with

The case for an Audio Production Tax Relief

Contents

About AudioUK

AudioUK is the trade body for the audio-led production sector in the UK. AudioUK has four core priorities: Business; Representation; Community; and Excellence – and has over 120 member companies based across the whole of the UK, making high-quality podcast, radio, audiobooks and other audio-led content for a range of commissioning bodies as well as self-publishing.

AudioUK produces the annual Audio Production Awards[1], which celebrates craft skills in the industry.

It also runs the successful Audiotrain[2] skills training and mentoring programme, originally setting the scheme up with government funding.

AudioUK, along with Radiocentre, designed and oversees the administration of the Audio Content Fund[3] which distributes a grant from the UK government to fund public service content on commercial and community radio.

As a member of the DCMS Broadcasting, Film and Production Working Group, AudioUK produced guidelines for safe working in audio production during the COVID-19 pandemic and liaised regularly with government on the impacts of the pandemic on the sector. A survey of members was included in a larger report on the impact across the creative industries.

AudioUK has a diversity strategy and resources and is a signatory of the Equality in Audio Pact, an initiative to increase diversity in the radio and audio sectors.

Acknowledgements

This report was written by AudioUK, with the assistance of Rob Kenny from Communications Chambers, who supplied the financial analysis in Section 8 and advised on the overall report. Graphic design was by Bob Cree.

AudioUK is very grateful to Rob Kenny and Communications Chambers, as well as to all of the AudioUK member companies who assisted in the compiling of this report. Thanks also to Mike Hally who conducted and analysed the AudioUK Business Census referenced in this report.

[1] https://www.audiouk.org.uk/audio-production-awards/
[2] https://www.audiouk.org.uk/audiotrain/
[3] https://www.audiocontentfund.org.uk

Foreword

Like all audio producers, I have never known such an exciting time as this for our industry. The rise of digital formats and platforms has meant that where producers have previously had very few places to demonstrate their creativity, they now have multiple options.

Podcasting and audiobooks have been added to radio production as a major source of income, allowing companies to gain more regular and in some cases long-lasting work which in turn allows them to invest and build their businesses.

This is already happening in a major way in the US and as more and more international brands, broadcasters and others look to where it is best to invest in new content, the UK's well-established production sector is likewise in a good positon to take advantage.

The US remains a major source of competition however and also we are seeing other nations including the UAE invest heavily in their creative industries in general, of which radio and podcasting will no doubt be an element.

AudioUK has been pleased to work with government already on various projects including setting up and overseeing the £3m+ government-financed Audio Content Fund, the establishment of our Audiotrain skills programme and the development of sectoral guidelines for working safely during the COVID-19 pandemic.

We very much hope that we will have the opportunity to work with government again on developing an Audio Production Tax Relief which will help to ensure the UK stands at the front of this fast-growing part of the creative economy.

Kellie While
Chair, AudioUK

Executive summary

Audio production is a growing part of the creative industries, fuelled by the rise in the use of digital formats such as podcasts and audiobooks.

The UK has a strong audio production sector, originating in making high-quality radio programmes for the BBC. This sector has now branched out into a wide range of activities.

The sector makes a variety of content utilising a number of different business models. Its flexibility has been shown during the coronavirus pandemic and subsequent ability to work with government to produce fast-turnaround public service content via the Audio Content Fund.

Most productions are funded through external commissions, from brands, publishers, broadcasters and so on. Companies also self-fund productions.

Additional revenues can be raised through exploitation of IP across a range of platforms.

Podcasting has grown exponentially with around a quarter of the UK population listening every week, and significant growth in overseas markets, in particular the US.

It is now a major business with significant infrastructure and investment, and considerable potential for further growth.

UK audio production works with other creative industries sectors and helps to make the healthy creative ecosystem prevalent in the UK.

It has a highly skilled workforce which is dependent on a freelancer base. Regular work is important to sustain this base.

The podcast and wider audio market is growing fast and the UK has the opportunity to become a world leader.

UK podcast ad spend is forecast to more than double by 2024.

And companies are increasingly exploiting IP through live shows, merchandise, books and TV deals.

All of this activity helps, as with all our creative sectors, to promote the UK abroad in a positive light as we look to build and strengthen worldwide relationships.

We have already seen signs of support for audio production overseas and this could well grow as more countries wake up to the opportunity.

Even with a world-leading sector there is a danger the UK could fail to take advantage of the growing level of international investment that is present.

The introduction of an audio production tax relief (APTR) will help empower audio production companies to court inward investment to develop and expand audio content (e.g. audiobooks and podcast drama) for commercial exploitation in the domestic and global audio market.

We believe this will result in benefits not just for the sector itself but the wider creative industries, and the economy beyond it. And with many production companies being based outside London, it can also help to contribute to the levelling-up agenda.

The audio production industry strongly supports this measure as it would enable them to attract further investment and grow their businesses.

AudioUK has designed a possible model for how the tax relief could work, using the principles of other existing successful tax reliefs.

Communications Chambers has conducted financial analysis to show how the introduction of a tax relief could result in a net benefit to HM Treasury.

1. Introduction

AudioUK has been working to further the interests of the UK Audio production sector since 2004.

In that time, we have successfully worked with government, regulators and others such as the BBC and commercial radio, as well as latterly newer digital platforms like Audible and Spotify, to grow the sector and take advantage of our rich audio production heritage.

In this report, we set out the landscape in audio production, particularly in the fast-growing podcast sector where there is increasing investment available from international brands, broadcasters and others.

We look at the UK's potential to harness its growth for the good of our sector and the wider economy.

We show how, in the next phase of growing the sector, an audio production tax relief (APTR) could deliver significant benefits as we seek to position our sector as a world leader.

We have set out a potential model of how it works and, with the help of Communication Chambers, we have provided modelling on how an APTR could produce a small net gain for HM Treasury.

2. The business of audio production

2.1 The UK audio production sector

The UK has a vibrant independent audio production sector, largely initiated by external radio commissioning by the BBC and now finding itself with an increasing number of alternative markets and opportunities. Whereas in the past production has been focussed on radio, podcasts and audio books are increasingly important as these markets see rapid growth. Moreover, unlike radio, these markets are international, and this means UK audio producers have the opportunity to work on a global basis, bringing commissions to the UK and taking UK culture to the world. We are advantaged by our native use of the English language and US content commissioners' familiarity with the UK. Thus – with the right support - audio can become another successful exporting creative industry, alongside film, TV, videogames and other sectors.

The audio production sector is made up of creative SMEs, mostly with ten full-time employees or fewer, but with a strong additional freelance base. While there are a number of companies based in London, including several relatively larger ones, there are also many companies based around the UK nations and regions. While each individual company may have a number of specialisms, as a whole the sector works on a variety of audio-led products and services. It has a growing number of routes to market for these.

It is hard to put an overall value on the sector due to revenues being split into various models, and companies being engaged across many activities - not all of them audio-led. Our 2019-20 business census showed a figure of £43m industry turnover, and today's figure is likely to be higher, since this is a fast-growing sector with many new entrants, even during the pandemic. AudioUK's membership has grown by over 20 companies since the census and many of those are significant concerns in the podcasting world, for example the award-winning Novel and the Bertelsmann-backed Storyglass. Also while AudioUK represents the majority of the sector there is also additional activity.

While the pandemic caused a slowdown in the sector, especially regarding the BBC where there was a temporary halt in commissioning, it has now grown back to pre-pandemic levels and the BBC it has accelerated commissioning to bring spend on radio/audio up to planned levels. We therefore believe the real current level of industry turnover is now significantly higher.

2.2 Audio products and services

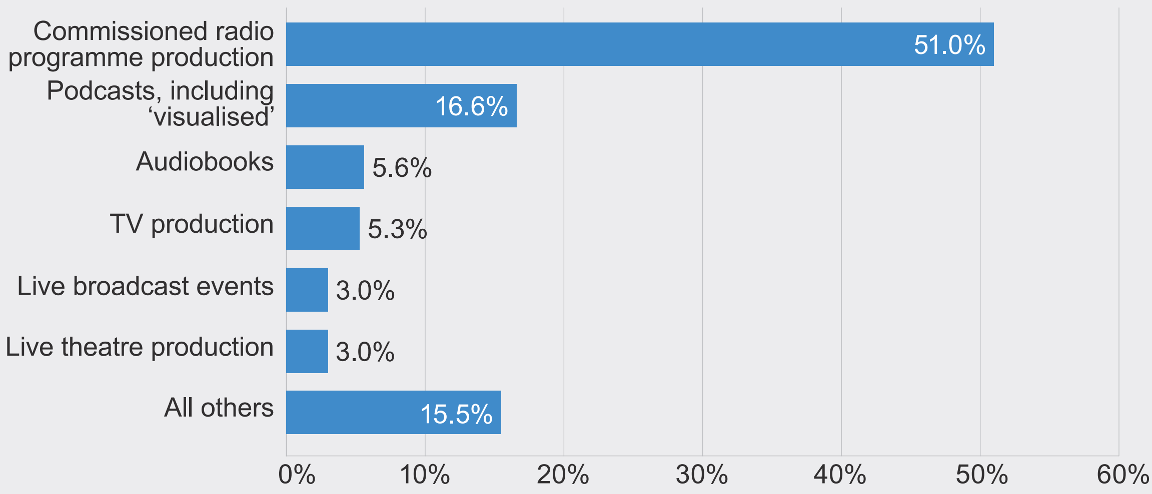
'Audio production' involves an audio-first approach to planning, designing and creating content which is, or can be, a wholly audio experience. It does not encompass pure music production but it can encompass programmes centring on music artists or performance. Audio production encompasses radio programmes (live and pre-recorded), podcasts, audiobooks, audio games, audio guides, radio station branding and sound design and a variety of other audio-led content. Some of these activities are carried out by in-house teams within broadcasters, book publishers and so on, but all of them are practised by the independent audio production sector.

2.3 Business models

The independent sector is made up of a variety of companies. Some of them focus purely on a few genres. Boffin Media[4], for example, specialises in factual science content, while Somethin' Else[5], one of the largest companies in the sector, operates across a range of genres including music, documentary, celebrity interviews and so on.

The sector has branched out into many forms of production, as demonstrated by our 2020 Business Census, which indicates no fewer than 16 revenue streams, although not all of these are audio-related. 51% of revenue came from commissioned radio production (the same proportion as in 2015). The most striking rise is in podcasting, at 16.6%, up from 3.4% in 2015

Types of Audio Producer Activity



Source: AudioUK Business Census 2020[6]

[4] https://www.boffinmedia.co.uk/
[5] https://somethinelse.com/
[6] Note: 'All Others' includes: Audio CD production; New media; Media training; Radio/audio production training; Studio hire; Video production; Live comedy production; Video & audio gaming; Branding/jingles; syndicated audio content i.e. Entertainment News; Consultancy; Radio ads; audio rights consultancy; Sound for animation; Sound installations; New Creatives BBC/Arts Council England Initiative; events non-broadcast

The key change is that where, in the past, radio production relied on commissioning, mainly from the BBC, there is now a much wider range of commissioners of content, increasingly at an international level through international broadcasters like Netflix and platforms such as Acast and Spotify. There is also the option to self-publish and gain a return on investment via subsequent IP exploitation. Some producers have partnerships with large international media companies such as Somethin' Else's podcast venture with Sony[7] (which has subsequently led to Sony purchasing the company outright) and Novel's partnership with iHeartMedia[8].

2.4 Securing production budgets

In order to fund a production, producers have several methods open to them.

Firstly they can compete for funding from media organisations which commission content. Examples are the BBC, the government-financed Audio Content Fund and in some cases commercial radio. They can also approach, or respond to tenders from, organisations and brands wishing to promote their service or products or to communicate with their audience base, whether that's members of the National Farmers Union or users of Yamaha music products.

Where companies have sufficient capital to invest they can also choose to self-finance a production and distribute it via online platforms such as Acast, Spotify, Apple and so on. The platform involved would take a share of any advertising or subscription revenues.

These platforms are also increasingly beginning to commission their own content and fund it up front, with companies such as Spotify establishing commissioning teams in various key territories including the UK. These companies have global budgets so there is the opportunity for the UK to expand its share. Given it is an internationally competitive market. no certain level of commissioning in the UK is guaranteed. To make UK production more financially attractive would, allied to the professionalism of the sector, therefore bring a real benefit in terms of attracting more investment.

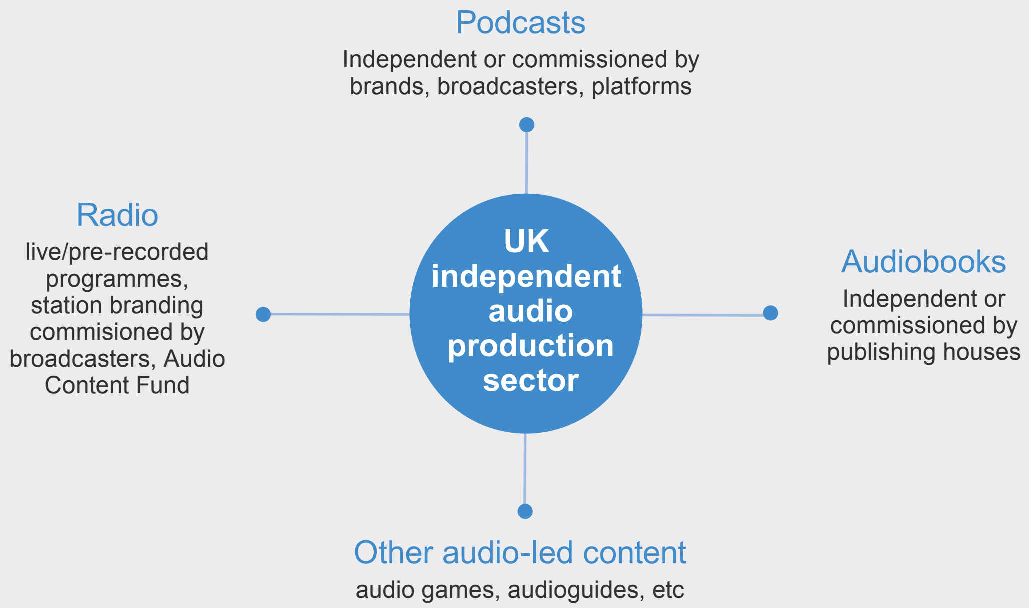
Of the 44 companies responding to AudioUK's 2020 Business Census, 42 mentioned the BBC as one of their clients. Audible was cited by 11 companies, the Audio Content Fund and Bauer by four, Penguin Random House, Sky, and Spotify by three, and Apple Corp, Amnesty International, the Manchester International Festival, Red Bull, and Swarovski were each mentioned by two companies.

Worth particularly noting however is that in addition to the above 11 most commonly-cited brands, a further 118 organisations were mentioned by one company each, comprising national, foreign and international broadcasters, various creative organisations, numerous commercial brands, book publishers, educational establishments and so on.

In addition, 12 companies reported working with other companies as co-producers. These ranged from international corporations, through national radio stations, inside and outside the UK, to a variety of independent audio and theatrical production companies.

[7] https://somethinelse.com/news/somethin-else-and-sony-music-join-forces-in-podcast-venture/
[8] https://podnews.net/press-release/iheartmedia-novel

The reach of the audio production sector



2.5 Revenues from exploitation

Different broadcasters and platforms make different types of deals with producers. AudioUK negotiates formal terms of trade with the BBC for radio programmes or podcasts which derive from radio content, plus the BBC consults AudioUK on its separate podcast framework terms. Depending on whose IP the programme is, it can be exploitable by the producer[9]. Elsewhere the producer individually negotiates with which platform, brand or broadcaster is commissioning the content. In the case of the Audio Content Fund, the IP is not taken in return for the finance of the show, meaning the producer and broadcaster can agree on any subsequent exploitation.

Whether it is the BBC or Spotify, the rights and percentages agreed will depend on the IP lies with the producer or the commissioner. Spotify, depending on whether they are financing the commission, will make different deals regarding share of revenues from IP.

In some cases there are opportunities for merchandising and also negotiating options for TV series and/or books using IP from an audio programme or format.

2.6 The podcasting revolution

The most significant development in audio production has been the emergence of the podcast as a popular form of content. A podcast is an audio production, normally created as a series of episodes or a permanent regular programme, which can be streamed or downloaded by a variety of digital devices including smartphones, tablets, computers, smart speakers and so on.

[9] Note that at time of writing, AudioUK is formally re-negotiating BBC Terms of Trade and being consulted on podcast terms

Communications regulator Ofcom summed up the reasons behind the rise of podcasting in its 2019 Media Nations report: "*There is no firm definition of a podcast, but in essence they are episodic speech-based pieces of content, primarily audio-based though some also have accompanying video content. They lend themselves to the current era of convenience: they are generally relatively short and can be consumed as and when it suits the individual. Podcasts are heterogenous; the range of organisations publishing podcasts, their genres, business models and production schedules are all very broad*"[10].

Podcasts are distributed via online platforms. Users can install an app on their device and use this to build a library of content from which they can choose any programme they wish to listen to at their convenience. Being downloadable they can be used anywhere, e.g. on any type of transport or in remote areas with poor network coverage. The big advantage of audio is that it can be enjoyed while also undertaking other activity – recent Ofcom Podcast Survey figures showed that some of the more popular activities were housework, walking, travelling (in car or public transport) as well as simply relaxing[11].

Podcasting as a content form is showing significant growth in the UK. Ofcom's 2021 Podcast Survey showed that podcasts have a 25% weekly reach among the adult UK population[12], up from the 18% reported by RAJAR's separate MIDAS survey in 2020[13]. The MIDAS survey also revealed that 79% of listening is done via smartphone, usually accompanying travel or other activity, showing how modern portable technology has aided the consumption of audio.

Last year's initial pandemic lockdown, beginning in March 2020, caused an increase in the use of certain media, including audiobooks and podcasts[14]

Audio producers are becoming increasingly able in the market and dedicated business affairs expertise is allowing them to maximise revenue through pricing of the initial product plus share of revenues from further exploitation. AudioUK offers dedicated legal and business affairs support to its members to ensure that they can be best able to take advantage of these new markets and make the best deals with platforms, brands, broadcasters and others.

MIDiA's 2019 'State of the Podcast Nation' report stated that "*Podcasts are a Netflix moment for radio, creating a golden era for radio and radio-like content*"[15].

And Ofcom's June 2021 'Online Nation' report concluded that "*Podcasting and non-music audio is becoming a more monetisable medium… the strong growth suggests podcasts are increasingly part of marketers' budget plans. This may reflect global trends: in 2019 in the US, advertising spend on podcasts through annual budgets (rather than more ad-hoc spend) had increased by 23 percentage points to just 47% of total spend on podcast advertising (IAB, US Podcast Advertising Revenue Study, 10 July 2020). Podcasts may also boost subscription revenues for the online audio sub-sector in coming years as it moves beyond advertising: both Apple and Spotify launched podcast subscription platforms in spring 2021*.[16]"

[10] Media Nations: UK 2019. Ofcom Aug 2019, p99
[11] See chart on 'When do you usually Listen?' in audio expert Adam Bowie's commentary on Ofcom's 2021 UK Podcast Survey here: https://www.adambowie.com/blog/2021/04/ofcom-uk-podcast-survey-2021/
[12] See chart on 'How often do you listen to the following?' in audio expert Adam Bowie's commentary on Ofcom's 2021 UK Podcast Survey here: https://www.adambowie.com/blog/2021/04/ofcom-uk-podcast-survey-2021/
[13] MIDAS Spring 2020. RAJAR 2020
[14] Media Nations 2020: UK. Ofcom, 2020 p11
[15] Mulligan, Mark. State of the Podcast Nation. MIDIA, July 2019, p3
[16] Online Nation. Ofcom, 9 Jun 2021, p141

Podcast genres and formats

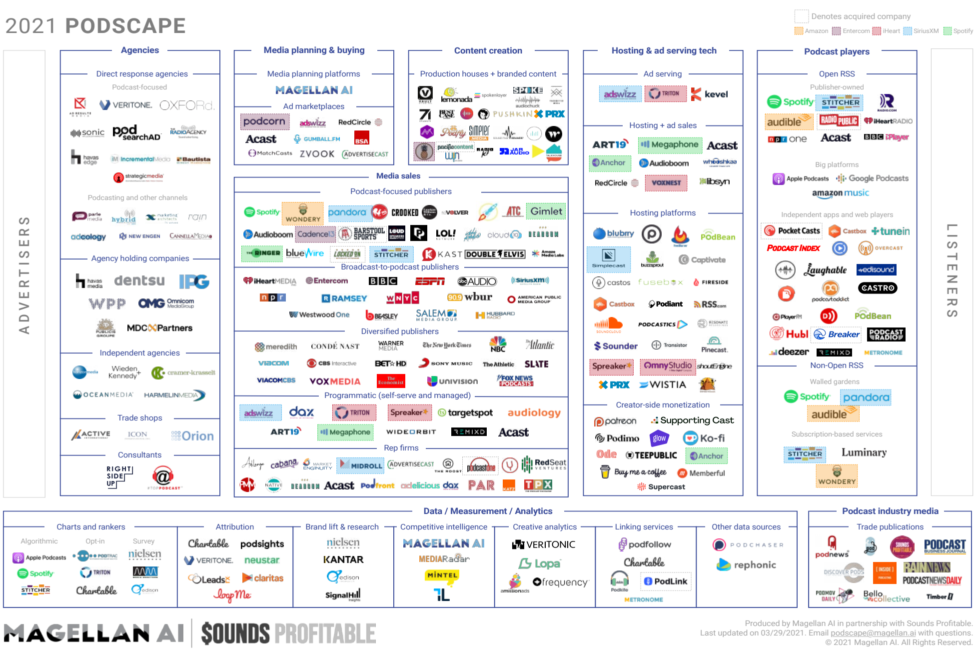
Podcasts are made in a variety of genres, with some of the most popular being:

- Celebrity interviews (*Table Manners, David Tennant Does a Podcast With…, Who We Be Talks, Duvet Days*)
- Expert discussion (*Newscast, The Diary of a CEO, Techstuff*)
- Factual reportage (*The Fault Line: Bush, Blair and Iraq, Interconnected Voices, Your Broccoli Weekly, Power: The Maxwells*)
- True Crime (*Redhanded, Who Killed CJ Davies, Serial*)
- Sport (*Totally Football Show, Giant, Tailenders*)
- Comedy (*Answer Me This, The Korrupt FM Podcast, No Such Thing as a Fish*)
- Drama (*Passenger List, Dem Times, Dan Dare*)
- Arts & Culture *(Shade, The Secret Life of Songs, Empire Film Podcast)*
- Lifestyle (*How Did We Get Here, Dewr, A Gay and a Non-gay, Happy Place*)

Many podcasts blend these genres or use a format to explore a particular niche subject. For example the award-winning Griefcast features presenter and comedian Cariad Lloyd discussing grief and loss with a different celebrity in each episode.

Podcasting has taken its place among other creative businesses, in turn creating the typical business infrastructure to create a complicated 'podscape', as mapped out by Magellan AI, shown below[17]. This shows that podcasting has long since moved beyond its 'hobbyist' origins, and now has a rich and vibrant business ecosystem with specialists addressing production, distribution, monetisation and so on.

It is worth noting that this podscape is primarily US-focussed, and had it been more internationally-focused it could have included some of the UK's bigger players, nevertheless that US focus tells its own story as to the dominance of that country in the podcasting world to date.



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The sector also now features a number of major international conferences including Podcast Day 24 (online conference hosted by Radio Days Europe in June 2021), The Podcast Show (due to take place in London in 2021, now postponed to May 2022 due to the pandemic) and the world's largest podcast gathering, Podcast Movement in Nashville in August 2021.

[17] Full resolution podscape available at https://www.magellan.ai/resources/reports/the-podscape

Podcasts as a medium are also celebrated in high-profile awards ceremonies - in the UK alone there are the Audio Production Awards (APAs), the British Podcast Awards and the Audio and Radio Industry Awards (ARIAS) as well as the international New York Festival Radio Awards. Podcasting also features in many other media production award ceremonies.

We have also seen the recent launch of a range of launches of audio social media apps and platform extensions, examples being Clubhouse, Spotify Greenroom, Twitter Spaces and Telegram.

2.7 The growth of audiobooks

The flexibility and portability of audio content listening has also benefitted audiobooks. The Bookseller magazine reported on Nielsen survey figures in March 2021 for the UK market, which indicated that "*Audiobooks rose 22% in volume year on year, the sector's seventh year of growth, and jumped 16% in value*"[18].

Elsewhere, the Publishers Association reported that in the 2020 UK audio download purchases had grown to £133m, an increase of 37%[19].

Audible, an Amazon company, has a dedicated business and production commissioning team in the UK and has worked extensively with the sector. It commissions companies to produce audiobooks of new and existing works but also original audio drama and podcasts.

2.8 Audio production and risk

While sunk costs in audio production are smaller than TV, they do nevertheless exist. To build a company of any scale, the owner must: purchase/lease office space and audio recording and editing facilities; high-end equipment including mixing desks, microphones, still and video recording equipment; take on permanent employees.

Clearly investing in staff, facilities and equipment is a risk and one which many companies find the hardest decision. This is because for many, workloads can vary significantly, given the reliance on commissioning decisions made by others. There can also be variance in the market – for example at the onset of the coronavirus pandemic many brands and others reduced or halted their promotional spend due to concern about consumers' reduced ability to respond.

Notwithstanding this, the Policy and Evidence Centre 2020 consumer tracker survey[20], conducted to measure media use during the pandemic, showed that podcast listening held steady at 24% for the weeks it was measured[21].

While some longer-term commissions exist (with the typical BBC strands tender awards lasting three years for example) many commissions are shorter term and therefore indies need the ability to scale up – and down. Thus the industry makes much use of a strong freelancer base as well as making extensive use of hired studio facilities. Production companies with their own studios also hire them out to others such as independent podcasters and audiobook talent.

[18] O, Brien, K. Nielsen survey finds digital formats booming in record year for book sales. Bookseller, 29 Mar 2021
[19] Publishing in 2020. Publishers Association, Apr 2021
[20] Digital Culture Consumer Tracker Survey – Wave 9. PEC/Nesta Nov 2020, p25
[21] Radio and podcast listening were not initially included in this study, but at the request of AudioUK they were introduced in Week 6 of the nine-week survey

Some companies are comfortable with maintaining a relatively low base of permanent employees, and using a variety of freelance talent. Others are keen to build businesses but again this relies on a certain level of regular income which the sector needs to achieve by gaining access to every possible market in a significant way, including internationally.

3. The economic importance of UK audio production

3.1 Employment

We estimate there to be around 180–200 audio production companies in the UK. There are also a range of individual freelance podcasters who will no doubt look to build their businesses or join larger ones as the sector grows and demand rises for more audio content.

Our 2015 Business census identified over 1800 staff in the production sector and given the large growth in podcasting and the audio production since then, it is reasonable to suggest that will have grown and has the potential to continue to do so, notwithstanding the temporary difficulties caused by the pandemic.

3.2 A highly skilled workforce

While the podcast sector shows that anyone can make a podcast with a small amount of equipment and technical knowledge, to make a high-quality audio production requires a much deeper level of expertise. The new investors coming into podcasting require delivery of content on time at a high quality on a regular basis. Experienced audio producers can provide the assurances investors need to put significant money into commissioning. With the UK having developed a workforce that can deliver this to scale, it is unsurprising that platforms such as Audible and Spotify have based commissioning teams in the UK.

3.3 Supporting a wide range of other industries

Audio production feeds into other creative industries in a number of ways. For example, broadcasters are increasingly seeing podcasts as a way of piloting an idea for a relatively inexpensive budget. If the programme or format is successful then it can be adapted for television and its audio audience brought across to that show – as an example the podcast Newscast is now also a BBC1 television show.

Audio production companies are also responsible for producing live music shows and putting together showpiece events to highlight music artists. Scripted formats such as audio drama and comedy employ writers, actors and directors from TV, theatre and so on. They also make use of theatre facilities and other locations to record shows.

An increase in audio production activity will also help make freelance careers across multi-media sectors more viable. Audio producers are, as said above, able to apply their skills to areas such as theatre, live music and events and so on. So a strong audio production freelancer base will create added skills bases for these other areas at a time when they are looking to recover and grow post-pandemic and following the changed relationship with the EU.

In addition AudioUK members are also involved in sound design and sound production for other creative content such as video games.

There are audio production courses run by a number of universities, including Birmingham City University[22], University of Sunderland[23], Bournemouth University[24], Goldsmiths College and others[25]. While there is a question mark over some of these given the government's proposed reduction in funding for arts subjects, they currently help to provide a number of qualified entrants to the audio production skills market.

4. The opportunity for UK audio production

4.1 Starting from a position of strength

Compared to many countries the UK is in an advantageous position due to its long-standing professional audio production sector. This sector grew out of the rise in independent production and originally mainly existed to serve BBC Radio networks. The sector continues to produce a wide range of programmes for all of the BBC's Radio Networks, although there are some restrictions on which programmes are made available. The current BBC Charter requires the BBC to make at least 60% of its non-news radio network programming available to external competition by the end of 2022.

4.2 The opportunity to become a world leader

With the change in the UK's relationship with the EU, it is more important than ever to continue to take advantage of the Britain's lead in creative industries by ensuring that the full suite of production expertise is being marketed and promoted abroad. This is the optimum time to market the UK's expertise in every sector where it can demonstrate genuine prowess. UK audio production companies are already targeting the US for commissions as they see a vibrant podcast sector with money to spend. A tax relief will help to shine a light on the UK's industry at a time when there is rapidly increasing investment in production in podcasting and audiobooks.

4.3 A fast-growing market

Audio production is increasingly becoming involved in other forms of media and creativity – for example we are now seeing audio content used to enhance other creative sectors, such as the commissioning of podcasts to accompany TV series (as one example, UK audio company Somethin' Else produced the companion podcast for Netflix's The Crown) or as cost-effective ways of piloting content.

Podcasting is seeing increased investment in the US, where trends are ahead of the UK. Podcast advertising in the US is estimated to exceed $1bn this year[26].

While audio production budgets are smaller than screen content production budgets, podcasting is an area which is seeing considerable growth, for example in terms of the amount of advertising revenue attracted by the medium, in the UK, podcast ad spend amounted to £33.56m in 2020. By 2024, UK podcast ad spend is forecast to reach almost £75m[27].

[22] https://www.bcu.ac.uk/media/courses/postgraduate-media-production-courses
[23] https://www.sunderland.ac.uk/study/media/postgraduate-radio/
[24] https://www.bournemouth.ac.uk/study/courses/ba-hons-music-sound-production
[25] https://www.gold.ac.uk/pg/ma-radio/
[26] https://www.emarketer.com/content/us-podcast-ad-spending-surpass-1-billion-next-year
[27] https://www.statista.com/forecasts/1147738/podcast-ad-spend-uk
[28] Mulligan, Mark. State of the Podcast Nation. MIDIA, July 2019, p3

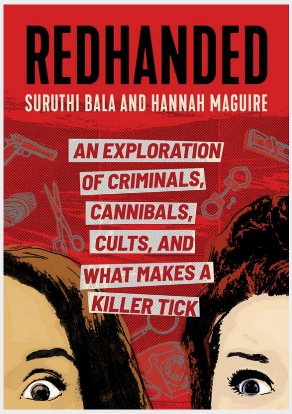
It is worth noting that a greater proportion of revenue is returned to podcast creators than in some other mediums, with State of the Podcast Nation reporting that "*podcast creators typically earn around 50% of revenue, compared to between 15% and 35% for music artists*"[28]. So growth in the podcast market will bring greater benefits in terms of allowing companies to gain more revenue, thus begin able to reinvest in further content, employing more staff and so on.

4.4 Potential for rights exploitation

Production companies have increasing opportunities to exploit successful IP created for a podcast programme or format. TV and / or book adaptations, live tours and merchandise are just some of the potential ways of creating greater value from podcast IP. The extent to which the producer holds the rights will depend on a negotiation with the platform or broadcaster concerned and whose idea the content or format originally was. Increasingly companies are looking to develop unique IP which they can use to create greater value of their company.

Examples of IP exploitation

Successful podcasts' IP has been exploited in a wide range of ways. Some examples are: production company TBI Media has adapted its successful *Tailenders* cricket podcast into a hit show staged in various venues across the UK; the creators of the hit true crime podcast *Redhanded* have published a book based on the show. Meanwhile Fearne Cotton's *Happy Place* podcast has extended into both events and publishing; the hit podcast *My Dad Wrote A Porno* was adapted for a TV show on the HBO US TV service, as well as a book and live show; the highly-successful *The Receipts* podcast has become a book and live show as well as selling merchandise such as clothing, plus its three female hosts are now working on TV formats; the *Off-Menu* podcast likewise has spawned books, live shows and a wide range of merchandise including bags, clothes and mugs; and singer Jessie Ware's *Table Manners* podcast is also now a live show.



4.5 Promoting the UK abroad

Podcasts can tell stories and promote locations in Britain as well as showcasing talent in the UK performing arts, thus leading to a potential increase in tourism, particularly important in a post-pandemic world as people once again begin to travel. Given the need for the UK's performing arts sector to recover post-pandemic and with the changing situation regarding working in the EU, it is important for the UK's audio sector to support this by gaining as big a foothold in the international podcast and radio markets as possible and in the process promote UK talent, places of interest to travellers and so on.

5. The challenges ahead

5.1 Industry profitability

Radio and audio have a unique bond with the listener and have a good deal of audience loyalty. Despite this, radio production budgets are far smaller than TV and have been declining in real terms in some areas. The BBC recently had to seek to correct the fall in drama budgets by commissioning fewer hours but for a greater cost per hour.

The BBC has been a significant investor in radio and audio. However with cuts plus the real-terms decline in the TVLF this has fallen from £504m in 2019 to £494m in 2020[29] and this trend is expected to continue. The Audio Content Fund, currently commissioning just under £1m a year of content, has added a boost to producers of radio, but its future is currently being reviewed and while AudioUK is keen to see it continue on a permanent basis, this still will not offset the lower investment from the BBC. Other broadcasters are of course starting to commission more podcasts and to an extent this is creating a new market for audio production companies.

5.2 Overseas support for audio production

While we are not currently aware of a tax relief system in operation elsewhere, there is at least one Government-supported fund to support podcast creation.

The Canada Media Fund (CMF) has been created to "*assist in the creation of successful, innovative Canadian content and applications for current and emerging digital platforms through financial support and industry research*." The CMF operates on a budget of approximately CA$375 million. One of its funded projects the 'Convergent Stream' is designed to support the creation of multi-platform projects: "*A digital media component must be rich, interactive content, such as games, interactive web content, podcasts, on-demand content, webisodes and mobisodes*".[30]

Experience tells us that where an opportunity is identified to bring in additional international investment, other countries will look to create a means to do so. Other creative sectors such as animation and video games have shown how other countries will create schemes to support their own sectors, with podcasting such an exponentially-growing medium, in our opinion it is only a matter of time before we start to see such schemes appear elsewhere.

5.3 The future for UK audio production, absent government action

We have shown how podcasting is growing rapidly but with the US very much in the forefront. The State of the Podcast Nation report noted that "*in 2018 global podcast ad revenues were $692 million, with North America accounting for the majority on $490 million, and the US representing the bulk of this figure. The fact that the US has such a dominant role in the global landscape reflects both the sophisticated nature of the digital ad business and that the US is the world's largest radio market*"[31].

[29] BBC Group Annual Report and Accounts 2019/20. BBC, 2020, p50
[30] Producing in Canada: a guide to Canadian film, television and interactive media incentive programs. Dentons, 2019, p15-17
[31] Mulligan, Mark. State of the Podcast Nation. MIDIA, July 2019, p22

This shows the head start the US has gained. If we do not seize the moment to shine a spotlight on the UK's highly professional sector, with its attendant capacity to deliver high volume and to the desired standard, there is a danger that the US will simply be the default place to go for anyone wishing to commission audio production and the UK will continue to follow very much in its wake, attracting a much lower level of investment.

This will be compounded if we see further schemes arise in other countries, such as the Canada Media Fund described above, which seek to provide government support for podcast production.

6. The case for an audio production tax relief

6.1 Success of current tax reliefs

The Government first introduced a tax relief for British film in 2007 and following its success in attracting further investment, many more creative tax reliefs have been introduced. These are for: Animation (ATR); Children's Television (CTR); Film (FTR); High-end Television (HETR); Video Games (VGTR); Museums and Galleries Exhibition (MGETR); Orchestras (OTR); Theatre (TTR).

These tax reliefs are widely recognised to have attracted more investment into our creative industries, with investors encouraged by the lower tax costs of financing production. In 2018 the BFI reported that "*production supported by the UK screen sector tax reliefs, reached a record total of £3.16 billion in 2016. Film production represented 54% of this total, but there are strong contributions from HETV (28%) and video games (12%)*"[32].

This investment in screen-based content, encouraged by the tax reliefs, has led to an increase in production facilities in the UK and aided the development of creative hubs in London, Cardiff, Glasgow, Manchester and elsewhere.

6.2 The potential for an audio production tax relief (APTR)

With an already-established professional sector, the UK is in a good position to become one of the major global centres of audio production.

An APTR will help empower audio production companies to court inward investment to develop and expand audio content (e.g. audiobooks and podcast drama) for commercial exploitation in the domestic and global audio market. We are already seeing some signs of this, for example Audible and Spotify have London-based executives, and US podcast companies Stitcher (now part of SiriusXM) and Wondery (itself now owned by Amazon) have invested in UK company Podfront. Production house Storyglass has been launched as a standalone company in June 2020, by Fremantle, Penguin Random House UK, BMG and DK as part of the Bertelsmann UK Content Alliance. If tax incentives were available, then we believe the opportunities to co-produce would exponentially increase.

We believe that an APTR will help secure larger budgets – either UK investment in a project or co-production money from more than one territory. We therefore believe there would be a net growth in Treasury receipts from the APTR's introduction.

[32] Screen Business: How screen sector tax reliefs power economic growth across the UK – Summary report. BFI, Oct 2018, p11

It is also worth noting that, given that there is a significant increase in investment in podcasting, audiobooks and studios, it is clear that this is a pivotal time to be making the UK audio production sector more visible and attractive to international investors – a tax relief would shine a spotlight on the size and expertise of the UK sector, thus attracting further investment in the UK rather than elsewhere.

6.3 The post-pandemic factor

The coronavirus outbreak has affected every area of the creative industries, and the skills base, which in audio has a significant freelancer element, is in danger of being eroded. In a survey of the sector carried out last April, AudioUK found that 72% of the 47 companies responding had experienced a downturn in business, leading to the releasing of 25% of freelance workers overall. This effect on freelancers is continuing, as evidenced by the ongoing demand for the Audio & Radio Emergency Fund (AREF), set up by AudioUK and others to alleviate financial stress among these production workers. The AREF has administered over 160 grants, totalling over £75,000.

The virus has continued to have an impact on commissioning and the production of certain types of content, although the relaxation of lockdown in most of the country has helped to restart some of this activity.

The comparative flexibility of audio production has meant that, relative to sectors such as television, more production has been able to continue on some level, however there has been a decline in commissioning, both by brands and broadcasters, plus a substantial decline in ad revenue from self-publishing. As we see commissioning continuing to rebuild in this year, an audio production tax relief would be a genuine boost to Building Back Better in the sector and give the UK a head-start in pushing for further growth.

6.4 Benefits for the wider creative industries

Regarding the screen industry sectors, the BFI noted that even the smaller sectors have gained significantly in ways that go beyond the additional financial investment and that in turn brings further benefits to larger sectors: "*The tax reliefs for animation and children's programmes supported production of £97.1 million and £61.0 million respectively in 2016, and whilst these are smaller sectors, the tax reliefs underpin their future economic sustainability. Animation in particular, supports a wide variety of screen sector activity across film (supported by the FTR), visual effects and video games (supported by the VGTR)*"[33].

This illustrates how the tax reliefs constitute a holistic approach to ensuring our creative sectors are healthy. Audio production techniques are of course employed in the screen-based content industries, with sectors such as video games and animation particularly benefiting from the added realism of using genuine sound effects and voices to increases realism.

6.5 The Levelling-up agenda

It is worth noting that 70 of AudioUK's 122 member companies are based outside London, based on membership figures from May 2021[34], so increased investment in the sector would help to support the Government's Levelling-Up agenda.

[33] Screen Business: How screen sector tax reliefs power economic growth across the UK - Summary report. BFI, Oct 2018, p11
[34] An up-to-date map showing the location of AudioUK members can be found at: https://www.google.com/maps/d/u/2/viewer?mid=1-991vUYSAiNSbxEVOtzrKYk7phZgzXKG&ll=52.439006718940504%2C-0.5129931002220545&z=7

The Audio Content Fund has shown the potential of these companies to grow and achieve further success, with 60% of the suppliers funded in its first year being outside London[35], delivering projects to a large number of broadcasters. This shows that given the opportunity, out-of-London companies can supply high-quality content with a range of suppliers. This content has included production in the UK's indigenous languages.

Additional incentives for investment in the UK sector would provide more opportunities for all production companies around the UK to work to gain such additional finance, using their skills and entrepreneurship. This could only help to enable such companies to grow and provide either more permanent jobs or a greater number of freelance roles, plus spending more in the local economy.

6.6 The multiplier effect

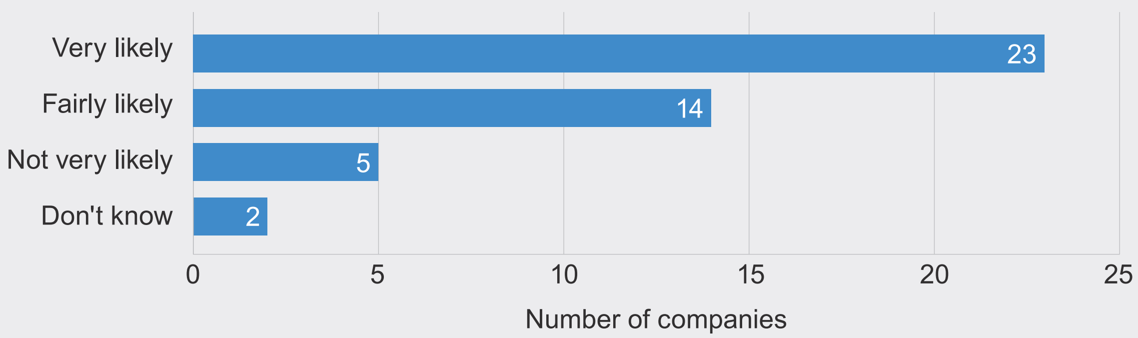
Audio production's indirect impact includes the purchase of supplies and services from a variety of other sectors, for example legal advice, talent agencies, equipment suppliers, and event venues. We therefore make the assumption that, as is the case with many creative industries, the UK audio production sector also generates significant multiplier effects via indirect and induced impacts, creating a 'multiplier effect'.

Similarly, there is the induced impact on the other segments of the audio sector value chain – studios for example – also purchase supplies and services from other sectors – from construction to cleaning - and thereby increase income and employment in the wider economy. Audio sector contributors and staff, along with workers employed in the other value chain sub-sectors and suppliers, also re-spend their income within the UK economy, thereby generating further economic activity.

6.7 Industry perspective

In 2020 AudioUK carried out our third Business Census of companies in the audio production sector. We reproduce the answers below as analysed and presented by our independent researcher. In terms of their seeing a tax relief being something which would like grow the sector, combining 'very likely' and 'fairly likely' gives us 84% (37 of the 44 companies) responding positively.

Answers to Question: *"How likely do you think it would be for such a tax relief to help grow the UK audio production sector overall?"*



Source: AudioUK Business Census 2020

[35] Figure from Audio Content Fund: https://www.audiocontentfund.org.uk/2020/06/10/acf-annual-report/

Quotes from UK Production Companies

Steve Ackerman – SVP, Co-head Global Podcasts, Sony Music Entertainment (owners of production company Somethin' Else)

"The audio industry worldwide is facing a seismic change as podcasting drives new investment, revenue streams and entrepreneurialism, with the UK well placed to be a leading global creative force. As such, there is an opportunity for the government to help push this growth and ensure that British audio producers are well placed to take advantage of the huge changes that are already underway. Any tax relief help can be a big spur to this growth and business development and ensure that at a key moment for audio globally, British companies are at the forefront for attracting investment."

Tim Hammond – CEO, Listen Entertainment

"The UK's professional podcast production industry is relatively immature but, despite being young, it's true to say that the UK is home to some of the brightest audio production talent in the world - this is recognised by international commissioners who are increasingly keen to buy from the UK. However, in an internationally competitive market, what (aside from the best ideas and the highest craft skills) gives UK producers the edge? The creation of a specific Tax Relief would help incentivise commissioners, along with other investors in content IP, to spend their money in the UK rather than elsewhere. This inward international investment will help the UK production sector excel in what is fast becoming a truly international economy; promoting audio production in the UK and supporting the creation of a mass of infrastructure and sector skills necessary for the long term growth and continued viability of the sector."

Melanie Harris – MD, Sparklab Productions

"As an independent audio production company outside London, we are always looking for ways to find new platforms for our work and commercial opportunities to help us create audio content for new markets. We are becoming more successful in forging new commercial partnerships, both in the UK and globally. It seems an oversight to be left off the list of creative industries eligible for tax reliefs, given how audio production has grown in recent years. An Audio Production Tax Relief would be a great boost for our sector and provide incentives for more investment in companies and projects dedicated to audio production."

Phil Critchlow OBE – CEO and Founding Director – TBI Media

"The audio sector in the UK is evolving like never before. High quality short-form and series offerings are breaking new ground as traditionally visual brands seek to extend across audio platforms. Tax relief in this sector is key to maximising the potential growth of what is fast becoming a global marketplace for the UK independent audio production industry."

Andrew Mark Sewell – MD, B7 Media

"With consumption of podcast audio drama increasing at the same time as a year-on-year reduction in commissioned hours by BBC Radio Drama, competition from international producers (Audible, Spotify), means UK indie producers are now turning to private investment to help them develop, sustain and future proof their audio production businesses. Like other creative industries such as animation, video games, television and film, the introduction of tax relief would be significant in helping to encourage domestic and international co-production investment. It would help ensure future growth in this vibrant and growing sector, while simultaneously ensuring continued employment for UK audio professionals."

7. A possible model for an Audio Production Tax Relief

7.1 Suggested key principles for an audio production tax relief:

We have taken the key principles and qualifying criteria of the other creative industry tax reliefs and sought to apply those which are relevant to construct the following model of how an APTR might look.

We would suggest the following key principles for designing a tax relief for audio production:
- Qualifying producers must be registered companies with Companies House and subject to paying corporation tax[36].
- Tax relief would apply to investment in a particular production or series of productions.
- Given the primary focus is to grow the sector and produce content for international investors, we would question the need for a cultural test, but were one to be applied we would argue for it to be reasonably modest
- As with tax reliefs such as the HTR and CTR, applicants could apply for interim certification at any point before or during production
- We suggest here the criteria to be met by a company to qualify for the tax relief, based on the criteria for some of the other creative tax reliefs:

The following table includes some of the qualifying criteria which could be used to indicate which production companies could be eligible for the APTR:

Qualifying criteria of company
The Audio Production Company (APC) must be registered at Companies House and liable to pay corporation tax
The APC must be responsible for pre-production, production, and delivery of audio content
The APC can be a UK 'off-the-shelf' company set up on behalf of an international parent company.
Work can be sub-contracted as long as this is reflected in the APC's accounts.
Loan-out companies can be used as long as this is reflected in the APC's accounts.

[36] Typically in television and film – and possible in audio too - is the idea that a Special Purpose Vehicle is set up for the programme seeking the tax break. This allows for the project to be accounted for individually and offset tax accordingly.

7.2 Model for a Tax Relief on specific audio productions

We would suggest the following model for an audio production tax relief:

Tax Relief on a specific audio production – suggested qualifying criteria

Production Spend
At least 10% of core expenditure must be spent in the UK. (The figure for the FTR, HETR and ATR is 10%).

A minimum qualifying spend for the production (level to be agreed), to ensure that administrative costs are not disproportionate.

Programme genres allowed
While the HETR only allows drama, comedy and documentary to qualify this is due to its applying to the most costly forms of programme. We envisage the APTR covering all genres of audio content apart from straight news reportage.

Availability of Content
Programme/s must be commissioned via a recognised broadcaster or online platform or distributed via a recognised streaming/podcast platform such as Acast, Spotify or Audible.

8. Financial analysis of a tax relief

Given that the audio production sector is much smaller than the film and TV production sectors, the direct cost of an audio tax credit will be well below the direct cost of the credits in those sectors. Further (in line with those credits), we anticipate the net costs of a credit for audio would be minimal, once incremental PAYE/NIC, VAT and corporation tax resulting from the credit are taken into account. This is because the credit will attract spend to the UK that would otherwise have been entirely outside the UK's tax net.

In this section we set out our analysis of the net impact.

Based on AudioUK's industry survey, we estimate UK producers' current income from radio, podcast and audiobook production at £35m per year. We then assume that 90% of this spend is 'core expenditure', eligible for the credit. Of this, 80% is 'qualifying spend', against which the 25% credit would be paid. These assumptions allow us to estimate the direct cost of the credit.

The PAYE, NIC and VAT on this existing £35m spend is unchanged by the credit, and thus is not relevant to our impact assessment. However, we assume that the tax credit would lead to a 50% uplift in commissions in the UK. Tax on this income is incremental.

We assume a gross margin of 20% on this incremental income, and apply a 19% corporation tax rate to this.

The costs associated with the incremental income are split 30% for talent (of which half is assumed to be UK based), 35% for freelancers, 25% for employees and 10% other. We assume that PAYE/NIC represents 31% of employee costs and 23% of freelancer costs (including UK talent).

We conservatively assume no VAT benefit from the incremental income – many of the commissioners are likely to be overseas.

These assumptions give us the following results, with a direct cost of the credit estimated at £9.4m per year:

Direct cost of credit and spend on new commissions resulting (£m)

	EXISTING PRODUCTIONS	NEW PRODUCTIONS	TOTAL
Spend with UK independent producers (£m)	35.0	17.5	52.5
Of which core expenditure	31.5	15.7	47.2
Cost of credit (£m)			
Qualifying spend	25.2	12.6	37.8
Credit	6.3	3.1	9.4
Deployment of income from new commissions			
Freelancer: net income		5.4	5.4
Freelancer: PAYE/NIC		1.6	1.6
Staff: net salary		2.4	2.4
Staff: PAYE/NIC		1.1	1.1
Intnl talent		2.1	2.1
Other		1.4	1.4
Margin		3.5	3.5
		17.5	**17.5**
Corporation tax		0.7	0.7

We next consider how the credit will be used. We assume 30% of the value of the credit will be deployed in price reductions for commissioners, and 70% is reinvested – either in improved production values or in further productions. Both price reductions and improved production values are mechanisms to attract incremental commissions to the UK. For reinvested spend in the UK (assumed to be 90% of the total) we assume the same cost mix as above.

This gives the following impacts from use of the credit:

Impact of deployment of credit (£m)

		EXISTING PRODUCTIONS	NEW PRODUCTIONS	TOTAL
Deployment of credit (£m)				
Price reduction	30%	1.9	0.9	2.8
Reinvested	70%	4.4	2.2	6.6
		6.3	**3.1**	**9.4**
UK reinvestment		**4.0**	**2.0**	**5.9**
Portion reinvested in the UK	90%			
Form of reinvested spend				
Freelancer: net income	39%	1.5	0.8	2.3
Freelancer: PAYE/NIC	11%	0.4	0.2	0.7
Staff: net salary	17%	0.7	0.3	1.0
Staff: PAYE/NIC	8%	0.3	0.2	0.5
Intnl talent	15%	0.6	0.3	0.9
Other	10%	0.4	0.2	0.6
		4.0	**2.0**	**5.9**
Margin on reinvested spend		1.0	0.5	1.5
Corporation tax thereon		0.2	0.1	0.3

The above analysis quantifies the direct impact of the credit. In addition there will also be indirect and induced impacts. Indirect impacts are those on upstream suppliers. They will receive additional business, and thus increase their own employment, PAYE, NIC and corporation tax. Induced impacts are those associated with the employees of the industry and its supply chain – increased employment will enable them to spend more in the wider UK economy.

In estimating these indirect and induced impacts, we have used a 2.0x multiplier. That is, the overall benefit is double the direct impact, once indirect and induced impacts are included.

This multiplier is simply an assumption, since there has been no relevant analysis for the audio industry. However, we believe it is reasonable. For example, Olsberg•SPI estimate global employment and output multipliers of 2.27 and 2.09 for the European screen sector value chain[37]. An Olsberg•SPI/Nordicity report assessing the impact of UK screen sector tax reliefs based on Green Book 2018 principles did not use multipliers, but did conclude that the overall tax contribution impact of these reliefs was almost exactly 2x the direct impact[38].

[37] Olsberg•SPI, Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19, 25 June 2020

[38] BFI, Screen Business - How screen sector tax reliefs power economic growth across the UK, October 2018

Combined impact including indirect/induced impact (£m)

	EXISTING PRODUCTIONS	NEW PRODUCTIONS	TOTAL
Direct impact			
Payable tax credit	(6.3)	(3.1)	(9.4)
Incremental tax from new productions			
PAYE/NIC		2.7	2.7
Corporation tax		0.7	0.7
VAT		0.3	0.3
		3.7	**3.7**
Incremental tax due to reinvestment			
PAYE/NIC	0.8	0.4	1.1
Corporation tax	0.2	0.1	0.3
	0.9	0.5	1.4
	(5.3)	**1.0**	**(4.3)**
Indirect/induced effects			
PAYE/NIC	0.8	3.1	3.8
Corporation tax	0.2	0.8	0.9
VAT		0.3	0.3
	0.9	**4.2**	**5.1**
Total Treasury impact	**(4.4)**	**5.2**	**0.8**

Including indirect and induced effects, the credits are slightly better than break-even from the Exchequer's perspective.

Finally, we note that the above analysis focuses purely on the financials of the immediate commission. It does not take into account any intellectual property benefits that might accrue to a UK producer. For example, if one of the new commissions turned out to be a hit, and the UK producer retained relevant rights, this might lead to a recurring income stream. Such hits are inherently uncertain, but over time are a likely result of expanded UK production.

9. Conclusions

We believe now is the right time to introduce a tax relief for audio production in the UK, due to a number of compelling reasons: investment from brands, broadcasters, institutions and others in audio production is growing rapidly, particularly in podcasting and also audiobooks; the need to bounce back from the impacts of COVID-19; the growth of brands investing in podcasting; and the potential for other sectors elsewhere to gain a lead if they themselves create such a scheme; to give our sector a stepping stone to become more internationally competitive and by shining a light on the UK as a centre of audio production expertise.

Existing tax relief models provide a useful guide to how best design an APTR to maximise the benefits and while keeping any administrative burden proportionate.

An APTR would bring other associated benefits and would result in a net gain to HM Treasury. We therefore believe that there is a clear and timely opportunity to implement an APTR, which if done soon could give our sector a boost which coincides with a new revolution in audio production that is set to continue into the future.