UK SCREEN SECTORS

A Prospectus for Growth in an Age of Change

July 2022

BRITISH SCREEN FORUM
FRAME THE DEBATE

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EXECUTIVE SUMMARY

A sector to nurture – as a driver of economic growth, cultural value and soft power

- The Screen Sectors – as part of the Creative Industries – are **key drivers of growth and renewal** in the UK. GVA, exports, jobs and productivity have outperformed the overall economy over the last decade
- Audiovisual content **delivers cultural value and soft power**. It provides benefits to society in terms of access and inclusion, quality of life, sense of community, educated citizens, cultural understanding, and informed democracy; and is uniquely placed to project soft power and UK values around the world
- The UK's Screen Sectors are **a good investment in a time of geopolitical uncertainty** – largely self-sufficient while stimulating economic growth and social value, supporting the Government's levelling-up agenda, and supporting Global Britain by growing exports and projecting soft power. With fast-changing technological developments and consumer behaviour, the Government needs to ensure its interventions for the Screen Sectors remain fit-for-purpose
- The Screen Sectors are **parts of the economy that repay supportive policy interventions** but their unusual underlying economics make them highly vulnerable in some respects. Their success relies in part on supportive policy interventions that address market failures and ensure competitive strength
- Our message to the Government is clear: **don't take the Screen Sectors for granted**; do **provide the support needed so we remain globally competitive**. Get it right and the prize is huge, in terms of stimulating economic growth and social value, but get it wrong and the repercussions can be drastic

A sector navigating change – key trends over the last five years

- **Connectivity matters**. Over the last five years we've reached a tipping point in terms of widespread access to fast broadband speeds that allow reliable delivery of video-based services. But the UK performs poorly by international standards when it comes to superfast broadband and there is some way to go to ensure everyone has access to the infrastructure needed to power growth over the next 5-10 years
- **The rise of subscription video on demand (SVoD) services**. The SVoD market has grown in a decade from almost nothing to be worth over £2 billion by 2020, transforming the video market, and largely replacing physical sales and rentals

- **VoD growing but traditional broadcasters still dominate video viewing**. VoD services represent a steadily growing proportion of video viewing UK viewers' time watching videos – especially for young people – but the traditional broadcasters still account for a majority of viewing
- **Significant shifts in advertising revenues**. Commercial broadcasters and platform operators have seen their revenues decline over the last five years – partly due to the migration of advertising from TV to digital platforms – while online video advertising and subscription revenues have grown. Licence fee income was static over the period
- **Three big trends in film and TV production**. Overall, investment in film and TV production is in rude health. While PSB spend on new content has fallen, other broadcasters and streamers are investing more in UK content, and these and other income sources are of growing importance to independent production companies ("indies"). Moreover, high-quality production spend is booming, driven by HETV at the expense of film – and true independent films in particular
- **Cinema resilient prior to the pandemic**. Cinema attendances were resilient up until the outbreak of Covid-19. Globally, UK films' market share was between 15-25% up to the pandemic, mostly accounted for by studio-backed films. The pandemic has greatly accelerated movements in films' release patterns, with more films released simultaneously across platforms or with greatly reduced theatrical windows
- **Gen Z are big on games**. Game-playing is the most popular leisure category amongst Gen Z, with growth driven in large part by casual game-playing on mobile devices. VR is the fastest growing category of hardware sales, with the overall UK games market worth more than £7 billion
- **Huge growth in the creator economy and influencer space**. Much of the activity is in the newer social media platforms that are displacing some older ones, especially amongst young consumers
- **Greater focus on people, skills and diversity**. There has been a greater recognition of the need to identify and address the downsides related to the high proportion of freelance workers in the sector, for example in relation to their skills needs and job precarity, and of the need to build a more diverse and inclusive workforce.
- **Commitments to net zero**. The Screen Sectors are aware of their commitments to meet net zero targets. Both individually and through cross-sector initiatives such as albert, companies are acting to reduce their own carbon emissions and to promote awareness of environmental issues through their content

Policy framework to deliver future growth

We propose a series of recommendations based around six prerequisites for success:

1. Access to the right talent

i. Support development of creative, technical and business skills

a. STEAM not STEM. A school curriculum with significantly more focus on developing children's creativity and digital skills during Key Stages 1-4
b. Closer relationship between industry and the providers of technical and higher education to build scale

c. Entry level skills support that fits the needs of a sector with freelance and project work as a core component – the current apprenticeship levy scheme effectively excludes many companies in the Screen Sectors that cannot meet the requirement for a continuous 12-month placement
d. Opportunities for acquiring production experience and moving up to higher grades
e. Continuing support for, and recognition of, the BFI Film Academy
f. Incentivise philanthropic giving to training institutions or individuals through bursaries

ii. Support talent discovery and development across all parts of the UK

a. In terms of demographics, better routes into the Screen Sectors are required to ensure that the talent residing in under-represented groups, including people of colour and those from lower socio-economic backgrounds, is not excluded or overlooked at entry level
b. To draw on the talents that exist in all parts of the UK, we believe that there is scope to build on existing creative clusters with the greatest growth potential, and targeted investment – with closer links between bodies representing the Screen Sectors and LEPs – could help them achieve critical mass

iii. Enable talent to thrive

a. Better processes and support are needed to ensure that post-entry into the sector, people of under-represented groups feel valued and supported and are able to progress and develop in their careers.
b. Address workplace issues relating to bullying and/or harassment, particularly amongst freelancers.
c. Tax, benefits and pension arrangements should not penalise freelance workers, who provide the flexibility that allows companies in the sector to respond quickly and to grow.
d. As noted above in relation to 'talent discovery and development across all parts of the UK', sustainable geographic clusters and regional hubs should be developed to enable local talent to build a career without moving to London.

iv. Attract the best talent

a. The Government should prioritise working with sectors with strong growth potential to address their rapidly evolving skills needs, both in the short- and long-term

2. Access to international markets

v. Maintain the existing arrangements that underpin the value of UK content and services in international markets

a. Take all possible steps to preserve the current definition of European Works which includes UK works
b. Take all necessary steps to preserve the data adequacy position with the EU
c. Preserve the elements of the UK Screen Sectors that are working well and contribute to its strength and competitiveness

vi. Enable and support the pursuit of new opportunities in key target markets

a. Promote UK content in key markets and support businesses to develop and implement export plans, participate in international co-productions and distribute UK content internationally
b. Support an evidence-based international trade policy that works with the Screen Sectors to identify key target countries, any genuine barriers and creative ways to navigate access for business

3. Access to finance

vii. Maintain and improve the existing major interventions that underpin success

a. Maintain the competitiveness of our tax reliefs
b. Maintain support for Public Service Media and the film industry
c. Maintain, and where possible, strengthen crucial National Lottery and grant in aid funding for the screen sectors, through the BFI and other public agencies in the Nations and Regions

viii. Better support the early-stage development of screen sector projects and companies

a. Review the effect of EIS/SEIS changes on the Screen Sectors and take appropriate remedial action
b. Expand definition of R&D to include creative research and development
c. Scale up effective interventions such as the UK Games Fund and BFI Development Fund

ix. Enhance support in areas of particular market failure, such as independent UK film

a. Enhance film tax relief for UK projects of a particular scale
b. Facilitate access to data to allow investors to assess risk and to maximise revenue and profit throughout the value chain
c. Continue to support the production of UK content for young audiences, reflecting the positive externalities of such content

4. The ability to create across borders

x. Enhance ability to do project work across borders without hindrance

a. Seek new co-production treaties with key target countries, defined with respect to criteria such as growth potential, size of the audiovisual market and cultural, historic and linguistic affinity with the UK
b. Agree with other countries reciprocal ‘cultural passport’ schemes for companies engaged in the creation of audiovisual content within and without the UK

5. A supportive copyright and enforcement regime

xi. Vigorously protect the current copyright regime whilst seeking modest improvements where relevant and strengthening enforcement in places where piracy is of the greatest concern

a. Maintenance of current copyright provisions is essential with no weakening
b. No move to international exhaustion of IP rights for packaged home entertainment goods

c. Continue to bear down on piracy, especially in relation to illicit streaming and enhanced piracy threat from Russia

6. A world-class digital infrastructure

xii. Accelerate the Government's Gigabit-broadband target to bring it closer to the manifesto commitment of nationwide Gigabit broadband by 2025

a. Roll-out of digital infrastructure that will be fit-for-purpose for the next generation of audiovisual services needs to be accelerated

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A. INTRODUCTION

About British Screen Forum

British Screen Forum is a membership organisation through which many of the best informed and most influential people in the UK Screen Sectors convene to interrogate issues of importance and influence policy and the thinking around policy.

We provide a unique and trusted space for key players from the Screen Sectors to come together to debate the implications of the evolving landscape and the policy and regulatory environment, and to gain unrivalled insight into emerging themes and innovative technologies.

Members are senior figures drawn from a wide range of businesses and organisations operating in the film, TV, video game and/or online sectors. We aim to cover the whole value chain as well as the full range of means of distribution, so include members who can speak for writers, technicians, independent producers, directors, studio operators, distributors, exhibitors, broadcasters, games publishers, games developers, pay TV platforms and online platforms. It is a unique cross-sectoral mix, with a balance of creative, policy and business specialists. Further details are available on our website.[1]

About this report

This paper sets out a prospectus for further growth in the Screen Sectors, which are increasingly being recognised as an economic powerhouse for the UK. In the context of the significant changes in the marketplace and in the political landscape over the last five years, the report re-visits and updates earlier work from British Screen Forum (in 2017 and 2018) when we responded to the Government's then-industrial strategy and the proposed Sector Deal for the Creative Industries. In Section B, we make the case that the Screen Sectors merit active Government support, as key drivers of growth and renewal across the UK, whilst also providing cultural value and projecting soft power around the world. A lot has changed since the policy review process that was undertaken in 2017, and in Section C we highlight key technological, consumer and industry trends that are reshaping the industry. In the light of these developments, we have developed a set of policy priorities for the Screen Sectors, relating to the need for world-class digital infrastructure; access to talent, to international

[1] https://britishscreenforum.co.uk/

markets and to finance; creation across borders; and a supportive copyright and enforcement regime. These policy recommendations, set out in Section D, have been developed in consultation with our Members who are drawn from companies and organisations right across the Screen Sectors.

B. A SECTOR TO NURTURE

The screen sectors are a sector to nurture as a driver of economic growth, cultural value and soft power.

a) Driving growth and renewal

The Screen Sectors – as part of the Creative Industries – are key drivers of growth and renewal in the UK. GVA, exports, jobs and productivity have outperformed the overall economy over the last decade

The Screen Sectors – comprising film, television, video games and other video-based media – are a key part of the Creative Industries, which represent a global economic success story for the UK. The broader set of Creative Industries includes other sectors with creativity at their heart – including design, music, publishing, architecture, crafts, visual arts, fashion, radio, advertising, literature and the performing arts. While this report focuses specifically on the Screen Sectors, this initial chapter presents economic data from DCMS on the Creative Industries, as it is generally not possible to isolate the individual Screen Sectors in this data.

Based on the most recent statistics from DCMS, we calculate that the overall Creative Industries contributed £112 billion to the UK economy in 2021, equivalent to 5.8% of UK Gross Value Added (GVA). In 2020, they generated over £41 billion in exports and accounted for 2.2 million jobs. All three of these measures have grown at markedly faster rates than the overall UK economy.

Creative Industries GVA, exports and jobs have all grown rapidly over the last decade or so

GROWTH IN GVA, EXPORTS & JOBS

£112bn GVA
(2021)

62% growth since 2010

£41bn Exports
(2020)

181% growth since 2010

2.2m jobs
(2020)

42% growth since 2011

Data source: DCMS, British Screen Forum calculations (employment data set begins in 2011)

The Creative Industries perform well compared to other sectors regarded as being important to the UK economy. For example:

- The UK **automotive industry** added £11.9 billion in value to the UK economy in 2020, barely more than 10% of the Creative Industries' GVA. It employed just under 800,000 people, less than half of the number of jobs in the Creative Industries; and exported products worth £42.4 billion, only marginally more than the value of Creative Industry exports (Source: Society of Motor Manufacturers and Traders[2])

- The UK **aerospace, defence, security and space (ADSS) sectors** together generated a GVA of £33 billion in 2020, less than one-third that of the Creative Industries. They support one million jobs across the country, but only 385,000 of these are "direct jobs," less than 20% of the 2.2 million jobs in the Creative Industries. The ADSS sectors' exports were worth £45 billion, less than 10% above those of the Creative Industries (Source: ADS, the national trade association for the ADSS sectors[3])

- The UK's **fishing and aquaculture** sector had a GVA of £0.59 billion in 2021, according to the ONS. The total number of fishers employed in the UK has been steadily

[2] Source: SMMT Motor Industry Facts 2022, available here
[3] Source: ADS Facts & Figures 2021 here

declining, falling to 11,298 in 2020, with just under 6,000 full-time equivalent jobs aboard UK fishing vessels. The UK is a net importer of fish and similar products, with a trade deficit of £1.7 billion in 2020.[4]

We highlight the first two sectors as examples of the areas that received wisdom suggests traditionally benefit from ongoing attention by governments owing to manufacturing's former position as the key driver of employment, growth and innovation in the economy; while fishing is considered to be of political importance due to its historical contribution to food security, the geographical concentration of fishing communities and perhaps a romantic attachment due to the UK being one of the few European territories almost entirely surrounded (save the North-South Irish border) by the sea. The reality, of course, is that these are outdated notions and that services in general, including the Creative Industries, are nowadays much more significant in economic terms. This is recognised by parts of the Government, in particular by those who have championed the successful range of fiscal incentives now available for the Screen Sectors. The Creative Industries were one of five future-facing areas prioritised for early sector deals (alongside life sciences, ultra-low emission vehicles, industrial digitalisation and the nuclear industry) in the Government's 2017 Green Paper on "Building our Industrial Strategy." It is important that the whole of Government fully recognises this shift and devotes its resources and energies to supporting the parts of the economy with the greatest future potential in the 21st century.

While the Creative Industries, automotive and ADSS are comparable in size with regards their exports, the Creative Industries are bigger than the automotive and ADSS sectors combined in terms of both GVA and employment. As discussed below, in a world in which global manufacturing supply chains are becoming increasingly vulnerable to disruption by geopolitical events, the Creative Industries – which are comparatively self-sufficient – are likely to be a more reliable source of economic growth in the coming years.

Moreover, the headline figures for the Creative Industries understate the amount of activity generated by the sector, for two reasons:

- First, they do not include the considerable number of recent and ongoing capital projects to build new studio infrastructure, expand the capacity of existing studios and to upgrade their technical capabilities. These activities – which are described in greater detail below – are investments in the future that will ensure that the Creative Industries' GVA is greater still in the years to come.

- Second, they do not take into account the microeconomic ripple effects that deliver value to business sectors outside the Creative Industries in the locations where production expenditure takes place. Analysis in the latest Screen Business report for the BFI[5] shows that as much as 40-60% of production costs are spent in the general

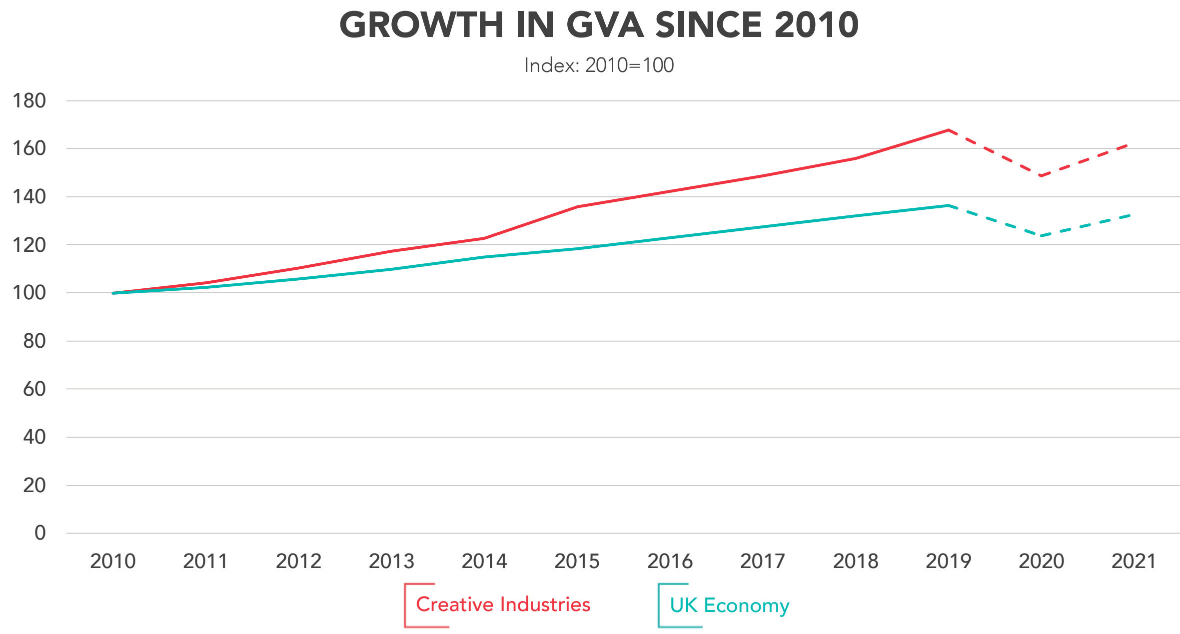
[4] Sources: "UK fisheries statistics," House of Commons Library, November 2021; GDP output approach – low-level aggregates, ONS, May 2022 here

[5] Source: Screen Business 2021, Olsberg•SPI with Nordicity, December 2021

economy. A 2020 report on Screen Production and Global Economic Recovery[6] argues that Screen Sector productions inject significant amount of capital very rapidly into an economy. Its analysis of a major film with a $220 million budget showed that an average of $10 million a week was spent over the course of a 16-week shoot (so $160 million in total), in areas such as travel and transport, hospitality and catering, construction, business support, real estate, and fashion & beauty.

Focusing on the core Government statistics from DCMS, the Creative Industries have outgrown the UK economy by a substantial margin over the last decade. Between 2010 and 2019, Creative Industries GVA grew steadily from £69 billion to £116 billion,[7] a growth rate of 68% that is almost double the 36% corresponding growth of the overall UK economy. In 2020, when the Covid-19 pandemic brought most production activity to a halt, GVA in the Creative Industries fell by 11% (a higher fall than for the overall economy) before rebounding by 9% in 2021, to an estimated figure of £112 billion (a level that is just 3% below the 2019 figure despite continued pandemic related restrictions and obligations).[8] Over the full period from 2010 to 2021, GVA in the Creative Industries grew by 62%, compared to a 33% growth rate for the overall economy.

GVA in the Creative Industries has outperformed the overall economy in terms of growth since 2010

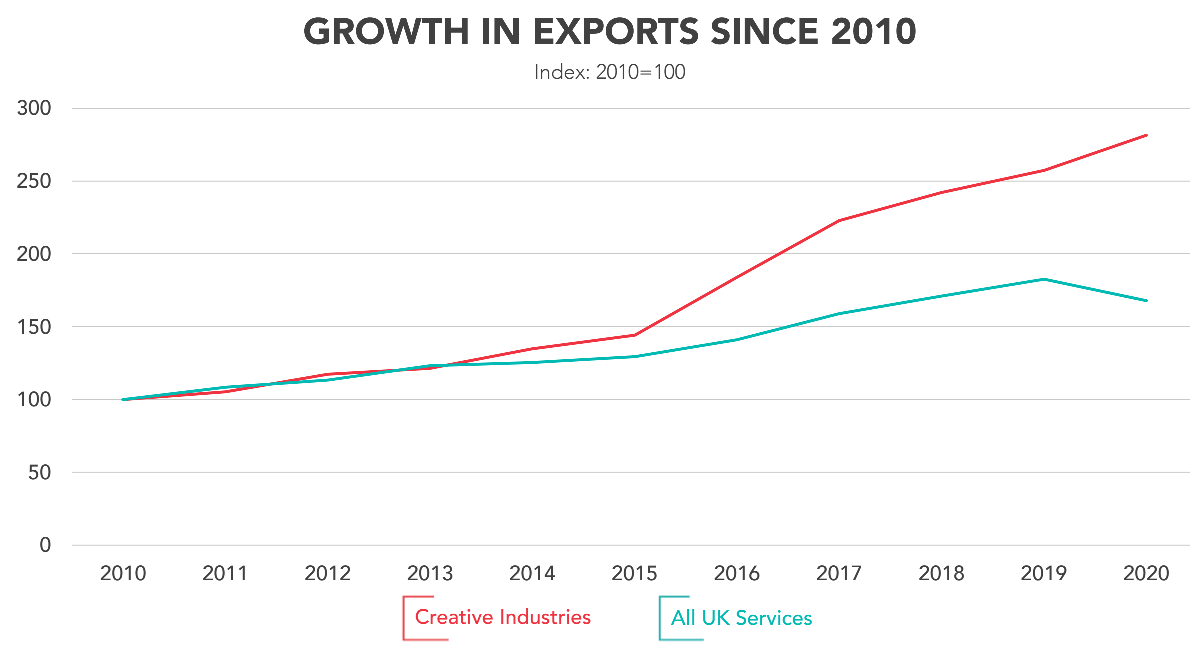


Data source: DCMS, 2019-21 figures based on monthly estimates which may be revised

[6] Source: "Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19," Olsberg•SPI, June 2020
[7] Source: DCMS Economic Estimates 2019 (provisional): Gross Value Added, February 2021
[8] 2020 and 2021 figures are based on DCMS' monthly estimates through to December 2021, as the official annual figures are not yet released. Following DCMS guidance that these figures are best used to indicate growth trends, the growth rates implied by these figures have been applied to the official annual 2019 GVA of £115.9 billion. See DCMS Economic Estimates: Monthly GVA – Technical and quality assurance report, February 2022

This growth is due in part to the success of our sector in selling our content around the world: exports of Creative Industries services have grown every single year since 2010, almost trebling in value from £14.7 billion in 2010 to £41.4 billion in 2020 – a faster growth rate than that for the overall economy.[9]

Creative Industry exports have grown rapidly since 2015, significantly outperforming UK services overall



Data source: DCMS

Notably, export growth continued despite the onset of Covid-19 in 2020, the 9% year-on-year rise perhaps reflecting the greater demand for content from people experiencing lockdowns all over the world. The cumulative 181% growth in exports of services by the Creative Industries between 2010 and 2020 is more than double the 68% growth rate of the overall UK economy over this period.

The Screen Sectors boast an exceptional record of success in creating content for audiences around the world, as the following examples illustrate (more details are provided in the next chapter):

- UK television exports were worth £1.4 billion in 2020/21 – a substantial figure despite a 3% year-on-year decline as a result of the business impact of Covid-19. This was the first annual decline since Pact's UK TV Exports report was first published in 2018, and the modest size of the reduction shows the sector's resilience.[10] The UK is the world's second most successful exporter of TV content after the USA, and therefore punches

[9] Source: DCMS Sectors Economic Estimates 2020: Trade headline release, March 2022
[10] Source: UK TV Exports Report, Pact, December 2021

well above its weight, according to Médiamétrie analysis.[11]

- In the last full year before Covid-19 shut down cinemas, UK-qualifying films earned a record worldwide gross of $10.3 billion in 2019, a 29% share of the global box office. In 2021, when global box office was just $18.9 billion (53% of the 2019 figure), UK films maintained a 19% share of the total, which was still worth $3.6 billion.[12]

- There are more than 2,300 active games companies in the UK, including the creator of *Grand Theft Auto V*, the second-best-selling game of all time (behind Minecraft), selling 160 million units worldwide and reaching $1 billion in retail sales faster than any entertainment release in history.[13]

- For UK YouTube creators, over 80% of viewership comes from outside of their home country.[14]

Part of the success of our sector is that it comprises a vibrant mixed ecology that makes both culturally British content aimed primarily at domestic audiences, some of which will go on to sell well abroad, as well as content intended from the outset for international audiences. In other sectors where there is no cultural component to the output, it is typically irrelevant whether the end-consumer is domestic or foreign, and indeed sectors in which there is minimal local demand and most sales come from overseas are valuable to the UK in purely economic terms through their contribution to exports. The situation is different in the Screen Sectors where, as we discuss below, the contribution of British content to our cultural identity is a vital part of the sector's overall contribution, and it is important to sustain the "win-win" position where it thrives by making both culturally British programming and content for international audiences.

The Creative Industries have also outperformed the overall economy in terms of jobs growth. They employed 2.2 million people in the UK in 2020 – a substantial figure that represents 6.7% of all UK employment.[15] This share of total UK employment has grown from 5.2% in 2011, following a 42% increase in jobs in the Creative Industries over this period, a growth rate that is almost four times that of the total UK economy over the period. In 2020, while total UK employment fell by 1%, growth continued in the Creative Industries, rising by 6% year-on-year.

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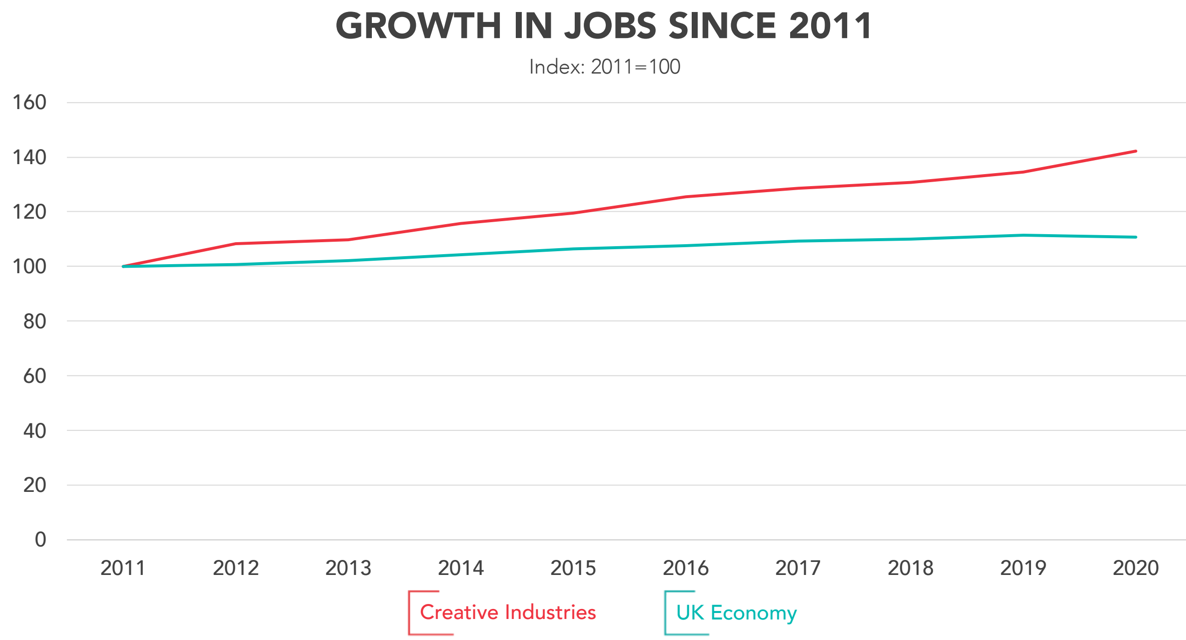
[11] Source: EURODATA TV / MEDIAMETRIE. Figures relate to the period: 1 March 2015 to 28 February 2016
[12] Source: "UK films at the worldwide box office, 2021," BFI, March 2022
[13] Source: Data provided by Ukie; Take-Two Interactive Software Investor Presentation February 2022
[14] Source: Data provided by Google
[15] Source: "DCMS Sector National Economic Estimates, 2011 - 2020: Employment, January to December, 2011 to 2020," part of DCMS Sector National Economic Estimates: 2011 to 2020, March 2022

Employment in the Creative Industries has grown at a faster rate than the overall UK economy since 2011



Data source: DCMS (data set begins in 2011)

Alongside job creation, productivity makes an important contribution to the health of the UK's economy, by boosting GDP per worker. Across the economy, employment and productivity sometimes work in opposite directions: when firms invest in new technologies – for example making greater use of robots in manufacturing processes – this can often come at the expense of jobs. At the macroeconomic level, the most desirable outcomes are when employment is growing and productivity is high, giving a double boost to output whilst creating jobs. Research commissioned by the British Film Institute (BFI) shows that this is the case for the Creative Industries, as jobs in the Screen Sectors have higher than average rates of productivity, by significant margins in some sectors.

According to the report "*Screen Business – How screen sector tax reliefs power economic growth across the UK 2017-19*" by Olsberg•SPI with Nordicity on behalf of the BFI,[16] productivity in the video game sector was 83% higher than the UK average in 2019, using GVA per Full Time Equivalent job as the comparator (video games had a GVA per Full Time Equivalent job of £121,000, compared to an average of £66,000 across the UK economy). Productivity was 36% higher than the UK average for visual effects, 27% higher for animation, and 23% higher for film, high-end TV and children's TV.

Whereas some other sectors seek to become more competitive by automating processes and reducing their workforce, technology cannot replace the creativity of actors, writers, directors and so on in the Screen Sectors. We believe their high productivity to be a combination of the workforce's high levels of training and education, the inherent

[16] Source: Screen Business 2021, Olsberg•SPI with Nordicity, December 2021

importance of creativity to the sector, the UK's world-class studio and production infrastructure (see below) and the vibrant, competitive nature of the market.

Productivity rates in the main parts of the Screen Sectors are higher than the equivalent figure for the overall UK economy

Data source: Olsberg•SPI / Nordicity

The strong performance of the Screen Sectors in terms of jobs growth and productivity is due in part to the highly flexible nature of the workforce, which includes a large pool of freelance workers that often comprise the majority of the people working on any given project (such as a film or TV production). Freelancers represent 33% of the total workforce in the Creative Industries, double the figure for the country's overall economy.[17]

It is important to distinguish this market from the so-called "gig economy," which also comprises a freelance workforce, but one that performs relatively low-skilled work at or close to the minimum wage. By contrast, the jobs market in the Screen Sectors comprises highly skilled workers earning good wages. (There are, however, some important downsides to the freelancer model, which are discussed in the next chapter),

[17] Source: Creative UK (here), drawing on figures from DCMS Sectors Economic Estimates

b) Delivering cultural value and soft power

Audiovisual content provides benefits to society in terms of access and inclusion, quality of life, sense of community, educated citizens, cultural understanding, and informed democracy; and is uniquely placed to project soft power and UK values around the world

In the Government's recent policy paper setting out its vision for the broadcasting sector, it argues that: [18]

"[Public] service content takes many forms, including:

- ***Culturally relevant content*** *that reflects the United Kingdom of today and the values that define it;*
- ***Economically important content*** *produced by independent producers and across the UK; and*
- ***Democratically impactful content*** *such as trusted, impartial news and current affairs."*

We believe that these principles apply beyond just broadcasting (and beyond the Public Service Broadcasters) and that many parts of the Screen Sectors deliver public value in terms of cultural and social benefits in addition to their economic contribution. By creating stories serving and reflecting the diversity of the UK and the uniqueness of the UK experience, they provide socially cohesive and inclusive experiences which are widely shared and help to foster and strengthen common bonds.

Ofcom has articulated the multiple ways that public service broadcasting (and, by extension, other TV and audiovisual content), can provide social value and generate positive externalities:[19]

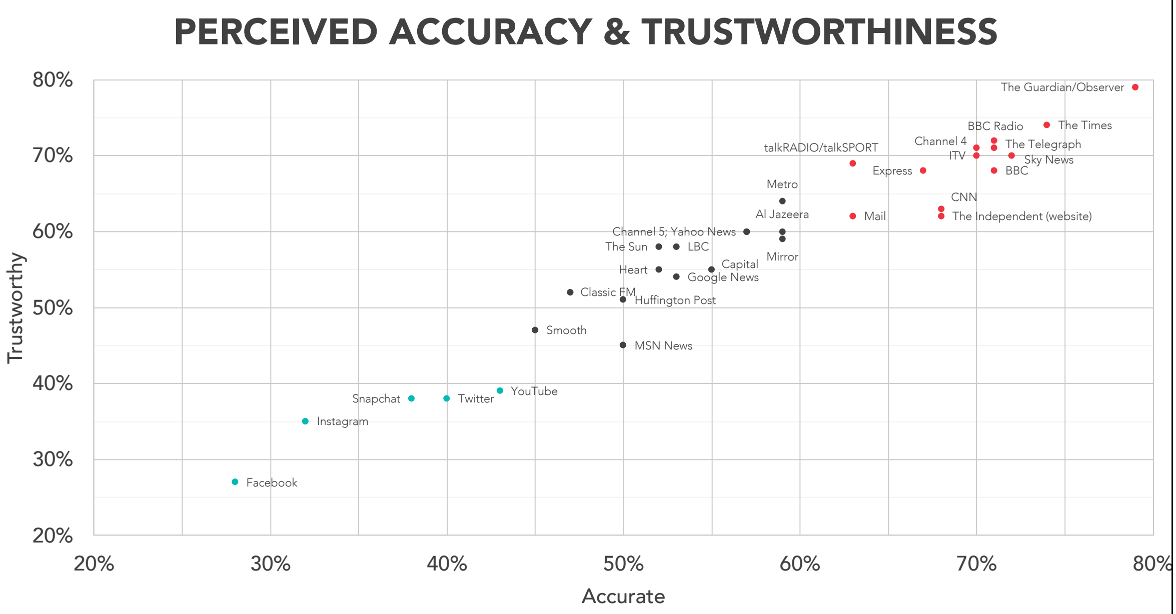
- **Access and inclusion**, e.g. universal access and facilitating access to public services
- **Quality of life**, e.g. services which promote quality of life, perhaps by helping to promote work-life balance or family life
- **Belonging to a community**, e.g. allowing people with similar interests to communicate or participate their local community
- **Educated citizens**, e.g. services with educational content or child-oriented services
- **Cultural understanding**, e.g. services which reflect and strengthen cultural identities or promote diversity and understanding of cultures

[18] Source: "Up next - the government's vision for the broadcasting sector," DCMS, April 2022
[19] See for example, "Digital Dividend Review," Ofcom, December 2007, p27

- **Informed democracy**, e.g. services which provide information which facilitates democratic debate.

To take one important example, the values of impartiality, accuracy and trust represented by the main UK news broadcasters are a vital part of the social value of the screen industries. Recent global events show the importance of honest and reliable news as being central to a well-functioning democracy. An Ofcom survey in 2021 shows that digital and social platforms scored the lowest across all media for being accurate and trustworthy, with Facebook, Instagram, Snapchat and Twitter all scoring 40% or less on each measure. This is a real concern given that users increasingly get their news from these sources: between 2013 and 2021, social media doubled its share of the UK population who use it as a source for news, from 20% to 41%; while over the same period, TV declined as a news source from 79% to 60%, and print dropped sharply from 59% to 15% .[20] It is all the more important in terms of a well-informed citizenry to safeguard provision by the media providers at the top end, namely the PSBs, quality newspapers and commercial broadcasters such as Sky and CNN, who all achieved scores above 60% for both accuracy and trustworthiness.

The PSBs, Sky, CNN and the quality newspapers score highest for accuracy and trustworthiness in the provision of news



Data source: News Consumption in the UK, Ofcom, July 2021

[20] Source: Reuters Institute Digital News Report 2021, Reuters Institute for the Study of Journalism

Alongside the social value provided to UK citizens, UK Screen Sector exports are also a key driver of soft power abroad – as a House of Lords report on soft power notes:

"The UK's Creative Industries boost the UK's profile everywhere, especially among the global middle class with its discretionary spending power, appetite for media and cultural content, and increasing social influence."[21]

In economic terms, these various kinds of social goods are positive externalities that result from the provision and consumption of audiovisual services. Economic theory tells us that completely free markets tend to under-provide socially optimal levels of those goods and services that generate positive externalities. This is a form of market failure which – in addition to the purely business case – justifies Government intervention in audiovisual markets.

An argument that was often made in the early years of internet-distributed audiovisual content was that the absence of capacity constraints and the potential for anyone to reach global audiences without gatekeepers controlling access would lead to a utopian outcome in which millions of flowers would bloom; and that as a consequence both the interventions relating, for example, to public service broadcasting and the legacy gatekeepers would thereby become redundant. Notwithstanding the huge benefits that have flowed from online platforms, few would argue that the outcome has been as benign as many hoped a decade ago. Indeed, developments in recent years suggest that some of the elements of social value described above are more important now than they were before, given the intervening changes in society and politics, and some of the more harmful effects of digital and social media.

Taking the example of news provision, this is especially so given the volatile geopolitical circumstances in recent times. People are getting ever more of their news from social media platforms, and this has had many positive impacts – social media were a vital form of communication when the world went into lockdown following the onset of the Covid-19 pandemic in 2020; and in this year's war in Ukraine they have helped the Ukrainian President and its population relay what is happening in their country. But evidence of negative societal impacts has also become more apparent in recent years, with social media acting as an effective distribution mechanism for purveyors of misinformation and/or extremist views that often crowd out more reliable providers of information, making it difficult for consumers to distinguish between "real" and "fake" news (exacerbated by claims from authority figures and others that accurate news is fake, while research has shown that false news spreads much more rapidly on social media platforms than real news does).[22] This has had a tangible impact on political discourse – high-profile examples include claims of voter fraud in the US Presidential Election, the spread of inaccurate or misleading scientific evidence on the risks of Covid-19 vaccines, and entirely fabricated stories created by the Russian state relating to this year's war in Ukraine. In this context, and despite the efforts of social media platforms themselves to deal with misinformation and disinformation, there is growing recognition of

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[21] Source: "Persuasion and Power in the Modern World," House of Lords Select Committee on Soft Power and the UK's Influence, March 2014

[22] Source: https://news.mit.edu/2018/study-twitter-false-news-travels-faster-true-stories-0308

the need to secure – and make widely available – independent, accurate, trustworthy and well-resourced sources of news, including from traditional news suppliers such as broadcasters, in order to support "informed democracy."

The importance of accurate and trustworthy news, and the value of the BBC's soft power on the world stage, were recently recognised by the Government, when it committed £4.1 million of emergency funding to the BBC World Service to help counter disinformation about the Ukraine war through its Ukrainian and Russian language services. As Culture Secretary Nadine Dorries said in March:

"The BBC will ensure that audiences in the region can continue to access independent news reporting in the face of systemic propaganda from a dictator waging war on European soil."[23]

As another example of the growing importance of positive externalities, given the growing recognition in our society over the last decade of the discrimination experienced by people from different groups (whether defined by gender, class, ethnicity, etc.), audiovisual content has a unique and vital role to play in promoting "access and inclusion" and "cultural understanding." This is an area where the Screen Sectors have in some ways fallen short historically, in terms of properly reflecting the diversity of the UK population, and companies are now taking significant steps to address this – both individually and working together through organisations such as the Creative Diversity Network and ScreenSkills. This is discussed further in the next chapter.

Finally, heritage film and audiovisual material deliver a variety of positive externalities, including broadening access to culture and learning for all. The BFI National Archive looks after one of the largest and most important collections of film and television in the world. Its teams of experts ensure that the collection is preserved and developed for future generations and made widely accessible to today's audiences. Together with other audiovisual archives across the UK, it plays a crucial role in helping inspire new talent as well as providing people with a greater historical understanding of the communities in which they live.

The BFI Player makes significant amounts of archive film available to the benefit of audiences, along with critically acclaimed classic and cult films, all of which contribute to enriching cultural understanding across the UK.

c) A good investment in a time of global uncertainty

At a time of extreme geopolitical uncertainty, the UK's Screen Sectors are a good investment – largely self-sufficient while stimulating economic growth and social value, supporting the Government's levelling-up agenda, and supporting Global Britain by growing exports and projecting soft power. With fast-changing technological

[23] Source: Ukraine war: BBC World Service granted extra funding, BBC, March 2022

developments and consumer behaviour, the Government needs to ensure its interventions for the Screen Sectors remain fit-for-purpose

The key economic indicators presented above highlight the success of the Creative Industries in terms of their scale and growth. Above and beyond the latest numbers for GVA, exports, employment and productivity, there is a further important reason why the Creative Industries are of growing importance to the UK. Recent global and geopolitical events – in particular, the Covid-19 pandemic, the conflict in Ukraine, and political tensions with China – have raised questions about the prevailing model of free and open markets that are likely to have major repercussions in the years to come. Issues relating to global supply chains, such as resilience and self-sufficiency, are coming to the fore, with Western governments facing pressure to reduce their trade with certain countries and to reverse decades-long trends that sought to seek efficiencies by making production supply chains ever more complex and global. In this context, the UK's Screen Sectors are highly attractive in that they are largely self-sufficient and can thrive without needing sensitive inputs such as raw materials from Russia.

To give an example, the games industry was particularly resilient even during the strictest of Covid-19 lockdowns. UKIE research showed that 45% of games businesses saw some increase in game revenues since the crisis started, with a further 4% reporting significant increases. Overall productivity in the industry remained high, with businesses working at 80% productivity during the worst of the Covid-19 crisis. Even at the height of the first period of lockdown, as many as 80% of games businesses had no plans to reduce headcount in response to the crisis.[24]

Not only that, but the projection of our cultural and democratic values, and the dissemination of accurate and trusted news from globally-admired brands like the BBC, provide soft-power benefits of a kind that no other sector can offer. These are powerful reasons for the Government to actively support our sector, and as part of this to make sure the policies are in place to ensure that the Creative Industries, and within them the Screen Sectors, can thrive and achieve their full potential.

In this context, it is especially important that the Government gets its policies right for the Screen Sectors given the speed of structural, technological and consumer-based changes that are occurring. The ecosystem has developed significantly over recent decades, and in many instances Government action has played a hugely constructive role in shaping the industry and acting as a catalyst for successful outcomes. For example, in the television sector, the Government took the innovative step of launching Channel 4 as a publisher-broadcaster in the 1980s, a move that directly paved the way for the development of a thriving independent production sector, boosted by the subsequent introduction of terms of trade. The 1990s saw an expansion in the range of commercial broadcasters that was driven by technological developments (in particular, the move to digital platforms) and facilitated by supportive regulatory reforms that set a clear roadmap for the digital transition. More recently, the rise of video-on-demand services such as Netflix has completely transformed

[24] Source: "Playing on", UKIE, July 2020. Report available here

audiovisual markets in terms of changing viewing patterns, accelerating globalisation trends in the sector, and contributing to a UK production boom in high-end TV content. Government policy was initially deliberately light-touch in these new markets to encourage investment, with some strengthening over time as the biggest services reach maturity (the Government's recently-published White Paper gives Ofcom new powers to regulate streaming services to protect audiences from harmful material in the same way the Ofcom Broadcasting Code currently offers protections in relation to linear TV services). These factors are explored in more detail in the next chapter; the key point to note here is that in such a fast-moving and competitive sector, we cannot be complacent or rest on our laurels, and Government policy needs to remain up-to-date and fit-for-purpose, and to respond quickly when changes are needed. High value audiovisual production activity is – and will remain – highly mobile, and other territories are taking action to attract a larger share.

London and the South East represented almost 70% of total Creative Industries GVA, compared to a 38% share across all sectors of the UK economy, in 2018.[25] The traditional Screen Sectors in particular (film and television) have historically been relatively concentrated geographically, based around London and its surrounding area, with rare exceptions such as the former ITV regional franchises. The games industry is less concentrated, with 60% of games development jobs outside London and the South East. Over the last decade we have seen growing acknowledgement of the missed opportunities that result from the excessive concentration in parts of the Screen Sectors, and recognition that spreading production and other activities around the UK allows a greater diversity of voices and perspectives to have a voice. Sir Peter Bazalgette's 2017 Independent Review of the Creative Industries[26] argued for the need to develop Creative Clusters as a means to ensure an optimal balance between, on the one hand, supporting regional growth and diversity of voice, and on the other hand, producing sufficient economies of scale within clusters to enable them to thrive. This can be enhanced through partnerships with local businesses and academic institutions, and with regional economic institutions such as Local Enterprise Partnerships (LEPs). The role of individual institutions and public policy is important too: MediaCityUK in Salford has grown to become a success story (with the likes of the BBC and ITV as anchor tenants), and great momentum elsewhere has been created in recent years with, for example, increased out-of-London quotas on the PSBs and Channel 4's opening of a National HQ in Leeds and its Creative Hubs in Glasgow and Bristol – all of which has led to a big growth in the number and range of indies producing TV from the Nations and Regions. This points the way to a future whereby the UK's Screen Sectors can make even greater economic and cultural contributions overall while supporting the levelling up agenda, and without undermining the economies of scale achieved in London and the South East that are a key driver in enabling the UK to compete effectively in global markets. The growth potential in the sector means that it ought to be possible to achieve all of these objectives.

[25] British Screen Forum calculations. GVA data from ONS for UK and London and the South East. Creative Industries estimates supplied by Enders Analysis from DCMS data. All figures for 2018
[26] Source: "Independent Review of the Creative Industries," Sir Peter Bazalgette, September 2017

d) A sector that repays supportive policy interventions

The Screen Sectors' unusual underlying economics make them highly vulnerable in some respects. Their success relies in part on supportive policy interventions that address market failures and ensure competitive strength.

The underlying economics of the Screen Sectors are unusual in a number of ways. They are hit-based businesses, with particularly high levels of risk and uncertainty from project to project. High-end content in particular – whether TV, films or video games – has a distinctive and asymmetrical cost profile, with very high fixed costs and low marginal costs. This means that most of the investment relating to any given project must typically be borne before any consumer revenues may be earned, and thus incentivises the development of large companies able to access capital and develop broad portfolios in order to manage commercial risk and sustain viable business models. With a short life cycle in the primary window, ancillary markets play an essential role in providing secondary revenue streams. Some content has universal appeal, which cuts across cultural and national boundaries, providing further revenue streams from global territories.

All of this means that scale is important in the sector, and economies of scale play a role both at the level of individual companies – who can spread fixed costs and risks over their portfolios of projects – and at the country level. In the UK, this dynamic has motivated consolidation in the independent production sector over the last 20 years, giving rise to the development of "super-indies" that have the scale to manage risk, invest in their own R&D and share back-end costs across production units. Globally, it has been a rationale for several waves of M&A activity in the sector, the most recent of which includes WarnerMedia's merger with Discovery to form Warner Bros. Discovery, Amazon's acquisition of MGM Studios, and Comcast's purchase of Sky.

As a general rule, audiovisual companies with large homogenous domestic territories have the potential to reach greater scale by being able to exploit economies of scale in their home markets, if they provide content and services that meets consumer needs. As the sixth largest economy in the world (measured by GDP), this undoubtedly gives the UK a big advantage over most other countries. But it also gives the largest and most populous economies – such as the US and, increasingly, China and India – an enhanced capability to produce audiovisual companies with even greater scale.

The first key rationale for public intervention is therefore to build the scale of the UK market and production capability, enabling the UK to exploit the advantages it has in terms of creativity and expertise in the Screen Sectors, including by attracting inward investment from the largest global companies. This scale enables us to nurture a vibrant and innovative production sector that itself can draw on a large and highly skilled workforce, so that the sector can meet the demand for UK content from a range of commissioners, from domestic broadcasters to global studios and streamers. The aim is to create and sustain a mixed screen sector ecology in which companies that differ in size, ownership and purpose do not just co-exist, but thrive in a manner which is symbiotic and part of a complex ecosystem which has benefits for all parties, and which is appropriate and feasible for a territory of our size. Intelligent interventions in audiovisual markets stimulate a virtuous circle between investment, content production/service provision, audience demand, and the revenues that underpin further investment.

The nature of the interventions, and the interplay between different parts of the sector, have changed over time. In the past, there was a greater reliance on the public service broadcasters, who were responsible for the large majority of television content that was commissioned in the UK, which they fully funded themselves and – in the case of the BBC and ITV – mostly made in-house. Inward investment by US broadcasters and studios was relatively modest. Now, by contrast, the sector is characterised by a much more diverse range of funding and commissioning models, with more investment from commercial broadcasters and streamers, and a greater prevalence of co-productions between these organisations and the PSBs.

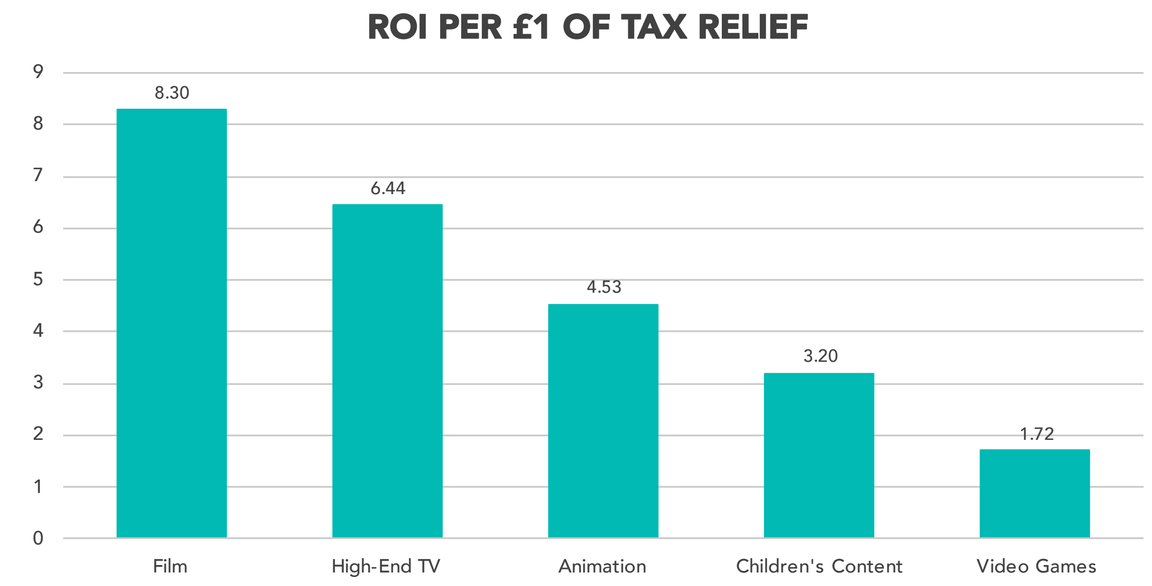
The increased importance of the commercial sector is one of the key trends explored in the next chapter. The upshot is that the overall ecology is enriched by the continuing strength of the PSBs alongside an increasingly diverse commercial sector, all serving a growing number of domestic and international commissioners of content. This can be seen at both the macro and micro level: taking one local example, Bristol is home to a thriving cluster of producers of natural history programming: the BBC's longstanding Natural History Unit is now accompanied by indies such as Wildstar Films, Silverback Films, and Plimsoll, all making programmes for broadcasters and streamers based in the UK and abroad.
By ratcheting up the scale at which the industry operates, the UK Screen Sectors are significantly bigger, more vibrant and more competitive than would be expected of an economy of our size and are able to punch above their weight on the world stage, including in terms of inward investment and exports.

A second factor that underpins the success and growth of the UK's Creative Industries in recent years, and particularly the Screen Sectors, is a judicious set of smart and targeted Government interventions and regulations, at both the UK-wide and local level. Key UK-wide support measures include longstanding institutions such as the British Film Institute, which disburses National Lottery funding and grant in aid, the maintenance and support for public service broadcasting (PSB) as a key investor in the domestic TV market, the introduction of the Terms of Trade in the Communications Act 2003 (which supercharged the independent production sector), PSB quotas for independent and regional productions and, more recently, the introduction of the Film Tax Relief and subsequent Creative Sector Tax Reliefs. At the local level, there is a more complex interplay of support measures. In the Nations, with powers devolved to the Welsh Assembly, the Scottish Government and the Northern Ireland Assembly, UK-wide policies are complemented by initiatives from the respective national screen agencies (Creative Wales, Screen Scotland and Northern Ireland Screen). In the English Regions, despite the disbanding of the Regional Screen Agencies in 2011, locally-focused bodies such as Screen Yorkshire and Create Central have helped develop Screen Sector activity outside London and the south-east of England.

These measures have historically played, and continue today to play, a vital role within the UK ecology as stimulating activity and in particular incentivising the full range of public and private organisations that are developers of talent and ideas, creators of IP, investors in content, and pump primers that stimulate the vibrant independent production sector. As part of this, the public service remits and licence obligations that the PSBs face ensure that they continue to prioritise activities that support, and provide knock-on benefits to, the overall sector, such as investment in high levels of original content across all genres, commissioning content from across the UK's Nations and Regions, the development of talent early in their careers, and support for new and diverse companies. In a fast-moving sector where success is constantly driven by the next new big ideas, and where other countries compete fiercely for inward productions, ongoing public support needs to be maintained in order to sustain the UK's world-leading position.

Taken together, the policy framework that has been put in place demonstrates a sophisticated understanding across UK Government and the devolved administrations of the economic, social, cultural, and soft power benefits that are derived from the Creative Industries. To give one example of the success of these interventions, the Creative Sector Tax Reliefs have delivered returns on investment for each £1 of tax relief of £8.30 (film), £6.44 (High-End TV), £4.53 (animation), £3.20 (children's content) and £1.72 (video games).[27] These returns are striking given that screen sector production activity is often highly mobile and there is intense international competition to attract it. Moreover, by stimulating activity around the nations and regions, the Tax Reliefs make a valuable contribution to the Government's levelling-up agenda.

The Creative Sector Tax Reliefs deliver high returns on investment



Data source: Olsberg•SPI / Nordicity

The benefits of the approach adopted in the UK are clear to see. Compared to other countries, our Screen Sectors boast an unusually rich mixture of public and private

[27] Source: Screen Business: how screen sector tax reliefs power economic growth across the UK, Olsberg•SPI & Nordicity for the BFI, 2021

companies, competition between which helps to drive innovation and growth. We have one of the most successful independent TV production sectors in the world. And we attract substantial amounts of inward investment by global media companies, especially the US studios and streamers, who choose the UK – with its world-class talent and infrastructure – as the home for some of their biggest projects.

Landmark titles produced in the UK over the last decade include the likes of HBO's *Game of Thrones* series (Belfast's Titanic Studios), Starz's *Outlander* series (Cumbernauld studios in Scotland), Lucasfilm's *Star Wars: The Rise of Skywalker* (Pinewood Studios), to name just three. More recent examples from the last three years are shown in the table below.

Examples of inward investment film and high-end TV projects in production, 2019-2021

	Films	High End Television
2019	• No Time To Die • Tenet	• Bridgerton (Netflix) • Avenue 5 (HBO/Sky)
2020	• The Batman • Jurassic World: Dominion	• Sex Education Series 3 (Netflix) • Slow Horses (Apple TV+)
2021	• Indiana Jones 5 • Batgirl	• Good Omens Series 2 (Amazon, BBC) • Ted Lasso Series 3 (Apple TV+)

Data source: "Film, high-end television and animation programmes production in the UK", BFI Research and Statistics Unit, reports for 2019, 2020 and 2021

With a constant throughput of high-end content being made here, the main global players see the UK as an important production base and have expressed their confidence by making significant investments to expand studio infrastructure. Recent expansion projects for the UK's film and television studios include investments from Sky, which is building a 12-stage studio in Elstree; Netflix, whose dedicated production hub at Shepperton Studios will include 14 stages, workshop and office space; and Disney, which entered into a long-term agreement to take all stages, backlots and other production accommodation at Pinewood Studios.

Alongside these investments from US-based studios, there has been substantial investment in capital infrastructure from other sources. This includes the development of major new studios, such as Hackman Capital Partners' investment in Eastbrook Studios in Barking and Dagenham (one of the most economically deprived areas in the UK), which is expected to deliver 252,000 sq. ft. of stage floor space, making it the largest film and TV studio campus in London; and Liverpool's forthcoming Littlewoods Studios, which will include 85,000 sq. ft. of studio and ancillary space.

Outside England:

- Wolf Studios Wales opened in 2017 as the largest ever film studio in the country, with over 125,000 sq. ft. of stage floor space. Increased production over the last few years (including from the BBC), specifically within High-End TV, has seen the Cardiff city region grow to become what it believes to be the third biggest media hub in the UK.

- First Stage Studios will be running a new Scottish film and TV studio space in Leith, in a facility that has already been used on productions such as *Marvel's Avengers: Infinity War*.

- Belfast Harbour is seeking to quadruple the size of its Film Studio site with six new studio spaces with a total of 116,000 sq. ft.

It is estimated that the total value of investments in UK stage developments completed in the last five years (2017-2021) was £426 million, and that these projects together delivered more than one million square feet of stage floor space.[28] Lambert Smith Hampton estimated in 2021 that the UK has approximately 4.2 million sq. ft. of stages in dedicated film and TV studios, with at least a further 1.2 million sq. ft. in alternative build spaces that are marketed for studio use (such as former warehouses, factories and airfield buildings). The South East of England accounts for 62% of the current studio space total. In the rest of the UK, the largest clusters are in Wales (12% of the total), Northern Ireland (6%), and the North West, Yorkshire and Scotland (5% each).[29]

Even this does not tell the whole picture of capital investment in studio infrastructure. With production technologies constantly evolving, existing studios must invest in technology to meet the changing demands of broadcasters and other clients. For example, Dock10 in Manchester spends around £3 million a year on technology upgrades; its new 4K UHD-ready virtual studios are used by the likes of BBC Sport. Studios such as ARRI are investing in mixed-reality studios that can be used for film and TV. Virtual production brings together cutting-edge technologies such as VR and AR, motion capture, virtual sets and game engines (software primarily designed for video game development) to provide a new production framework in which a physical set is surrounded by LED video walls that enable scenes to be filmed that would previously have been impossible or relied on expensive location shooting.[30]

The construction activities described here make an important contribution to UK economic activity as capital projects. Moreover, these projects will generate considerable overspill benefits in related sectors. The core budget would cover materials, resources and labour, but in addition to this, around a further 10% of the construction budget would typically be spent on professional fees, such as architects, civil, mechanical and electrical engineers, and lawyers. Notwithstanding the scale of these benefits, it should be emphasised that they do not form part of the GVA figures for the Creative Industries cited above. Rather, they are an investment in the future: this capital build will facilitate higher levels of production in the UK Screen Sectors and will thus drive future GVA in the Creative Industries to even greater levels.

[28] Source: Nordicity/Saffery-Champness research
[29] Source: "Sites, Camera, Action! Take 2: The UK & Ireland Film & TV Studio Property Market 2021," Lambert Smith Hampton, July 2021, available here
[30] Source: "Everything you need to know about virtual production," Broadcast Tech magazine, Spring 2022

The upshot of all this activity is that we have established an immensely valuable win-win position for the Screen Sectors of having a strong indigenous sector plus being highly competitive on the global stage to attract inward investment. A diverse set of highly competitive and agile players straddling both the public and private sectors push each other to new creative heights. Together, they help to create the scale that enables the screen industries to sustain the skills and capital base that supports content creation across a wide range of budgets, for domestic and global audiences.

The UK's distinctive strength is the overall package that it offers, comprising a large amount of world-class studio infrastructure and a skilled and experienced workforce, along with a stable economic base and a benign cultural and political outlook. But the UK will only continue to succeed if it constantly reinforces each element of the package, such is the highly competitive global market for mobile productions. To give one example, Australia is also enjoying a production boom: its existing studios are reported to be operating at full capacity with more than 90 screen projects in pre-production, production or post-production in 2021. Recent titles include upcoming Marvel film *Thor: Love and Thunder*, Amazon's *Nine Perfect Strangers* and Apple TV's anthology series *Roar*. Meanwhile, a mixture of public and private backers are investing in new studios across the country, including Pacific Bay Resort Studios and Village, a AUS$438 million film studio across 100 acres in Coffs Harbour, New South Wales, supported by Russell Crowe; and Lakeside Studio, a 96-acre film and TV facility in Western Sydney on a site used for scenes in *Mad Max: Fury Road*, costing AUS$150 million.[31]

Enlightened public policies at the UK, national and local level have all played a pivotal role in fostering such a vibrant sector and remain essential to drive future success. Our win-win position is highly fragile and needs to be constantly supported with the right policy measures in terms of Government interventions. This is particularly the case now given the significant short-term cost pressures that the industry is facing, some of which are common across sectors, such as increased power costs, and others are specific to the sector, including the Covid-19 protocols for productions that remain necessary and which cannot be avoided when the workforce has to be on-site, along with the additional insurance costs that must be borne for Covid-19-related shutdowns.

Two examples illustrate this fragility: firstly, perhaps the most salient current example of a serious problem in the industry is a direct result of its recent success, in terms of the inward-investment-driven surge in production as the industry recovers from the Covid-19 shutdowns. As a result, we are seeing skills shortages in a growing range of crew types – from technicians to art directors to costume supervisors to production accountants – which are already leading to postponements of projects and which, if not addressed, risks creating capacity constraints or wage inflation that could cause long-term damage to the sector. Similarly, the games sector requires a unique blend of creative and technical skills, and it has been difficult for companies of all sizes to recruit talent since leaving the EU and losing access to freedom of movement, and with visa costs (financial and administrative) placing particular pressure on SMEs. While the BFI and ScreenSkills are working to address these

[31] Source: news articles from Variety, FilmInk and other sources here, here, here and here

issues (the BFI's skills review for the DCMS is expected to report this summer), crew cannot be trained or experience gained overnight, and a cross-industry plan needs to be funded and rolled out to match the future supply of skilled workers with the anticipated demand. As discussed in the next chapter, part of this will include promoting diversity and inclusion, so that the broadest range of people have opportunities to develop careers within the sector.

A second current area of concern is the sharp reduction of investment in British film over the last five years. While Covid-19 hit production activity badly, this is a trend that goes back to 2017, when production peaked at 381 feature films starting principal photography, according to the most recent full-year BFI data.[32] The number of feature films produced in the UK fell every year between 2017 and 2021, dropping by almost 50% to 209 titles in 2021. The biggest percentage decline was for low-budget domestic UK features (costing less than £500k), the number of which fell by 72% from 184 in 2017 to just 51 in 2021. Overall, the number of independent films fell by 45%, from 362 in 2017 to 200 in 2021, while the number of US studio films dropped by 53%, from 19 in 2017 to 9 in 2021. Turning to production spend, investment in UK films fell by 30% over the last five years, from £2.2 billion in 2017 to £1.6 billion in 2021. Again, the biggest decline was in domestic UK features with budgets below £500k, spend on which fell by 66%. Overall spend on independent films fell by 17%, from £680 million in 2017 to £560 million in 2021, while spend on US studio films fell by 36%, from £1.54 billion in 2017 to just under £1 billion in 2021.

However, the true story is not fully reflected in these five-year trends, for three reasons:

- First, single long-form productions commissioned by the streamers qualify for the High-End TV (HETV) tax relief and are included in the main BFI statistics within the HETV figures even though they could be described as 'films.' The number of such productions produced in the UK has doubled over the last five years, from 18 in 2017 to 36 in 2021, with a total budget in 2021 of £737 million – and as such they represent a healthy segment of UK production growth in themselves, regardless of debates as to whether they should be classified as films or high-end television singles. Including them within the BFI's 'film' data gives an adjusted 2021 film spend of £2.3 billion, and the corresponding five-year decline in investment of this adjusted film spend since 2017 is just 2% (versus 30% for the unadjusted total, as cited above).

- Second, it is important to disentangle short-term impacts resulting from Covid-19 from longer-term trends. The number of US studio films produced in the UK (excluding the HETV titles) held relatively steady prior to the pandemic (19 titles in 2017 vs 18 in 2019) before falling sharply in 2020 and 2021 (to 10 and 9 titles). Conversely, the number of independent films fell by almost 10% between 2017 and 2019 (from 362 to 331) and then fell further during the last two pandemic-impacted years. This (together with other analysis that has been conducted) suggests that the decline in the number of US studio films may bounce back quickly, and is in any case offset by higher budgets for each production. In contrast, the fall in investment in

[32] Source: "Film, high-end television and animation programmes production in the UK: full-year 2021," BFI, February 2022

indie films is longer-term, and the decline in the number of UK indie films has not been offset by higher budgets.

- Third, the 'independent film' category includes films that may have production or investment involvement from parties not considered fully independent, e.g. mini-majors, large media groups, broadcasters and streamers. For fully independent films, there is some evidence to suggest that budgets have not risen in line with production costs in recent years, resulting in finished films with lower production values. These films can struggle to secure significant theatrical release or pick up international sales, impacting future production budgets – a vicious circle that reduces the quality of indie films and reduces the potential for break-out hits to emerge.

In summary, while the headline film statistics would appear to show a decline across US studio and independent films alike, these figures do not tell the full story, which is that UK production of US studio films is expected to bounce back quickly following the pandemic (and investment in HETV singles by the streamers is growing strongly), whereas the independent film sector has been struggling for a number of years and will continue to do so on recent trends.

Contributory factors to these trends include the growth in investment in high-end TV over this period (with prestige TV series to a degree substituting for high-quality films for some audiences) and steady reductions in funds from European public agencies[33] (not fully made up by the Global Screen Fund, administered by the BFI on behalf of the DCMS). But these are not the only factors: funding by the public service broadcasters has also dropped, and financing from crowdfunding and via EIS/SEIS tax incentive schemes has fallen sharply over this period (this coincides with rule changes in 2017/18 which, as British Screen Forum feared at the time, had the unintended consequence of limiting film production companies' ability to access these tax schemes, notwithstanding subsequent changes to the Guidance). All of this points to a complex interplay of factors which, if not addressed, risks harming a vital part of the Screen Sectors – break-out indie film hits resonate with global audiences and make a disproportionately strong contribution in both cultural and economic terms, as well as showcasing the careers of UK talent in front of and behind the camera.

In particular, research commissioned by British Screen Forum[34] shows that independent British films play a crucial role in developing the talent that goes on to work on high-end TV and inward investment film projects. For senior professionals working on inward investment films, 41% of their prior career credits were on independent British films. The corollary is that a reduction in the size of the UK independent film sector risks causing significant damage over time to the entire film and high-end TV production sector unless other routes are found to develop and nurture crew and talent.

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[33] We welcome the establishment of the UK Global Screen Fund, financed by DCMS and administered by the BFI. While this fund has partially made up the shortfall in funding, it is targeted in different ways.
[34] Source: "Local Heroes and Inbetweeners: The Contribution of the Independent British Feature Film Sector to the UK Audiovisual Production Industry," British Screen Forum/NARVAL Media, October 2019

The BFI has commissioned An Economic Review of UK Independent Film from Alma Economics to shed new insight into the revenue models adopted by independent films and the key opportunities and challenges currently facing the sector. The report is expected to be published this summer. British Screen Forum also expects to publish an analysis of independent UK film finance later this year, as well as a study of the project development process across TV, film and games.

The kinds of issues highlighted here point to the need for government action in areas where the industry cannot address the problems alone. For example, the challenges of ensuring we have a skilled workforce of sufficient scale requires reform of education and apprenticeship schemes and greater investment in relevant training over the medium- to long-term, while in the short-term it may be necessary to consider allowing easier access to experienced non-UK crew.

e) A sector not to be taken for granted

Our message to the Government regarding support for the Screen Sectors is clear: don't take us for granted; do provide the support needed so we remain globally competitive. Get it right and the prize is huge, in terms of stimulating economic growth and social value, but get it wrong and the repercussions can be drastic.

The Screen Sectors thrive on drama and jeopardy, and here too the prize is huge. If the Government gets it right, they will grow further and deliver even stronger benefits in terms of economic and social value. With a proven track record, the Screen Sectors are a good bet at a time of extreme uncertainties on the global stage. Along with other parts of the economy, they need macroeconomic measures that support economic growth in the marketplace, for example by facilitating access to capital and talent. We need to maintain – and update where necessary – sector-specific interventions that address market failures and ensure we continue to punch above our weight. And we need public support in specific areas – such as skills gaps and investment in independent films – where the market is not able to adjust quickly enough to mismatches between supply and demand. In these instances, failure to act could cause long-term damage, e.g. if it harms the UK's reputation for being able to deliver when competing for inward investment, or if independent films were no longer able to play a role as a nursery slope for up-and-coming talent.

With the right support in place, the prospects for export-led growth are strong. Studies show, for example, that pre-pandemic the annual growth rate of the UK-based film, TV and TV-related industries was predicted to rise to between 5% and 8% per annum by 2025, largely driven by international revenues.[35]

Conversely, if the Government falls short in ensuring a modern, fit-for-purpose set of interventions and regulations, the risk of neglect is that nimbler countries will over time

[35] Source: "The contribution of the UK-based film, TV and TV-related industries to the UK economy, and growth prospects to 2025," Oliver & Ohlbaum , October 2018

come to outcompete us in global markets (as they strengthen their own infrastructure and skills base, and improve their fiscal incentives) and the UK Screen Sectors will fall short of their substantial potential.

C. A SECTOR NAVIGATING CHANGE

In this chapter, we look at key trends in the Screen Sectors over the last decade, with a particular focus on what has changed between 2017 and 2022 (or the most recent five years of data). Our review covers infrastructure (access to superfast broadband), the rapid growth of video-on-demand services, trends in TV, film and game-playing markets, and the development of the creator economy and influencer space. We also discuss how the industry is taking action to address workforce issues – e.g. on diversity, training and meeting the needs of freelancers – and to meet its net zero commitments.

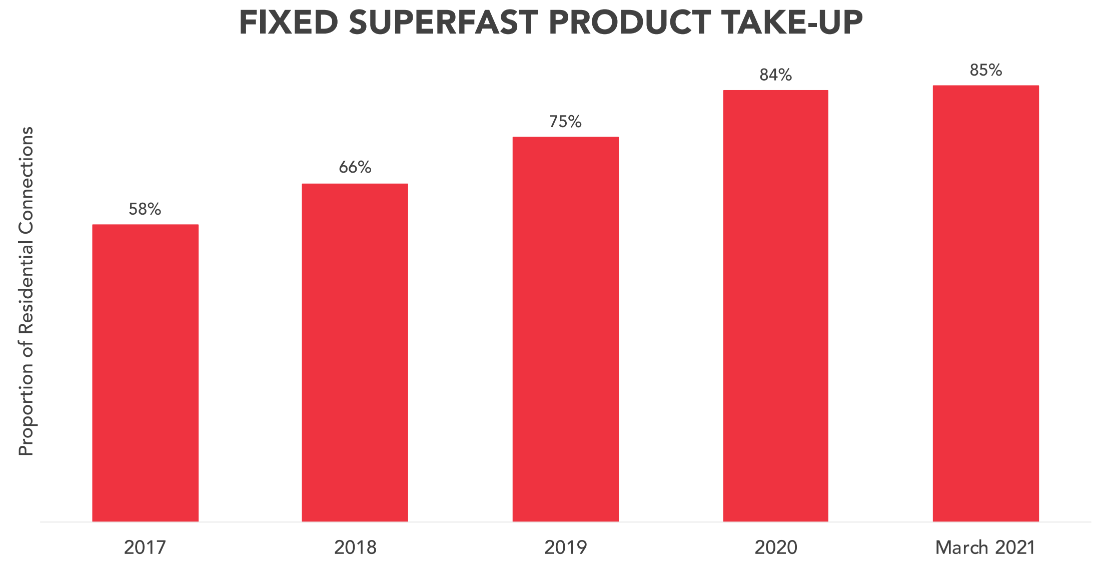
a) Connectivity matters

Over the last five years we've reached a tipping point in terms of widespread access to fast broadband speeds that allow reliable delivery of video-based services. But the UK performs poorly by international standards when it comes to superfast broadband and there is some way to go to ensure everyone has access to the infrastructure needed to power growth over the next 5-10 years

Over the last five years, we have seen the increasing availability of fast fixed-line broadband services in the home, which make it feasible to access video content in reasonable-to-high quality. In particular, this was sufficient to make working from home viable during the lockdowns, with Zoom meetings becoming a normal part of the new working day for many.

Between 2017 and 2021, median average download speeds rose from 36 to 50 Mbit/s, while penetration of fixed superfast broadband products (defined by Ofcom as those with speeds of at least 30 Mbit/s) rose by almost 50% to 85% of UK homes.

Penetration of superfast broadband products rose by almost 50% between 2017 and 2021 (speeds of at least 30 Mbit/s)



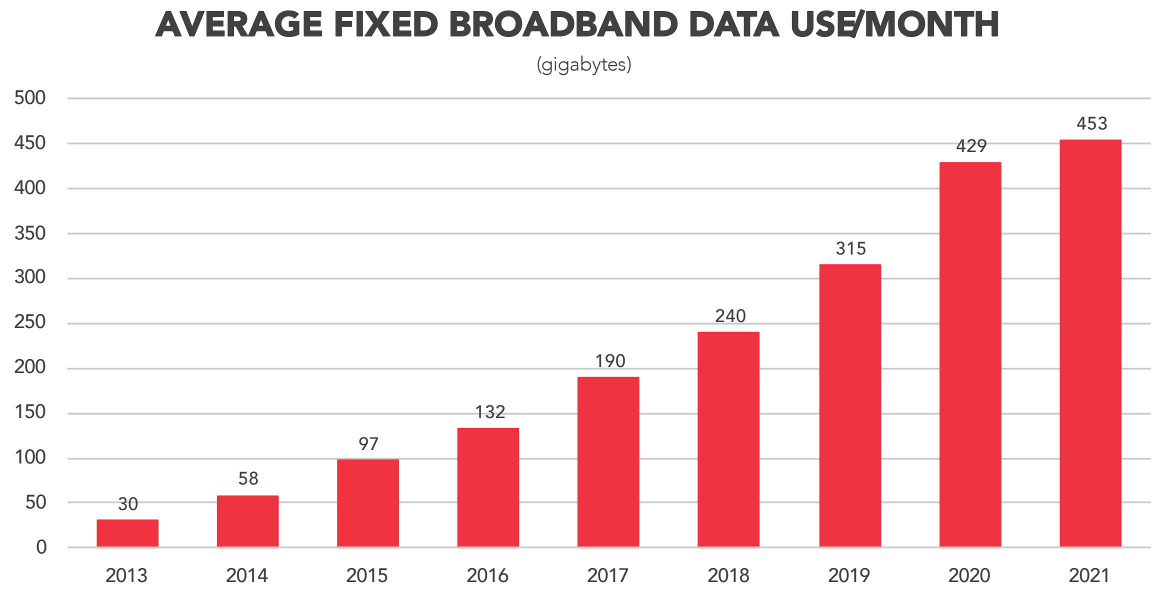
Data source: "UK home broadband performance," Ofcom, September 2021

Meanwhile, the rollout of 5G wireless networks allows high-quality video streaming on mobile devices. 5G has the potential to offer download speeds up to 10-50Gbps and can potentially play a role in serving remote areas where it may not be cost-effective to lay fibre. It is also stimulating innovation, e.g. with new video-based mobile services (such as The Green Planet Experience, an AR experience created by Factory 42, BBC Studios and EE).[36]

Use of broadband data has risen dramatically over the last decade. Between 2013 and 2021, average monthly usage per connection rose by 15 times to 453 GB per month, with the figure more than doubling in the last five years (from 190 GB per month in 2017).

[36] See https://www.factory42.uk/greenplanetexperience

Broadband data usage has risen 15-fold since 2013



Data source: "Gigabit-broadband in the UK: Government targets and policy," House of Commons Research Briefing, February 2022

There is growing recognition that much higher speeds, such as Gigabit-capable broadband (with download speeds of at least 1Gbit/s), will be necessary to meet consumer and business demand over the next 5-10 years.

- In the Screen Sectors, they would aid every element in the life cycle of content from its production (including post-production and VFX) through to its distribution and consumption (including streaming and playing online video games).

- They will be especially important for the next generation of services such as VR and the more immersive forms of online game-playing, including fast-growing categories such as eSports: providing the technological environment that would encourage domestic producers to make content and stimulating demand for this content amongst UK consumers.

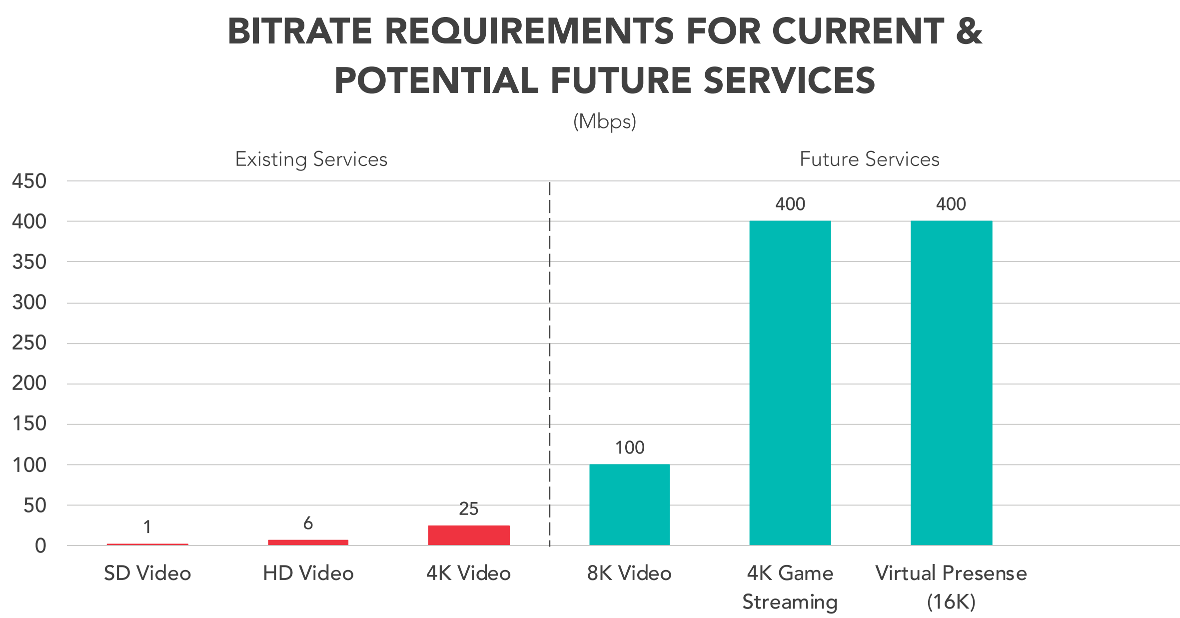
- For traditional video content, such speeds would enable a high-definition ("HD") feature film to be downloaded in less than a minute and would drastically improve the robustness of streaming video as ever more people seek HD content. They would address the problems of buffering and freezing pictures that are commonplace today, especially during evening peak hours when networks struggle to meet demand – and which will only get worse without substantial improvements in the infrastructure.

- Across consumer markets in the Screen Sectors – for film, TV and games – digital downloads are now eclipsing physical purchases. Game-playing is also moving increasingly towards a "games-as-a-service" model, whereby one-off purchases are replaced by a service model in which games companies frequently update their games over the years to keep them fun and to respond to consumer needs, requiring multiple downloads of updates over time (as with apps on mobile devices).

- There are also important benefits in other sectors, such as Education. And more broadly, Gigabit broadband makes a vital contribution to the Government's levelling-up agenda, by levelling the playing field across the UK and by making it easier for people to work together from different locations.

To give a sense of the amount of additional bandwidth that will be needed to power future demands for screen-based content and services, 4K video streaming currently requires bitrates (of around 25Mbps) that are around four times higher than those needed for HD video (6Mbps), while 4K game streaming will require bitrates that are another 16 times bigger (400Mbps) than those for 4K video.

Next-generation video-based online services will require broadband streaming bitrates of a higher order of magnitude than even 4K video-on-demand



Data source: Enders Analysis

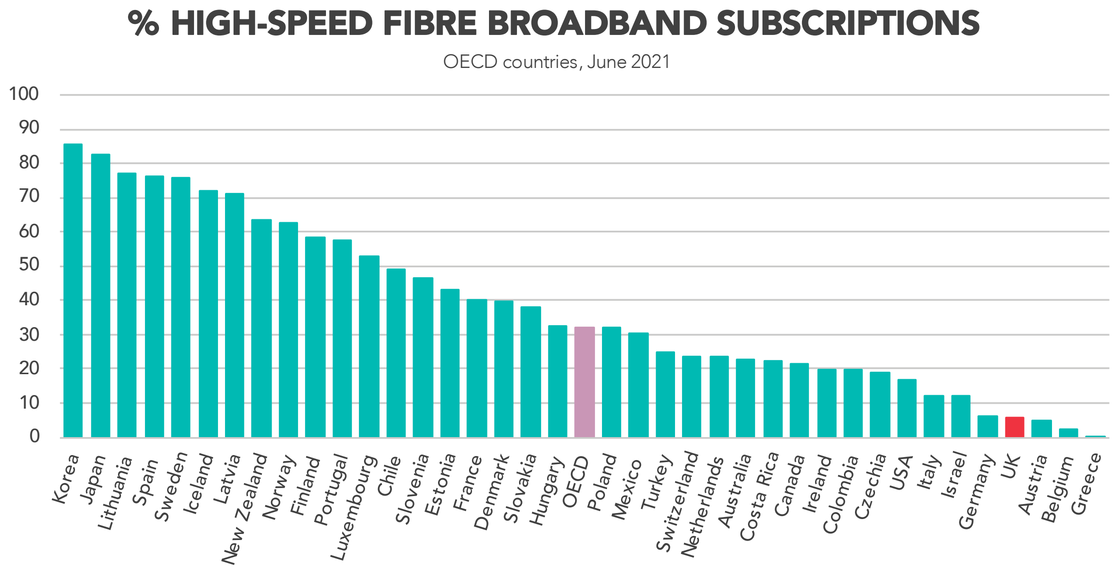
It is important to note that, currently, broadband networks are far from adequate even for the universal delivery of HD video – the standard for linear TV channels – given the issues frequently experienced by viewers relating to buffering and congestion when video is streamed (especially in peak time), and by the significant proportion of the population who cannot afford broadband services or whose homes lie outside broadband coverage areas. Any future decisions on spectrum policy (e.g. in the context of next year's World Radiocommunication Conference) will need to take into account the fact that DTT services using radio spectrum will remain an important means to deliver broadcast TV until there is universal access to IPTV capable of delivering reliable TV-quality video to all households across the UK at all times of the day.

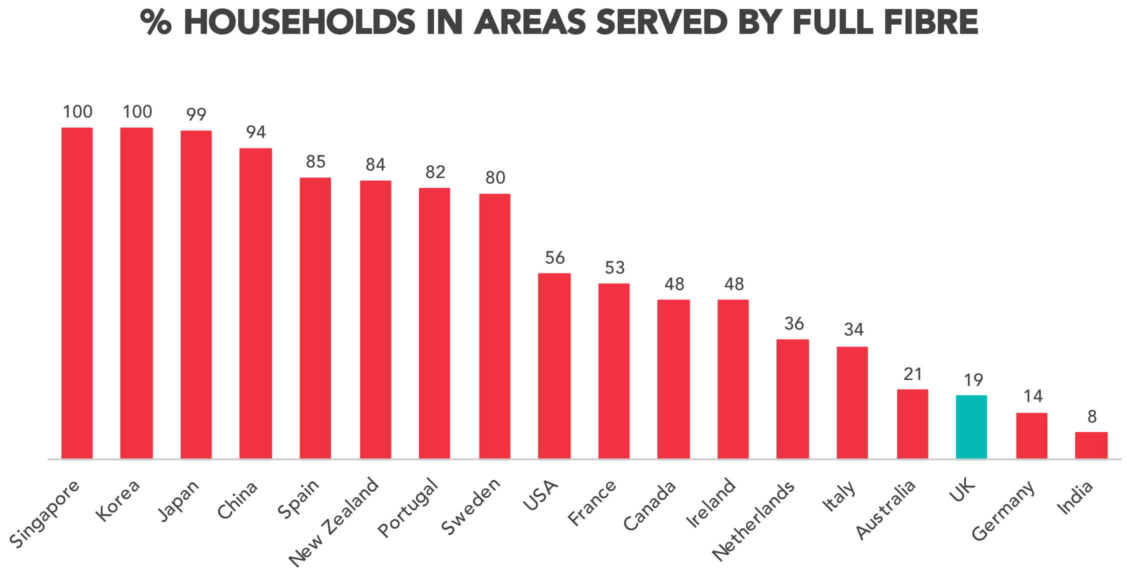
The key wired technology for providing Gigabit broadband is "full fibre" (also called 'fibre to the premises' or FTTP), whereby the connection from the exchange to the premises is provided entirely over optical fibre. Hybrid fibre coaxial cable (HFC) – which uses fibre to a street cabinet and coaxial cable from the street cabinet to the premises – is also capable of providing Gigabit broadband in theory, though in practice speeds tend to be much lower.[37]

However, as the charts on the next page show, the UK performs very poorly by international standards when it comes to high-speed fibre coverage, according to the OECD and Ofcom. The latest OECD broadband statistics update shows the UK to have one of the lowest rates of high-speed fibre as a proportion of fixed broadband subscriptions, at just 6% in June 2021 compared to an OECD average of 32%. Its ranking is topped by South Korea and Japan, with over 80% high-speed fibre coverage (these countries have high population densities and large proportions of people living in urban areas, reducing the cost-per-premises).

[37] See "Connected Nations 2021," Ofcom, December 2021, pages 8-9

The UK performs very poorly by international standards for high-speed fibre broadband take-up and availability





Data sources: OECD broadband statistics update, February 2022; International Broadband Scorecard, Ofcom, December 2021

Ofcom's latest International Broadband Scorecard shows that, by the end of 2020, 19% of UK households were in areas served by full fibre, one of the lowest figures in its sample. This proportion had risen to 33% in Ofcom's most recent UK-focused report (coverage data from January 2022) – with significant differences across the Nations and between rural and urban areas: from as low as 19% in rural Scotland up to 90% in urban Northern Ireland, as the table below shows.[38] Even this latest UK figure of 33% is low by international standards, comparing it to the data for other countries from 2020. This latest data also shows that access to Gigabit-capable services had risen to 66% of households, though for the reasons cited above, this infrastructure is unlikely to provide sufficiently fast and reliable broadband speeds that will be needed to support the next generation of video-based services to the same extent as full fibre.

RESIDENTIAL FULL FIBRE COVERAGE

	FULL FIBRE	URBAN	RURAL
England	31%	32%	28%
Northern Ireland	79%	90%	52%
Scotland	32%	35%	19%
Wales	32%	33%	28%
UK	33%	33%	28%

Source: "Connected Nations Spring 2022 update," Ofcom, May 2022

The Government's manifesto commitment was to deliver nationwide Gigabit-broadband by 2025. The Levelling Up White Paper published in February 2022 pushed back the timetable for this, setting a new target for Gigabit-broadband to be available nationwide by 2030 (to "at least 99%" of premises). In the Screen Sectors, we fully support policies to ensure world-class digital infrastructure for all. But it seems clear from the international comparisons that – while progress is being made on both full fibre and, more broadly, Gigabit-broadband capability across the UK – current initiatives need to be accelerated, and that greater emphasis needs to be placed on full fibre (rather than gigabit) in order to ensure our digital infrastructure is fit-for-purpose for the next decade, and in particular to support the levelling-up agenda.

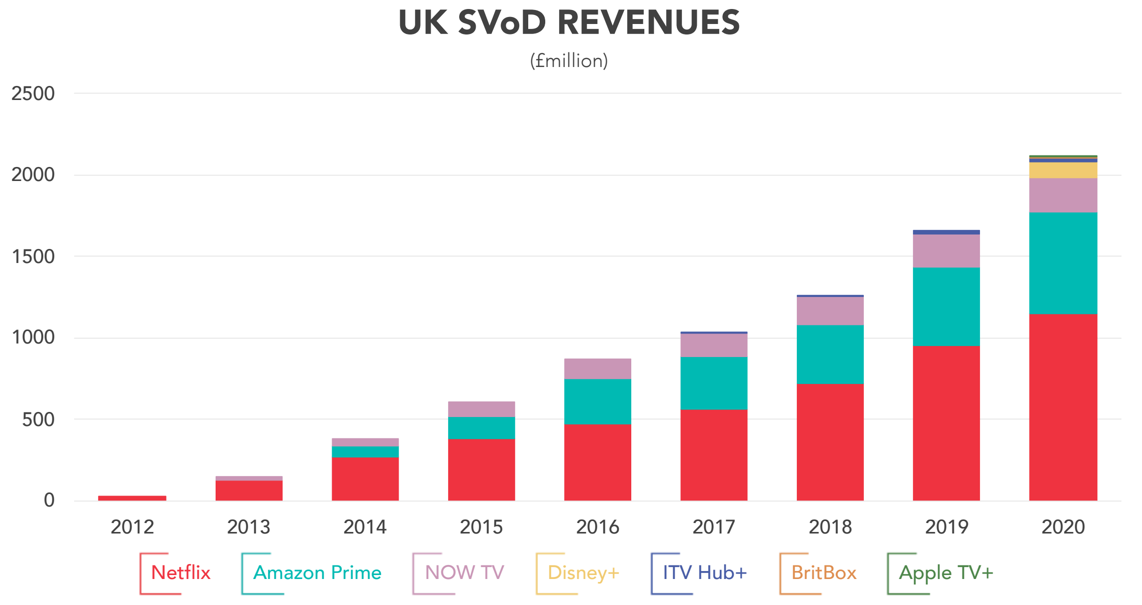
b) The rise of subscription video on demand (SVoD) services

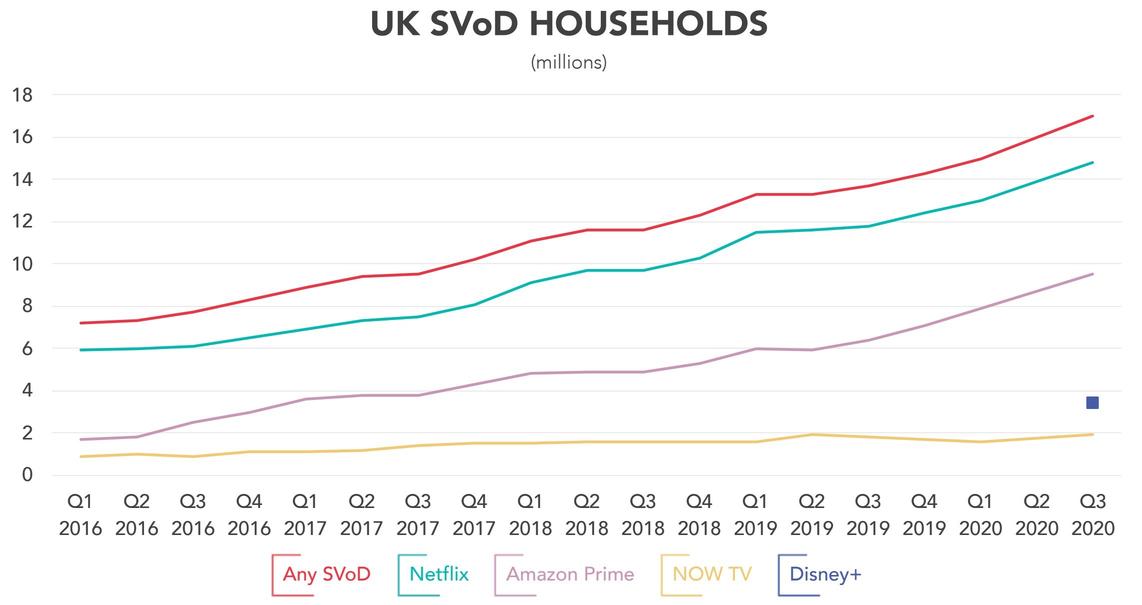
The SVoD market has grown in a decade from almost nothing to be worth over £2 billion by 2020, transforming the video market and largely replacing physical sales and rentals

According to Ofcom (using estimates from Ampere Analysis), the UK revenues of seven of the largest subscription video-on-demand (SVoD) services were together worth £2.1 billion in 2020, 3.5 times more than their value five years earlier (£607 million in 2015). BFI data shows that there were 17 million UK households with at least one SVoD service by 2020 Q3.

[38] Source: "Connected Nations Spring 2022 update," Ofcom, May 2022, interactive report here

UK SVoD revenues have grown by 3.5 times between 2015 and 2020





Data sources: "Media nations: UK 2021," Ofcom, August 2021; BFI Yearbook 2021, Film on digital video

The range of SVoD services has broadened over time and now includes:

- "Pure play" streamers such as Netflix and Amazon Prime Video (the two largest SVoD services)
- Subscription services from the UK broadcasters – both own-branded (e.g. ITV Hub+ and BT Sport) and standalone SVoD offerings (e.g. NOW TV and BritBox)

- New services from the legacy US studios and networks, e.g. Disney+, Peacock and Paramount+
- A long tail of specialist services: such as BFI Player, Mubi and Shudder in the film space; and niche genres such as Marquee TV (arts) and Hayu (reality).

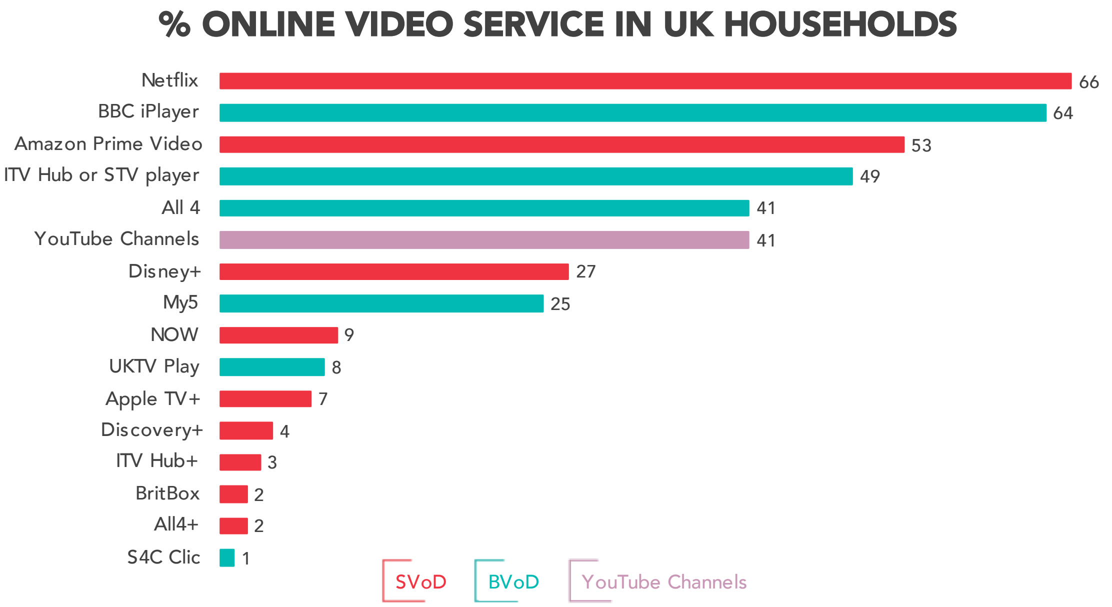
While part of a continuing trend, the growth in SVoD services in 2020 and 2021 accelerated when the Covid-19 pandemic hit: as the country went into lockdown, everyone was forced to stay at home and many people were furloughed. This meant people had more spare time than usual, driving demand for home-based entertainment. It remains to be seen if the rate of SVoD growth will slow, and to what extent, in the coming years as people return to spending their leisure time out of their homes.

Moreover, recent evidence suggests that UK households are more sharply prioritising their disposable income spending in response to the current cost-of-living crisis, and that some SVoD subscriptions are being cancelled as people seek to manage their household expenditure.[39] One of the attractions of SVoD services is that people may join and cancel on a month-by-month basis rather than being tied into annual contracts (as tends to be the case, for example, with traditional pay-TV packages). But at times of financial pressures on household incomes, this flexibility means that SVoD operators are likely to be impacted more, and sooner, than the providers of services where consumers are tied to long contracts (such as for pay-TV packages). It is not yet clear how significant this impact will be, how long it will last, or how quickly SVoD growth will return when the cost-of-living crisis eases.

While SVoD has been the biggest driver of video streaming, there are also two important categories of subscription-free online video services: advertising-based video-on-demand (AVoD) includes commercial broadcasters' main streaming services (e.g. All 4, My5 and UKTV Play) along with a growing number of other services serving general entertainment or niche content (e.g. Pluto TV, TED); while the BBC's iPlayer stands alone as a free service that is funded via the licence fee. Distinctions between AVoD and SVoD are set to blur in the future, with Disney+ and discovery+ having announced the launch of tiers with lower subscription prices that include limited advertising, and Netflix expressing interest in doing something similar. Globally, some of the biggest services may face economic challenges as they reach maturity, and a broader range of pricing options would help address this (as Netflix recently acknowledged when its subscriber growth stalled).

[39] "More than 1,500,000 cancel Netflix, Disney+ and Now TV over living cost crisis," Metro, 19 April 2022. The news report (here) cites Kantar research for the first quarter of 2022

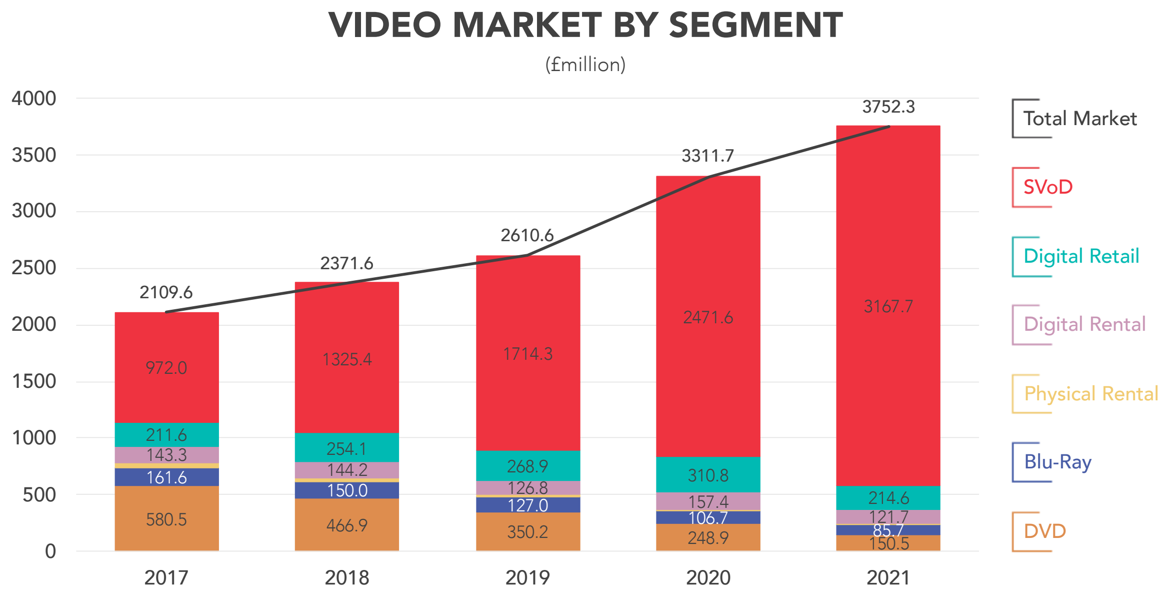
Netflix and the BBC iPlayer are used in around two-thirds of UK households. Eight online video services have penetration rates of 25% or more in UK households

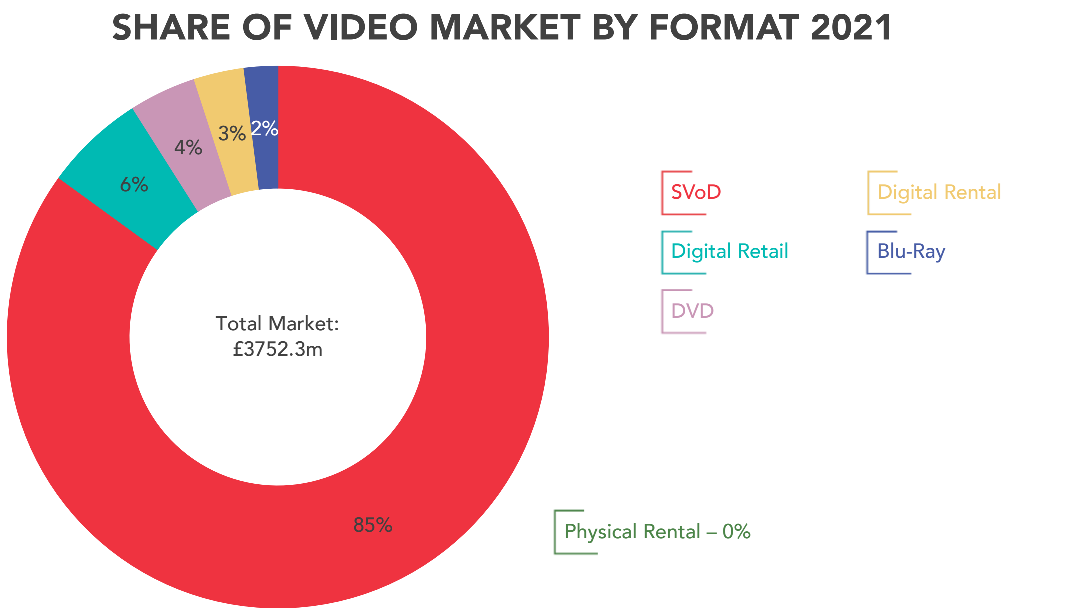


Data source: Media Nations Report 2021, Ofcom, August 2021

The overall video market has been transformed over the last five years, with SVoD rapidly supplanting physical sales. ERA data shows that the overall video market has grown by 1.8 times between 2017 and 2021, from just over £2 billion in 2017 to £3.8 billion in 2021. Over this period, SVoD revenues more than doubled, to represent 85% of the overall video market by 2021. Physical retail and rental sales have been declining to ever lower shares of the market, and even digital retail and rental sales (purchases and rentals of individual titles) have started to decline as SVoD becomes the dominant retail means of accessing content.

SVoD is driving growth in the video market – which is up almost 80% in five years – while all other forms of distribution are declining

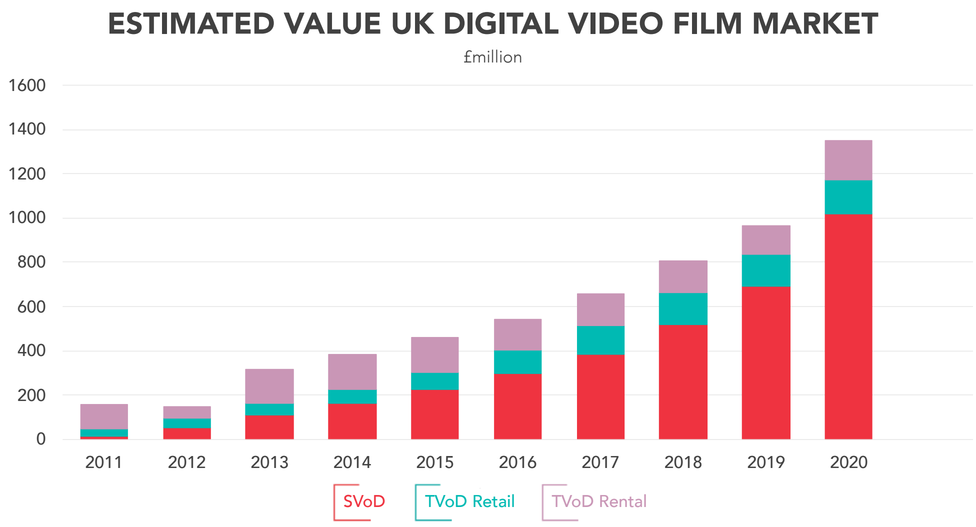


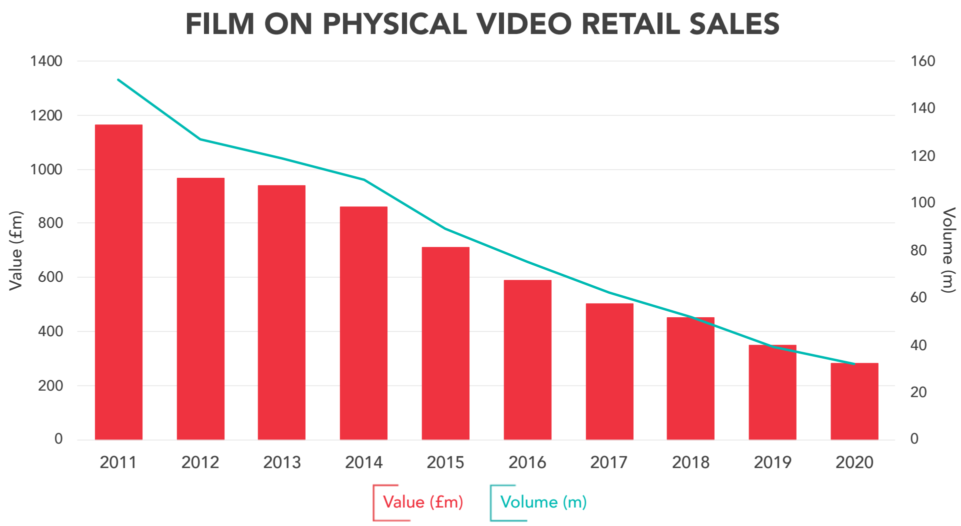


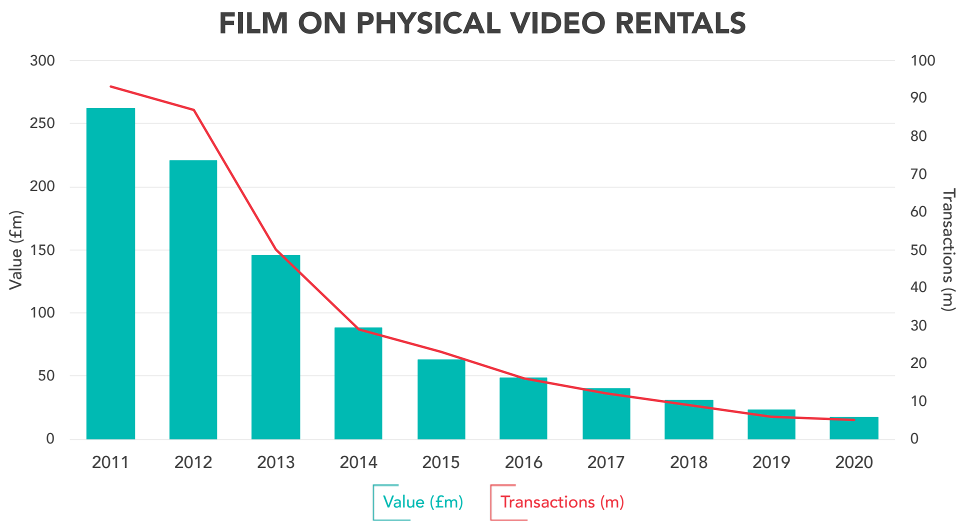
Data source: Digital Entertainment and Retail Association Yearbook 2022

A similar pattern is evident in the video market for films (a subset of the overall video market). The digital video film market has more than trebled in value since 2015, to £1.35 billion in 2020, while sales and rentals of films on physical media have fallen dramatically.

SVoD is replacing physical media sales and rentals for films







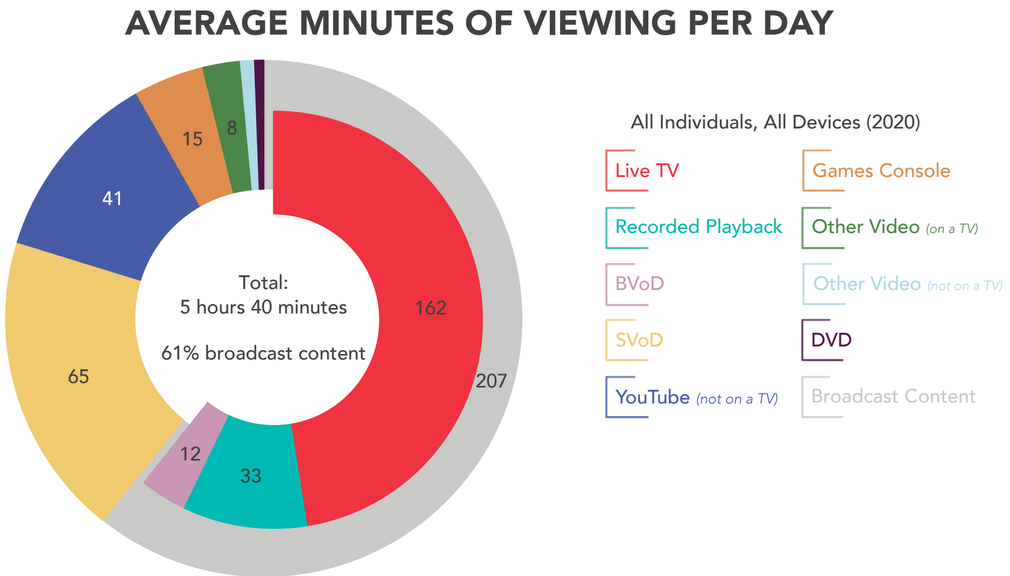
Data source: BFI Yearbook 2021, Films on physical video

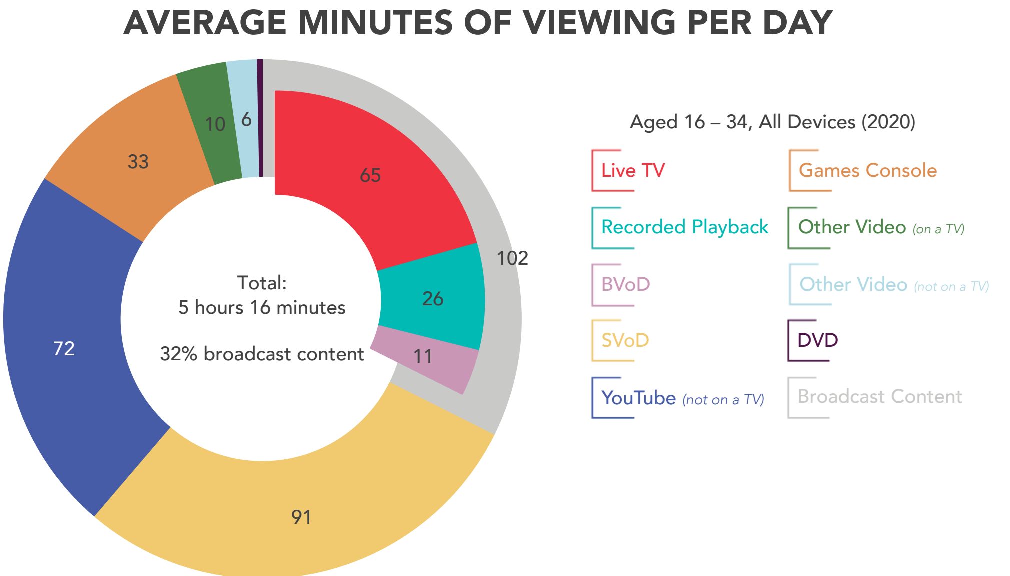
c) VoD growing but traditional broadcasters still dominate video viewing time

VoD services represent a steadily growing proportion of video viewing time – especially for young people – but the traditional broadcasters still account for a majority of viewing

Ofcom's latest estimates suggest that individuals watch an average of 5 hours 40 minutes of video every day, 61% of which is broadcast content. While daily video viewing is a little lower for 16-to-34-year-olds (by 24 minutes, at 5 hours 16 minutes), their viewing choices are significantly different: only 32% of 16-34s' viewing is to broadcast content, while they devote substantially more time to YouTube (31 minutes more than the all-individuals figure), SVoD (26 minutes more) and playing on game consoles (18 minutes more).

16-34s spend high amounts of their viewing time with YouTube, SVoD and games

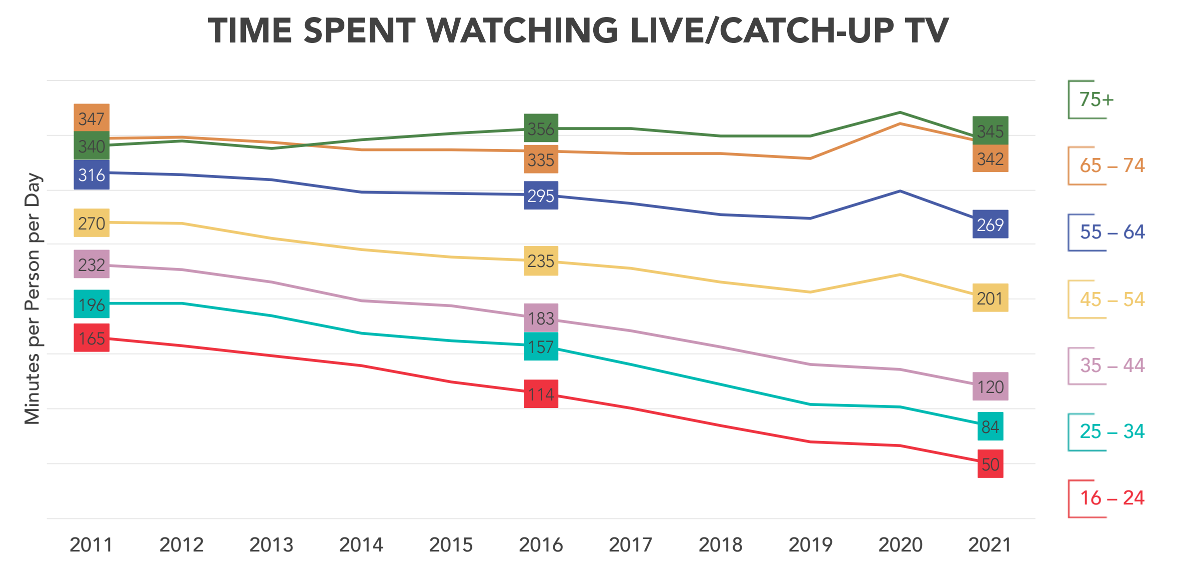




Data source: "Media nations: UK 2021," Ofcom, August 2021

Viewing to traditional TV (live and catch-up) has been falling steadily over the last decade, with the sharpest declines in the youngest age groups. For 16-to-24-year-olds, average daily viewing has fallen by more than 50% in the last five years alone (between 2016 and 2021). The declines are less steep, and total TV viewing greater, for older age bands all the way up to people aged 64, while total viewing has held steady over the decade (there has been no decline) for audiences aged 65 and above.

Broadcast TV viewing has declined across most age groups



Data source: Oliver & Ohlbaum analysis from BARB data

Focusing on TV and online video viewing, Enders Analysis calculations[40] show that total viewing for all individuals (aged 4 and over) was fairly stable prior to the pandemic, at around 250 minutes per person per day between 2011 and 2019 (with the two end-years just one minute apart). Viewing jumped in the last two Covid-19-impacted years, with the 2021 total 7% above that in 2019.

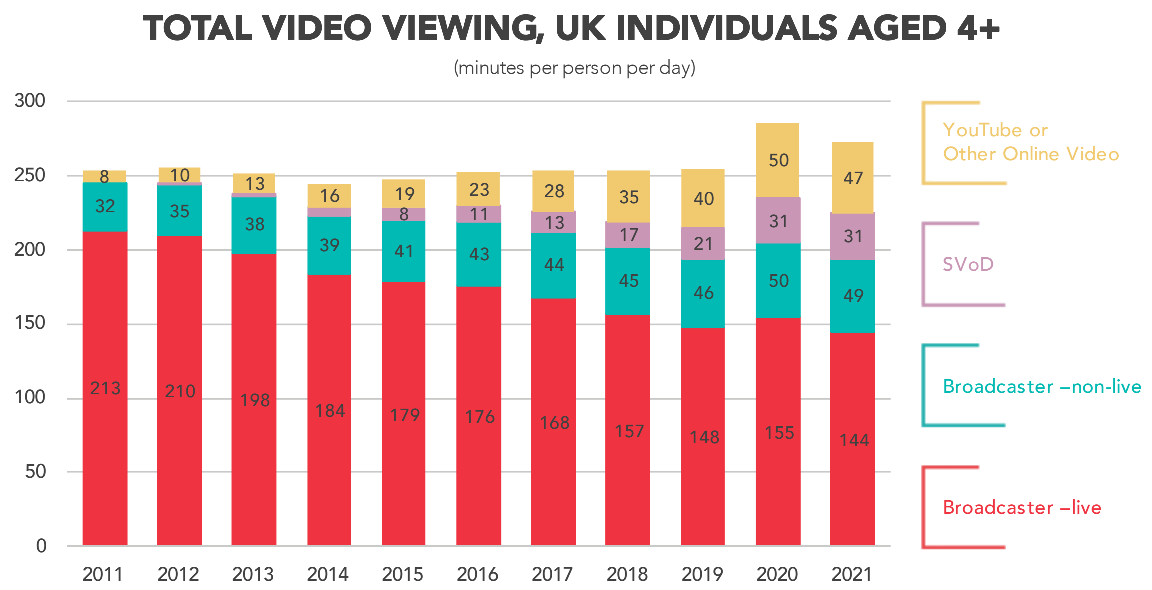
Looking at the breakdown of these totals between traditional broadcasters and new video platforms, two key trends emerge. First, viewing to streaming services has risen steadily over the last decade. SVoD has grown from nothing in 2011 to account for 8% of all video viewing in 2019 and 11% in 2021. And YouTube and other online video has grown from just 3% in 2011 to 16% in 2019 and 17% in 2021. These categories together accounted for 29% of all video viewing in 2021.

Second, there has been a steady reduction in live viewing to broadcast TV, from 84% of the total in 2011 down to 58% in 2019 and 53% in 2021. This has been offset partially by growth in non-live broadcaster viewing: up from 13% of the total in 2011 to 18% in both 2019 and

[40] Source: "Video viewing forecasts," Enders Analysis, February 2021. Note that 2021 figures are estimates. 'Other online video' is defined by Enders as other online non-broadcaster video which is mostly ad-funded (social video is excluded)

2021. Taking live and non-live broadcaster viewing together, TV's share of video viewing fell from 97% of the total in 2011 to 76% in 2019 and 71% in 2021. While this is a substantial drop over the decade, of 26 percentage points, the figures also show that traditional TV is far from dead: live TV still commands just over half of total video viewing and all broadcast TV (live and non-live) represents 71% of the total.

SVoD viewing has grown rapidly but broadcast TV still represents 71% of all video viewing



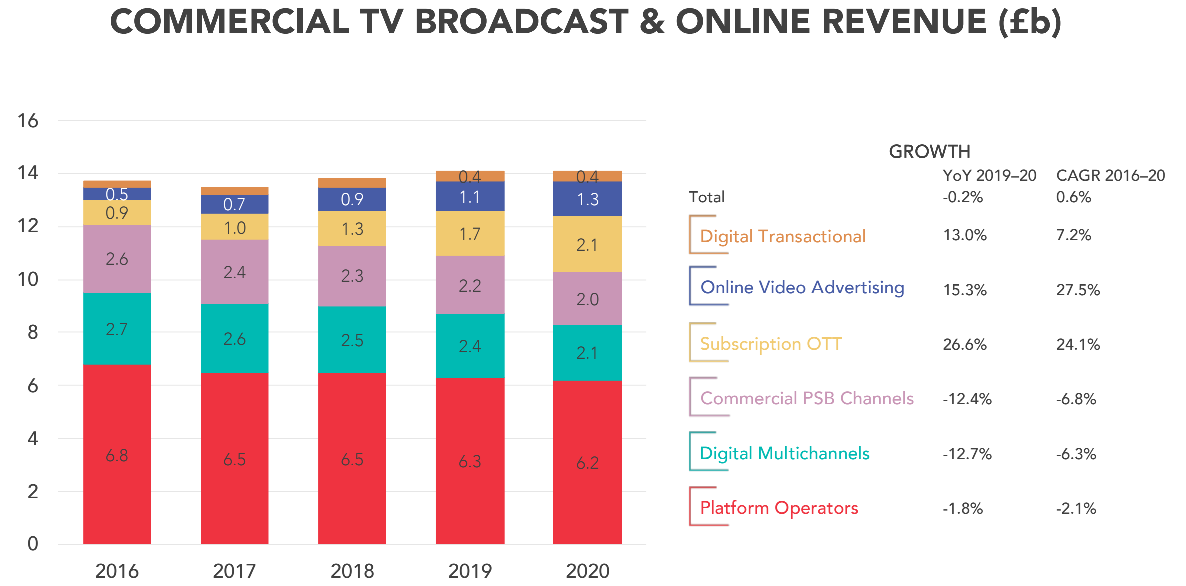
Data source: Enders analysis

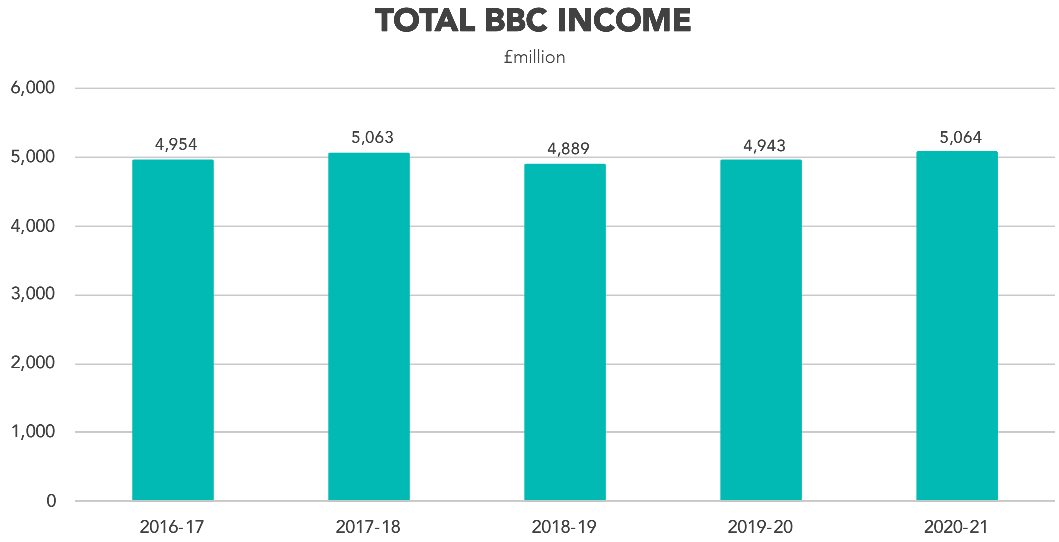
d) Significant shifts in advertising revenues

Commercial broadcasters and platform operators have seen their revenues decline over the last five years – partly due to the migration of advertising from TV to digital platforms – while online video advertising and subscription revenues have grown. Licence fee income was static over the period

Reflecting the video viewing trends presented above, traditional commercial broadcasters (PSB channels and digital multi-channels) saw declines in their revenues by 6-7% per year on average between 2016 and 2020. Total BBC income (predominantly determined by the level of the licence fee set by the Government) remained fairly static at around £5 billion a year.

Commercial PSB and multichannels down, big rises in subscription OTT and online video advertising





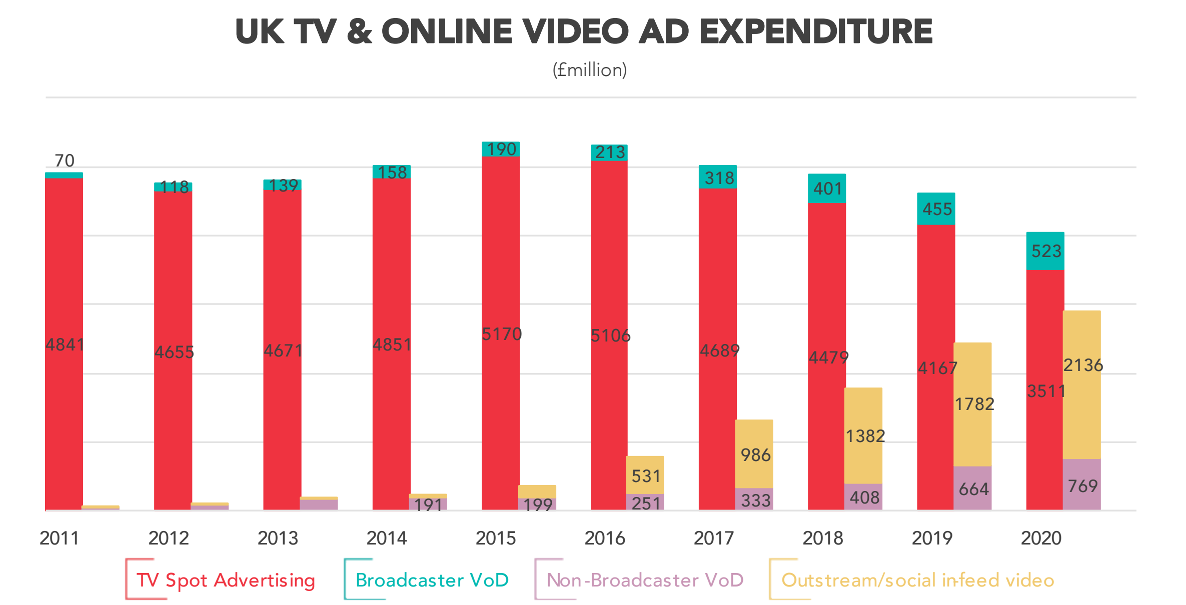
Data source: "Media nations: UK 2021," Ofcom, August 2021; BBC Annual Reports

Over the same period, there were big increases in revenues for subscription services (with an average annual growth rate (CAGR) of 24.1%) and online video advertising (27.5% CAGR).

The migration of advertising expenditure from TV to digital platforms in recent years was a significant factor in the decline in commercial TV revenues. After increasing by 7% between 2011 and 2015, to £5.2 billion, and largely holding steady in 2016 (falling by 1% year-on-year), TV spot advertising began to decline, dropping by 31% between 2016 and 2020 to £3.5 billion. This was partially offset by an increase in broadcaster VoD, worth just over £500 million in 2020, but even allowing for that, broadcaster advertising income still fell by 24% between 2016 and 2020 (it was worth £4.0 billion in 2020). Meanwhile, over this same period, non-broadcaster VoD and what Ofcom refers to as 'outstream/social in-feed video' (i.e.

standalone video ads that sit outside video content streams) together increased by 270%, from almost £800 million in 2016 to £2.9 billion in 2020.

The decline in commercial TV revenues is driven in large part by a steady decline in TV advertising



Data source: "Media nations: UK 2021," Ofcom, August 2021

The trends presented here largely offset each other. Overall, there was little change in total income over the period: in both 2016 and 2020, TV broadcast and online revenues were around £19 billion, comprising around £14 billion of commercial income and £5 billion of BBC income (the latter figure covering all the BBC's activities, including radio and online).

e) Three big trends in film and TV production

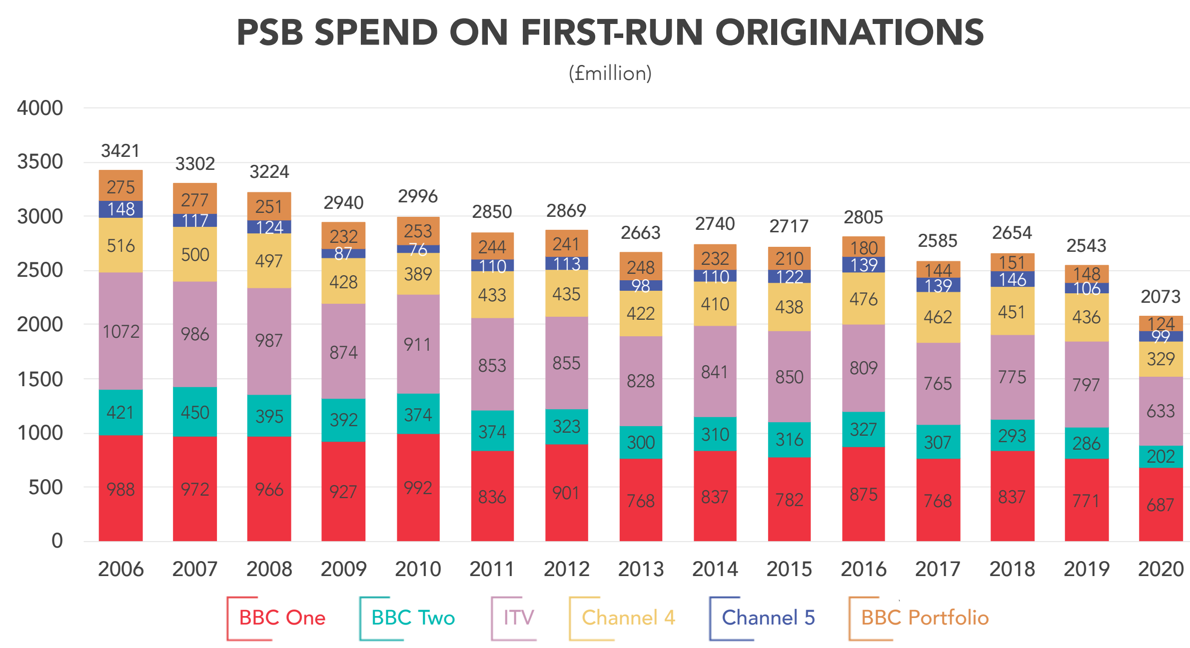
Overall, investment in TV and film production is in rude health. While PSB spend on new content has fallen, other broadcasters and streamers are investing more in UK content, and these income sources are of growing importance to independent production companies ("indies"). Moreover, high-quality production spend is booming, driven by HETV at the expense of film – and true independent films in particular.

Historically, the public service broadcasters were responsible for the large majority of investment in original UK TV content. While the PSBs' investment in UK content has fallen over time, overall levels of investment remain robust – possibly even reaching record levels in recent years – thanks to greater investment from other broadcasters and streamers, and to the rapid growth of HETV from both domestic and inward investment sources.[41]

[41] There is no single measure of total investment in TV content production that would allow overall trends to the tracked with precision (the various data sets produced by the BFI, Ofcom and others contains degrees of overlap)

There has been a downward trend in spend by the public service broadcasters on new content (first-run originations) over the last 15 years, with fluctuations around the trend reflecting the economic cycle. After a trough in 2013 when PSB spend fell to £2.6 billion, it recovered in the next three years, rising to £2.8 billion in 2016. Since then it has begun to fall again, dropping to £2.5 billion in 2019 and (in the first year of the Covid-19 pandemic) falling sharply to £2.1 billion in 2020. PSB spend declined by 26% between 2016 and 2020.

There has been a 26% decline in PSB spend on new content since 2016



Data source: "Media nations: UK 2021," Ofcom, August 2021

Offsetting the decline in PSB spending is a broader trend, whereby the television production sector is increasingly characterised by a more diverse range of funding and commissioning models:

- **Diversity of UK commissioning sources.** There has been a steady increase in commissioning of original UK content from broadcasters other than the main PSBs for the proliferation of digital TV channels that are now available on Freeview, satellite and cable. COBA reports that its members now invest more than £1 billion per annum in first-run UK content, and covers a wide range of genres including comedy, drama, documentaries and entertainment as well as its significant volume of sports production.

- **Greater use of co-productions.** Particularly in genres such as drama, there is a much greater prevalence now of co-productions between the PSBs and other commercial broadcasters. This enables programmes to be made with higher budgets than would otherwise be the case and gives all parties access to high-quality content for their main TV and streaming services. For example, in the case of a PSB original commission with co-financing from a global platform, the PSB might typically have the first window on its linear channel, with the partner SVoD service securing a second window a few months later as well as international rights. In 2014, third-party spend represented 9% of the overall budgets of the PSBs' new commissioned content. By 2020, third-party spend on PSB originations had grown to £482 million, representing 19% of total PSB spend on first-run originations, which was £2,555 million (third-party spend was even higher, at £554 million in 2019, but its share of the total was slightly lower, at 18%). Between 2014 and 2019, UK high-end TV production had no fewer than 36 different co-commissioning partners for the primary commissioner.[42]

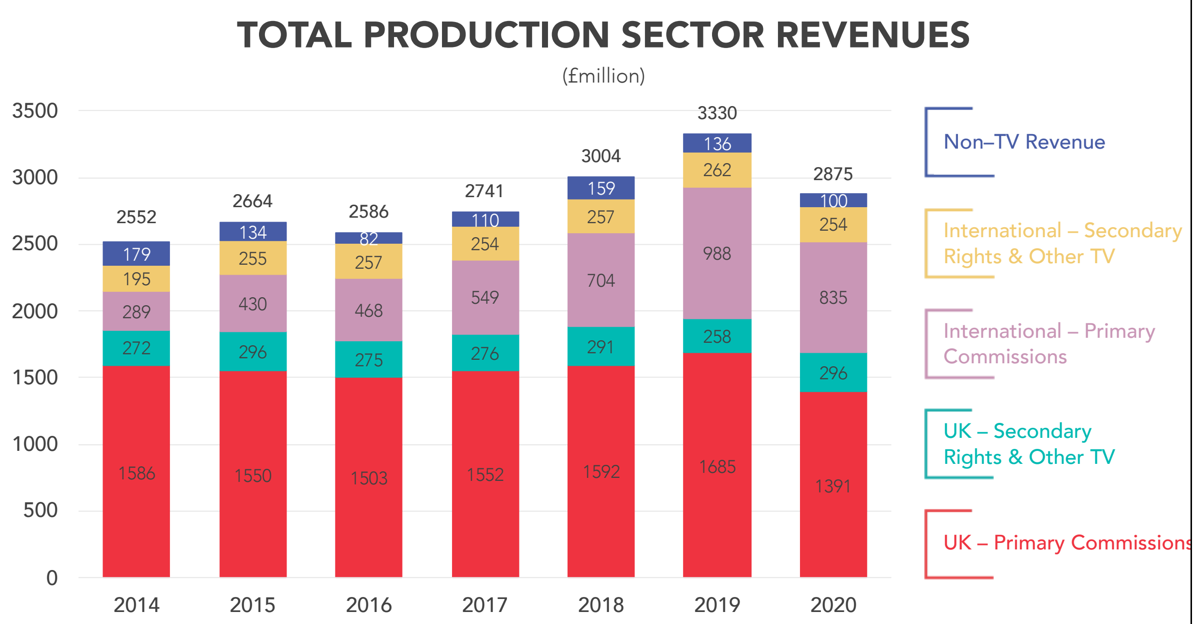
- **Big growth in TV inward investment.** We are currently living through a "golden age" of television marked by ambitious, high-quality, critically-acclaimed shows that increasingly attract the best filmmaking talent behind and in front of the camera. The UK television production sector is playing a significant role in this, with companies increasingly making content for a much wider range of commissioners than just the domestic broadcasters, especially in the area of High-End TV (supported by the tax reliefs discussed in this paper). Research shows that the PSBs accounted for just 15% of the £1.7 billion total production investment in High-End TV in 2018.[43]

Despite PSB spend falling and the growth of other investment sources, public service broadcasters continue to play a vital role at the heart of the UK's Screen Sectors. According to Ofcom,[44] the PSBs continue to commission slightly more than 50% of all programmes made in the UK in spend terms, but this proportion is down from 87% of the total in 2004. Pact's TV Production Survey showed that the four main PSB networks were still responsible for 84% of total UK TV commissions in 2020 (worth £1.2 billion).

At the same time, the increased investment from other broadcasters has helped drive continuing growth in independent production companies' revenues in recent years. According to Pact's UK Television Production Survey,[45] their total income climbed between 2014 and 2019, from £2.6 billion to £3.3 billion, a 30% increase over five years. Following the onset of the pandemic, revenues fell back by 14% in 2020, to £2.9 billion. The share of UK primary commissions in total TV-related revenues (i.e. excluding the small amount of non-TV revenues) has fallen from 67% in 2014 to 50% in 2020 (£1.4 billion of total TV-related revenues of £2.8 billion). The other 50% is made up of international income and secondary rights. Reflecting the increased importance of inward investment, the biggest growth has been in international primary commissions – which includes the US networks and global streamers – revenues from which grew from £289 million in 2014 to just under £1 billion in 2019, before falling back a little to £835 million in 2020; this represents an increase of almost 200% between 2014 and 2020. Digital streaming services (such as Netflix and Amazon Prime Video) spent £356 million on UK commissions, with the other £479 million spent by international linear TV channels.

[42] Source: BSAC Business Briefing: UK TV Drama Outlook: Threat or Opportunity?," September 2019
[43] Source: BSAC Business Briefing: UK TV Drama Outlook: Threat or Opportunity?," September 2019
[44] Source: "Small Screen: Big Debate Consultation," Ofcom, December 2020, para 3.21
[45] Source: "UK Television Production Survey: Financial Census 2021," Report by Oliver & Ohlbaum for Pact, July 2021

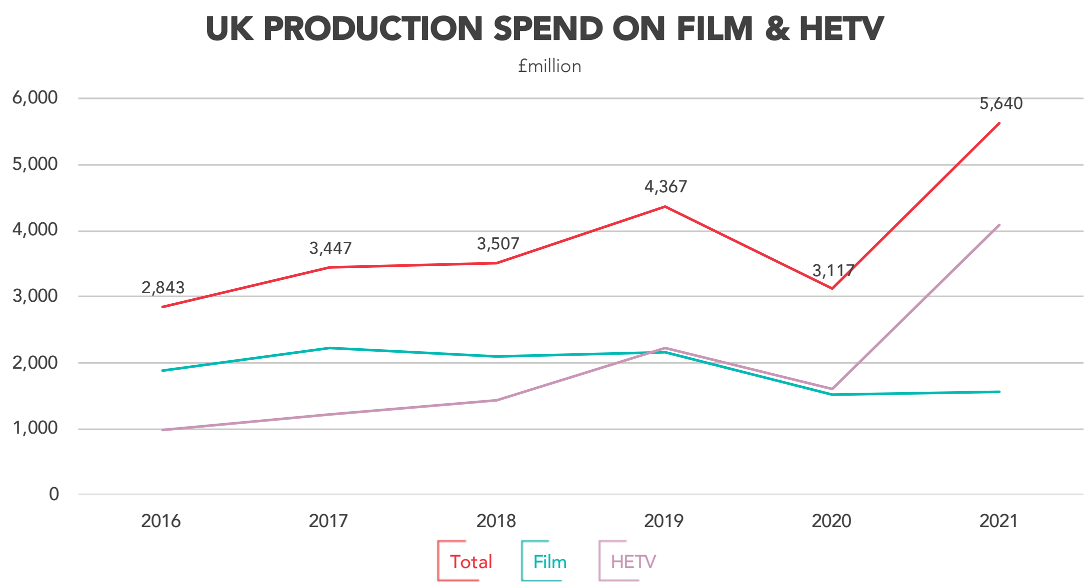
UK primary commissions now just 50% of TV-related indie sector revenues



Data source: "Media nations: UK 2021," Ofcom, August 2021

Turning to film and high-end television (data for which is reported by the BFI), total spend on UK production doubled between 2016 and 2021, from, £2.8 billion to £5.6 billion. After falling in 2019 following the introduction of lockdowns, the sector recovered quickly in 2021.

Film and HETV production doubled between 2016 and 2021

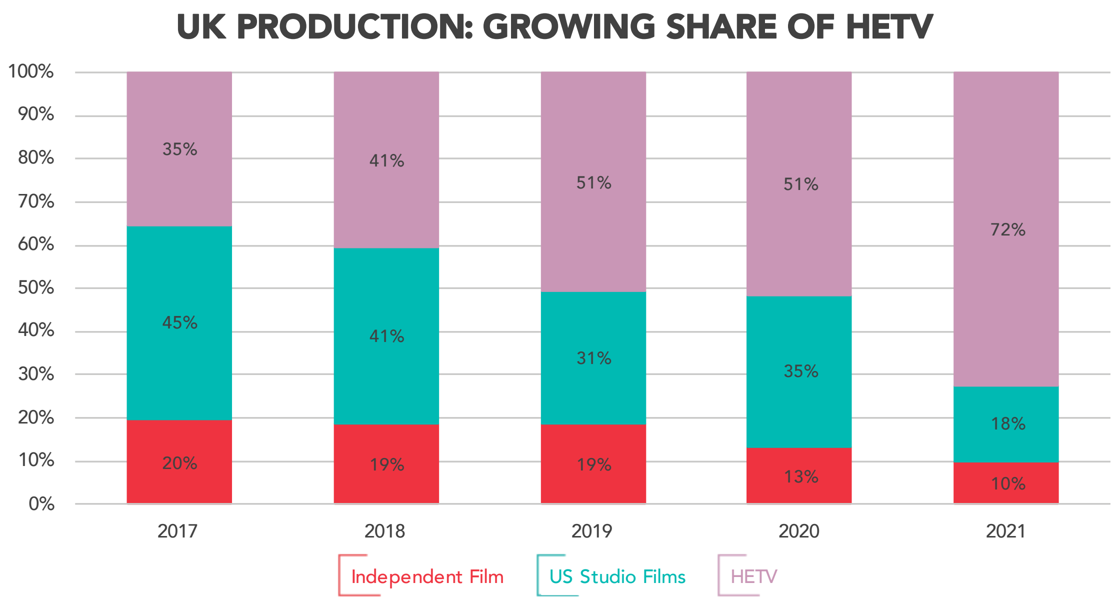


Data source: "Film, high-end television and animation programmes production in the UK: full-year 2021," BFI, February 2022

Within these totals there have been some significant trends, the most notable of which is the growth of HETV and the decline of film. The value of HETV has more than doubled, from just under £1 billion in 2016, when its value was around 50% that of film production, to £4.1 billion in 2021, when it was 2.6 times bigger than film – accounting for 72% of total spend on film and HETV.

In terms of budgets and talent, traditional boundaries between film and television are increasingly being replaced by ones between high-end film and TV with broad international appeal, on the one hand, and indigenous lower-budget film and TV on the other hand. The most successful actors, directors and other filmmaking talent are increasingly working in TV. High-end content (HETV and studio films) grew from 80% of all spend on film and HETV in 2017 to 90% in 2021, with independent film representing just 10% of the total.

HETV accounted for 72% of total spend on film and HETV in 2021



Data source: "Film, high-end television and animation programmes production in the UK: full-year 2021," BFI, February 2022

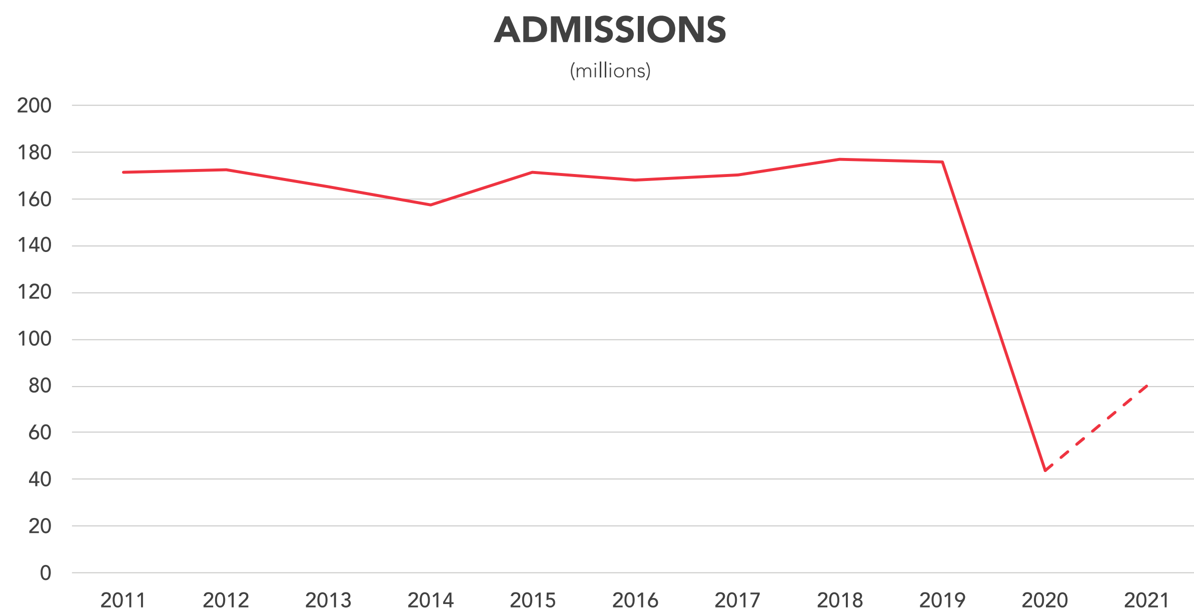
In financing terms, some films and TV programmes are fully financed, either by being self-funded or through a commission that covers the full production budget. For those that are not fully financed, funding needs to be raised, typically by selling off individual territories and windows. This is the traditional model for independent film, and increasingly applies to TV production with the decline in PSB spend (co-productions between PSBs and US studios or streamers are becoming more common). As discussed above, there are particular challenges for true indie films, budgets for which are staying flat, which means that inflationary pressures result in their production values, and viability in the market, declining. For the sector to flourish, it is important that indigenous content that is not fully financed can thrive and maintain its place in the market.

f) Cinema resilient prior to the pandemic

UK cinema attendances were resilient up until the outbreak of Covid-19. Globally, UK films' market share was between 15-25% for the few years up to the pandemic, mostly accounted for by studio-backed films. The pandemic has greatly accelerated movements in films' release patterns, with more films being released simultaneously across platforms or with greatly reduced theatrical windows

Despite the growing success of online video services providing access to films at home over the last decade, cinema admissions were resilient up until the outbreak of the Covid-19 pandemic, with very little variation between 2011 and 2019 at 160-180 million admissions a year in the UK. Attendances collapsed in 2020, as lockdowns forced cinemas to shut for most of the year. They are estimated to have partially bounced back in 2021, as cinemas started to reopen in the latter part of the year.

Cinema attendances were relatively stable until Covid-19 hit

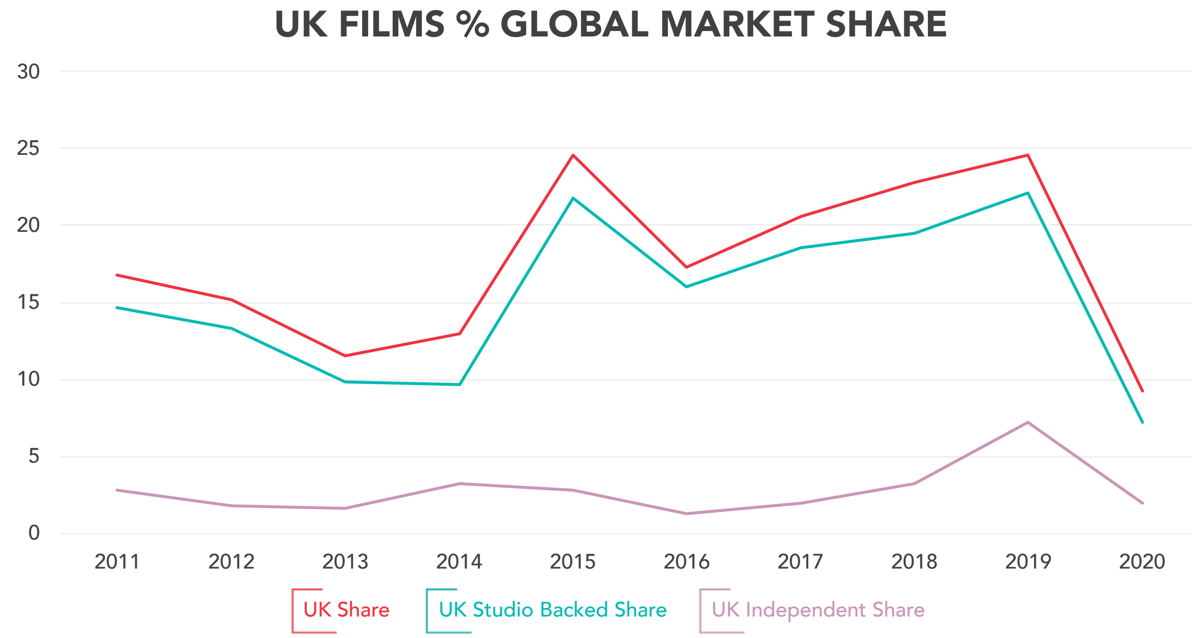


Data source: Industry Facts and Figures, UK Cinema Association, 2021 estimate from its UK & Ireland 2021 Box Office Review

Turning to global box office, UK films' market share fluctuates from year to year, as individual blockbusters (such as the James Bond film *No Time To Die*) can make a substantial contribution to the total. UK films' share was in the range 15-25% between 2015 and 2019, before falling below 10% in the heavily disrupted 2020.

In 2020, UK qualifying films earned $1.1 billion at the worldwide box office, 9% of the global theatrical market, down from $10.3 billion and a 25% share in 2019 (the Bond film was one of a number of titles that was held back until 2021). The bulk of the total is accounted for by studio-backed films. UK independent films earned $242 million at the worldwide box office in 2020, a 2% share of the global theatrical market (down from 2.5% in 2019).

UK films' global market share was between 15% and 25% (2015-19) before falling back in 2020 (when total global box office revenues were 29% of the 2019 level)



Data source: BFI Yearbook 2021, UK films and British talent worldwide

The theatrical window has historically been a key part of films' release patterns. In the pre-television age, cinemas were, of course, the only place to see films, and they remain the "screen" that offers the most immersive experience in terms of the size and quality of the picture and sound, as well as offering a more social experience than home viewing. Up until recently, films would almost always be premiered in cinemas before enjoying a longer life on physical media (rental and sales of DVDs, Blu-rays, etc.) and on television (typically pay-TV followed by free-to-air channels). The theatrical release was vital as it was the moment in a film's life that would attract most of its promotion and marketing – the point in time when the film would be reviewed in the press, and when its stars would appear on TV chat shows. Not only that, but the success of a film in the theatrical window would typically drive sales in other windows.

In the DVD/Blu-ray age, there was some pressure from the studios to shorten the theatrical window, and as video-on-demand services started to take off, there were some experiments – particular with smaller or independent films – to release them simultaneously in cinemas and on premium VoD services (PVoD), at similar prices to those that would be paid in cinemas. Nonetheless the standard release pattern in the UK and US remained an exclusive theatrical window of typically between 3 and 4 months.

This relatively stable pattern of film release windows has been significantly disrupted in the last five years. For several years now, Netflix has premiered films that it has fully funded on its service, either with no theatrical release at all or a brief release in a few screens. As the major studios began to launch (or supercharge) their own SVoD services, early VoD premieres of new films have become an important point of distinction between them, putting further pressure on the theatrical window. This was given a dramatic impetus by the pandemic, which greatly accelerated movements in films' release patterns. In 2020, when cinemas were closed all around the world, many releases were held back until cinemas could re-open, but the studios also took the opportunity to premiere some films on their VoD services. A more complex picture emerged in 2021: as cinemas began to re-open and blockbuster films could be released theatrically, studios have opted for a variety of models, with some films being released simultaneously across platforms or with greatly reduced theatrical windows.

Examples of the models adopted by the major studios since the onset of Covid-19 include:

- In the UK, **Warner Bros** and Cineworld agreed, in early 2021, to allow day-and-date multi-platform releases in 2021, and then in 2022 to move to an exclusive theatrical window of 31 days prior to PVoD, extending to 45 days for films that open to an agreed upon box office threshold

- Also in the UK, **Universal** and Cineworld agreed to a similar deal: a 31-day exclusive theatrical window extending to 45 days for films above a box office threshold. In the US, meanwhile, Universal agreed a deal with Regal and AMC Theatres for films to play exclusively in cinemas for 17 days, extending to 31 days for films opening with $50m or more

- **Disney** is adopting a mixed approach: some films receive exclusive theatrical runs (with a 45-day window in the UK and US), others go day-and-date in cinemas and on Disney+, and others go straight to Disney+ either for no additional cost to subscribers or for a pay-per-view charge

- In the US, **Paramount Pictures** announced that its movies will have a theatrical window of 45 days, shortened to 30 days for smaller films from the studio, before heading to SVoD service Paramount+

- **Sony**, which had great success in 2021 with *Spider-Man: No Way Home*, has for now strongly defended the continued use of traditional theatrical windows (unlike the other studios listed above, it does not have its own streaming service in the US).

Cineworld, for its part, argued in August 2021, that it expects "by 2022, the window will stabilise to somewhere between 20 and 60 days, but subject to each movie's potential." Looking ahead, it is too early to know what the "new normal" will be, but it is likely that the continued growth of studios' SVoD services will continue to drive momentum in the changes to release patterns that we have seen in the last few years.

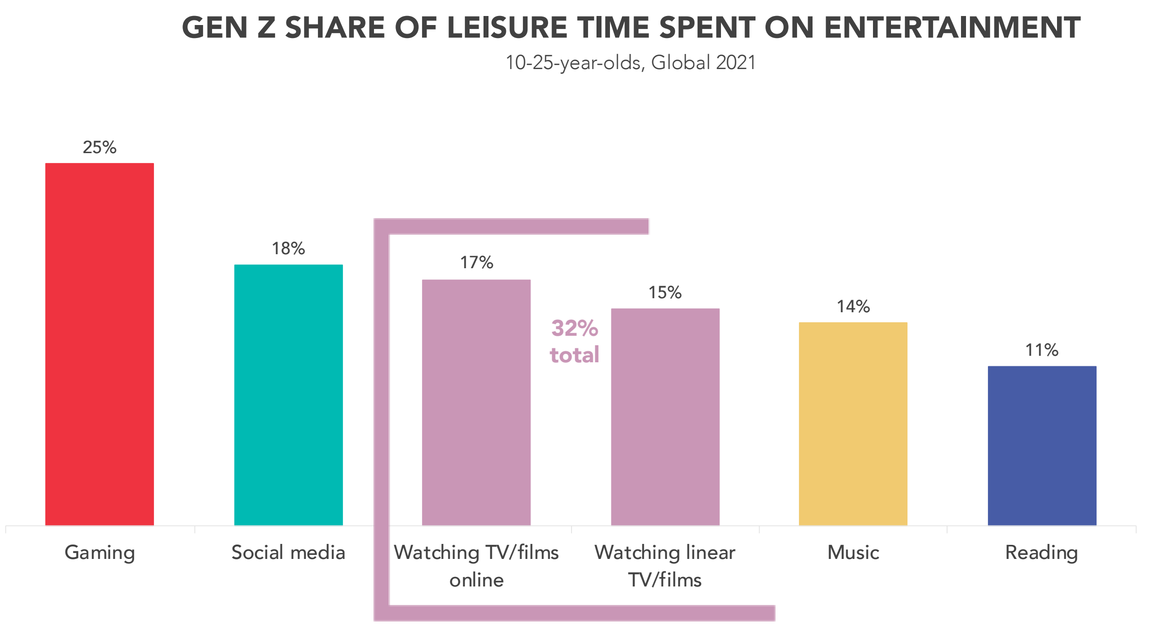
Notwithstanding the changes of the last few years, the theatrical window remains important – as the most immersive viewing experience for films, as an economic and cultural driver of value in a film's life cycle, and as a social forum that is increasingly valued in the wake of the Covid-19 pandemic.

g) Gen Z are big on games

Game-playing is the most popular leisure category amongst Gen Z, with growth driven in large part by casual game-playing on mobile devices. VR is the fastest growing category of hardware sales, with the overall UK games market worth more than £7 billion

Amongst the "Gen Z" demographic group – i.e., young people aged between 10 and 25 – game-playing is the most popular of six categories of modern and traditional forms of entertainment, accounting for 25% of their screen leisure time (although TV and films together accounted for 32% of the total across broadcast TV and streaming).

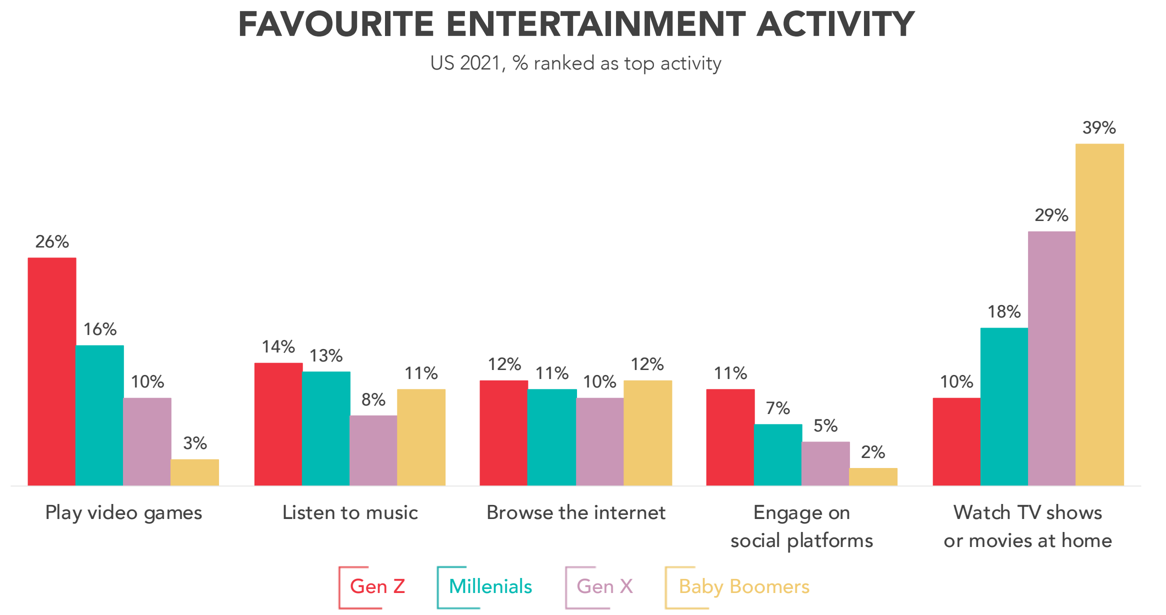
Game-playing accounts for the greatest share of screen leisure time amongst Gen Z



Data source: NewZoo Generations Report, Oliver & Ohlbaum analysis

Within the same age group, 26% cite game-playing as their favourite entertainment activity, more than the figures for listening to music, browsing the internet, engaging on social platforms or watching TV shows or films at home (chosen by only 10% of Gen Z).

Game-playing is the most popular entertainment category for Gen Z



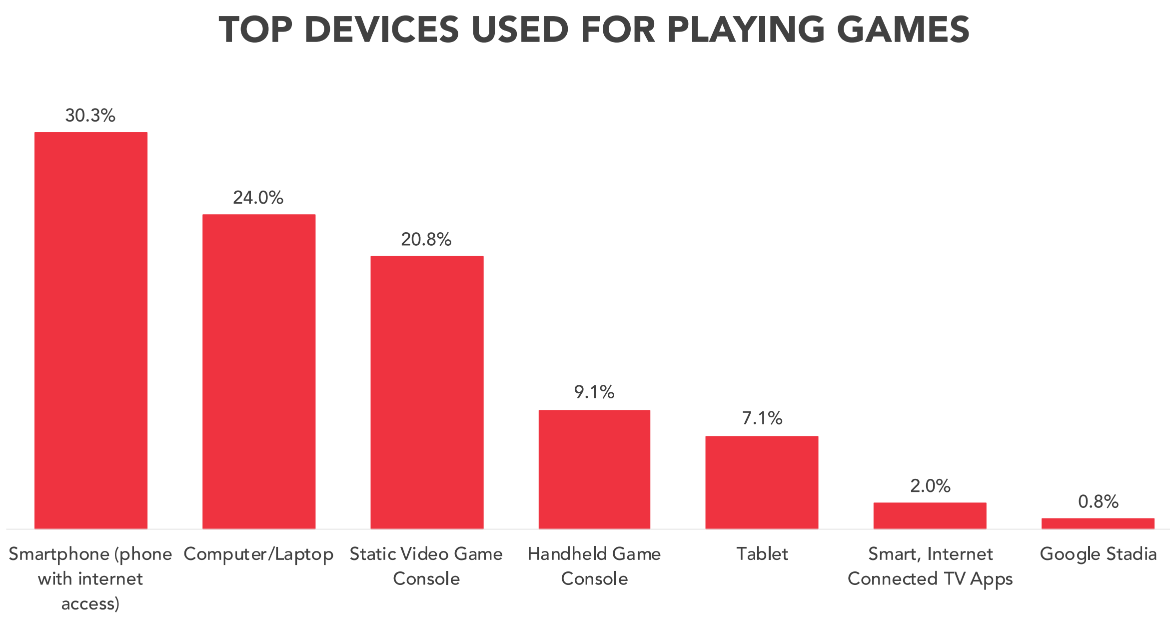
Data source: NewZoo Generations Report, Oliver & Ohlbaum analysis

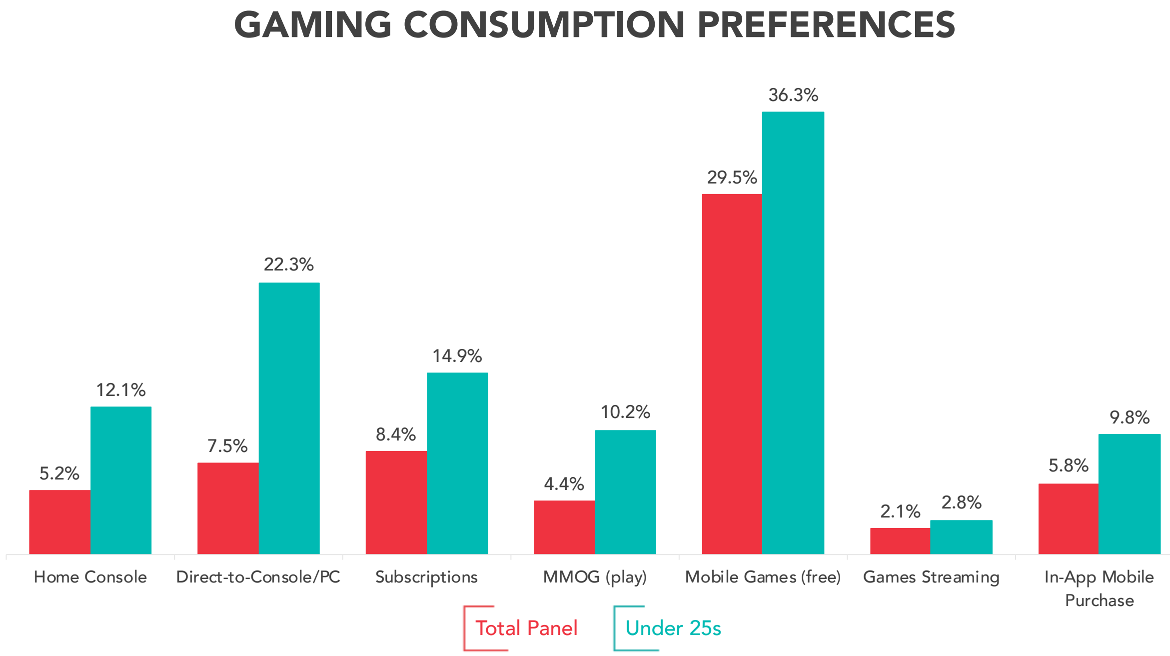
Games' popularity is not limited to the youngest generations or to men. The chart above shows that, for older groups like Millennials and Gen X, games are more popular than music and social media. And a separate UK survey conducted by Savanta in 2019[46] amongst UK adults shows that game-playing is a mainstream activity across age groups: almost everyone plays computer or mobile games at some point (86% of the entire population reported that they played games in the last year), while 54% play on "most days." Of those who play on most days, 50% are women and 46% are aged over 40.

Casual game-playing has grown to become a major part of the media mix, especially for young people. Smartphones are now the top device used for playing games. Free mobile games are the most popular type of game chosen, especially amongst under-25s.

[46] Source: "Game on: a study of UK gaming attitudes and behaviours," savanta.com

Free game-playing on mobile devices is the most popular way to play

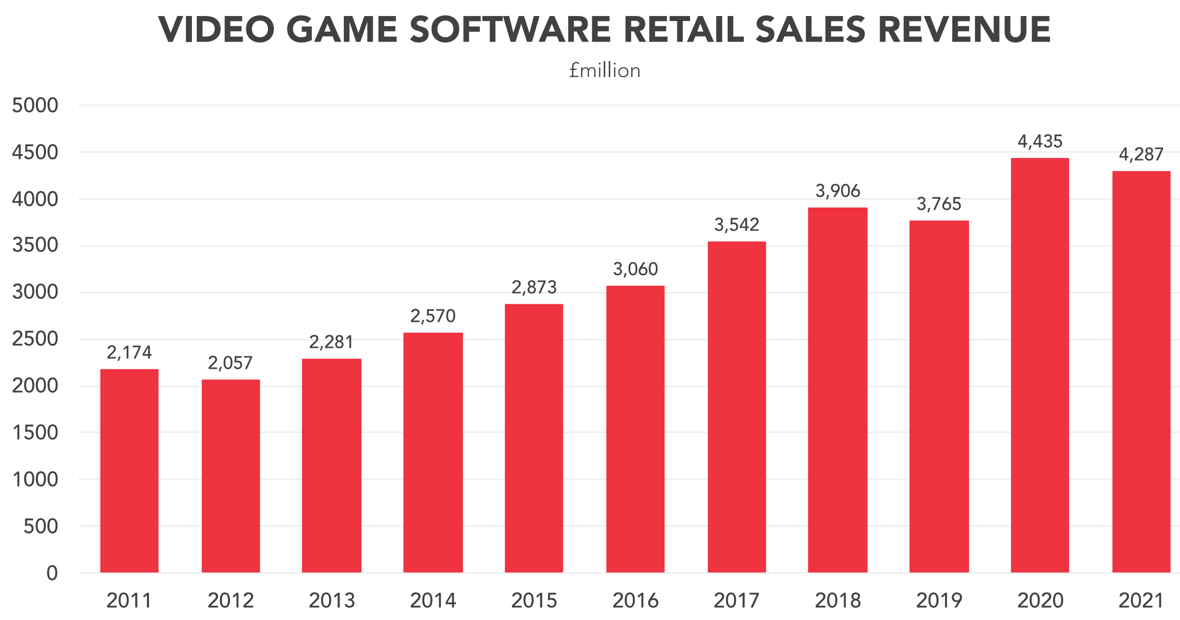




Data source: Digital Entertainment and Retail Association Yearbook 2022

The computer game software market more than doubled in size between 2011 and 2020, from £2.2 billion to £4.4 billion, before falling back slightly to £4.3 billion in 2021 (a return to trend following the large lockdown-related year-on-year increase in 2020).

Video game sales have doubled in the last decade



Data source: Video game software retail sales revenue in the UK, Statista

Mobile game-playing is now the single biggest category of revenue, bigger than sales of games on consoles and PCs, despite many popular mobile games being free at the point of purchase – their value in retail terms comes from in-app purchases, as well as those games with an upfront sale price.

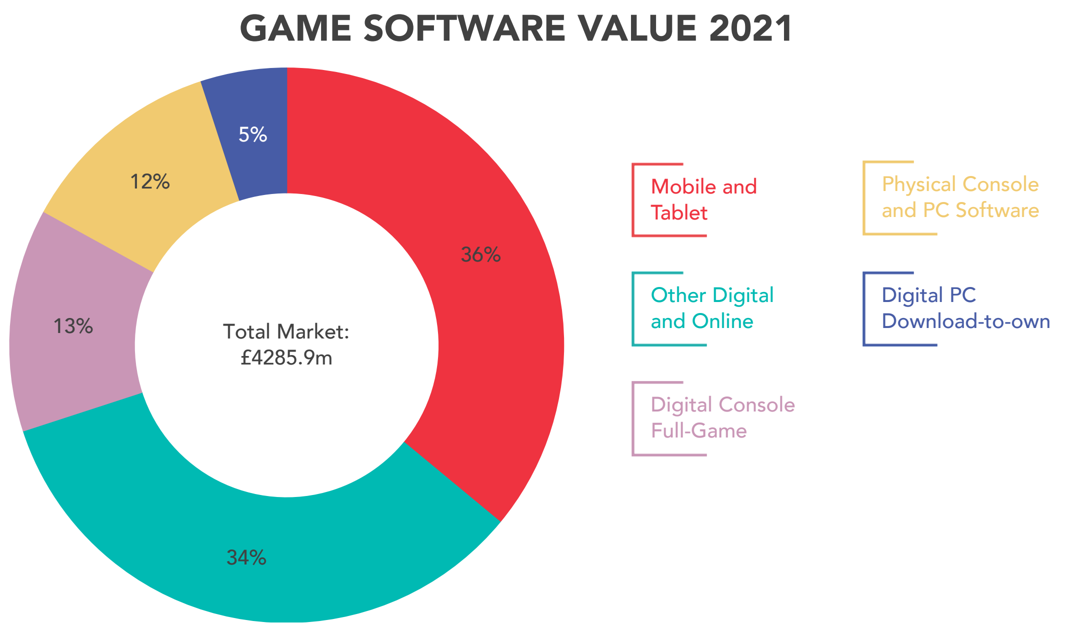
Game hardware sales were worth £2.66 billion in 2021, after a healthy year-on-year jump of 17%, driven by sales of Sony's PS5 and Microsoft's Xbox Series consoles (both of which launched at the end of 2020). In terms of percentage growth, the biggest rise was in virtual reality (VR) hardware sales, which increased by 42% to £183 million with, for example, the Oculus (now Meta) Quest 2 VR headset retailing for £299 in the UK. VR hardware still represents just a small (less than 7%) proportion of total game hardware sales but is still a significant figure at this relatively early stage of its development, when no VR "killer app" has yet emerged and it is less than a year since Facebook announced its pivot towards the metaverse (and its rebranding as Meta).

As with the video market (see above), a key change over the last five years has been a transition from physical purchases of games to digital downloads, along with a growing range of payment models. The traditional model involved a games company releasing a completed game and consumers purchasing it physically through retail stores. The purchasing of physical, boxed software is now only a fraction of the overall spending on games software and has been eclipsed by the purchase of digital games across mobile, PC, and console, with digital purchases now representing almost 90% of all software purchases. Most major console makers now have digital-only versions of their consoles which do not have a disc drive, which therefore require consumers to purchase games from online stores.

Moreover, after-launch sales are becoming more prevalent with the spread of the "games as a service" business model, whereby games are developed with post-launch updates in mind. The "free to play" model – in which consumers can download a game for free and then choose to make optional in-game purchases (for things like extra lives, upgrades to speed up a task, cosmetic items for a character, or hints for a puzzle) – is now spreading from the mobile games sector, where it was pioneered, to console games such as Bungie's *Destiny*. In addition, Xbox and PlayStation now offer subscription services that enable subscribers access to a rotating catalogue of games each month. And cloud game services allow consumers to play games remotely from a cloud, removing the need to invest in expensive hardware to play video games (the hardware processing is handled remotely). In 2019, Google launched Stadia, a service which allows users to play games across a range of devices including on mobile, browser and more.

Beyond hardware and software, a further £226 million was spent on "game culture" in 2021, e.g. games-related toys and merchandising, and books and magazines. The total games market was worth £7.16 billion, an increase of almost 2% year-on-year.[47]

Purchases on mobile devices make up 36% of games revenue



Data source: Digital Entertainment and Retail Association Yearbook 2022

In terms of games production, the industry comprises companies of all sizes, from solo developers and micro-businesses through larger independent boutique publishers up to large development studios and global multi-nationals. 89% of companies employ fewer than 10 people, but together these companies comprise 23% of the industry workforce. There is a lot of risk-taking and experimentation in this area, and many companies will not get past

[47] Figures for total 2021 games market and breakdowns from UKIE press release, March 2022

their early stages of development. Successful games businesses operated by under 10 people include the UK indie developer Nerial, creator of app game *Reigns*, which generated 1.8 million sales in one year.

At the other extreme, nine companies employ more than 250 staff, and together employ 26% of the industry workforce. Some of the largest video games companies in the world have either directly established studios in the UK or have acquired British studios, reflecting an international recognition of the UK as a powerhouse for games. These studios, which are situated across the UK, will either carry the multinational company name or may retain their original studio name and operate relatively independently. They include:

- **Ubisoft**. Develops and publishes the popular series *Assassin's Creed*. Their UK studios include Ubisoft Reflections (Newcastle) and Ubisoft Leamington (Leamington Spa).

- **Electronic Arts**. Develops and publishes *FIFA*. It acquired and owns the games studios Codemasters (Southam) and Criterion Games (Guildford).

- **Microsoft**. Makes the Xbox console. It acquired and owns the game studios Rare (Twycross) and Playground Games (Leamington Spa).

Stand-out British games companies include Sumo Group which is based in Sheffield and employs over 1,000 people; and Creative Assembly, which is based in Horsham and employs over 800 people (parent company is SEGA) .

h) Huge growth in the creator economy

There is huge growth in the creator economy and influencer space. Much of the activity is in the newer social media platforms that are displacing some older ones, especially amongst young consumers

The creator economy, including social media influencers, is a relatively recent phenomenon that has grown hugely over the last five years – although it is not easy to get reliable figures for the size of the market in the UK.

Starting with definitions, the terms "creators" and "influencers" are sometimes used interchangeably and there is overlap between them. But it is useful to draw out the distinctions between them:[48]

- **Creators** regularly post and upload their own content to social video platforms and generate revenues from so doing. This may be a hobby or side-project for some, and a main source of income for others.

[48] A helpful summary is provided here: https://sociallypowerful.com/post/the-real-difference-between-creators-and-influencers. This also draws on Ofcom's definitions in Online Nation 2021 (p109)

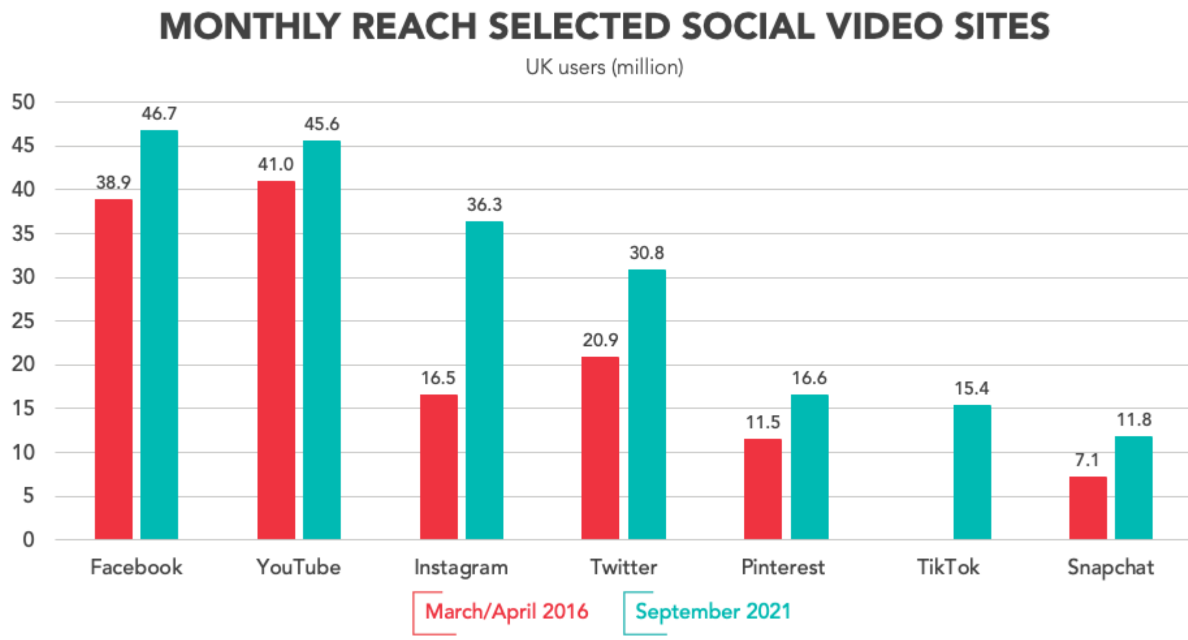
- **Influencers** have the specific goal of influencing other people's purchasing decisions, and the content they produce is a means to that end. Influencers' effectiveness is related to their (actual or perceived) authority on a subject, their knowledge, relationship or position. The ASA defines an influencer as "anyone who has been paid by a brand to advertise a product on their own social media, because of their social media influence."

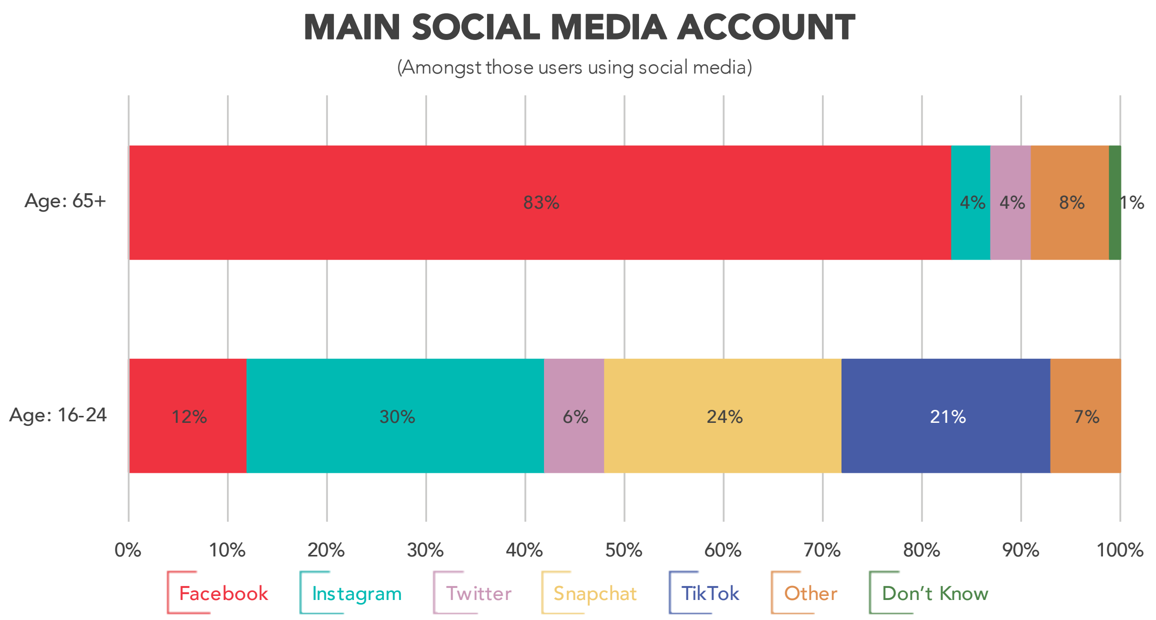
YouTube was the first mass-scale platform that enabled anyone to share their content and helped establish the market for creators, with revenues earned primarily from advertising around their videos. The vast quantity of user-generated content on YouTube is part of the Creator Economy, and the biggest YouTubers have tens of millions of subscribers globally. The likes of T-Series and PewDiePie have more than 100 million subscribers and are each estimated to earn over $20 million annually.[49] More recently, Instagram has played a central role in the development of the influencer marketing space.

The social media space is very fluid, and the popularity of platforms evolves constantly. While YouTube and Facebook remain the largest social media platforms (including platforms with a significant social dimension), with a monthly reach of over 40 million UK users, six other platforms had a UK monthly reach of over 10 million users in September 2020. In terms of the changing dynamics between platforms, the typical pattern is for young audiences to be early adopters of a platform, penetration of which gradually spreads across older age groups. Meanwhile, the youngest audiences start to migrate towards new platforms with even more appealing characteristics (including the fact that their parents are not on it). Thus, Ofcom's latest survey of UK consumers shows that 83% of people aged over 65 who use social media regard Facebook as their main social media account, only 12% of 16-to-24-year-olds chose Facebook as their man account, in fourth place behind Instagram (top, with 30%), Snapchat (24%) and TikTok (21%).

[49] Source: 20 of the Most Popular YouTubers To Look Out For In 2022, Influencer Marketing Hub

While YouTube and Facebook remain the biggest platforms overall, the likes of Instagram, Snapchat and TikTok are especially important to young audiences

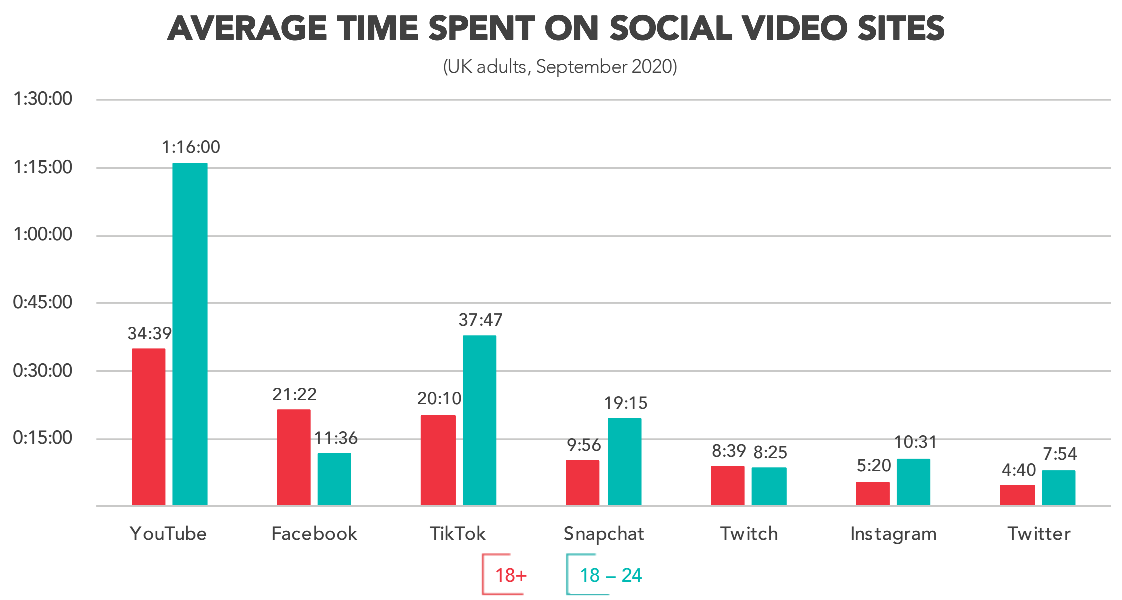




Data sources (all Ofcom): Communications Market Report 2016 (Internet section); Online Nation 2022 (pages 32-33); Adults' Media Use and Attitudes report 2022 (p25)

In terms of time spent on these platforms, YouTube remains the biggest platform overall and for young audiences. 18-to-24-year olds spent 76 minutes per day on YouTube in September 2020, more than double the 35 minutes average across all adults aged 18 or over. Newer platforms like TikTok and Snapchat are driving growth in the social media space, and offering more places where creators can express themselves. These are now the next most popular services amongst 18-24s, who spent 38 minutes per day on TikTok and 19 minutes per day on Snapchat in September 2020. 18-24s spent 64% more time every day using the seven platforms shown in the chart below, with Facebook the one platform on which they spent fewer minutes than all adults on average.

Newer platforms like TikTok and Snapchat are amongst the most popular for young audiences



Data source: Online Nation 2021 (p92), Ofcom, June 2021[50]

Robust information on the size of the market in the UK is hard to come by, but the data that exists indicates that the earning potential for influencers and creators is growing quickly. Ofcom reports that more than 400,000 influencers in the UK uploaded content to social video platforms in 2020. It notes that revenue sources include brand sponsorships, affiliate links, donations, subscriptions, merchandise offerings and providing services. Social display advertising represented 68% of total display advertising in the UK in 2020. It is driven by video advertising, which was worth £2.7 billion that year.[51] Globally, the value of influencer marketing has grown from $1.7 billion to $13.8 billion in 2021, according to the Influencer Marketing Hub.[52] This represents growth in the market of more than eight times over the last five years.

In terms of the broader creator economy, the Influencer Marketing Hub claims that more than 50 million people globally consider themselves to be content creators. 46% of the creators they surveyed who have been building their audience for 4 or more years earn over

[50] Note: this data was not updated by Ofcom in its Online Nation 2022 report, due to a change in supplier from Comscore MMX to Ipsos Iris. The new data source is regarded as being more robust but does not yet cover all of the social video sites presented in the chart
[51] Source: Online Nation 2021 (pages 109-110), Ofcom, June 2021. This information was not updated in Ofcom's Online Nation 2022 report
[52] Source: Creator Earnings: Benchmark Report 2021, Influencer Marketing Hub

$20,000 annually across their monetised channels. They estimate the market size of the creator economy to be worth $104 billion globally in 2022 (including the influencer marketing industry).[53]

Content creators and influencers are generating substantial revenues in the UK and globally

RISE OF THE CREATOR ECONOMY

£2.7bn spend

UK social video advertising in 2020

8.1x

5-year growth in global influencer marketing (2016-21)

$104bn

Estimated total global Creator market size in 2022

Data source: Ofcom, Influencer Marketing Hub

As the social media platforms are inherently global in nature, creators and influencers have the opportunity to reach international audiences from the outset (this is very different from traditional TV and film, for which complex models of distribution mean that content typically moves around the world only slowly and with a lot of effort from third parties). This means that there is a strong export component for emerging talent in digital media. Taking YouTube as an example: for UK YouTube creators, over 80% of viewership comes from outside of their home country. Notably, UK content on YouTube attracts more viewing in the US than the UK. Overall, the UK is the highest-ranking country in the world in terms of the share of YouTube viewing from overseas territories.[54]

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[53] Source: The State of Influencer Marketing 2022: Benchmark Report, Influencer Marketing Hub
[54] Source: YouTube

Videos of game-playing provides a good example of a lively market that has developed in recent years. As well as playing games, consumers will happily spend hours watching video streams of games being played online. UKIE estimates that UK consumers spent nearly £50 million in 2021 on streaming videos of games-related content from influencers and creators in the games space. This spending is from subscriptions and donations made to creators and influencers across various streaming platforms such as YouTube and Twitch.

i) Greater focus on people, skills and diversity

The last five years have seen a greater recognition of the need to identify and address the downsides related to the high proportion of freelance workers in the sector, for example in relation to their skills needs and job precarity, and of the need to build a more diverse and inclusive workforce.

As the previous chapter set out, the Screen Sectors are characterised by a relatively high proportion of freelancers in the workforce. For many working in film and TV production, for example, this is a natural consequence of the need to scale up for the duration of the shooting process, with many roles not required during pre- and post-production. Many freelancers and their employers appreciate, and thrive on, the flexibility of freelancing, and it has been a contributory factor to the high levels of jobs growth and productivity in the sector. Workers are able to move from project to project, and from employer to employer, as the work arises. This model is advantageous in several important respects: employers do not need to maintain a large in-house production staff and can scale their staff levels according to the demands of each project, while workers have the freedom to seek out the most interesting work and, for the most talented ones, can advance their careers rapidly.

However, there are also some important downsides to this model, and in the last five years companies in the Screen Sectors have placed greater emphasis on recognising and addressing these issues, both individually and through cross-industry bodies such as ScreenSkills.

One important concern is that self-employed freelance workers are vulnerable due to job precarity, poor treatment and financial uncertainty. The Film + TV Charity, amongst others, has highlighted issues such as long and inflexible working hours, a culture of bullying in some workplaces and insufficient care given to mental health issues. The vulnerability of freelance workers was especially the case during the Covid-19 pandemic, when they were given no direct support from the Government (unlike most other categories of worker) unless they were lucky enough to have an employer that was able to furlough them. Many people were forced to seek work in other sectors and some of them have not been in a position to return to their desired careers. That said, it is important to acknowledge that the wellbeing of our workforce is the responsibility of the companies working in the Screen Sectors, and it is up to us to address these issues.

A second challenge is that the mobile nature of the workforce means that industry training is more complicated to deliver than in the past, when a larger proportion of people worked for large in-house producers of content such as the BBC. The move away from a staff-based model has led to a reduction in training and career development opportunities for freelance production talent, which can make it harder for them to advance their careers. Broadcasters continue to offer training, both in-house and for freelancers working, or seeking to develop careers, in the sector. For example, the BBC Academy trains current and prospective broadcasting employees, including the corporation's own staff, while Channel 4's Production Training Scheme supports entry-level talent who want to break into the media industry. Other broadcasters and indies offer a range of graduate programmes, internships and apprenticeships.

In addition, a wide range of training programmes are offered by ScreenSkills, the industry-led skills body for the screen industries, which takes a strategic approach that involves identifying skills gaps across the screen industries, providing careers information, mapping professional pathways to improve entry-level diversity and work readiness; and supporting development at every stage of a professional career, including through mentoring and offering bursaries. ScreenSkills is funded by contributions paid by industry into the Film, High-end TV, Children's TV, Television and Animation Skills Funds; National Lottery funds awarded by the BFI (as part of the Future Film Skills strategy); and awards from partner organisations such as Arts Council England. However, the level of funding ScreenSkills receives is not of a sufficient scale to provide as much training as the industry needs.

A third challenge relating to the workforce is that the Screen Sectors have an especially important role to play in terms of reflecting the UK's diversity and promoting inclusion. As with any sector of the economy, job opportunities should be open to anyone from any background and part of the UK. The reality is that the TV and film industries have historically fallen short, employing disproportionately low levels of women, people from diverse ethnic and social backgrounds, and people with disabilities in many roles. Moreover, their geographical concentration around London and the South East have made it harder for people from further afield in the UK to seek careers in the Screen Sectors. In addition to this, we have a special responsibility to make sure that the films and TV programmes that we make portray the full diversity of British life, cultures and perspectives. Again, the film and TV industries have fallen short historically, with women, Black, Asian and Minority Ethnic people, and people with disabilities under-represented on screen in many genres of programming.

Over the last five years, the Screen Sectors have improved significantly in terms of understanding the diversity of their workforce, recognising the shortfalls and putting measures in place to begin to address them. Part of this understanding is recognising that off-screen employment and on-screen portrayal issues are intrinsically related: a diverse workforce is essential to delivering content that properly reflects all aspects of the UK's diversity. Not only that, in an industry driven by creativity, a diverse workforce is essential as a driver for innovative and relevant content: access to a wider range of viewpoints helps to foster more creative ideas, and thereby helps businesses to grow. Actively promoting diversity is therefore essential for the long-term sustainability of an industry that by its nature is constantly striving for engaging content. And in the context of the looming industry skills shortages discussed in this paper, diversity and skills shortages go hand in hand: becoming more inclusive will help the industry to attract and retain more talent.

The main UK broadcasters and the BFI have put in place a range of schemes that have helped to drive diversity both on- and off-screen. In television, the Creative Diversity Network (CDN) launched Project Diamond, a unique cross-industry collaboration between broadcasters that collects detailed and consistent diversity data on the programmes that they commission. Diamond was designed to reflect the freelance-dominated nature of production – which means that broadcasters have no data on the individuals making the programmes they commission from independent producers. With Diamond, every person working on every programme commissioned by the main UK broadcasters is asked to (voluntarily) fill in a form on their diversity characteristics, which then allows (aggregated and anonymised) reports on the diversity of these programmes. The Diamond reports allow granular analysis of the levels of diversity in different genres of programming and job types, shining a light on the areas that are doing well and those where there is room for improvement. Its fifth annual report was published earlier this year.[55] In film, the BFI put in place diversity standards that are a contractual requirement for all BFI funding, according to which projects must demonstrate commitment to inclusion and meet the criteria in at least two of four areas: on-screen representation, themes and narratives; creative leadership and project team; industry access and opportunities; and audience development.[56]

Broadcasters have put in place similar diversity requirements for their commissions and – individually, and through organisations such as the CDN, ScreenSkills and BAFTA – have launched training and recruitment initiatives aimed at specific under-represented groups.

By way of example, Together TV's Diverse Film Fund gives emerging filmmakers the opportunity to make a short documentary film, by providing each with up to £20,000 funding for their film's development and production, mentoring and training from leading industry experts and a guaranteed TV broadcast and digital distribution. In 2021, the Fund's theme was Black, British and Breaking Boundaries, and the films were shared by ITV and Sky. The 2022 fund is focusing on LGBTQ+ Queer Lives Today.[57] And the Creative Corridor scheme is a collaboration between the Independent Film Trust in the UK and Roadmap Writers in the US, set up to help ethnically-diverse British and American writer-producers to develop and co-produce ground-breaking new projects for TV and cinema. Participants receive expert support and one-to-one mentoring from successful producers in the sector to develop their pitches, before presenting their work to a panel of UK and US executives. It helps British talent to develop their IP and expose it to an international audience without losing it.[58]

In summary, issues relating to the health and wellbeing of people working in the Screen Sectors, the diversity of the workforce, and their skills needs are first and foremost the responsibility of the companies operating in the sectors, and they will continue to work together to develop solutions to ensure that the Screen Sectors provide attractive careers for anyone looking to work in them, from any background; and that people have the

[55] See "The Fifth Cut: Diamond at 5," CDN, March 2022. The archive of reports is available at https://creativediversitynetwork.com/diamond/diamond-reports/
[56] See https://www.bfi.org.uk/inclusion-film-industry/bfi-diversity-standards
[57] See https://www.togethertv.com/together-tvs-diverse-film-fund-2022-0
[58] See https://independentfilmtrust.org/creativecorridor/

opportunities and support they need to develop and progress their careers, whether they work in-house or as freelancers. A key area that we as an industry cannot solve by ourselves is in relation to training, and we also believe that the Government has a role to play in finding ways to deal effectively with some of the labour issues in sectors in which various forms of freelancing are commonplace. In the next chapter, we set out our policy recommendations in these areas.

j) Commitments to net zero

The Screen Sectors are aware of their commitments to meet net zero targets. Both individually and through cross-sector initiatives such as albert, companies are acting to reduce their own carbon emissions and to promote awareness of environmental issues through their content.

The Climate Change Act legislates for net zero emissions in the UK by 2050, and every sector, including the Screen Sectors, will be required to make significant changes to meet this statutory target. Some elements of film and TV production by their nature can give rise to high carbon footprints, given that they often involve filming on location – often around the world – resulting in substantial transport costs. Shooting more generally requires production teams to be physically on set, wherever it is (TV and filmmaking were amongst the areas where working from home was for the most part not logistically possible during Covid-19).

The film and TV sectors have paid greater attention to environmental issues over the last decade. The albert certification system was first established by the BBC in 2011, offering the industry a bespoke carbon calculator to measure the impact of its productions and put sustainable production techniques into practice. It has since evolved into a cross-industry body that supports the global film and TV industry to reduce the environmental impacts of their productions and to create content that supports a vision for a sustainable future. At its heart remains the albert Calculator, which allows a user to measure the carbon footprint of their production, and which is now used by all BBC, ITV, Channel 4, UKTV, Sky and Netflix productions in the UK. This results in data that allows a picture to be built up of our industry and its overall impact.

In 2020, the BFI, Arup and albert commissioned a major report setting out a route map intended to help the film production industry to become sustainable. According to the Executive Summary (p4):

"Data analysis shows that one average tentpole film production – a film with a budget of over US$70m – generates 2,840 tonnes of CO2e, the equivalent amount absorbed by 3,709 acres of forest in a year. Within this, transport accounts for approximately 51% of carbon emissions, mains electricity and gas use accounts for around 34%, and diesel generators for

the remaining 15%. Unnecessary material waste is also produced at every scale of production, from studio buildings to props."[59]

The report highlights five areas of opportunity for transformation, relating to:

- Production materials
- Energy and water
- Studio buildings and facilities
- Studio sites and locations
- Production planning

It goes on to set out six principles on which a sustainable future depends, starting with the need to measure the industry's true environmental impact. Digital collaboration and end-of-life planning will also be fundamental, along with the right infrastructure at studio sites to support sustainable production.

As an example of good practice at the individual corporate level, in 2020 Sky announced[60] plans to go net zero carbon by 2030 by cutting by at least 50% the carbon emissions created by its own business, its suppliers across the world and its use of tech products; by planting trees, mangroves and seagrass to absorb what it can't cut; and by spreading the word through its channels and shows. In 2021, it launched a £2 million "Sky Zero Footprint Fund," to support brands and media agencies to accelerate and amplify initiatives to change the world for the better through the power of TV and advertising. And in April 2021, Sky News launched *The Daily Climate Show*, the first daily news programme dedicated to climate change and the environment.

The Screen Sectors are uniquely positioned to promote environmental issues through their content – given their huge mainstream reach across all audiences – and this is an important component of the industry's response to the net zero challenge. They devoted considerable space to the COP26 conference in 2021 in their news programmes, as well as hosting events at the conference itself.

Also during the conference, as an illustration of the innovative ways that broadcasters can introduce environmental issues into their programming, some of the best-loved British TV soap characters made special appearances in other dramas that week as *Coronation Street*, *EastEnders*, *Emmerdale*, *Casualty*, *Doctors*, *Holby City* and *Hollyoaks* joined forces to

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[59] Source: "A screen new deal: a route map to sustainable film production," BFI / Arup / albert, September 2020
[60] See https://www.skygroup.sky/sky-zero

highlight climate change, filming scenes in which they discuss and cover aspects of the climate crisis.[61]

k) Summary – implications of these developments for the Screen Sectors

In the last five years, the Screen Sectors have experienced a number of significant changes, all of which are driven by the spread of internet-delivered content services – an acceleration of a trend that had been gathering pace over the course of the 2000s. So while online video services are not new (YouTube launched in 2005, for example), recent improvements in broadband infrastructure have proven to be highly significant. In the years leading up to the mid-2010s, the internet transformed media industries based around text (e.g. newspapers) and audio (e.g. music) but the Screen Sectors had been relatively immune, as video-on-demand services required an order of magnitude more bandwidth. This changed in the last five years, as we reached the point at which a critical mass of users can stream high-quality video to their mobile devices and TV screens with an acceptable degree of quality and reliability. As a result, the Screen Sectors are now in the midst of a similar transformation as other media faced over the previous couple of decades.

This transformation had started before the onset of the Covid-19 pandemic, evidenced by the rapid growth in VoD viewing over the last five years, with viewers attracted by the appeal of watching TV shows and films whenever they want on whatever screen they want, the services' ease of use (in terms of app interfaces, the ability to start watching on one device and continue on another, etc.) and the high production values and quality of much of the content. But when the pandemic reached our shores in 2020, VoD take-up was boosted further as the country went into lockdown and everyone was forced to stay at home.

All parts of the Screen Sectors have been affected by the growth of online video. More screen leisure time is spent watching VoD services and playing online games – especially for young demographics. Broadcast TV still accounts for more than half of all viewing, but its share is substantially less for the youngest viewers, and it has been declining steadily amongst all except the oldest groups. Just as the market for CDs plummeted in the 2000s and 2010s, sales of physical media (Blu-Rays, etc.) now represent a fast-declining share of the video market. Commercial broadcasters' and platform operators' traditional revenues have fallen while online subscription and advertising revenues have soared. While cinema attendances remained resilient up until 2019, release patterns have been transformed in the last couple of years. Now that cinemas have re-opened, a new equilibrium appears to be developing in which VoD platforms play a bigger role than before as part of the windowing of new films.

In the production sector, the UK has benefited from a substantial boost to investment in high-end TV content, and more generally international primary commissions have been the biggest source of growth for indies. Growth in the creator economy and influencer space

[61] See https://www.itv.com/news/2021-11-01/coronation-street-and-emmerdale-stars-on-new-stories-highlighting-climate-change

opens up exciting new career options for people with creative talent. However, the PSBs' spend on first-run originations has fallen, and the value of UK feature film production has also declined, with true independent films especially vulnerable.

An overarching theme – in terms of the production and consumption of video content – is that the UK is becoming less inward-looking and more global in its outlook. In the past, most British television programmes were commissioned entirely by, and made for, domestic broadcasters, and viewers mostly watched British programmes. Now, a greater proportion of production investment comes from overseas, more programmes are made with both domestic and international audiences in mind, and British viewers are more receptive to programming from other countries (not just English-language programmes but also breakout shows from other countries, such as South Korea's *Squid Game*). In these respects, the TV industry is perhaps becoming more like the film industry, which has always relied on inward investment and sought global audiences. Meanwhile, in the games sector, over 90% of UK games companies export their products and services, giving rise to global hits such as *Grand Theft Auto* and *Tomb Raider* – while creators and influencers are succeeding in building international fan bases from the outset.

All of this points to an exciting future for the Screen Sectors, building on its strengths as a production partner and base for global players. But there are significant risks that could prevent our sector from realising its potential.

First, the UK is lagging other countries in terms of next-generation broadband infrastructure. The viability of VoD services even today is contingent on people living in parts of the country offering the fastest broadband services and on their local network connections not being overly congested. Buffering of streaming video remains a common occurrence – a feature of online services that is annoying at all times, and especially so when watching live events (which are typically shown with a lag of one minute or more to minimise picture freezes – meaning that football fans, for example, will often discover a goal has been scored on the radio or on Twitter before they see it on TV). This infrastructure will struggle to cope with the growing demand for high-definition VoD services that is expected in the years ahead, and is certainly not fit-for-purpose for the next generation of video services such as VR and online game-playing, for which even a one-second delay is unacceptable.

And second, this report has highlighted a number of vulnerabilities in the Screen Sectors, especially relating to production, that will require Government interventions to help our companies to thrive. On economic grounds, we need to address skills shortages, both in the short- and longer-term, to mitigate against cost inflation and ensure we remain competitive for inward investment. And on both economic and cultural grounds, it is important to support the production of certain types of content that are fragile – most notably independent films and culturally-British programmes commissioned by domestic broadcasters. In both instances, there are dynamic longer-term impacts, as the production of lower-budget or more domestically-focused content provides a vital space for nurturing talent and training the next generations of global stars. In cultural terms, these programmes often provide greater UK-specific cultural value than programmes made for international audiences, for which regional authenticity or regionally diverse representation is less important. Some of these programmes provide vital democratic value too, such as dramas that respond to particular events in British history (and which may be of limited interest to audiences overseas). It is important to ensure that such programmes are not marginalised and remain part of the output mix.

D. POLICY FRAMEWORK TO DELIVER FUTURE GROWTH

The Screen Sectors have demonstrated strong growth and aim to achieve an even larger share of the global market for audiovisual and interactive goods and services, driving growth and jobs within the UK economy, boosting exports and 'soft power' influence abroad and delivering cultural and democratic value for all of the UK.

In this final chapter, we consider the policies that would best help deliver future growth and related benefits, and propose a series of recommendations based around six prerequisites for success.

In doing so we note that, in launching its work on the Creative Industries Sector Vision, DCMS recently set out four objectives for the Creative Industries:

- **Supporting the CI's base of high-growth firms to strengthen our comparative advantage**. Support businesses with high export and innovation potential, to strengthen our global competitiveness

- **Building a more resilient, inclusive and productive workforce**. Support skills and talent development, to boost productivity. In addition, widen access to the Creative Industries to make the workforce more representative and unlock the benefits of a diverse workforce

- **Maximising the economic spillovers between the Creative Industries and the wider economy**. Unlock the value that creative businesses and professionals can bring to wider economic sectors through knowledge sharing, skills and innovation.

- **Enhancing the cultural, environmental and social value of the Creative Industries in the UK and internationally**. Maximise the value that the Creative Industries deliver to communities across the UK, while addressing harms such as lack of representation and their contribution to Net Zero for example.

Our recommendations would support all four objectives and supersede the Sector Deal framework that the British Screen Forum (then operating as British Screen Advisory Council (BSAC)) responded to in 2017. In our earlier work,[62] we set out five prerequisites for a

[62] "Building our Industrial Strategy. Priorities for a Sector Deal: supporting continued growth in the UK audiovisual and interactive entertainment sector," BSAC, August 2017

successful audiovisual sector and identified a series of key policy priorities. While the five prerequisites identified five years ago still stand, to those we think it is important to add a sixth, namely a world class digital infrastructure, given the close interlinkages between video-based online services and the roll-out of new communications technologies.

Given both the particular nature of the Screen Sectors, and the recent and projected trends identified in this report (both within the UK and globally), to further develop this world class sector and drive growth, jobs, exports and influence we need:

1. Access to the right talent
2. Access to international markets
3. Access to finance
4. The ability to create across borders
5. A supportive copyright and enforcement regime
6. A world-class digital infrastructure

As noted above, these prerequisites map closely to DCMS's new objectives, as well as reinforcing the importance of the digital infrastructure needed to support the Creative Industries. We present below specific policy recommendations based around these prerequisites. Although some of these recommendations have a strong industry component, they all require action by, or partnership with, the Government in order to achieve their full potential.

1. Access to the right talent

The high quality of our workforce is one of the UK screen sector's greatest strengths, but the biggest threat to continued growth is that talent with the right skills and experience is not available in sufficient scale to meet the demand for content produced in the UK. This is a high growth sector and needs a talent pipeline that reflects its economic and cultural value. Our sector is benefiting from a boom in the construction and expansion of studios and facilities, and more workers will be needed to meet the increased levels of production that they will enable. To foster entrepreneurialism, we need to find and support the people from across the UK who will build the next generation of successful creative businesses. And policies are needed to encourage the expansion of the provision of training and education to meet long-term needs.

Over the medium- to long-term, that means ensuring more pathways for finding, training and nurturing talent, in part to replace the higher levels of training that used to take place at the BBC when its in-house production base was larger or, less formally, within the indie film sector, both of which benefited of the entire sector. Given that it takes time for such policies to bear fruit, we also need more flexibility in the short-term to address skills gaps.

We would also note that Government initiatives to address these issues have not been lacking over the years, but for the most part they have not been rolled out at sufficient scale, or given enough time to work, meaning that they have not generated the desired long-term benefits. Rather than just looking for something new or a quick fix, we would urge the Government to take an approach with appropriate longevity built in and which reflects the learnings from past initiatives.

i. Support development of creative, technical and business skills

a. **STEAM not STEM. A school curriculum with significantly more focus on developing children's creativity and digital skills during Key Stages 1-4.**
Digital Schoolhouse is a good model from games but could be scaled up. We also need an equivalent for audiovisual content.
Many creative courses exist that do not provide the skills that the Screen Sectors actually need. The Government, education establishments and the Screen Sectors should work together to coordinate more closely on the skills needs, to define "creative education" and shape vocational courses.
It is worth noting that the Department of Education spends around £80 million per annum on music education[63] and just £1 million on TV production initiatives.

b. **Closer relationship between industry and the providers of technical and higher education to build scale.**
We have world class exemplars in the London Screen Academy (sixth form) and NFTS (higher education) but the scale of provision needs to increase at pace.
To give one example of the kinds of skills gaps that the industry faces, craft skills such as set building carpentry need to be resourced.
We also need to train a generation of creative leaders with the right mix of creative, technical and business skills, who have the capability to nurture creative talent and grow businesses over time as well as delivering successful projects in the short-term.

c. **Entry level skills support that fits the needs of a sector with freelance and project work as a core component – the current apprenticeship levy scheme effectively excludes many companies in the Screen Sectors that cannot meet the requirement for a continuous 12-month placement.**
The freelance nature of production means that the apprenticeship levy does not work in the Screen Sectors as currently devised, as the nature of freelancers is that they move from project to project, whereas the levy is designed for people in full-time employment with a single employer. It is unfortunate that the Levy as it stands penalises the Screen Sectors for a structural component that enhances flexibility for employers and workers and drives economic growth.

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[63] See https://www.gov.uk/government/news/multi-million-pound-culture-boost-for-children-in-schools

The current trial of a new model for the apprenticeship levy scheme is welcome, but the pace and the scale of change does not meet the need. The scheme needs to be adapted to be transferable across employers and projects without having to make tortuous attempts to retrofit the current approach.
There needs to be a discussion between the Government and industry on how levy funds could be used in a broader variety of ways, not just for narrowly defined apprenticeships.
First, we believe the levy should not be limited to entry grades purely for young people and new talent but should also help people progress and build their careers, including to management roles and to become leaders in the industry.
Second, the levy could play a vital role in helping to bring new transferable talent and skills into the industry. The shortages that the industry is facing are about experience as much as skills, and the levy could help attract skilled people from other sectors. The likes of carpenters, accountants, hair and makeup artists could – via an apprenticeship – learn how to apply their skills in the context of the Screen Sectors.

d. **Opportunities for acquiring production experience and moving up to higher grades.**
The BBC and independent film have historically been very important in this regard, but production spend for both is significantly down compared with a decade ago. We need a joint Government-industry plan to address this.

e. **Continuing support for, and recognition of, the BFI Film Academy.**
This provides invaluable opportunities for young creatives aged between 16 to 25 who want to learn about or work in film.

f. **Incentivise philanthropic giving to training institutions or individuals through bursaries.**
Philanthropic giving through bursaries does not currently benefit from tax relief. Fiscal incentives should be considered to encourage more philanthropic giving.

ii. **Support talent discovery and development across all parts of the UK**

a. **In terms of demographics, better routes into the Screen Sectors are required to ensure that the talent residing in under-represented groups, including people of colour and those from lower socio-economic backgrounds, is not excluded or overlooked at entry level.**
Exemplars such as the Mama Youth Project and the Ghetto Film School exist and have industry support, but similar activity on a larger scale is required.
An understanding of the barriers that people face is especially important now, during the cost-of-living crisis, when emerging talent from lower socio-economic backgrounds in particular may find it even more difficult than usual to taking the first step in a new career. This should include looking at the tax and benefit system and how they apply to freelance working.
The Government should facilitate engagement between Job Centres and the

Screen Sectors to gain a better understanding of what is needed to help people address challenges relating to coming off universal credit, paying their bills and supporting their families as they start to build careers in the industry.

b. **To draw on the talents that exist in all parts of the UK, we believe that there is scope to build on existing creative clusters with the greatest growth potential, and targeted investment – with closer links between bodies representing the Screen Sectors and LEPs – could help them achieve critical mass.**
Currently too few LEP's recognise the potential of the Screen Sectors to drive growth and too many are focussed on goods rather than services (Buckinghamshire and Enterprise M3 are honourable exceptions as LEPs that do include the Screen Sectors in their Local Industrial Strategies). LEPs across the UK should be encouraged to engage with Screen Sector trade bodies to address this shortfall in understanding and support the levelling-up agenda. Such an approach would allow these regional hubs to develop their own economies of scale, and is preferable to policies that attempt to spread activity thinly around the UK, preventing the formation of scale economies and network effects.
Across the UK, the optimal distribution will vary for different parts of the Screen Sectors. For video games and new forms of digital content, there is scope for multiple clusters to develop around the UK, e.g. linked to universities, as network effects are less reliant on geographical proximity than in more traditional media sectors. The 12 video games hubs identified by Nesta include Dundee, Liverpool and Brighton.
In film and TV production, for which geographically-based network effects remain important given the physical realities of production activity, the optimal distribution is likely to involve a limited number of major centres supported by a larger number of more specialist clusters (for example, animation and natural history in Bristol, factual and entertainment in Glasgow).
In these parts of the Screen Sectors in particular, it is important not to undermine the economies of scale achieved in London and South East England, which enable the UK to compete effectively in global markets. Given the growth potential in the sector, we do not believe this to be a zero-sum game: the aim should be to grow the overall market in a way that simultaneously reinforces London as a global hub and grows activity in the Nations and Regions in a targeted manner.

iii. Enable talent to thrive

a. **Better processes and support are needed to ensure that post-entry into the sector, people of under-represented groups feel valued and supported and are able to progress and develop in their careers.**
Mentoring schemes, such as those run by ScreenSkills, provide models that could be scaled with appropriate funding and support.
Diamond data has shown that disabled people are significantly under-represented in the TV sector. Disabled talent in the Screen Sectors have issues with the Government's Access to Work scheme: while this is in theory available to

freelancers, in practice it is not compatible with freelance working because it is slow to process applications and release funds, and it requires repeat applications as people move from one job to another. Finding ways to make this scheme work for freelancers in the Screen Sectors would support the disabled workforce. It would also help to educate employers about making reasonable adjustments and creating accessible working environments which can benefit and help to retain all talent.

b. **Address workplace issues relating to bullying and/or harassment, particularly amongst freelancers.**
   There are a great many very positive aspects to working in the Screen Sectors, but like other sectors a significant minority experience issues with mental health, bullying and/or harassment, a situation that is perhaps exacerbated by the freelance and project-based work that forms a great deal of Screen Sector activity, and which has been highlighted by recent events and research.
   The sector has itself offered strong support to the 'Let's Reset' campaign run by the Film + TV Charity, but these issues are not unique to the Screen Sectors and the Government has a role to play in finding ways to deal effectively with these issues in sectors in which various forms of freelancing are commonplace.

c. **Tax, benefits and pension arrangements should not penalise freelance workers, who provide the flexibility that allows companies in the sector to respond quickly and to grow.**
   Current tax, benefit and pension systems are better suited to very high-pay freelancing than to those on more modest incomes, as is the case for many essential Screen Sector workers, and this was brought into sharp relief over the past two years when a significant number of Screen Sector workers found themselves both without work and unable to access the pandemic support schemes that did so much to assist those who qualified for them.[64]
   Screen Sector freelancing is nevertheless typically above average in terms of pay, skills and productivity, and differs markedly from the low pay, low skill, low productivity 'gig' economy typified by the Deliveroo driver, but there is still a degree of vulnerability and unpredictability inherent in all freelancing. Future reforms to tax, benefits and pension arrangements should take full account of the needs of such groups.

[64] During the first COVID 19 lockdown, 74% of Film and TV freelancers did not expect to be eligible for either of the Government's principal coronavirus support schemes for workers. For example, many operate through short term PAYE contracts moving between employers and are ineligible for SEISS. Source: [Film and TV Charity submission to DCMS Select Committee](), June 2020

d. **As noted above in relation to 'talent discovery and development across all parts of the UK,' sustainable geographic clusters and regional hubs should be developed to enable local talent to build a career without moving to London.** Such clusters and hubs need to be of sufficient scale to provide a critical mass of projects capable of providing a sustainable level of income over the long term for those with the requisite skills. It is also important that training opportunities are available in regional clusters for people based in those regions. Without such scale, individuals with the right skills and experience will still tend to gravitate towards existing centres of activity (especially London) when they would prefer to have the opportunity to develop their careers in other parts of the UK. This underlines the point that the building up of clusters and hubs should be carefully planned and targeted, as attempts to spread activity too thinly will not have the intended result. Without scale, regional clusters cannot provide year-round work and ongoing training opportunities and local Screen Sector talent would still need to base themselves in major production centres elsewhere in order to make a living or develop their careers, returning 'home' only occasionally on a project-by-project basis.

iv. Attract the best talent

a. **The Government should prioritise working with sectors with strong growth potential to address their rapidly evolving skills needs, both in the short- and long-term**
The Screen Sectors will always need the ability to bring in talent from overseas (e.g. foreign stars that fit the creative proposition, and people with local/cultural knowledge of other countries for both creative and corporate roles like legal and business development) as well as when there are domestic skills gaps in certain areas, including in new and emerging technologies such as virtual reality (VR), augmented reality (AR) and artificial intelligence (AI), or emergency needs (i.e. unanticipated urgent needs to cover cast or crew from overseas in the case of illness or injury).
The Government should prioritise working with sectors with strong growth potential – such as the Screen Sectors – to develop processing and eligibility criteria that keep pace with their rapidly evolving skills needs. While we recognise that over the medium- to long-term many of our workforce needs could be met from within the UK, especially by drawing on the under-utilised talent that exists in under-represented demographics and geographical locations, that does not address a pressing current need for experienced production and post-production crew in particular.
We recognise that a new visa regime has been put in place, and that the shortage occupation list provides help in relation to certain Screen Sector roles, but the current arrangements are lacking in flexibility. One solution might involve a simplified visa model with class licences for companies in high growth sectors or subsectors – such as the Screen Sectors – that meet relevant criteria.

2. Access to international markets

Strong export growth has been a key feature of the screen sectors over recent years. UK content is seen as distinctive and high quality and there are significant opportunities for future growth, including by enticing the major international players – such as the film studios and streamers – to invest in the UK. This requires us to maintain our competitiveness relative to other countries likewise seeking to attract inward investment.

v. **Maintain the existing arrangements that underpin the value of UK content and services in international markets.**

   a. **Take all possible steps to preserve the current definition of European Works which includes UK works.**
   Following our exit from the EU, UK content continues to qualify as 'European Works' through reference to the European Convention on Transfrontier Television in the Audiovisual Media Services Directive. Having 'European Works' status supports UK programme exports and underpins investment in UK content from companies based in the UK and across the EU. Given that all EU linear channels must show at least 50% European works, and that the catalogues of EU VOD platforms must comprise at least 30% European Works, ceasing to qualify would mean that UK-based content providers would go from competing for up to 100% of a channel's linear schedule to a maximum of 50%, and from competing for 100% of a VOD provider's catalogue space to a maximum of 70%.
   We therefore welcome the commitment made in the Government's recent White Paper on broadcasting to: "maintaining our membership of the Council of Europe's Convention on Transfrontier Television and, consequently, our European Works status."[65]

   b. **Take all necessary steps to preserve the data adequacy position with the EU.**
   We note the plans set out in the recent Queen's Speech for a Data Reform Bill which will "reduce burdens on businesses," and while we welcome any removal of unnecessary burdens we would stress that any data reform should not be at the expense of maintaining the existing data adequacy position with the EU.

   c. **Preserve the elements of the UK Screen Sectors that are working well and contribute to its strength and competitiveness.**
   When negotiating future trade deals, the Government should, in the context of an overall high level of ambition to create favourable conditions for exports of UK film and television, maintain freedom of manoeuvre to adopt regulatory interventions as necessary to support the Screen Sectors and meet audience expectations, and must preserve the elements of the UK regulatory framework that have contributed to the success of the sector. As new trade deals are negotiated, it is therefore vitally important that the Government promotes audiovisual exports but does not trade away the elements of the UK Screen

[65] See "Up Next: The Government's vision for the broadcasting sector," DCMS, April 2022, pages 9 and 36

Sectors that underpin the existing sector's strength and potential to grow, such as support for the provision of Public Service Media, fiscal incentives and the strong IP regime.
If the public interventions that support the UK Screen Sectors' strengths were to be allowed to wither, or to be traded away, over and above the short-term damage caused by reduced levels of investment and activity, there would be much more substantial longer-term impacts on the vibrancy of the sector as reduced levels of support for new generations of talent, ideas and companies would over time lead to a smaller, less innovative sector that would become less of a global powerhouse for ideas and IP creation.

vi. Enable and support the pursuit of new opportunities in key target markets

a. **Promote UK content in key markets and support businesses to develop and implement export plans, participate in international co-productions and distribute UK content internationally.**
We note and strongly support the establishment of the Global Screen Fund and the decision to continue its funding for at least three years following a successful pilot year. While welcome, the funding involved is significantly below that which the UK Screen Sectors enjoyed via the Creative Europe scheme. Although the targeting of Global Screen Fund awards may be more closely aligned with the particular needs of the UK Screen Sectors, the reduction in funds is material and additional funding should be provided as soon as possible.

b. **Support an evidence-based international trade policy that works with the Screen Sectors to identify key target countries, any genuine barriers and creative ways to navigate access for business.**
There are a number of ways in which the Department for International Trade could further support the Screen Sectors. These include undertaking research into key non-EU countries identified by industry (i.e. those with big potential or growing audiovisual markets) to provide market intelligence, identify any genuine barriers, as well as agreeing co-production treaties covering cinema and TV when there is a clear mutuality of interests between the two countries. Certain other types of horizontal agreements also have the potential to benefit the creative industries, notably on data protection and data flows, IP enforcement and rules on the movement of capital (e.g. for production or setting up a local joint venture) and should be prioritised.
Another example relates to the former DIT Trade Access Programme (TAP), which provided grants for businesses to attend key trade shows in order to boost their exports. TAP, which ended in 2020, helped secure £80 million of business wins between 2019 and 2020 for just £140,000 of Government funding. It was a huge benefit for the games sector, and its replacement programme Trade Fair is much less beneficial. The new Trade Fair programme only allows one grant per company to visit an event/one grant to exhibit at an event once in their entire lifetime as a business. Moreover, the value of the grants are hugely reduced from what was previously offered: they now only offer between £200 to £500, whereas

previously grants were worth £1,500. For SME games companies wanting to exhibit at some of the biggest games trade shows, such as GDC in San Francisco, this would barely cover the airplane tickets, never mind any of the other costs that would have to be borne.

3. Access to finance

The ongoing success of the UK screen sector lies in maintaining its track record of attracting inward investment in a highly competitive global market for production locations and enabling the domestic production sector to finance projects which enable the development and growth of sustainable businesses. This is due in part to the great success and effectiveness of the various fiscal incentives for production in the Screen Sectors, which we should nurture and build upon. There is scope for some adjustments to rules around State aid – one of the positives that results from the Government's Brexit settlement.

We also have a particular concern that, at a time when independent film production is struggling and producers are looking for more ways to access finance, the reality is that their options have been substantially reduced by changes made by the Government in the last five years that have the effect – albeit unintended – of severely curtailing the use of EIS and SEIS schemes in the sector.

vii. Maintain and improve the existing major interventions that underpin success

a. Maintain the competitiveness of our tax reliefs.
The Creative Sector Tax Reliefs are a major success story, with the film tax credit, for example, delivering a return on investment (ROI) of £8.30 for each £1 of relief granted. In a highly competitive global market comprising many countries and territories seeking to be the location for major film and TV production and post-production activity, and for games development, the tax reliefs are a key plank of the UK's world-class offer, alongside our high-quality studio infrastructure and our skilled and experienced labour force.
To be effective in attracting mobile production activity, such reliefs must themselves remain internationally competitive. With a number of competitor territories having enhanced their fiscal incentives in recent years (some in response to the pandemic), the UK rate of relief, set at 25% and applicable only to 80% of UK expenditure, requires enhancement if we are to maintain competitiveness over the longer term.

b. Maintain support for Public Service Media and the film industry.
The UK's support for the provision of Public Service Media and support for the film industry ensure that the film and TV sectors punch well above their weight. A key priority is to preserve the success of these sectors and the public-private ecosystems that underpin them.

c. Maintain, and where possible, strengthen crucial National Lottery and grant in aid funding for the screen sectors, through the BFI and other public agencies in the Nations and Regions.
In the independent film sector in particular, this funding is vital and produces substantial benefits further down the line, in that much of the UK's filmmaking talent, in front of and behind the camera, begins their career making smaller indie films.
More generally, the BFI awards National Lottery funding to grow a rich film culture, investing in film production, distribution, education, audience development and market intelligence and research.

viii. Better support the early-stage development of screen sector projects and companies

a. Review the effect of EIS/SEIS changes on the Screen Sectors and take appropriate remedial action.
When the new 'risk to capital' test was being introduced in 2017-18, reassurance was given by Treasury that there was no intention to effectively exclude Screen Sector companies from being able to raise funds through such schemes. British Screen Forum expressed concern at the time that despite the policy intention, the manner in which HMRC approached applications from Screen Sector companies would be likely to have exactly that effect.
We monitored application of the new test during its first year and provided evidence of the chilling effect on independent film finance in particular to Government in early 2019. We held a number of meetings directly with HMRC in order to try and resolve several issues of interpretation which we judged to arise from a lack of understanding of normal business practices within the Screen Sectors.
Although significant changes to the relevant HMRC guidance were made in 2021, there is little evidence to date that those changes have had a material impact in practice on the decisions being made by HMRC. In the intervening years, many private investors have simply looked to other sectors and abandoned our own. The result has been that the EIS and SEIS schemes, once an important source of finance for early-stage independent film production companies in particular, are now providing very little support to this sector.
Soon to be published research commissioned by British Screen Forum shows that these changes have in effect almost completely wiped out the benefits offered by EIS and SEIS to the film sector. This data could not paint a starker picture of the damaging effect of the current situation, and of the lost potential in terms of the benefits EIS and SEIS could provide to the financing of film.

b. Expand definition of R&D to include creative research and development.
In common with many other countries, the UK offers tax credits for certain types of R&D expenditure. However, the UK definition of qualifying R&D is more tightly drawn than some international competitors. The definition of R&D in the OECD's Frascati manual, from which the current UK definition (which is more narrowly

focused on science and technology) is derived, makes specific reference to "creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge." As such, there is scope for the UK Government to broaden its current definition to incorporate more of the activity undertaken in the Screen Sectors. France, Italy, Denmark, Czech Republic, Brazil and South Korea have all adopted a definition that incorporates the arts, humanities and social sciences.

Many creative companies and individuals consider that they are engaged in R&D on an ongoing basis, but not necessarily within the somewhat narrowly focused parameters of the current definition of R&D used by the UK Government. The report "R&D in the Creative Industries Survey – 2020," undertaken for DCMS by OMB Research, highlights that whilst just 14% of the Creative Industries consider themselves to be conducting R&D that matches the HMRC definition, 55% can identify R&D activities they undertake within the Frascati definition.

British Screen Forum believes that evolving the current definition to capture more of the R&D activity in the Screen Sectors would dramatically boost the amount of R&D and innovation being undertaken and, in turn, spur further growth.

It is worth noting that direct public funding for R&D in the Creative Industries – including the Screen Sectors – currently lags behind the support given to other sectors. Professor Andrew Chitty, of the Institute for Media and Creative Industries at Loughborough London, has stated, "Our own analysis of Government data suggests that whilst 28% of the R&D spend of the Life Sciences sector is provided by Government Funding (£3bn public R&D spend vs £7.5bn industry R&D spend on sector GVA £16.7bn) only 6% of Creative Industries R&D spend is supported by government (<£100m public R&D spend vs c£1.5bn industry R&D spend, on sector GVA of £111bn)."

Any extension to the current qualifying definition for R&D Tax Reliefs would, of course, need to be carefully developed to ensure that it is properly targeted to deliver the intended policy objectives. It is also crucial that any evolution of the R&D Tax Relief regime fits well with the existing range of world-leading Creative Sector Tax Reliefs that have underpinned so much of the success and rapid growth of the UK's film, TV and games industries in recent years.

If that can be achieved, British Screen Forum believes that a measured broadening of the current definition could bring into scope a range of potential innovations, including in an overwhelmingly services-based economy like the UK's, for example the delivery of experiences as well as products and the development of novel formats and production techniques, that otherwise would struggle to emerge.

c. **Scale up effective interventions such as the UK Games Fund and BFI Development Fund.**

The UK Games Fund and Tranzfuser programmes have supported over 200 companies and 150 graduate teams respectively, between 2015 and 2021. This work has been funded by DCMS with £8.265m awarded over seven years. A similar amount has recently been awarded for the work to continue until 2025.

The UK Games Fund awards grants of up to £25,000 for content development by small, early-stage games developers and Tranzfuser supports graduate teams with a £6000 prize to develop content and then pitch to the UK Games Fund. The two inter-connected programmes are designed to boost the early-stage games development ecosystem at a critical development stage in terms of talent development, original IP creation and freelancer support via associated contracting. The intervention is less about picking hit games or creating an investment pipeline and more about boosting development teams with real-world project experience, focussing on the portfolio-driven nature of talent development in this sector. However, examples of funded companies from predecessor projects include success stories such as Hutch Games being acquired for $375 million, Coatsink being acquired for £23million and Sensible Object attracting major investment and a new UK studio from Niantic. The majority of funded companies go on to secure publisher deals or other funding aiding new IP release. An external four-year review by Ekos Consulting showed a CBA of approx 4:1 measuring jobs and associated leverage generated as a result of the support.
Grants are non-repayable and funded companies contract to give back time through peer to peer support. The programmes are administered by the not for profit Community Interest Company, UK Games Talent and Finance CIC. Tranzfuser is also run in partnership with over 20 local hubs based in universities and other talent centres across the UK.[66]

ix. Enhance support in areas of particular market failure, such as independent UK film

a. Enhance film tax relief for UK projects of a particular scale.
In light of the particular challenges facing the UK indie film sector discussed in this paper, and its importance to the broader ecology, it is important that urgent action is taken to support the financing of independent films. Without undermining the integrity of existing film tax reliefs, appropriately designed modifications to the tax credits (such as an enhanced rate for films within a particular budget range) should be considered that, if implemented, would provide additional targeted benefits to smaller independent British films.

b. Facilitate access to data to allow investors to assess risk and to maximise revenue and profit throughout the value chain.
For example, this could be done through the creation of a UK Film Data Centre facilitating data exchange mechanisms observing differential privacy – preserving commercial confidentiality and improving aggregate insight across the whole value chain.
This is motivated by the principle that for companies to attract investment, they need more data on what works and what has been done before. One of the biggest challenges for independent film producers in particular is that private investors are put off by the lack of data in the sector, which makes it hard for

[66] Data source: Ukie/UK Games Fund

them to judge risk for business propositions.
Data-driven analysis of this kind is facilitated by CNC in France and is routinely used by the major US studios. More widely available, technology-driven approaches such as this could help smaller British companies to strengthen their business plans and attract funding, helping them to scale globally over time.

c. **Continue to support the production of UK content for young audiences, reflecting the positive externalities of such content.**
The upfront costs of developing new IP in children's content is a major challenge. The high demand for, and uptake of, funding made available by the BFI's Young Audience Content Fund (YACF), funded by DCMS, is evidence of the support needed. This was a Government pilot of contestable funding to directly support underserved public service content. Since 2019 the YACF, together with the Audio Content Fund, has received almost £48 million of public funding. The YACF has supported 220 hours of children's television content.
The Government will now conduct an evaluation of the pilot. Public intervention to support this area of screen production should remain a priority and we hope that the evaluation will reflect this in its recommendations. The high demand for YACF funding is also clear evidence that there are plenty of companies with great ideas they would like to bring to market, with the appropriate economic support.

4. The ability to create across borders

We need cross-border models of cooperation that reflect how creative content is produced.

The model that underpins international co-productions in the Screen Sectors (e.g. for films and TV) is integrated in a way that is fundamentally different from that in other sectors. For example, in the automobile industry, while individual car parts may be made in different countries in a global supply chain, people working in each part of the supply chain will typically work independently, with little or no contact with those in other parts. By contrast, the creative teams making international co-productions are usually involved across most elements of production in all countries in which the project is based.

Thus, in multi-location productions, such as James Bond films or TV series such as *The Night Manager*, the director, stars and often much of the crew will typically be present in all locations (notwithstanding the use of local crews and separate teams for certain production elements, such as visual effects). Another example is that TV events, such as the MTV Europe Music Awards, are hosted each year by a different country, and the production team needs to be able to operate in whichever country is hosting them.

In both cases, the international nature of the production process is an integral part of the creative product in a way that is fundamentally different from other products (the country where a car tyre is made does not materially impact the character of the final product).

x. Enhance ability to do project work across borders without hindrance

a. **Seek new co-production treaties with key target countries, defined with respect to criteria such as growth potential, size of the audiovisual market and cultural, historic and linguistic affinity with the UK.**
The UK currently has some form of audiovisual co-production treaty with countries such as Australia, New Zealand, South Africa and India, although the value of these treaties has in practice varied considerably. For example, the treaty with India has not been used due to Indian bureaucracy and differences in working practices – highlighting the importance of a strong cultural fit as a key criterion.
The desired outcome is for the UK to ensure a viable range of co-production partners across countries and platforms, in order to boost production budgets and to access the benefits of national status in the local territory.
Our approach to co-production treaties needs to reflect fast-changing developments, both in the Screen Sectors and in the global economy. As countries' political and economic priorities, and companies' business models, evolve, the result is a considerable degree of flux in the list of viable co-production partners who are willing and culturally aligned. UK policy in this area therefore needs to be flexible in order to respond to market changes, with the aim of constantly replenishing the list of potential co-production partners as circumstances change.

b. **Agree with other countries reciprocal 'cultural passport' schemes for companies engaged in the creation of audiovisual content within and without the UK.**
The purpose of a "cultural passport" scheme is to remove the red tape that makes it hard to create audiovisual content across multiple countries. Short-term visa application processes are currently proving in many cases to be prohibitively long, costly and complicated – the end result being to restrict the creation and dissemination of cultural content.
Similar schemes have been proposed in other parts of the Creative Industries, for example to make it easier for musicians to tour in other countries or for international performers to come to the UK (e.g. for the Edinburgh Festival).
For the Screen Sectors, the benefit of a cultural passport scheme would be to enable greater ease of movement for cast, crew and equipment on cross-border productions.

5. A supportive copyright and enforcement regime

We need the current supportive copyright framework to be maintained and the UK to be a world leader in effective enforcement of rights.

The current intellectual property rights (IPR) regime underpins the success of the audiovisual and games sector. The ability to choose where, when and how the rights arising from copyright in audiovisual content are exercised is crucial to ensure there can continue to be the same levels of investment in the creation and distribution of the content that consumers enjoy. The UK should rightly be recognised as being at the forefront of IPR protection and must remain so because this gives its creative industries and the UK economy a competitive advantage over countries where this is not the case.

Seeking enhanced IPR protection elsewhere should, however, form part of future trade deals. Although a range of IPRs can be relevant sometimes, copyright is the most important IPR for the audiovisual sector. In this respect the current copyright framework is generally working well, but there are limited areas where helpful improvements to how it works could be made to enable better enforcement of rights.

The importance of copyright enforcement has been highlighted by developments since the start of the war in Ukraine, with indications that Russia is using piracy as a retaliatory measure. There are reports of Russian cinema chains showing foreign films downloaded from the internet, and torrent sites being unblocked that let Russian citizens download Western content, most of which the rights holders have withdrawn from the market.[67]

xi. **Vigorously protect the current copyright regime whilst seeking modest improvements where relevant and strengthening enforcement in places where piracy is of the greatest concern**

   a. **Maintenance of current copyright provisions is essential with no weakening.** The current system of copyright provisions works well, and the UK approach is seen as a gold standard. Any attempts to weaken this would be damaging and counterproductive.

   b. **No move to international exhaustion of IP rights for packaged home entertainment goods.**
   A BEIS consultation in 2021 considered changing the current regime for the exhaustion of intellectual property rights and included an option to move to an 'international exhaustion' model. Although BEIS concluded that there was currently not enough data available to understand the economic impact of any of the alternatives to the current regime, it nevertheless confirmed that the Government remained committed to exploring the opportunities which might come from a change to the regime, stating that further development of the policy framework needs to happen before reconsidering the evidence and making a decision on the future exhaustion of IP rights regime.
   British Screen Forum has very serious concerns with regard to international exhaustion, which would damage the ability of UK rights holders to exploit markets in lower value territories, i.e., territories in which the average retail price of, for example, a DVD or 4K UHD disc was lower than in the UK. Under an international exhaustion regime, a UK rights holder choosing to exploit in a lower value territory would risk undermining the revenues from the (higher value)

[67] See, for example, "Russian cinemas showing pirated Hollywood movies to beat sanctions," Metro, 4 May 2022

domestic market through parallel imports. The only way to protect the value of the primary domestic market would be to forgo revenues from lower value territories.

This creates a lose-lose situation. A rights holder pursuing a strategy of developing export markets finds domestic margins are undercut, reducing the revenue available for reinvestment in new IP and for developing international markets. At the same time, a rights holder who prioritises protecting domestic revenues by not selling in other territories misses out on the revenues that could otherwise have been generated from outside the UK whilst also denying consumers in that lower value territory the opportunity to enjoy legitimate physical copies of home entertainment content. Such a situation may then also encourage the distribution of unauthorised copies of that content.

An international exhaustion regime would diminish income for authors, producers and distributors while increasing the cost of regulation and enforcement against counterfeit goods, especially as goods arriving at the UK from certain territories could no longer be assumed to be counterfeit. Trade in counterfeit home entertainment goods, such as DVDs, remains a significant problem and is part of a much wider problem with counterfeit goods across all sectors. The European Union Intellectual Property Office (EUIPO) has reported that international trade in counterfeit and pirated products is worth up to €460 billion.

International exhaustion would also place an additional burden on consumers in the form of increased search costs, particularly when a home entertainment product is produced in different versions for different territories. As Screen Sector content is cultural in nature, re-versioning for different territories is not unusual.

Assuming the EU does not reciprocate, international exhaustion would create an asymmetrical exhaustion relationship with the EU, to the disadvantage of UK rights holders. In practical terms, a UK DVD distributor left with excess stock in their domestic market could be prevented from selling on that stock in the EU, while an EU distributor with the same problem would not face the same restriction on selling on that stock in the UK.

The evidence in favour of the status quo is clear and a move to 'international exhaustion' should be taken off the table.

c. **Continue to bear down on piracy, especially in relation to illicit streaming and enhanced piracy threat from Russia.**

   Piracy enforcement is akin to a game of Whac-A-Mole: as websites and other sources of pirated content are shut down, new ones spring up elsewhere. As noted above, the problem is currently exacerbated by the apparent policy decision by the Russian government to encourage piracy, explicitly or implicitly, as part of their response to the West in the context of the war in Ukraine.

   Given the need for renewed vigilance, it would be helpful to explore gaps in the legislative framework, in order to further improve piracy enforcement (at least in those parts of the world where the rule of law continues to hold).

   Given the challenging geopolitical environment, we would also encourage ongoing engagement with relevant stakeholders to improve cooperation.

6. A world-class digital infrastructure

Significant advances in digital infrastructure have been made in recent years. According to Ofcom, by January 2022, 66% of households had access to Gigabit-capable broadband speeds – a huge leap from 2019 when it was just one in ten. However, access to full fibre services that will be needed to power future generations of services were available in just 33% of homes and full fibre coverage in the UK is low by international standards.

The £5bn UK Gigabit Programme or 'Project Gigabit' currently aims to ensure that 99% of households have access to gigabit speeds by 2030. This is line with the ambitions of the EU[68] but still sees us playing (slow) catch up with competitors in Asia, a region which already had full fibre coverage (equivalent or better than he UK's 'gigabit speed' target) averaging over 80% in 2021[69] and in which market leaders South Korea and Japan had already achieved 99% full fibre coverage by 2017.

xii. **Accelerate the Government's Gigabit-broadband target to bring it closer to the manifesto commitment of nationwide Gigabit broadband by 2025**

a. **Roll-out of digital infrastructure that will be fit-for-purpose for the next generation of audiovisual services needs to be accelerated.**
The UK currently lags behind world leading countries for digital infrastructure. Current initiatives need to be accelerated, and greater emphasis needs to be placed on full fibre rather than 'gigabit capability' in order to ensure our digital infrastructure is fit-for-purpose for the next decade and beyond.

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[68] See https://digital-strategy.ec.europa.eu/en/policies/connectivity
[69] See https://www.spglobal.com/marketintelligence/en/news-insights/blog/pandemic-boon-as-fiber-to-pass-62-global-share-by-2025-lags-in-north-america

FRAME THE DEBATE

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