. BFI Research and Statistics Unit, 3rd February 2022. Accessible at: <https://core-cms.bfi.org.uk/media/17242/download>

Moreover, there are notable challenges to accessing finance for independent film. While streaming services have entered the market as potential funders or buyers, the model that previously underpinned independent film has been challenged, and accessing market finance has become more difficult.

It is becoming more challenging for sales agents to predict the value of sales on a territory-by-territory basis, as the old formula of dividing a territory by the proportion of world audience it represents is less reliable. Theatrical admissions remain significantly below their pre-pandemic levels, and digital revenues have not replaced the decline in DVD revenues and pre-sales. After the credit crunch, gap funding dried up and has not returned. This was an early sign the business would be less predictable and a lot harder to make work.

As the costs of producing a UK independent film have increased, revenues have fallen. Theatrical windows have shrunk and are likely to decline further. Nevertheless, there is confidence that the theatrical market is not going to disappear, although current trends may mean that fewer films are shown and cinema screens are further dominated by major studio blockbusters.

The effects of these trends in the UK mean that the traditional business model of an independent film company working only on independent theatrical films is rapidly disappearing, especially as films can no longer be financed on pre-sales plus public money alone. Companies need to be involved in other business areas to be sustainable, with an increasing number venturing into, or bolstering their focus on, television production in particular.

Against the backdrop of these sectoral challenges, there is a recognition that the independent film sector, as supported by public funders, remains a vital asset, notably in supporting distinctively cultural voices. Independent UK film helps open people's eyes to the world in novel ways; it helps people living in the UK share their own stories; and it develops a pipeline of new creative talent – many of whom go on to work on inward investment projects and globally.

A key area of support from public funders is therefore a focus on UK stories and talent. The development funding provided to projects by public agencies – which can be very challenging to source elsewhere – is also critical.

There is currently a proposal to privatise Channel 4 and there are very serious concerns about the impact of this on the financing of independent film in the UK since, alongside BBC Film and the British Film Institute (BFI) Film Fund, Film4 is one of the three cornerstones of public funding for independent film in the UK. Film4 currently invests £25 million annually in film development and production, while BBC Film invests £11 million and the BFI invests £26 million.

There are some who believe that the combination of these challenges amount to an existential threat for the UK independent film production, distribution and sales sector. When making productions not financed or bought by SVoD players, it is likely that the sector will be even more dependent on public funding.

3. THE UK GOVERNMENT'S 'LEVELLING UP' AGENDA

One of the UK Government's political priorities is what it calls 'levelling up' the nations and regions of the UK, thereby reducing economic disparities between London and the South East of England and the rest of the UK.⁵ There is a particular focus on this in England as in the other three UK nations of Scotland, Wales and Northern Ireland, some important Government

⁵ Government unveils levelling up plan that will transform UK. Accessible at <https://www.gov.uk/government/news/government-unveils-levelling-up-plan-that-will-transform-uk>

competences such as education and skills development are devolved to the administrations in those individual nations.

Consultees reported strong growth of certain parts of the audiovisual sector in parts of all four nations of the UK. Indeed, there is an increasing focus on support beyond independent film as it is recognised that independent film alone does not provide sufficient sustainability for companies. This has led to increased public investment by the national and regional screen agencies in television drama, non-scripted shows, video games, and other interactive formats.

Despite the broader economic challenges brought about by Brexit, and the challenges for independent film in particular, the UK's screen industries overall are expanding and are one of the key drivers of economic growth. Inward investment has been key in stimulating the creation of highly skilled jobs and contributing to the growth of GDP.

Consultees from different types of organisations and companies commonly cited economic impact as being one of the key arguments that have the potential to be effective in convincing the government of the importance of film funding. Moreover, there is significant potential for the economic impacts generated by the sector to increase across the UK given the overall sectoral growth and the fact that film and television production is less dependent on being situated within or near highly economically developed regions than other sectors.

Increased levels of production are already being reported in a number of areas across the UK – and particularly regarding HETV rather than film, which is traditionally more linked to the traditional hub of major studios around London. Northern Ireland, Wales, and Scotland have all hosted the production of significant projects, as have a number of regions of England.

4. TALENT DEVELOPMENT

The boom in content, particularly from streaming services, has led to severe shortages of both creative talent and, in particular, crew in the UK. Both increased investment and innovative solutions are needed. One example is the scheme run by ScreenSkills in partnership with Pinewood and Buckinghamshire and Enterprise M3 LEPs (local enterprise partnerships) which supports 1,000 people formerly employed in the aviation industry to transfer their skills into the screen industry.⁶

It is widely and strongly felt that the working conditions of the industry – in particular, long and irregular hours during production – can be off-putting to many including parents, carers and young people, especially because many roles are freelance. High-profile cases of sexual assault and bullying have damaged the perception of the industry and mental health has become an increasing issue among the workforce.

Significant changes in working practices are needed to make the sector more attractive to potential workers and to deliver a much improved quality of life and well-being for many of those already in the sector, thereby helping retention of people.

Access still needs to be significantly widened for under-represented groups including, but not limited to, ethnic minorities and disabled people.

Public film agency interventions, such as the BFI's Diversity Standards, are acknowledged as having had a positive impact. In February, 2022, the BFI also announced it would provide

⁶ *Heathrow Workers Offered Chance to Work in Screen*. Pinewood, 22nd October 2020. Accessible at: <https://pinewoodgroup.com/pinewood-today/news/heathrow-workers-offered-chance-to-work-in-screen>

additional funding for 'wellbeing facilitators' on projects it backs, to improve the working culture of the UK film industry.⁷

It is acknowledged that more needs to be done and that it is necessary for concerted efforts from public funders to implement further interventions to support and push the sector to improve and formalise recruitment and working practices. This should also help address skills shortages by opening up entry into the sector to a broader pool of workers.

5. SUPPORT FOR DISTRIBUTION

With the exit from the EU, and the UK Government's decision to withdraw from Creative Europe, the funding available for the theatrical distribution in the UK of films from countries participating in the Creative Europe programme has been lost. This is felt to be a significant challenge for the distribution sector, especially alongside the decline of cinema admissions in the wake of pandemic, which has severely punctured box office revenues for both distributors and exhibitors. Overall cinema admissions in the UK are generally felt unlikely to return to a significant portion of their pre-pandemic levels until at least 2024.

In February, 2022, the UK Government announced that its Global Screen Fund – initially set up as a one-year pilot of £7 million – would be extended for three years, with funding of £21 million to support UK films internationally. The DCMS fund is administered by the BFI.⁸

There is a perceived lack of support generally for independent distribution companies in the UK, while some felt that public agencies could be more strategic and forward thinking with the distribution plans of projects that they support.

6. EVOLUTION OF EXHIBITION

There is an ongoing shift of some parts of the audience away from theatrical cinema. This has been exacerbated by COVID-19, although the ongoing potency of theatrical release was underlined by the success of *No Time To Die* at the UK box office.

Among smaller boutique venues, there is discussion of putting more focus on optimising the *experience* of cinema-going, for example by focussing on improving the social environment. It is felt that there is a role for public film entities to help facilitate innovations in business models for boutique sites that do not have the expertise to do so themselves – providing that there are sufficient numbers of independent arthouse films to sustain the audiences needed.

There is also considerable concern over the reduction in the variety of films being shown in cinemas, with the potential for mainstream cinemas to become even more dominated by major studio blockbusters. Indigenous and arthouse films are increasingly dependent on smaller boutique venues, and the sustainability of those venues is therefore intrinsically tied to public support for the independent film sector. In the medium term, there is a desire for cinema operators to nurture audiences for a broader range of films.

7. COMMERCIAL AWARENESS

The screen industry lags behind others with regards to business skills, with companies tending to focus on projects rather than building sustainable companies.

Funding is not the only potential lever behind building companies, with discussion focussing on changing business models and developing skills. Improved market data and business

⁷ BFI to fund 'wellbeing facilitators' on projects it backs, to improve working culture. Screendaily, 2nd February 2022. Accessible at: <https://www.screendaily.com/news/bfi-to-fund-wellbeing-facilitators-on-projects-it-backs-to-improve-working-culture/5167159.article>

⁸ £21m for three-year UK Global Screen Fund. Pact, 2nd February 2022. Accessible at: <https://www.pact.co.uk/latest-updates/news/detail.html?id=21m-for-three-year-uk-global-screen-fund>

insights are needed to help build companies of scale. Alongside this, coaching and professional networks have an important role to play.

Another important strategy in maintaining commercially viable companies is following the approach of US streamers in utilising data to align with audience preferences. Whilst some streamers were originally tech companies first and producers second, some UK production companies are perceived to be filmmakers first and businesses second, with consultees pointing to a perceived lack of commercial awareness and under-used insights from audience data.

This is also symptomatic of an adjacent problem – an over-emphasis on creating films for niche audiences rather than films that a broader public would go to see. This criticism was levelled by some at production companies themselves, but also at film funders, with some consultees stating that there was insufficient emphasis on commercial potential.

8. METHODOLOGY

SPI undertook 24 consultations across the sector. Each consultation was conducted by video call. Stakeholders from the following types of companies and organisations were interviewed:

- 4 production companies
- 3 distribution companies
- 3 cinema owners
- 1 UK-based Streaming Service
- 5 national film agencies
- 3 regional film agencies
- 2 international sales companies
- 3 other types of companies/organisations, including a studio.