BRITISH SCREEN FORUM
FRAME THE DEBATE

INQUIRY SUBMISSION

To Culture, Media & Sport Committee

British Film and High-End Television

October 2023

FRAME THE DEBATE

CONTENTS

A. Executive Summary

British Screen Forum welcomes the Culture, Media and Sport Committee's inquiry into the current challenges faced by the British film and high-end television (HETV) industry.

In our report in July 2022, "UK Screen Sectors: A Prospectus for Growth in an Age of Change"[1], we urged the Government not to take the Screen Sectors for granted, and to provide the support needed so we remain globally competitive. We are delighted that the Committee is indeed not taking us for granted: this is a timely inquiry coming shortly after the Creative Industries Sector Vision set out bold ambitions for future growth, and it provides an opportunity to play an important role in helping to ensure the continued economic success of a sector that acts as an engine of growth for the UK alongside its unique cultural role.

The Creative Industries – which the Screen Sectors, including film and HETV, are part of – have been an economic powerhouse over the last decade or more.

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 submission focuses specifically on the parts of Screen Sectors which are referenced in the Call for Evidence, this initial Section presents economic data from DCMS on the Creative Industries as a whole, as it is generally not possible to isolate the Screen Sectors, let alone their constituent parts, in this data.

The Creative Industries are key drivers of growth and renewal in the UK as we recover from the impact of the Covid-19 pandemic. Between 2019 and 2022, the UK economy experienced negligible growth: based on the most recent DCMS Sector Estimates that run through to the end of 2022 (published in August), GVA in 2022 was just 0.2% higher than that in 2019 (in real prices): after collapsing in 2020 when the pandemic hit, the bounce-back in 2021 and 2022 returned the UK economy to just above its pre-Covid level[2]. By contrast, over the same period, and despite the fall in activity in 2020 when lockdowns were introduced, GVA for the Creative Industries grew by 16% in real terms.

This resilience even at a time of national (and global) crisis illustrates the economic strength and importance of the Creative Industries. Media coverage of the sector tends to focus on its 'creative' contribution, and this is indeed very important (as we discuss below). But there is a tendency to underplay the 'industry' part of the 'Creative Industries', despite its economic contribution being just as important to the UK:

[1] See: "UK Screen Sectors: A Prospectus for Growth in an Age of Change" (2022).

[2] Note: in early September, the ONS adjusted its GDP figures for 2021, which indicated higher growth that year than previously estimated. Future revisions to the 2022 figures would impact the 2019-2022 comparisons presented here.

- **We estimate GVA for the Creative Industries in 2022 to be £123 billion in 2019 prices (equivalent to £137 billion in current prices), and to have grown by 54% in real terms since 2010. Over the same period, the overall UK economy grew by just 20% in real terms.**

  This means that the real growth rate of the Creative Industries was a substantial 34 percentage points higher than that of the UK economy. The Creative Industries passed a milestone in 2013 when they reached 5% of total UK GVA. Our calculations indicate that, after another nine years of strong growth, the Creative Industries passed another milestone in 2022 by reaching 6% of UK GVA.

- **The Creative Industries employed 2.4 million people in 2022, 53% more than in 2011 (when the employment data set begins). Over the same period, total UK employment grew by just 12%.**

  After more than a decade of consistently outgrowing the UK economy, Creative Industries jobs as a proportion of total employment grew from a 5.2% share of all UK jobs in 2011 to a 7.1% share in 2022. This increase, of almost two percentage points in just over a decade, is a powerful indicator of the importance of the Creative Industries to the UK workforce.

- **The Creative Industries generated £46 billion in exports in 2021 (the most recent year for which we have data), having grown by a remarkable 210% since 2010. Total UK exports of services grew by less than half this rate, just 80%, over the same period.**

  Creative Industries exports have experienced positive annual growth every year since 2010, with year-on-year growth exceeding that of total UK exports of services in eight of the last 11 years. As a result, the Creative Industries have increased their share of UK exports from 8.5% of total exports of services in 2010 to a 14.6% share in 2021.

In summary, GVA, exports and jobs in the Creative Industries have all outperformed the UK economy by a considerable margin since 2010, with growth in the sector continuing strongly over the last three years even when there was little real-terms growth in the total UK economy.

The success of the Screen Sectors – in both economic and cultural terms – is due in part to enlightened public policy. We need interventions that respond to market and technological changes to support the sectors in the years ahead. By driving further growth, public interventions can expect to generate positive returns on investment.

The Call for Evidence comes at a time when Government resources are being increasingly stretched – in both financial terms and in terms of the amount of Parliamentary time that can be devoted to any particular sector. It is important to answer the question: why spend time and resources on film and high-end television when there are so many competing calls for attention and support?

The data presented above show that the overall economic picture for the Creative Industries is very strong. The dynamism of, and future opportunities for, the sector could not be more different from ailing industries of our industrial past that once played an important role, and which now rely on government support. By contrast, the Creative Industries have proven themselves to be strong engines of economic growth and exports, while the recent past shows them also to be resilient and largely self-sufficient.

The Screen Sectors also play a vital role in terms of cultural value and soft power, including in relation to screen tourism. As mass-market mainstream media, film and high-end television are extremely powerful in their capacity to provide benefits to society in terms of access and inclusion, quality of life, providing a sense of community, encouraging citizens to engage in educative content, strengthening cultural identities and promoting cultural understanding, and facilitating informed democracy. And given their prevalence and popularity all over the world, they are uniquely placed to project soft power and UK values around the world. This soft power contribution is especially important right now, at a time of heightened geopolitical uncertainty, and is likely to remain so in the years ahead.

The Screen Sectors' success derives from the overall package that the UK offers, comprising world-class studio infrastructure, a skilled and experienced workforce, internationally competitive tax incentives, a stable economic base and a benign cultural and political outlook. However, alongside the remarkable resilience demonstrated over many years, there is also an inherent fragility in our position of strength, due to the unusual underlying economics of the Screen Sectors: they can, in part, be characterised as hit-based businesses with particularly high levels of risk and uncertainty from project to project. Films and high-end TV have a distinctive and asymmetrical cost profile, with very high fixed costs and low marginal costs. This risk profile and the need to bear the full production cost upfront makes them highly vulnerable, and their success relies in part on enlightened policy interventions at the UK, national and local level, to address market failures and ensure competitive strength. Our sector is also vulnerable to temporary external shocks, such as the current strikes by writers and actors in the US, which is significantly depressing UK production activity during 2023.

At the same time, we are seeing more competition than ever from other countries seeking to attract mobile inward investment productions. In addition to the major production centres, several smaller or emerging markets have introduced highly competitive incentives, including other European and Nordic countries US states, countries in the Middle East and India.

In the near term, we expect the Screen Sectors to continue to play an important role contributing to the Government's levelling-up agenda, driving growth and employment, and supporting Global Britain by growing exports, projecting soft power, and attracting 'screen tourism' visitors to the UK who want to see the locations of their favourite screen content[3]. But prospects are much more uncertain over the medium- to long-term. Public policy measures have in the past adapted over time to fast-changing market, technological and

[3] Screen sector companies often partner with tourism agencies to highlight locations in *The Crown*, *Bridgerton* or *Game of Thrones*. Indeed, *Game of Thrones* is estimated to have attracted 350,000 visitors and over £50 million for the local economy in Northern Ireland.

other external factors. Looking ahead, the UK's Screen Sectors will only continue to succeed if each element of the package is reinforced by appropriate support from the Government in terms of targeted interventions that address the ever-changing market conditions.

As requested in the Call for Evidence, this submission sets out the particular challenges that the Screen Sectors face and provides some proposals for how they may be addressed. The Committee is right to highlight certain areas of concern, such as independent film and the film exhibition sector. But it is important to appreciate that these cannot be addressed in isolation: the Screen Sectors are made up of interconnected parts – for example, in terms of shared physical infrastructure and talent pools, public and private funding sources, public policy interventions to support British content and production in the Nations and Regions, and distribution and release strategies across windows. We urge the Committee to take a holistic view when designing their policy responses.

The overarching strategy for public intervention is straightforward: at the macro level, we are starting from a position of strength, so public policy should first act to reinforce the position that the Screen Sectors have established in the UK and in global markets. And second, we should seek to build on our successes and push for further growth. The Screen Sectors have a strong track record over more than a decade of being a good investment for policymakers, and we are confident that new support measures will be repaid with a positive return on the public investment, as measured by metrics such as growth in GVA, jobs and exports, not to mention cultural and soft power benefits.

In its Sector Vision for the Creative Industries presented to Parliament in June 2023, the Culture Secretary announced an ambitious target to grow the sector by £50 billion by 2030 and for the sector to support one million additional jobs. It is important that the scale of support for the sector matches the scale of this ambition. Our proposals are summarised in the table below (there is some repetition across sections, reflecting the interconnected nature of the sector):

Section	**British Screen Forum proposals**
UK film	Introduce an enhanced rate of Audiovisual Expenditure Credits for UK film projects of a particular scale. 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. Ensure ongoing support for the public service broadcasting (PSB) system so it can continue to invest in UK independent films. Review the effect of EIS/SEIS changes on the Screen Sectors and take appropriate remedial action.

<table>
<tr><th>Section</th><th>British Screen Forum proposals</th></tr>
<tr><td></td><td>Better support the early-stage development of screen sector projects and companies.

Expand the definition of R&D to include creative research and development.

Facilitate access to data to allow investors to assess risk and to maximise revenue and profit throughout the value chain.

Support the theatrical exhibition and distribution of UK films of a particular scale through:
a zero or reduced rate of VAT on cinema admissions to such films
a tax relief which includes prints and advertising (P&A) expenditure as qualifying spend for such films.
The design of such schemes to be developed in close consultation with all relevant stakeholders.</td></tr>
<tr><td>High-end TV</td><td>Ensure ongoing support for the PSB system so it can continue to play a vital role as part of the mixed ecology of investors in UK TV.

Ensure that the UK financial incentives, talent pool and facilities sector remain world class to continue to support inward investment.

Protect the regulatory framework that allows the independent production sector to thrive.

Ensure the new Audio-Visual Expenditure Credit (AVEC) financial incentives remain at least as internationally competitive as the Tax Reliefs they replace, and that ongoing concerns about unintended consequences of some aspects of the new incentives are addressed:
The proposed new provisions on connected party transactions would be damaging and are unnecessary.
The proposed new provisions on 'going concern' fail to take account of normal business practices in the sector and would be very damaging.
The proposed definition of ‘documentary’ is currently too tightly drawn.
Expand the definition of R&D to include creative research and development.</td></tr>
</table>

Section	British Screen Forum proposals
Inward investment	Support pipelines to ensure new generations of skilled talent – see “Skills and production in the Nations and Regions” below. Support successful initiatives such as the Stage Space Support and Development (SSSD) initiative, and the broader work undertaken by the British Film Commission and other national and regional agencies to support inward investment. Ensure a speedy resolution to the concerns expressed by the sector around planned rises in business rates for film studios of 300% or more. Ensure the new Audio Visual Expenditure Credit (AVEC) financial incentives remain at least as internationally competitive as the Tax Reliefs they replace, and that ongoing concerns about the unintended consequences of some aspects of the new incentives are addressed: • The proposed new provisions on connected party transactions would be damaging and are unnecessary. • The proposed new provisions on 'going concern' fail to take account of normal business practices in the sector and would be very damaging. • The proposed definition of ‘documentary’ is currently too tightly drawn. Develop a strategy to underpin the value of UK content and services in international markets. Support domestic elements of the UK Screen Sectors that are working well and contribute to its scale and resilience.
Cinema	Short-term, temporary support measures to help rebuild audiences and aid recovery from pandemic: • Support UK cinemas through the post-Covid recovery period through a zero or reduced rate of VAT on cinema admissions until audiences recover. • Work with relevant industry stakeholders to consider whether there may be lessons to be learnt from time-limited schemes introduced in other countries. Longer-term measures: • Support the theatrical exhibition and distribution of UK films of a particular scale through: ○

Section	British Screen Forum proposals
	◦ a zero or reduced rate of VAT on cinema admissions to such films ◦ a tax relief which includes prints and advertising (P&A) expenditure as qualifying spend for such films. • Consider whether there may be lessons to be learnt from “culture vouchers” and other schemes used in other countries. that seek to improve young peoples’ access to arts and culture. • Given the positive spillover effects of visits to the cinema across retail spaces, ensure the Committee’s work is joined up with the Government’s strategy to regenerate high streets. The design of such schemes to be developed in close consultation with all relevant stakeholders.
Skills and production in the Nations and Regions	Take note of the industry-led Screen Task Force plan when it is published. Improve careers information, advice and guidance (IAG) for children and young people to raise awareness of and understanding about the true breadth of careers across screen. Reform the school curriculum to place significantly more focus on developing children’s creativity and digital skills during Key Stages 1-4. Increase collaboration between Government, education establishments and the Screen Sectors to coordinate more closely on the skills needs, to define “creative education” and shape vocational courses. Raise the profile, status and availability of technical training routes. Protect level 2 and level 3 vocational provision in Further Education that has been working effectively to aid progression into the sector. Reform the Apprenticeship levy to make it fit for purpose for the Screen Sectors Further develop the local skills and training clusters to support further access to training and jobs in mid and senior level roles, including for freelancers and those in small and micro businesses.

Section	British Screen Forum proposals
	Encourage partnerships between local screen sector businesses and academic institutions, and with regional economic institutions. Further support the development of creative hubs which can achieve the critical mass needed to be sustainable. Support sectors with high levels freelance working to better address mental health, bullying and/or harassment issues.
Artificial Intelligence	The IPO should: • Promote clarity, certainty and understanding about copyright and AI for developers and rights holders, including around datasets used for training purposes. • Commit to continuing to protect the open internet and to ensuring that those involved in the Creative Industries can continue to generate appropriate revenue from their creative work.

B. 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.[4]

Including under our former name – British Screen Advisory Council – we have played an important role over many decades in helping to ensure that the public policy framework enables the Screen Sectors to deliver the strong growth in GVA, jobs and exports it has achieved over recent years.

About This Submission

This submission has been drafted specifically for the call for evidence and has been developed in close consultation with our members. The submission includes evidence on film finance drawn from original research commissioned by British Screen Forum and due to be published at the end of 2023. While reference to that evidence is included in the body of the submission, any significant detail is set out in an Annex which we ask the Committee to treat as confidential until we publish the full research report.

This submission draws on "UK Screen Sectors: A Prospectus for Growth in an Age of Change", which British Screen Forum published in July 2022. Rather than duplicating the analysis from that report in this Call for Evidence, in some instances we summarise the relevant arguments and cross-reference the sections of the earlier report where the arguments are set out in greater detail.

[4] See: https://britishscreenforum.co.uk/ .

C. A sector to nurture

The Creative Industries – which the Screen Sectors, including film and HETV, are part of – have been an economic powerhouse over the last decade or more.

British Screen Forum's remit spans the Screen Sectors, which include film and television along with video games and other video-based media. They are a key part of the Creative Industries, which for more than a decade have been an economic powerhouse that has driven growth, employment and exports in the UK, outperforming the overall economy by substantial margins, and now three times larger than aerospace, defence, security and space combined. This was recognised by the Government in its Sector Vision for the Creative Industries presented to Parliament in June 2023, when it announced an ambitious target to grow the sector by £50 billion by 2030 and for the sector to support one million additional jobs.

The economic contribution made by film, high-end television and other parts of the Creative Industries is perhaps the most important reason why policymakers need to pay attention to the sector and help ensure its continued success. As the DCMS economic statistics do not isolate individual components such as film or high-end television, we present key economic trends for the Creative Industries below. The headline figures, based on the most recent statistics from DCMS, are that the Creative Industries contributed £123 billion to the UK economy in 2022 (in 2019 prices), equivalent to 6.1% of the UK's total Gross Value Added (GVA). They accounted for 2.4 million jobs in 2022 and generated £46 billion in exports in 2021 (the most recent year for which this data is available).

Creative Industries GVA, exports and jobs have grown rapidly for more than a decade

GROWTH IN GVA, EXPORTS & JOBS

£123bn GVA
(2022, in 2019 prices)

54% real growth since 2010

£46bn Exports
(2021)

210% growth since 2010

2.4m jobs
(2022)

53% growth since 2011

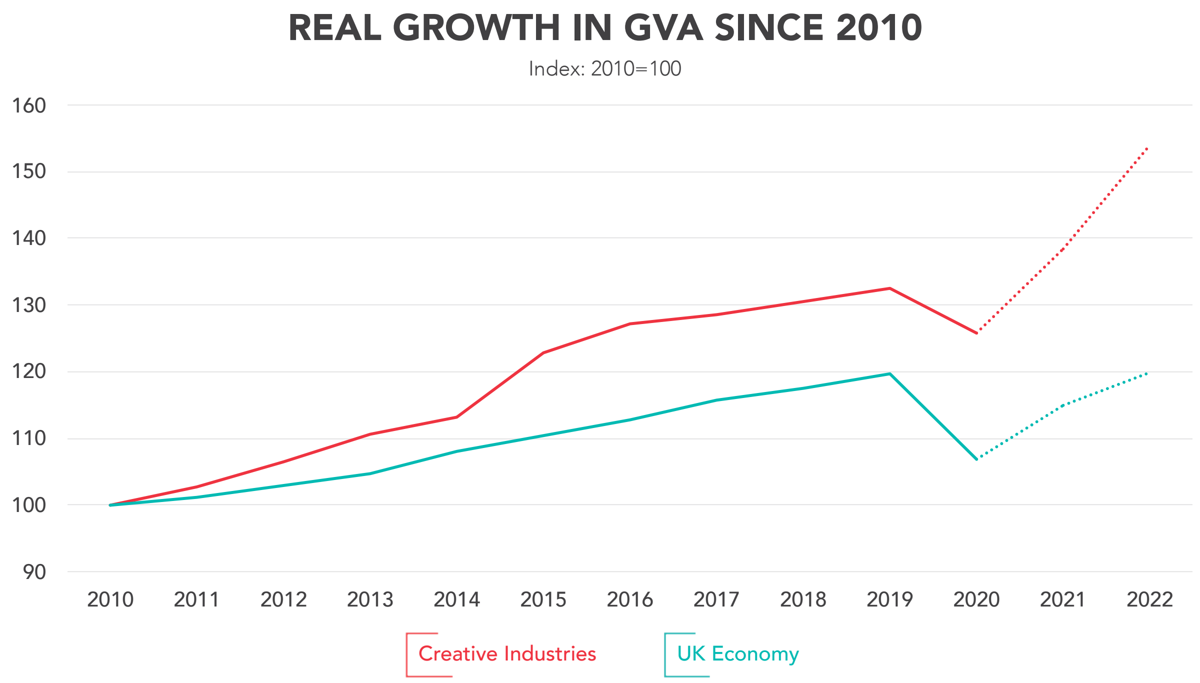
Data source: DCMS Sectors Economic Estimates (DCMS Official Statistics), British Screen Forum calculations (employment data set begins in 2011). In line with common practice, we are showing GVA in real terms (2019 prices) and exports in nominal terms (i.e., current prices)

Between 2010 and 2022, GVA for the Creative Industries grew steadily from £80 billion to £123 billion (both figures in 2019 prices; our estimated value for GVA in 2022 in current prices is £137 billion)[5]. This was equivalent to a real terms growth rate of 54% – exceeding the corresponding 20% real growth of the overall UK economy over the same period by a substantial 34 percentage points.[6] As a result of this steady growth, the Creative Industries surpassed 5% of total UK GVA in 2013 and passed another milestone in 2022, when they reached 6% of UK GVA.

[5] Sources: DCMS Sectors Economic Estimates 2020: annual GVA, April 2023; DCMS Sectors Economic Estimates: Monthly GVA (to December 2022), February 2023, British Screen Forum calculations. The Committee will note that the GVA figure is higher than the £108bn cited by the Prime Minister in his foreword to the Creative Industries Sector Vision. This is because the PM's figure is for 2021 rather than 2022, and is based on the monthly time series (in real 2019 prices) as the full monthly data set for 2022 had not been published at that point.

[6] Note that, as of the beginning of September 2023, annual data for GVA is available up to 2020, with only quarterly data available for 2021-2022. Following DCMS guidance that the monthly figures are less accurate than the annual time series and are best used to indicate growth trends (see DCMS Economic Estimates: Monthly GVA – Technical and quality assurance report), we have applied the annual growth rates implied by the monthly data for 2020-2022 to the annual GVA time series to obtain estimates for 2021 and 2022. Future revisions to the national statistics may impact the figures presented here, see footnote 2.

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

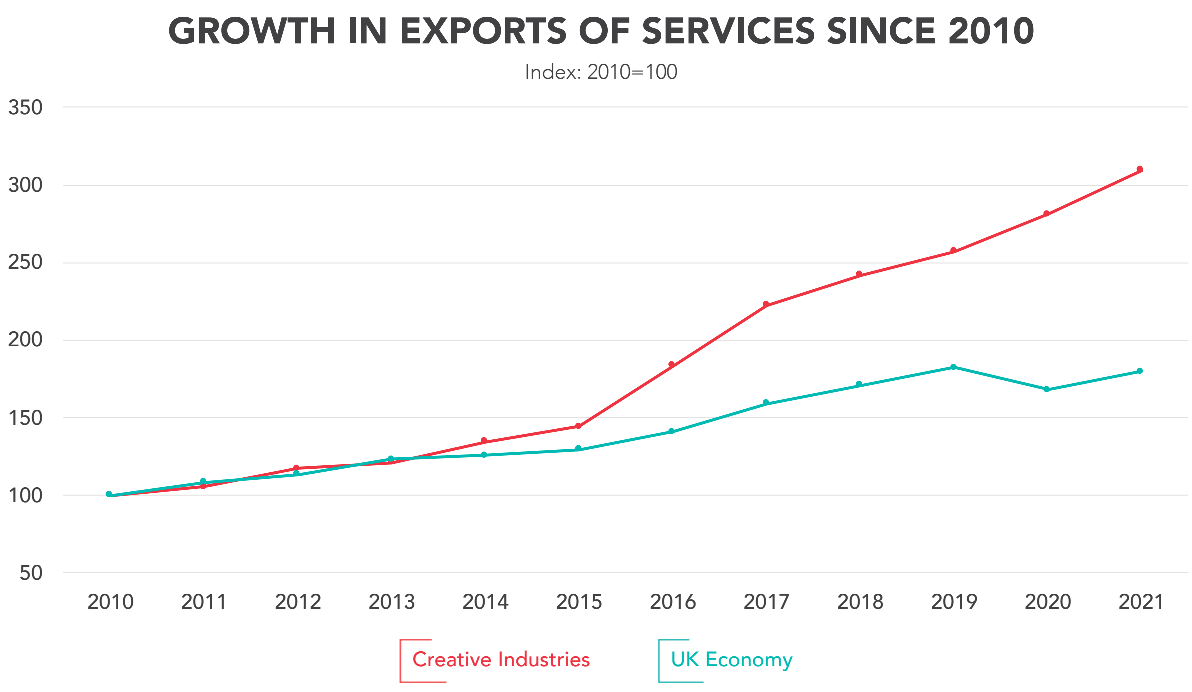


Data source: DCMS Sectors Economic Estimates. Figures for 2021 and 2022 are British Screen Forum calculations applying growth rates derived from monthly estimates which may be revised (dotted lines)

The Creative Industries are highly successful at selling UK content around the world. They generated £46 billion in exports in 2021 (the most recent year for which we have data), having grown by a remarkable 210% since 2010 (more than tripling in value, putting it another way). Total UK exports of services grew by less than half this rate, just 80%, over the same period.[7] Creative Industries exports have experienced positive annual growth every year since 2010, outperforming total UK exports of services in eight of the last 11 years. As a result, the Creative Industries have increased their share of UK exports from 8.5% of total exports of services in 2010 to a 14.6% share in 2021.

[7] Source: DCMS sectors economic estimates: Trade, 2021, August 2023.

Creative Industry exports have more than trebled since 2010, outgrowing total UK services in eight of the last 11 years



Data source: DCMS Sectors Economic Estimates

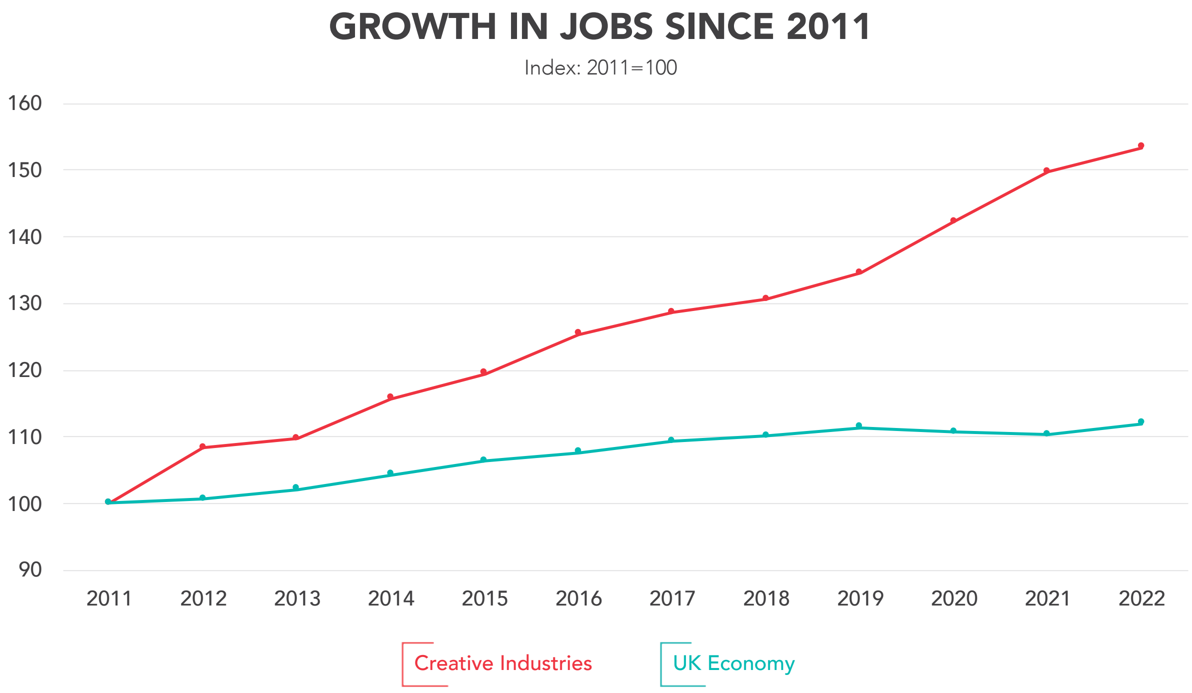
The Creative Industries also outperform the overall economy in terms of jobs growth. The sector employed 2.4 million people in the UK in 2022, equivalent to 7.1% of all UK employment.[8] This share of total UK employment has grown from 5.2% in 2011, an increase of almost two percentage points in just over a decade. The number of jobs in the Creative Industries rose by 53% over this period, more than four times the corresponding 12% growth in jobs across the whole UK economy. This growth in employment opportunities is a powerful indicator of the importance of the Creative Industries to the UK workforce.

The Creative Industries have also proven themselves to be key drivers of growth and renewal as we recover from the impact of the Covid-19 pandemic. Between 2019 and 2022, the UK economy experienced no growth at all: GVA in 2022 was just 0.2% higher than that in 2019 (in real prices): after collapsing in 2020 when the pandemic hit, the bounce-back in 2021 and 2022 only just managed to return the UK economy to its pre-Covid level. By contrast, over the same period, and despite the fall in activity in 2020 when lockdowns were introduced, GVA for the Creative Industries grew by 16% in real terms between 2019 and 2022.

In summary, GVA, exports and jobs in the Creative Industries have all outperformed the UK economy by a considerable margin since 2010, with growth in the sector continuing strongly over the last three years even when there was no real-terms growth in the total UK economy. This resilience even at a time of national (and global) crisis illustrates the economic strength and importance of the Creative Industries.

[8] Source: Economic Estimates: Employment in the DCMS sectors, January 2022 to December 2022, DCMS, July 2023.

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



Data source: DCMS Sectors Economic Estimates (data set begins in 2011)

Another important contribution that our sector makes to the health of the UK's economy factor is its high levels of productivity. According to research commissioned by the British Film Institute (BFI),[9] productivity across film, high-end TV and children's TV was 23% higher than the UK average in 2019, using GVA per Full Time Equivalent job as the comparator (these sectors had a GVA per Full Time Equivalent job of £82,000, compared to an average of £66,000 across the UK economy).

Whereas some other sectors seek to become more competitive by automating processes and reducing their workforce, technology cannot easily replace the creativity of actors, writers, directors and so on in the Screen Sectors – notwithstanding some of the claims made about artificial intelligence (see *Section J: Artificial Intelligence*). We believe the high levels of productivity in film and high-end television to be a combination of the workforce's high levels of training and education, the inherent importance of creativity to the sector, the UK's world-class studio and production infrastructure and the vibrant, competitive nature of the market. The continued success of the sector is dependent on these factors being sustained in the future, as we discuss in this submission.

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

The Productivity rate in film and high-end television is 23% higher than that for the overall UK economy

Data source: Olsberg•SPI / Nordicity

The success of the Screen Sectors – in both economic and cultural terms – is due in part to enlightened public policy. We need interventions that respond to market and technological changes to support the sectors in the years ahead. By driving further growth, public interventions can expect to generate positive returns on investment.

The Call for Evidence comes at a time when Government resources are being increasingly stretched – in both financial terms and in terms of the amount of Parliamentary time that can be devoted to any particular sector. It is important to answer the question: why spend time and resources on film and high-end television when there are so many competing calls for attention and support?

The data presented above show that the overall economic picture for the Creative Industries is very strong. We could not be more different from ailing industries that once played an important role and which now rely on government support merely to maintain a presence in competitive global markets, or to help people or communities transition to new industries – we are not the steel industry. Nor are we like industries such as automotive, whose GVA is approximately 10% that of the Creative Industries; or aerospace, defence, security and space, whose combined GVA is less than one-third that of the Creative Industries. Sectors such as these boast proud legacies from the UK's industrial past. But in a modern economy in which services are as important as goods, the UK's Creative Industries have proven themselves to be strong engines of economic growth and exports, and vital to our future, while the recent past shows them also to be resilient and largely self-sufficient.

This submission focuses to a large degree on economic matters, and growth in particular, for the simple reason that most indications point to the economy being the highest priority for UK Governments over the next decade. But it is important not to forget the importance of cultural value and soft power. As mass-market mainstream media, film and high-end television are extremely powerful in their capacity to provide benefits to society in terms of:

- access and inclusion,
- quality of life,
- providing a sense of community,
- encouraging citizens to engage in educative content, and
- strengthening cultural identities and promoting cultural understanding.

Moreover, given their prevalence and popularity all over the world, film and high-end television are uniquely placed to project soft power and UK values around the world. This soft power contribution is especially valuable right now, at a time of heightened geopolitical uncertainty, and is likely to remain so in the years ahead.

The Screen Sectors' success – and attractiveness to policymakers seeking to encourage economic growth – derives from the overall package that the UK offers, which includes world-class studio infrastructure, a skilled and experienced workforce, internationally competitive tax incentives, a stable economic base and a benign cultural and political outlook. Our sector is also highly attractive in that it is largely self-sufficient and can thrive without needing sensitive inputs like raw materials from other countries – a significant benefit given recent global events such as the Covid-19 pandemic, the conflict in Ukraine, and political tensions with China.

However, there is an inherent fragility in our position of strength, due to the unusual underlying economics of the Screen Sectors: they can, in part, be characterised as hit-based businesses with particularly high levels of risk and uncertainty from project to project. Films and high-end TV have a distinctive and asymmetrical cost profile, with very high fixed costs and low marginal costs. This risk profile and the need to bear the full production cost upfront makes them highly vulnerable, especially given the highly competitive global markets in which film and TV companies operate, and the international mobility of much production activity.

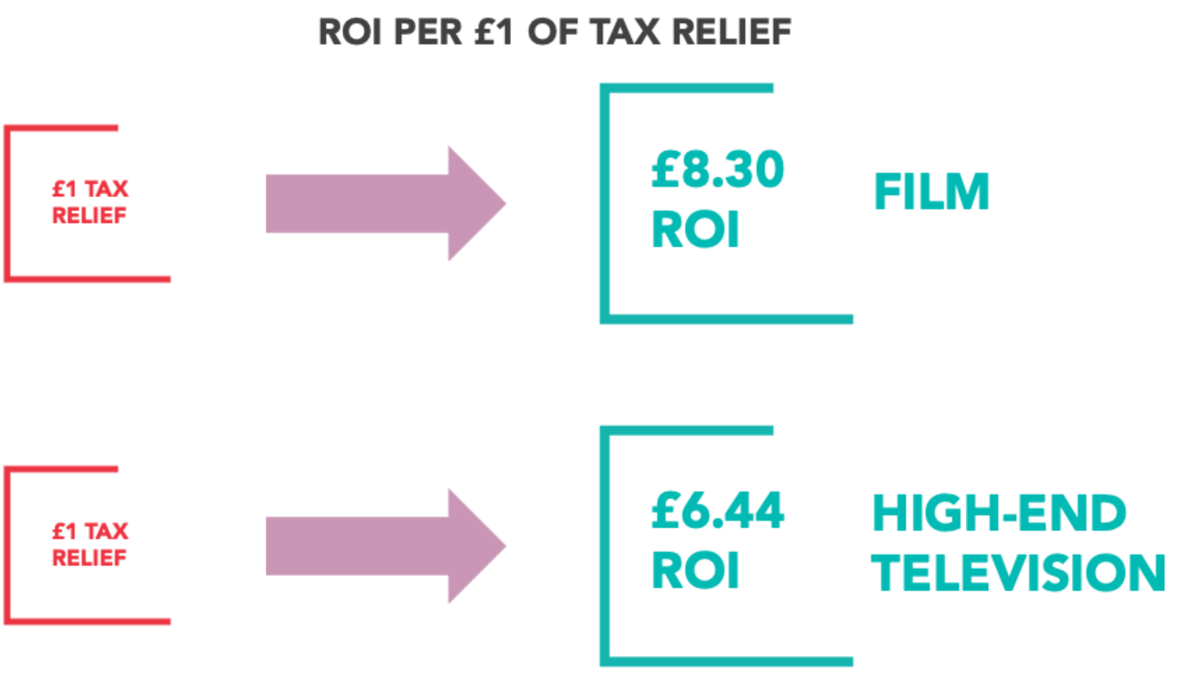
For this reason, the final component of the overall package that makes the Screen Sectors so successful is the long history of enlightened public policy interventions at the UK, national and local level, to address market failures and ensure competitive strength. Key UK-wide support measures include the following:

- 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) with strong public service remits and licence obligations that ensure high levels of investment in UK content across genres and support for the Nations and Regions,
- 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
- the introduction of the Film Tax Relief and subsequent Creative Sector Tax Reliefs (soon to become the Audio-Visual Expenditure Credits).

By providing further impetus to a successful sector, these interventions generate positive returns to the UK economy. For example, the Creative Sector Tax Reliefs have delivered returns on investment for each £1 of tax relief of £8.30 for film and £6.44 for high-end television.[10] These returns are striking given that screen sector production activity is often highly mobile and there is intense international competition to attract it.

The Creative Sector Tax Reliefs deliver high returns on investment



Data source: Olsberg•SPI / Nordicity

In our report in July 2022, "UK Screen Sectors: A Prospectus for Growth in an Age of Change", we urged the Government not to take the Screen Sectors for granted, and to provide the support needed so we remain globally competitive. We are delighted that the Committee is indeed not taking us for granted. Our "ask" was simple: please provide the support needed so we remain globally competitive, and the Government can deliver on its ambitious targets for the sector set out its new Sector Vision for the Creative Industries. Get it right and the prize is huge, in terms of stimulating economic growth and social value; but get it wrong and Screen Sectors such as film and high-end TV will fall far short of their considerable potential.[11]

As we discuss in the following Sections, some parts of the sector – such as exhibition – are facing short-term challenges relating to exogenous factors such as the recovery from Covid-19, high energy costs and the cost-of-living crisis. In addition, strikes in the USA by both

[10] Source: Screen Business 2021, Olsberg•SPI with Nordicity, December 2021.
[11] See: "Three quarters of UK film and TV workers currently out of work: Bectu survey", 4 September 2023.

writers and actors, have very significantly impacted UK production activity - in both film and HETV - in the first half of 2023, as is detailed in the confidential annex to this submission and in evidence from a survey by Bectu that suggests that 80% of freelance film and TV workers in the UK have been affected by the strikes to date. While the current downturn is temporary, its full consequences will last for longer, including for cinemas which may have fewer blockbusters to exhibit for an extended period of time. This underlines both the interconnected nature of the Screen Sectors (see next section) and the fact that the continued success of the sector should never be taken for granted.

In the near term, provided these specific challenges can be addressed, the Screen Sectors can continue to play an important role contributing to the Government's levelling-up agenda, driving growth and employment, and supporting Global Britain by growing exports, attracting screen tourism and projecting soft power.

Prospects are more uncertain over the medium- to long-term. Global opportunities are only going to grow: the rise of the global middle class will generate increasing future demand for audiovisual content and services, which the UK is well placed to supply, given the right support. But the UK is not the only country seeking to increase their share of global markets, and competition can be expected to intensify. Public policy measures have in the past adapted over time to fast-changing market, technological and other external factors. The UK's Screen Sectors will only continue to succeed with appropriate support from the Government in terms of targeted interventions that address the ever-changing market conditions.

D. An interconnected sector

British film and high-end television do not operate in isolation but are part of an interconnected whole within the Screen Sectors, with a rich ecology of companies and institutions that draw on overlapping pools of human and physical capital, funding and support. It is important that policymakers take a holistic view when designing policy responses.

Before we turn to the specific questions raised in the Call for Evidence, we would like to make an important overarching point: although they are distinct in some important respects, British film and high-end TV do not operate in isolation from each other or from other parts of the Screen Sectors but are highly interconnected. These interconnections are reflected in issues around the use of terms such as 'film', which is sometimes used to describe any stand-alone, feature length audiovisual content, regardless of whether it has appeared, or was intended to appear in a cinema, and 'independent'. We make no judgement here on the value of the different definitions, but in the interests of clarity our use of 'film' in this submission refers to content intended for theatrical release and 'UK independent film' refers to films which are certified as UK by the BFI, are intended for theatrical release and are produced without creative or financial input from the major US Studio companies and streamers[12] .

The extent of the interconnections is due to the fact that, compared to other countries, our Screen Sectors boast an unusually rich mixed ecology comprising companies that differ in size, ownership (public and private, domestic and international) and purpose. We have one of the most successful independent TV production sectors in the world, and a highly-developed public service broadcasting (PSB) infrastructure. 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.

All of this is supported by a policy framework that demonstrates a sophisticated understanding across UK Government and the devolved administrations of the economic, social, cultural, and soft power benefits provided by film and television. Competition between the different kinds of organisations, supported by these public measures, helps to drive innovation and growth, resulting in levels of domestic TV and film production and exports that are amongst the highest in the world.

While we recognise the reasons for the Committee to focus on particular aspects of the Screen Sectors in this inquiry, we should stress the importance of taking a holistic view when designing policy responses – otherwise there is a risk that narrowly-targeted responses may only partially address the underlying issues or may lead to harmful unintended consequences. This is especially important at a time when international markets are becoming ever more competitive: the UK is not the only country seeking to strengthen its

[12] This definition of UK independent film is not intended to exclude UK films which are made without creative or financial input from the major US Studio companies and streamers, but which are then picked up by such entities post-production (at which point a financial commitment may be made).

film and TV industries and match the UK's skills base and infrastructure to attract mobile productions.

The following sections in the submission are structured around the main themes identified in the Call for Evidence. In these sections we will, where relevant, flag the broader interconnected issues and make recommendations in this light. Before turning to these themes, it is worth highlighting upfront some of the key areas of interconnection in the Screen Sectors.

Range and scope of companies and institutions

Many companies and institutions have interests and responsibilities in more than one area of focus for the inquiry and in related areas which are not cited in the call for evidence (such as other types of TV or video games). In recent years there has been a marked trend for independent UK production companies previously focussed exclusively on film to enter into TV production[13], further underlining this interconnectedness.

Range of content

The interconnected activity takes place within a mixed screen sector 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.

All of this content has both economic and cultural value: for example, British TV programmes that do not count as "high-end" are popular with audiences, culturally important and make significant economic contributions. And high-end and other TV programmes do not operate separately from each other: much of the creative talent in front of and behind the screen in films and high-end TV will have developed their careers in lower-budget dramas, soap operas and other types of TV programmes.

Inputs: human and physical capital

Many sector resources are drawn from shared pools, especially in relation to creative talent, production crew, production facilities, and VFX and post-production services. This means that the challenges we identify in this response in respect of skilled labour and production studios apply more broadly to all TV and other forms of audiovisual production. If a downturn in one area - as we have seen this year in relation to the commissions of unscripted TV programmes or activity affected by the US writers and actors strikes - results in people leaving the industry, the pool of available human capital is diminished for all parts of the Screen Sectors[14].

[13] See confidential annex for evidence of this trend.

[14] A Bectu survey (4 September 2023) has revealed that three quarters of workers in UK film and television are currently out of work. The survey cites the US actors and writers strikes as the root cause. According to a survey undertaken by Bafta, a third of freelancers have thought about leaving the industry in the wake of the commissioning slowdown.

For this reason, many of the issues that we discuss in the following sections – such as skills shortages, competition from other territories, and the potential impact of AI – have cross-cutting significance, affecting not only British film and high-end TV, but also the broader Screen Sectors.

Funding and support

As we discuss in later sections, the means of funding films and high-end TV is extremely complex, and for many projects requires a patchwork of public and private funding sources from different territories covering different release windows and with different strategic and creative objectives.

The UK's public service broadcasters are a vital node of interconnection. They are responsible for a large proportion of overall production of domestic UK television content, and have responsibilities to ensure their commissioning is spread across the Nations and Regions. They commission high-end TV shows as part of their overall programming mix. Increased production costs mean that they increasingly rely on US studios or streamers as co-production partners.

In the film space, the BBC and Channel 4 have long been, and remain, amongst the most important funders of UK independent film. However, the number of films they help finance has fallen significantly in recent years as they have faced budgetary pressures. As with high-end TV, their funding of UK independent films is often in partnership with US studios or streamers.

Boundaries between types of content

A seemingly dry methodological detail, but one that turns out to have practical significance, is that the line between an independent film and a single high-end TV feature length programme is blurring. Some projects that start out as one thing end up being something else.

For example, in recent years some UK independent films have secured exclusive streamer buy-outs rather than pursuing a planned windowed release strategy starting with the theatrical window. Conversely, 'films' commissioned by streamers for their VOD services (without a theatrical release) are classed as HETV. The distinction remains important, however, especially when considering issues facing cinema exhibitors.

Distinctions are blurring in creative terms too: film was once considered to be the more prestigious artform, and the most successful film directors, writers and actors would not typically choose to work in TV. Higher budgets and higher levels of ambition in HETV have blurred, if not completely removed, these barriers, with the biggest film stars increasingly also appearing in HETV productions and the highest-quality TV shows are now regarded by many as matching film for their creative quality.

Interconnections between production and exhibition

The Covid-19 pandemic has exposed and exacerbated a number of challenges for the exhibition sector, which has been hit especially hard since we first went into lockdown. Some of its most urgent challenges are specific to the exhibition sector, such as increases in cinema operating costs.

But cinema exhibition does not stand apart from the issues identified above, and some of its challenges are also directly related to UK film production. UNIC has cited the following as significant current challenges for the sector: fewer major US films released in cinemas combined with a lack of local blockbusters, a number of local productions with little commercial potential, and competition with streamers to acquire and show the best content.

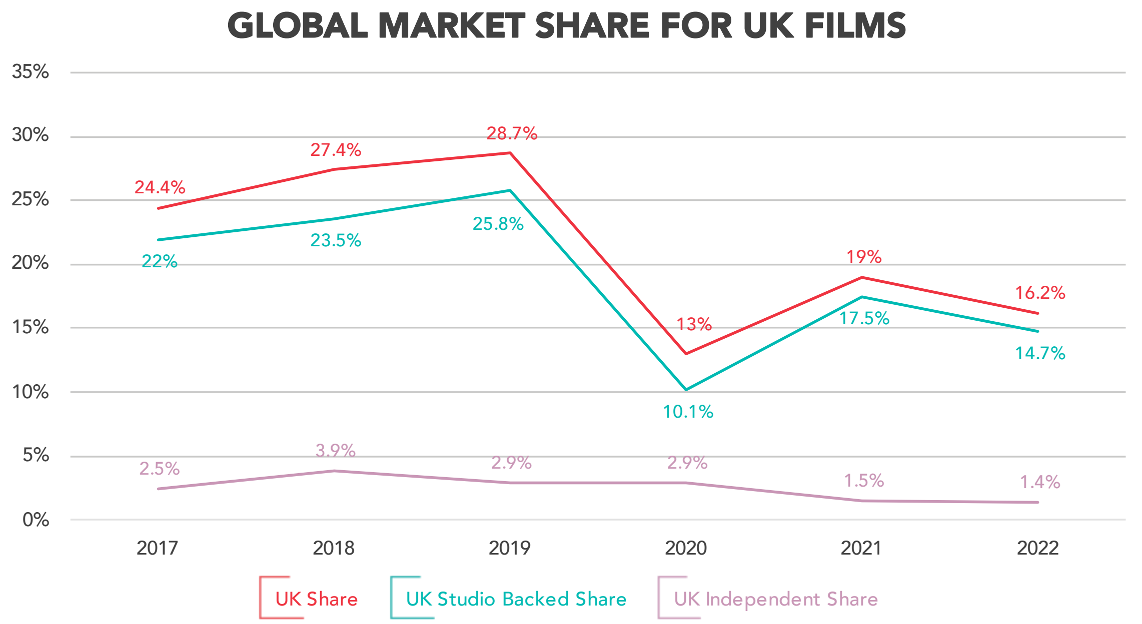
It is also important to note here the important role played by distributors, who form the vital bridge between production and exhibition. While not mentioned in the call for evidence, we would encourage the Committee to engage with distributors as part of the inquiry, given the need for an holistic approach.

Interconnections between domestic and inward investment, and between HETV and TV more generally

HETV attracts a high profile and is the category of television that attracts the greatest amount of inward investment activity. However, it is important to appreciate that HETV is just part of the overall TV industry, and that commissions from the UK's public service and commercial broadcasters are also substantial in value. And of course, in terms of production, HETV does not operate in isolation from the rest of television: it draws on the same talent pools, and many (if not most) people who work on HETV programmes will have started their careers on smaller domestic programmes.

Turning to film also, it is important to recognise that independent and inward investment films are part of the same overall film market. In production terms, this means that all productions are drawing on the same talent pools and physical studio infrastructure.

Studio-backed films represent the majority of UK film's global market share



Data source: BFI

In audience terms, when considering the success of UK films at the box office, the headline figure each year – 16.2% of global box office in 2022 – is dominated by inward investment films. UK independent films' share in 2022 was just 1.4%, after fluctuating within the 1.5-3.0% range between 2017 and 2021.

Wider connections

Intellectual property created in the film and TV sectors is often extended into other sectors including video games, toys and other merchandise. In addition, production activity in a location drives revenues for a wide range of ancillary goods and services including hospitality and transport.

Inclusivity and sustainability

There are common issues that need to be addressed – both at the individual company level and through cross-industry bodies – in terms of building a more diverse and inclusive workforce and addressing some of the challenges faced by freelance workers: the Screen Sectors are highly reliant on freelancers and it is vital that they can access the training that they need and can have viable careers, given that they do not have the protection provided by permanent employment in terms of guaranteed income and career planning and training.

Another common issue across the Screen Sectors – especially in production – is the importance of working towards 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. New technological solutions, such as virtual production, can help reduce the need to send large film crews to make TV shows and films overseas in some instances. For production taking place within the UK, studios have adopted initiatives such as the following to increase their sustainability:

- embedding of sustainability in business decisions across organisations,
- sustainable sourcing of materials,
- sustainable procurement policies,
- strategies to reduce movement of people and kit,
- green energy solutions (such as solar arrays) and commitments to 100% renewable energy, and
- recycling or re-purposing of sets and commitments to send 0% of waste to landfill.

E. UK Film

Any analysis of UK film must recognise that the sector has two interconnected, but very different parts: a large and thriving inward investment component, and a much smaller and less healthy domestic independent component.

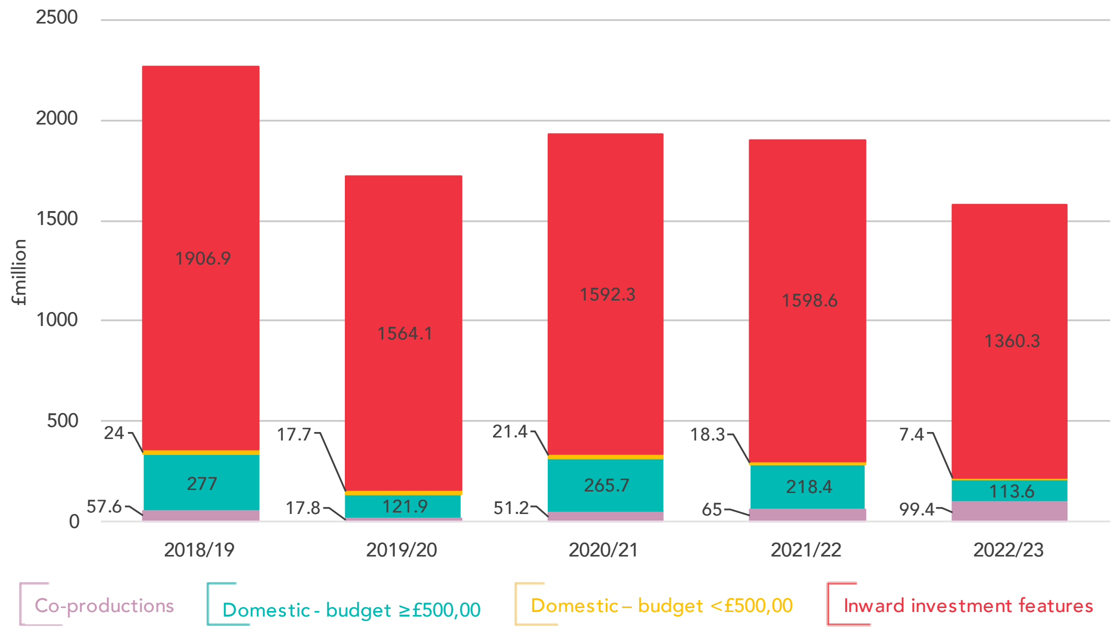
Although, taken as a whole, UK film production spend has seen a decline compared with a pre-pandemic peak in 2018-19 and a post-lockdown 'catch up' boom in 2020-21 and 2021-22, the figures for H1 are still the fourth highest in the last decade and suggest a sector in overall rude health. This success has been achieved despite various challenges, including the significant impact of the ongoing US strike action, the implications of AI, and increasing competition from other territories.

However, the headline figures obscure a crucial truth, which is that there are two very different types of film production activity in the UK: on the one hand, that which is funded through inward investment (primarily by the major US Studios and streaming companies); and on the other hand, that which can be categorised as domestic, which can be defined broadly as UK films intended for theatrical release and produced without creative or financial input from the major US Studio companies and streamers. The overall healthy state resides entirely in the inward investment side of film production, which accounts for 86% of UK production spend, and disguises the fact that the domestic film sector, which accounts for just 6%, is in crisis[15].

This crisis has damaging consequences which extend far beyond the domestic independent sector, affecting the talent discovery and development pipeline on which the whole production sector (including inward investment) depends, and the availability of commercially attractive domestic films which are a key part of a healthy exhibition sector.

[15] Source: BFI – Film and other screen sectors production in the UK Q2 2023. The remaining share of production spend is accounted for by co-productions.

UK spend (£ million) of features produced in the UK, rolling years: July to June



Source: BFI

Issues relating to inward investment films and how to maintain and enhance the UK's position as a leading destination for such activity are set out in Section G. In this section we consider issues around domestic UK film: why it is in crisis, why it matters and what can be done to improve its prospects.

Unlike the TV model, in which programmes are generally commissioned by a broadcaster or streamer, theatrical films are generally financed through a combination of equity investment, pre-sales of the right to distribute in given territories, public funding (e.g. from funds run by the BFI, Screen Scotland, Creative Wales, BBC Film or Film4), Film Tax Relief (soon to become Audio-Visual Expenditure Credits) and 'Gap' funding (a one-time single loan taken out against future sales to fund the "gap" in the financing secured to date). Crowdfunding is sometimes cited as a source of finance, but research commissioned by the British Screen Forum and due to be published later in 2023 suggests that this has not become a significant component[16].

On the revenue side, most UK independent films still operate a variation of a traditional theatrical release model: the film is first exhibited in cinemas before passing through a series of sequential exploitation windows, including transactional digital and packaged media, subscription and pay-TV, and free-TV. Securing a theatrical release is important in driving up the value of the film in subsequent windows, acting as both a mark of quality and appeal, and raising profile through film reviews and marketing for the theatrical release. Release strategies have become more adaptable in recent years with experimentation in terms of sequencing, the length of windows, and pricing. It is also important to note that some UK

[16] See Confidential Annex.

independent films in recent years have been sold on an exclusive basis to streaming services, forgoing all other revenues. These deals are typically structured on a "cost plus" basis (a fixed percentage uplift to the film's production budget). This guarantees a financial return for investors, but at the cost of preventing the film maker from benefitting financially if the work is a hit with audiences.

The long term decline in UK domestic film has been well documented over recent years.

In 2017, the Olsberg•SPI report *The State of the UK Independent Film Sector*[17] concluded that:

- *The UK is a world-renowned film hub, and the introduction of the current FTR incentive in 2007 has underpinned robust expenditure growth. However, this significant success has obscured worsening conditions in the UK independent film landscape.*
- *Since 2007, the independent film business has been buffeted by unprecedented difficulties. Some are permanent structural changes, such as digital disruption and increasing competition for audiences. Other difficulties are cyclical, such as the global financial crisis and uncertainty around digital models.*
- *The net effect has been the reduction of international market value for UK independent films. This is estimated to be a decline of around 50% since 2007, with the scale of reduction related to project type and commercial appeal. This has created a gulf in finance plans at a time when other types of financing have become more difficult to secure. There has also been pressure from rising costs.*
- *The reduction in value is due to a confluence of factors, including the fact that many international buyers no longer have the safety net of strong local physical video and television markets, so are more focused on projects with recognisable commercial elements.*
- *As a result, there has been pressure on budgets for many projects budgeted at under £10 million. Projects budgeted above £10 million have been less affected, reflecting a clear level of demand for commercial independent projects with international appeal.*
- *Despite this, only 90 films were produced above £10 million between 2007 and 2015, representing just 3.4% of total production. Production is bottom heavy, with microbudget projects under £0.5 million dominating output. In total, 1,612 films were produced at this level between 2007 and 2015.*
- *These trends have exacerbated existing issues around production company sustainability. Production companies face pressure to defer fees, there are difficulties in retaining downstream revenues and producer remuneration can be limited. This is linked to increased complexity in closing finance, with the intricacy of many models requiring a similar volume of expensive legal work as higher-budget projects.*
- *The sector is being impacted in different ways. Commercial independent films are in demand in the international market, while there has also been a rise in single-source financing as some distributors and sales companies move closer to production to*

[17] See: "The State of the UK Independent Film Sector" (2017).

secure the best projects. However, for lower-budget projects with new talent, international sales have become much more difficult to secure.

- *The lack of production company sustainability has potential limitations for the future economic and cultural impacts of the sector – which can be highly significant. The situation contrasts sharply with the UK television sector, which has seen the development and sale of production companies in recent years.*
- *The lack of stability in the independent UK film sector is underlined by the number of film producers opting to expand (either in part or in full) into television drama.*
- *The UK independent sector has a proven ability to develop new talent that can reach global prominence, helping underpin the UK's attractiveness to global producers. Polarisation between commercial and low-budget projects has led to difficulties at the mid-range, which could serve to limit the UK independent sector's ability to continue developing major talent and films*

Since 2017, the negative trends evidenced in the Olberg•SPI study have intensified and in 2022 Alma Economics published *An Economic Review of UK Independent Film*[18] which found that that inflation-adjusted revenues for the independent film sector in the UK have consistently declined through the previous decade, in large part driven by stagnating box office sales and a sharp decline in global sales of packaged media products. The fall is dramatic: taking together all revenue streams (UK office, international box office, packaged media, digital media - including pay TV-, and free-tv) the total return to the UK independent film sector fell from around £1bn for films shot in 2013 to a little over £200m for films shot in in 2020.

While revenue from digital media has increased significantly over recent years, a trend which accelerated through the Covid-19 pandemic, these revenues have not been sufficient to counterbalance the wider trend of decline. In some years the downward trend has been masked by a small number of commercially very successful films, but the trend over time is clear. The Alma Economic review concluded that *"the sector faces a continued decline in revenue in the short- to medium-term should historical trends persist, and [ ] this trend could be exacerbated further should the exhibition sector not recover to at least pre-pandemic levels of audiences, and cost pressures worsen further amid significant recent rises in the costs of key production inputs."*

Research analysis commissioned by the British Screen Forum and due to be published later in 2023 shows that, in production spend, the trend towards HETV being the increasingly dominant component is even more pronounced among domestic content than among inward investment content, and that the number of films made with foreign money (inward investment and co-production) exceeded the number of purely domestic films for the first time in 2022. Domestic film production spend is now at an all- time low and the budget for a domestic film is typically 23 times lower than for an inward investment film, with inevitable consequences for its ultimate box office appeal. The number of domestic films funded by public service broadcasters has fallen away sharply in the years since 2017, and among the small number of production companies making both film and TV the balance of their activity has shifted from majority film to majority TV. Further details of some of the findings of this

[18] See: "An Economic Review of UK Independent Film" (2022).

research can be found in the Annex provided to the Committee in confidence (and in advance of publication of the full report later in 2023).

It is worth noting at this point that the underlying economics of the Screen Sectors are unusual in a number of ways, and the inherent vulnerabilities are felt particularly acutely in the independent film sector. They are hit-based businesses, with particularly high levels of risk and uncertainty from project to project. High-end content in general – and film in particular – 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. This 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 TV sector, 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 given us the US film studios and has been a rationale for several waves of M&A activity in the sector.

However, in the world of film, very few independent UK film production companies have managed to achieve any real scale. There are notable exceptions, such as See Saw, but most remain small or micro businesses operating across a small slate of projects and focussing significant resources on a single project or a small slate of projects at any one time. They are therefore particularly vulnerable to changes in the marketplace or in public support. While it is tempting to conclude that policy should therefore be aimed at creating more film production companies with scale, this ignores the fundamental differences in the business model between film and TV, and the fundamental difference in the scale of the domestic markets in which UK and US film production companies operate. The preponderance of small-scale companies in the independent UK film production sector reflects those differences and also, perhaps, a cultural preference for a distinctive, authorial style of storytelling. Public policy to support independent UK film should work with the grain of the long-term structure of the sector.

The key issue is not just around how to create film production companies of scale, although that is clearly a desirable outcome, but rather how to enable the production of UK films that can at least recoup their costs and which would help to meet the needs of cinemas, which have identified a shortage of commercially viable domestic films as a key drag on recovery from Covid-19 and a strategic long term risk (see *Section H: Cinema*). While bigger budgets do not necessarily translate into bigger audiences, it is clear that projects with, for example, recognisable above the line talent (screenwriters, producers, directors and principal cast) have a much better chance of commercial success than those that do not[19]. Such projects typically require budgets significantly higher than those on which the vast majority of domestic UK films are made. As revenues accruing to independent UK films have fallen and production costs have risen dramatically over recent years, it has become increasingly difficult to secure the funding required to make a film such as *The Railway Man*, which was made for circa £12m in 2013, was co-written by Frank Cottrell Boyce, and starred Colin Firth, Nicole Kidman and Stellan Skarsgård. Indeed, in the last three years (2020-22) only 7 domestic films have been made with a budget in excess of £10m (see confidential annex). Policy in this area needs to chart a path towards a more prosperous and sustainable future.

The British Screen Forum study also found that domestic films which had secured the backing of specialist financiers or which were made with a sales agent attached had significantly higher budgets than those without. After significant drop-offs following changes to the EIS/SEIS schemes in early 2018 and after the first year of the pandemic in 2020, the number of films with participation from specialist financiers has recovered to some degree and such investors have shown increased willingness to back bigger budget movies. However, this has not translated into the volume of such films required to support a healthy independent film sector or to provide cinemas with the range and quantity of domestic titles they are seeking.

This matters, not just because domestic independent films contribute so much to cultural life in the UK, and to UK soft power abroad, but because it presents a clear threat to the health of the UK screen sector as a whole, and therefore to the achievement of the Government's ambitious aim, set out in the Creative Industries Sector Vision presented to Parliament by the Culture Secretary in June 2023, to grow the creative industries (of which film and HETV are a key part) by an extra £50bn by 2030. This is because the independent film sector is a key development ground for the talent on which the broader sector depends. British Screen Forum research published in 2019 found than no fewer than 41% of the career credits of those working in key production roles on inward investment films were achieved on independent films[20]. Given the importance of our world class talent pool in attracting highly mobile inward investment production activity, it is difficult to see how the UK's extraordinary success in recent years can be maintained over the longer term, let alone enhanced, unless that talent pipeline is fixed. Similarly, the theatrical exhibition sector is clear that a pipeline of commercially viable domestic films is important for returning audiences to, and growing them beyond, pre-pandemic levels, arguing that comparable territories with a wider range and greater volume of commercially viable domestic films have recovered audiences at a faster rate than those with more reliance on international blockbusters.

The challenge of how to enable the production of UK films that can compete in the marketplace, and which would help to meet the needs of cinemas, requires action throughout the value chain, from project development, though finance, production, distribution and exhibition.

[19] The Alma Economic report found that, excluding micro-budget films (i.e. those with budgets below £500,000), those with budgets in the range £10m - £12.5m range had the best chance of success, with a typical box office to budget ratio of greater than 1.

[20] See: "Local Heroes and Inbetweeners: the contribution of the independent British feature film sector to the UK audiovisual production industry", 2019.

The scale of the challenge is illustrated by the fact that a single episode of a major programme on a leading streaming service can cost upwards of $10m[21], while the average budget for a UK independent film (excluding co-productions) is under £2m[22], and the entire budget for BBC Film is £11m[23] which it typically uses to support 15 films per year. Given the funding and revenues pressures that have developed in recent years, independent film makers are unlikely to see a significant return except in the most exceptional circumstances and find it increasingly difficult to retain IP rights. Making high quality UK independent films of the type that we used to make, which can satisfy modern audience expectations in terms of production values and high profile talent, and which would meet the needs of cinema exhibitors (as detailed in *Section H: Cinema*), has become extraordinarily difficult.

Looking first at project development, as a manufactured product, film has an unusual profile. It generally lacks standardisation and each new project will normally require channelling considerable resources to support upfront creative work before it can be presented as a 'package' to potential financiers. The first risk exposure therefore pre-dates production by months, years, sometimes decades. Resources have to be found from somewhere to option and acquire rights, finance and commission scripts, develop mood or look boards, production design concepts, storyboards, animatics and pre-viz materials, consider casting options, approach talent, and look into location choices. All this without any initial guarantees that the market will eventually show sufficient interest in the pitch elements assembled painstakingly by creative people, with upfront costs that can all too easily run into five or six figures. Research commissioned by British Screen Forum into project development in the Screen Sectors and published earlier this year[24], included an in-depth look at project development in independent UK film. It concluded:

"This report largely corroborates certain generalisations in the industry about the challenges of development as crystallised in the familiar phrase "development Hell". The [independent] feature film […] sector [……] suffer[s] from a twin handicap: on the one hand, a high – and rising – demand for scarce talent, with attendant inflationary effects. On the other hand, chronic and persistent difficulties in raising sufficient cash to cover the costs of early development tasks.

It is a persistent paradox of development that an activity which not only occupies the greater share of a producer's professional time but is also deemed to be strategic, should so frequently be mired in financial penury.

The report argued that projects were often 'undercooked' in development in a rush to unlock funds linked to production. It went on to note that "….*market failure has proven to be most pronounced, in independent feature film development*" and argued that "*a discussion should be had about whether or not there is a need for the widely acknowledged importance of development to be fully reflected in public sector funding priorities. Our study concludes tentatively that public sector resources (e.g. grant in aid and Lottery) for*

[21] See: https://www.statista.com/statistics/1249573/most-expensive-netflix-original-series-production-cost-per-episode/

[22] See: Confidential Annex, ibid

[23] Source: BBC

[24] See: "Hell and High Water: a study on project development in the UK screen sectors", 2023.

project development may be below 10%, not counting the contribution of public service broadcasters."

While recognising that issues with independent film development are inseparable from equally chronic issues around access to capital for production itself and commercial profitability, this inquiry provides a timely and important opportunity to think strategically about the place and weight of development in support for our domestic film sector and the connection between best practice (and best policies) and the overall market performance of UK independent film. British Screen Forum will be doing further work this Autumn on policy to support independent film development and will be happy to share any conclusions or recommendations with the Committee at the appropriate time.

Turning to finance, it is worth noting that reductions in funds - including for development - received by UK filmmakers from European public agencies have not fully been made up for by the Global Screen Fund, which is administered by the BFI on behalf of DCMS. Looking at the quantum of support from public bodies to independent film - not just across development - the picture is also one of declining funds. Available BFI National Lottery funding from 2023–2026 will be around £45m a year. This is approximately 10% lower than during the previous three year period[25]. The number of films financed by the PSBs is also at half its 2017 peak[26]. As noted above, these falls have come during a period when the value of international sales has continued to struggle, having fallen by 50% in the decade to 2017[27].

The impact of the decline in public funds and international sales revenues to finance independent UK film has been exacerbated by the changes to the EIS and SEIS schemes introduced in the 2017 Finance Act and implemented in 2018. These schemes had previously been a key driver of equity investment in independent UK film, most commonly through funds managed by specialist investment companies. When the new 'risk to capital' test was being introduced, 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 in response to our engagement, and our own research[28] suggests that finding by specialist investors has now increased from a post-change trough, such investment is still significantly

[25] See: [BFI National Lottery Funding Plan 2023-26.]()
[26] See confidential annex.
[27] See "[The State of UK Independent Film Sector]()", 2017, ibid.
[28] See confidential annex.

short of the position that existed prior to the change. 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 much less support to this sector.

Looking at production, the extraordinary - and very welcome - boom in inward investment activity over recent years, combined with inflation across the economy as a whole, has pushed costs steeply upwards, posing further problems for independent film makers already struggling to raise finance. Looking at over 2,000 independent UK films made between 2010-2021, Alma Economics[29] noted the following:

"The impact of rising production costs includes increased pressure on independent film production budgets, with this analysis indicating either flat or slightly declining production budgets for independent films in the UK when adjusted for inflation. These two trends are reportedly leading to reduced returns for investors and film-makers, with independent productions being able to commit fewer inputs for a given production budget, reducing the draw of films to audiences compared with studio-backed productions (whose budgets have been increasing consistently through the previous decade according to this research)."

The independent UK film sector is clearly caught in a vicious circle in which declining revenues result in lower investment which results in less competitive films which generate lower revenues. Consequently, it is not surprising that only 10 producers have succeeded in making five or more domestic UK films since 2014[30].

This cycle will not be broken without an appropriate public policy response which both recognises the distinctive characterises of the sub-sector and its importance to the health of the broader screen sector ecology (including inward investment and theatrical exhibition) and has sufficient scale to allow film production companies to break free of the current circle.

Such a response could include a combination of measures, including:

A. **Introduce an enhanced rate of Audiovisual Expenditure Credits for UK film projects of a particular scale.**
   Without undermining the integrity of the proposed expenditure credits that are replacing the existing Creative Sector tax reliefs, an enhanced rate for films within a particular budget range should be introduced. This would provide additional targeted benefits to independent British films with a reasonable prospect of commercial success. Precedent for an enhanced rate in areas of particular market failure exist in relation to the Treasury decision taken earlier this year to introduce higher rates for children's tv programmes and animation. As we described in Section C: A Sector to Nurture, the film tax relief has a proven track record of delivering a return on investment of £8.30 for every £1 of relief and the expenditure credits that

[29] Ibid.
[30] Ibid.

replace them would be an effective, efficient way of delivering targeted extra support for UK independent films.

B. **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[31].**

C. **Ensure ongoing support for the PSB system so it can continue to invest in UK independent films.**

D. **Review the effect of EIS/SEIS changes on the Screen Sectors and take appropriate remedial action.**

E. **Expand the 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[32].

F. **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[33]. Such a project would complement the functionality offered by the Data Hub recently launched as part of the work of the Global Screen Fund[34]. British Screen Forum has commissioned a scoping report on this Data Centre proposal which is due to be delivered in October[35]. We would be happy to brief the Committee further at that time.

G. **Support the theatrical exhibition of UK films of a particular scale through:**
   - **a zero or reduced rate of VAT on cinema admissions to such films**

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[31] Some would also argue for a review of funding parameters, for example to provide more support for 'commercial' films and/or for project development.
[32] Further detail on this is set out in our Prospectus for Growth Report, ibid.
[33] Further detail on this is set out in our Prospectus for Growth Report, ibid.
[34] https://www.bfi.org.uk/news/uk-global-screen-fund-data-hub .
[35] Any such initiative would need to offer net value to the SMEs which make up the majority of companies involved in the UK independent film sector.

- **a tax relief which includes prints and advertising (P&A) expenditure as qualifying spend for such films.**

Properly designed in close consultation with all relevant stakeholders, such schemes would incentivise exhibitors and distributors to showcase and promote applicable films and thus expose them to a wider audience. As with measure (A) above, appropriate targeting could best be achieved through defining a certain budget range at which the benefit would apply to UK qualifying films. A VAT reduction would mirror the action taken for all cinema admissions during earlier stages of the pandemic and could be introduced in concert with a time-limited VAT reduction for all cinema admissions while cinemas rebuild audiences to previous levels[36]. A tax relief scheme which included prints and advertising (P&A) expenditure as qualifying spend would support increased advertising and marketing budgets for applicable films and thus making them more marketable in domestic and international markets. This would enable such films compete at a higher level in the market, and subsequent increased investment would help engage wider audiences, boost film release numbers and scale, and ultimately benefit the available future content pipeline for exhibitors.

In relation to project development, in particular, British Screen Forum intends to host an industry summit in late October to discuss further ideas to better support this vital part of the life cycle of an independent UK film. We will be happy to share any conclusions from that process with the Committee in due course.

[36] See also section H.

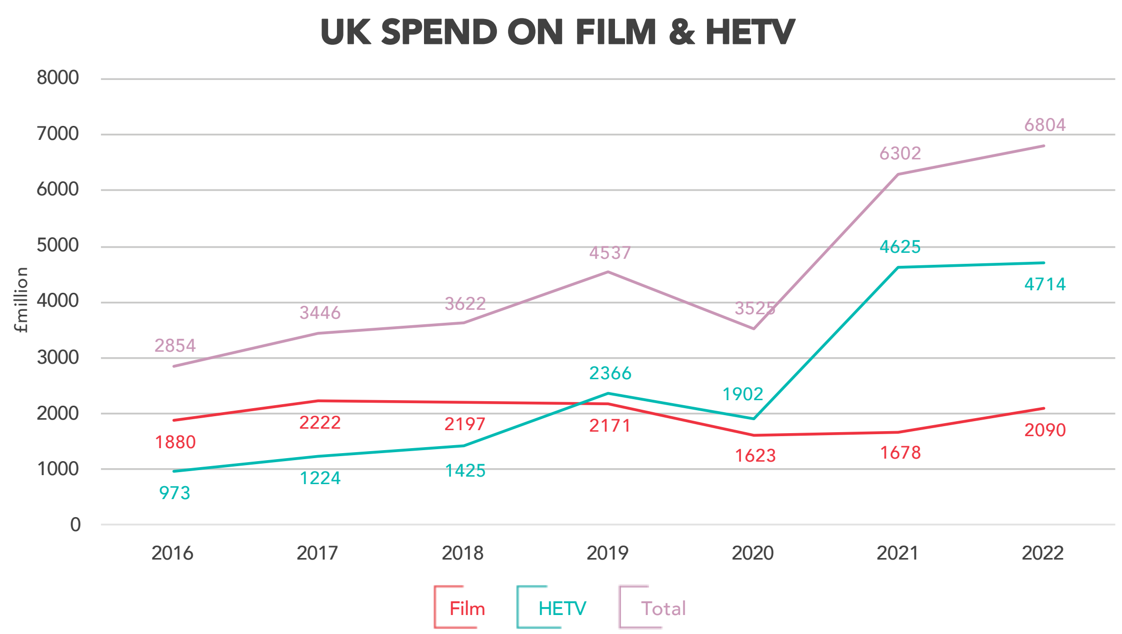
F. UK High-end Television (HETV)

Total production spend on HETV in the UK overtook film in 2019 and was worth more than £4.5 billion in each of the last two years.

The global market for HETV production has grown massively in the last five years as competition amongst the global streamers and US studios to make high-quality dramas and other high-end content has intensified. Building on its long-standing success in attracting inward investment to films, the UK has capitalised on this – supported by the specific tax relief for HETV that was introduced in 2013 – bringing large volumes of HETV projects to our studios in recent years.

Between 2016 and 2018, HETV spend in the UK was worth around £1-1.5 billion per annum and represented around 30-40% of the combined UK production spend on film and HETV. Just before the pandemic, spend on HETV rose to over £2 billion in 2019, overtaking film for the first time, and despite the dip in 2020 has continued to rise quickly. By 2022, after more than quadrupling in value since 2016, total HETV spend reached £4.7 billion.

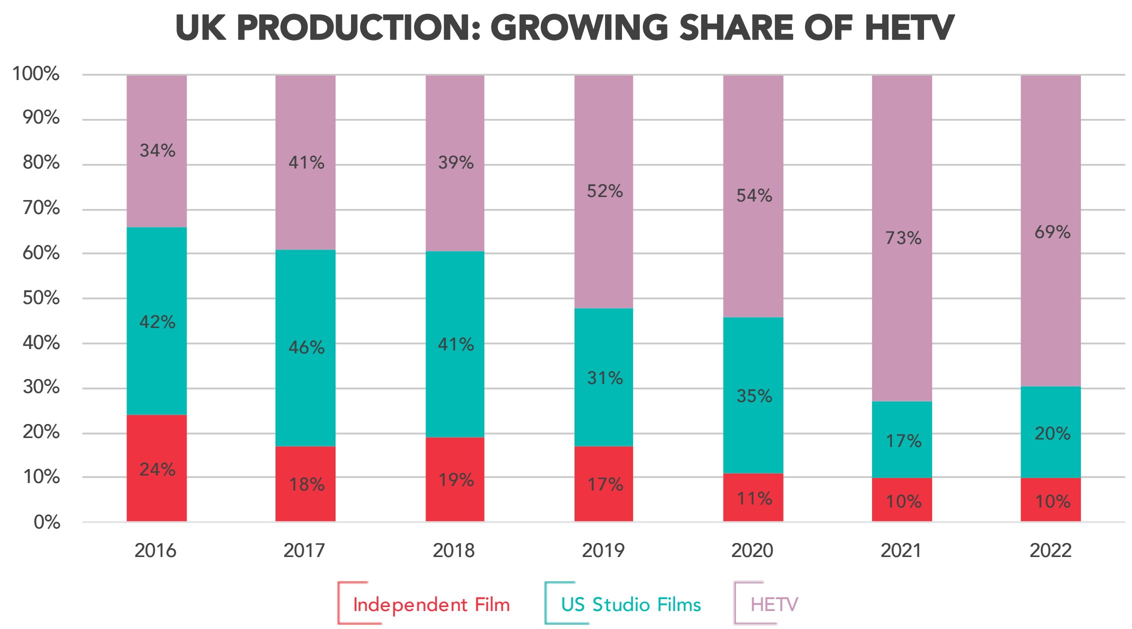
Total UK spend on HETV has more than quadrupled since 2016



Data source: BFI

This growth in HETV spend means that it accounted for more than two-thirds of the combined UK production spend on film and HETV in the last two full calendar years (2021 and 2022). Its share of the total has doubled since 2016.

HETV's share of total UK spend on films and high-end TV has grown from 34% of the total in 2016 to around 70% in 2021 and 2022.



Data source: BFI

The success of HETV is just part of the story of a vibrant domestic TV sector, with public service broadcasters and commercial channels providing a rich variety of programming across genres made by indies from all over the Nations and Regions.

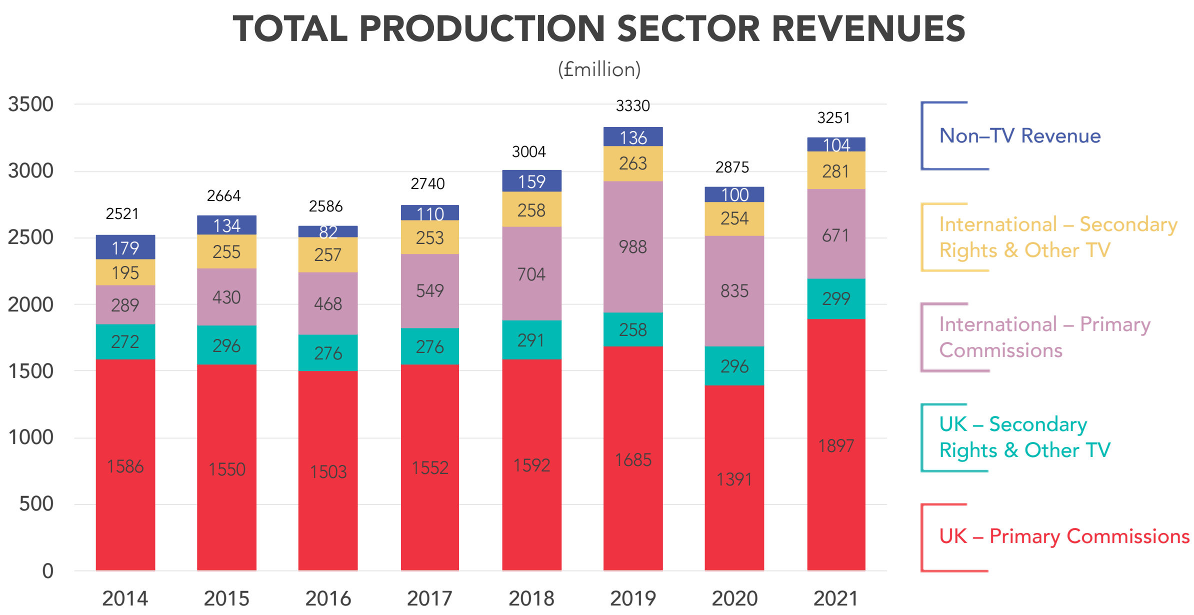
The interconnections between domestic and inward investment, and between HETV and TV more generally, were highlighted in *Section D: An interconnected sector,* and we expand on those points here.

It is important to emphasise that the success of HETV is not purely about inward investment. The most recent BFI data, for the first half of 2023, shows that although inward investment and co-productions dominate HETV production spend (accounting for 76% of the total), domestic HETV production remains highly significant: it was worth £408 million in the first half of this year (24% of the HETV total).

More broadly, it is important to look at the factors that make HETV successful, and the challenges that it will face in the future, in the broader context of a thriving TV industry. UK TV production companies make programmes across multiple genres and budget ranges, and HETV is just one part of the overall mix. In terms of inputs, HETV draws on the same talent pools as other forms of TV: a typical career path for creative talent is to start working on smaller domestic programmes and over time develop a portfolio of work across a broader mix of high-end and smaller projects.

From the perspective of UK television production companies, notwithstanding the rapid growth in HETV, primary commissions from UK broadcasters remain more important than international commissions in terms of overall value. The 2022 UK Television Production Survey commissioned by Pact shows that, after a dip in 2020, UK primary commissions bounced back to their highest-ever level, of £1.9 billion in 2021, equivalent to 58% of total production revenues. Including secondary rights, UK commissions accounted for 68% of total UK production sector revenues, while international primary commissions and secondary rights were just 29% of the total (the other 3% were for non-TV revenues).

UK primary commissions from public service broadcasters and commercial channels bounced back in 2021 to 68% of the total



Data source: "UK Television Production Survey: Financial Census 2022", Oliver & Ohlbaum for Pact[37]

The UK's public service broadcasters are together the biggest commissioners of UK content, spending almost £3 billion on first-run originations in 2022. After dropping to just £2 billion in 2020 in nominal prices (equivalent to £2.3 billion in 2022 prices), spend by the PSBs has recovered substantially over the last two years, growing by 24% in real terms. However, the longer-term trend is one of decline: total spend was £3.8 billion in 2006 (in 2022 prices) and has trended downwards since then, with the 2022 total being 25% lower than that for 2006 in real terms.

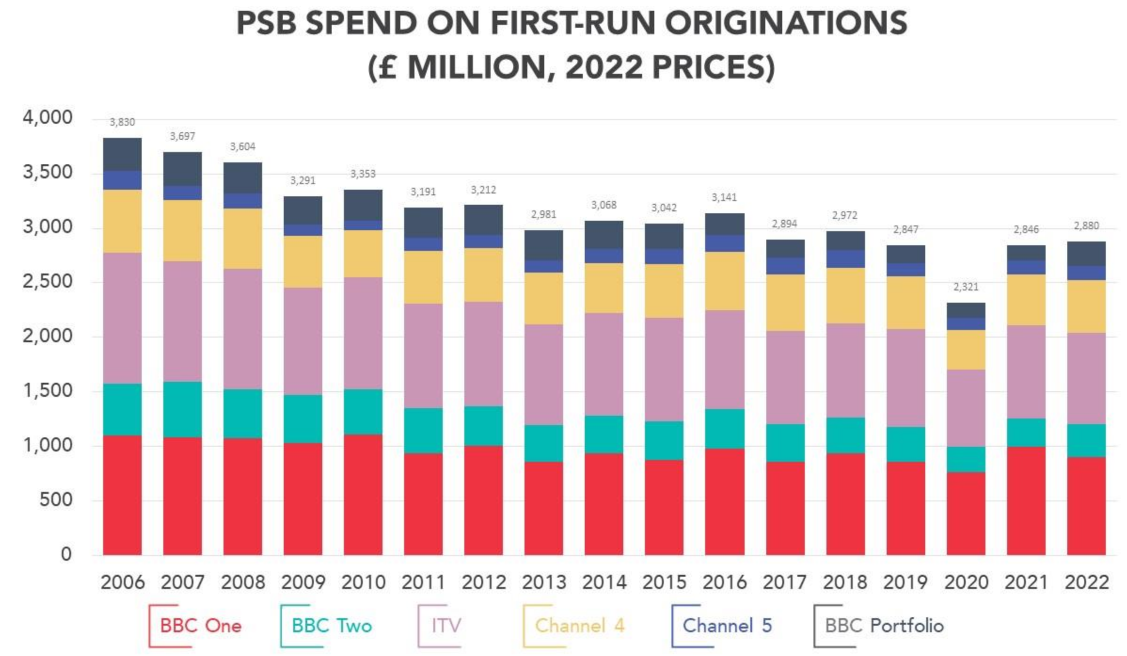
The downward trend in spend by public service broadcasters is due to the challenges to their business models that they have faced in recent years. In the BBC's case (focusing on its PSB Group[38]), licence fee income – which is predominantly determined by the level of the licence fee set by the Government – has remained fairly static in nominal terms, dropping slightly from £3.8 billion in 2017/18 to £3.7 billion in 2022/23, meaning that in practice the BBC's licence fee revenues have fallen by around 17% in real terms.

[37] NB. The 2023 Census was published as this submission was being finalised and is available at https://www.pact.co.uk/static/ed2a606c-965f-4479-98a099e80b3920f9/Pact-Census-2023.pdf .

[38] Source: BBC Annual Reports.

Meanwhile, the commercial public service broadcasters (ITV, Channel 4 and Channel 5) have also faced static revenues in nominal terms. In the face of reductions in the TV advertising market, they have sought to grow revenues from their streaming and other digital services, and these have largely balanced out: their total revenues were £2.29 billion in 2022, marginally above the corresponding £2.25 billion figure in 2017[39]. But adjusting these figures by the CPI, this represents a decline of 13% in real terms.

PSB spend has declined by 25% in real terms between 2006 and 2022



Data source: Ofcom (figures in nominal terms), ONS (CPI index), British Screen Forum calculations

At the same time as investment in content from the public service broadcasters has fallen, one of the most significant trends in UK broadcasting in recent years is the increased importance of the commercial sector as a commissioner of original content. As we reported in Prospectus For Growth, 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 platforms. COBA reports that its members now invest more than £1 billion per annum in first-run UK content across a wide range of genres including comedy, drama, documentaries and entertainment as well as its significant volume of sports production.

Furthermore, the UK has seen rising demand for collaborations between global and domestic players. As part of a co-production or similar partnership, each partner will contribute towards production costs. This has enabled, for example, PSBs to offset their spending on drama, and channel funds into other genres where the market may not be so active. Such investment from other sources enhances PSB output, as many of their own commissions are part funded by non-PSB sources. While co-production has always taken

[39] Source: Media Nations: UK 2023, Ofcom, August 2023 (Figure 23).

place, third party funding is now "the new normal" for many areas of programming, providing an estimated £400m a year for PSB commissions on top of the contribution from PSBs themselves[40]. This is nearly double 2012 levels and exceeds the £307m invested in drama by the PSBs themselves in 2017. Co-production arrangements have provided a means for PSBs to mitigate increases in production costs, as Ofcom concluded last year: *"[T]he PSBs do not have to meet the entire cost of programme making, instead trading off part-ownership of the associated rights."*[41]. There is no evidence of such third party funding falling away.

As a result of these trends, the overall UK TV production ecology has been enriched by a growing range of investors in content, comprising both the public service broadcasters and a diverse commercial sector. As well as helping to drive scale at the macro level, this also helps to create viable production hubs in the Nations and Regions. For 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. Similarly, inward investment and domestic investment have combined to enable the production hub in south Wales to achieve critical mass.

HETV will continue to succeed in the future as part of a thriving TV sector. This requires continued support for the PSB system, for inward investment and for the regulatory framework that supports the independent production sector.

Having painted a picture of a vibrant TV sector in the UK, we would urge the Committee to take into account the broader benefits provided by the TV sector when considering its policy responses:

- **Cultural impact**. While many HETV programmes are created from the outset with international audiences in mind, smaller-budget TV shows are mostly commissioned for local audiences and, taken together, they portray and represent the diverse communities that live in the UK.

- **Domestic economic impact**. The scale of TV production activity is important for GVA and employment in aggregate and, in particular, to the Nations and Regions across which production is spread.

- **Exports.** Smaller TV programmes also represent a significant proportion of the sector's overall exports: the domestic television sector has a long history of exporting both finished programmes and formats devised in the UK. Pact's latest UK TV Exports Report[42] shows that UK television exports were worth £1.5 billion in 2021-22,

[40] According to Ofcom's 2018 Communications Market Report, the BBC, Channel 4 and Five reported that third party funding for first-run originations represented £338 million on top of their own production spend in 2017. This excludes ITV, for whom figures were not available. It therefore appears reasonable to assume that third party funding will have exceeded £400m in 2017 if ITV was included.

[41] Source: "Ofcom Communications Market Report", 2018.

[42] Source: "UK TV Exports Report 2021-22, Pact", November 2022.

rising by 7% year-on-year to their highest level since 2016-17 (when the first report was published).

The TV production sector faces some significant short-term challenges. The steep rises in HETV production over recent years have not continued into 2023 as the streamer segment reaches maturity, and it is not clear at this stage what levels of production will be sustainable over the long term. Short term issues such as the current strike action by US writers and actors is further dampening inward investment activity (not just in the UK). There is also evidence of a slowdown in UK commissioning this year from domestic broadcasters, with advertising revenues down and some broadcasters reported to have cancelled or postponed some of their commissioning activity.

The importance of the domestic TV industry, the pressures it has faced in recent years – with real-term falls in licence fee income and TV advertising revenues – along with the challenges it can expect to face in the future together point to the importance of maintaining a strong PSB system to ensure that it and the commercial UK broadcasters can continue to commission large amounts of original programmes.

Many of our proposals to support the TV sector are the same as those made elsewhere in this submission, for example in relation to internationally competitive financial incentives[43], replenishing the skills base and ensuring we have world-class studios. All such proposals will support public service broadcasters and commercial broadcasters alike as investors in UK content. In addition, we have the following proposals for the Committee that are specific to the TV sector:

- **Ensure ongoing support for the PSB system so it can continue to play a vital role as part of the mixed ecology of investors in UK TV**.

  A well-funded PSB sector with clear public service obligations – including commitments to original content and to the Nations and Regions – will enable the sector to provide the economic and cultural benefits described above.

- **Protect the regulatory framework that allows the independent production sector to thrive.**

  Our world-class independent TV production sector owes its existence to a series of radical and enlightened Government interventions over the last half century. Notable measures include the establishment in the early 1980s of Channel 4 as a publisher-broadcaster – which directly paved the way for the development of a thriving independent production sector – and the subsequent introduction of terms of trade and independent quotas that required all public service broadcasters to source some of their content from the indie sector.

[43] Tax reliefs for HETV and Film will soon be replaced by Audio-Visual Expenditure Credits which are designed to offer equivalent benefits. Throughout this submission, references to 'tax reliefs' should generally be regarded as references to both the current system and the expenditure credit system that will replace it.

The independent sector remains a powerhouse of creativity and growth, and it is important to ensure that support for the sector remains a central criterion when considering changes to the regulatory framework for TV.

- **Ensure that financial incentives for HETV production remain internationally competitive.**

  It is essential that the new reliefs are designed in such a way as to maintain the UK's international competitiveness at the macro level, while at the micro level ensuring that the implementation is done in a manner which at least maintains the current value of the incentive in practice. We have ongoing concerns about some aspects of the draft legislation, especially those relating to a new definition of 'documentary' and new rules relating to connected party transactions.

More details are provided below, in *Section G: Inward Investment*, and in the British Screen Forum's submission to HM Treasury on its consultation on the "Audio-visual tax reliefs".

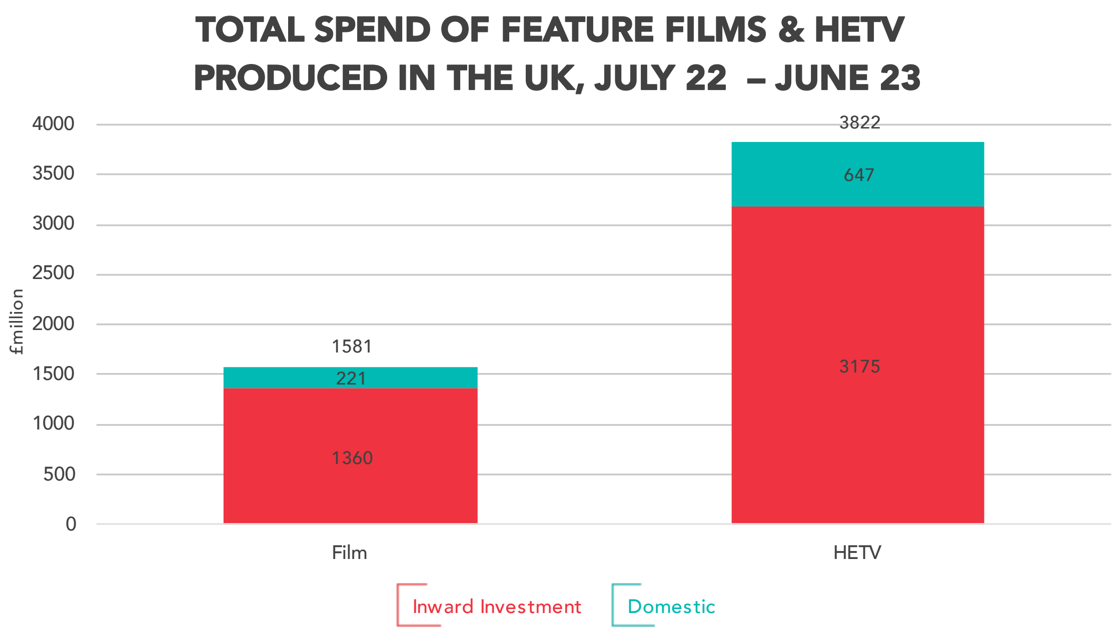
G. Inward Investment

The film and high-end TV production sectors have been hugely successful in attracting inward investment to the UK, thanks to the combination of world-class talent and facilities and competitive financial incentives that we offer.

As we highlighted in *Section D: An Interconnected Sector*, the UK Screen Sectors boast an unusually rich mixture of companies that compete to drive innovation and growth. As part of this, 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. Inward investment not only benefits from UK talent and infrastructure but also helps to sustain and build it, fuelling a virtuous cycle which extends the UK's production capabilities as well as stimulating audiences' appetite for high-quality content

Recent growth in inward investment has been powered by HETV production in particular, as new streaming services and traditional broadcasters compete for viewers. The latest data from the BFI, for the 12-month period from July 2022 to June 2023, shows the vital role of inward investment for both film and high-end TV. For film, the total production value of inward investment features was £1.4 billion over this 12-month period, equivalent to 86% of the total UK spend on film production of £1.6 billion. For high-end TV, inward investment represented a slightly smaller proportion of the total, but the aggregate value of spend was much higher: total HETV production spend was £3.2 billion, accounting for 83% of the total HETV spend of £3.8 billion.

Inward investment represents more than 80% of total spend on film and HETV



Data source: "Film and high-end television programme production in the UK: January – June (H1) 2023", BFI Research and Statistics Unit, July 2023

The value of inward investment to the economy goes beyond direct support for films and HETV: such is the extent to which the UK has established itself as an important production base, the main global players have also made significant investments to invest in skills and expand studio infrastructure. Recent projects for the UK's film and television studios include investments from Sky, having built a 12-stage studio in Elstree; Netflix, whose dedicated production hub at Shepperton Studios will include 14 stages, workshop and office space, and is now supplemented by its development of Longcross Studios; Warner Bros. Discovery's development of Leavesden Studios and investment in De Lane Lea; and Disney, which entered into a long-term agreement to take all stages, backlots and other production accommodation at Pinewood Studios.

Attracting large inward investment films to the UK also provides economic benefits to other business sectors through ripple effects at the microeconomic level. Analysis in a 2020 report on Screen Production and Global Economic Recovery indicates that, for a major film with a $220 million budget, 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.

As we discussed above, the UK's ability to attract inward investment derives from the overall package that it offers, comprising a large amount of world-class studio infrastructure and a skilled and experienced workforce (see *Section I: The skills pipeline and supporting production in the Nations and Regions*), along with a stable economic base and a benign cultural and political outlook. But these are not by themselves sufficient to attract significant amounts of inward investment: pricing also matters in highly competitive international markets for audiovisual production, and it is thanks in large part to the tax reliefs that the UK is able to attract as much business as it does.

Much audiovisual production activity is highly mobile; the question is not so much whether it will be made, but where it will be made. The tax reliefs attract production activity that genuinely would not happen in the UK otherwise, supporting growth, jobs and innovation. As we noted above, the reliefs have been highly effective, generating a positive return on investment in terms of UK Gross Value Added: according to the most recent Screen Business report published by the BFI, the audiovisual Tax Reliefs delivered returns on investment for each £1 of tax relief of £8.30 for film and £6.44 for HETV.[44]

The tax reliefs are thus the final - but arguably most important - element in the overall package that drives the UK's international competitiveness. They help to create a virtuous cycle, by incentivising increased production activity and scale in the film and HETV production, which in turn drives demand for skilled labour and infrastructure, driving further investment in talent and facilities to meet this demand, which reinforces the UK's reputation for quality and acts as a catalyst for further production activity.

Looking to the future, it is vitally important for the UK to maintain and grow its international competitiveness in the context of increasing competition (including in terms of financial incentives) from other territories.

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

In terms of the ongoing attractiveness of the UK to investors in film and HETV, we cannot be complacent: we will only continue to succeed in attracting inward investment if we constantly reinforce each element of the package, such is the highly competitive global market for mobile productions. Every time a new project begins, its producers examine afresh the best place to base their production, and so the UK can never rest on its laurels: it needs to have a competitive offer for each and every project that comes along. In this regard we note also the role played by the British Film Commission (BFC) and national and regional agencies in providing support for foreign companies looking to invest and locate production activity in the UK[45].

Our central challenge regarding inward investment is for the UK to maintain its international competitiveness in the context of increasing competition from other countries. A number of other territories have seen the success of the UK and are seeking to emulate it by gaining a larger share of the growing audiovisual production pie. For example, Spain have launched their 'Spain, audiovisual hub of Europe' plan which includes a one-stop shop offering help with financial incentives, locations, crew, work visas, etc. Backed by more than €1.6 billion of investment and with enhanced tax incentives as part of its offer, the plan aims to increase audiovisual production in Spain by 30% by 2025.[46]

The highly mobile nature of much screen sector activity and the international competition to host it was recognised in the report published by the Lords Communication and Digital Committee on 17 January 2023. It concluded that:

> *"[the tax reliefs] have played an important role in supporting innovation, growth and international competitiveness in the creative industries. We welcome the Government's commitment to continuing such support. But other countries are increasingly adopting similarly competitive tax relief systems. The UK is falling behind. The Government's consultation on creative industry tax reliefs must benchmark UK incentives against those in other countries to ensure the UK remains competitive."* [47]

This is evidenced by analysis conducted by Olsberg•SPI for British Screen Forum. In addition to the incentives offered in major production centres, several smaller or emerging markets have introduced highly competitive incentives, and there have been a considerable number of recent announcements, from other European and Nordic countries (such as Austria, Sweden and Iceland), US states (such as Arizona and New Jersey), countries in the Middle East (such as Israel and Saudi Arabia) and India.[48]

In the light of this increased global competition from other territories, the UK needs to maintain its current competitive advantage across all the areas that comprise the ecosystem

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[45] The BFC routinely supports over 90% of the film/HETV projects working in the UK.

[46] See: https://spainaudiovisualhub.mineco.gob.es/en/home .

[47] Source: "At risk: our creative future," Lords Communication and Digital Committee, January 2023, page 28, para 80.

[48] See: https://britishscreenforum.co.uk/wp-content/uploads/2023/03/British-Screen-Forum-response-to-Treasury-consultation-on-AV-tax-reliefs-FINAL.pdf , page 15.

that makes the UK an attractive prospect for productions: a high-quality skills base, world-class infrastructure at scale and a competitive tax relief regime. Any changes that would weaken any of these elements, including the tax reliefs, would reduce the UK's attractiveness compared to the alternatives.

Our recommendations to maintain our international competitiveness seek to develop talent pipelines, remove unnecessary obstacles that obstruct capital investment in studios and facilities, and ensure the tax incentives remain competitive.

We face both short-term and longer-term challenges to ensure we continue to attract large amounts of inward investment. In the short-term, we are seeing reductions in commissioning levels from the streamers as they reach maturity; it is not yet clear whether this represents a blip or if commissioning levels will level off at a lower volume than before[49]. The other key short-term issue is the current strike action by US writers and actors, which is having a material impact on inward investment activity the UK and all over the world, given that many types of production have come to a halt. This carries a danger that freelancers will seek work in other sectors in the interim and may not return when production picks up again.

Whatever resolution is reached in the strikes and whatever the levels of commissioning of high-end TV from the main streamers, the long-term challenges for the UK remain the same: helping to build talent pools to ensure we maintain our skills base, continuing to invest in facilities to maintain the volume and quality of our infrastructure, and maintaining the competitiveness of our financial incentives. We set out below our recommendations in these areas. In addition to these, we would add the following broader recommendations (with cross-references to our Prospectus For Growth report, where they are spelled out in more detail):

- **Maintain the existing regulatory arrangements that underpin the value of UK content and services in international markets.** In particular, take all possible steps to preserve the current definition of European Works which includes UK works (Prospectus For Growth, p84)

- **Support domestic elements of the UK Screen Sectors that are working well and contribute to its scale and resilience**. This includes supporting the PSB system that is responsible for a large proportion of all UK TV content origination and also makes an important role in supporting UK independent films (see the HETV and Interconnected Sector sections of this submission).

- **Better support the early-stage development of screen sector projects and companies.** In particular, expand the definition of R&D to include creative research and development (Prospectus For Growth, pp87-88). We also note that there are a number of existing funds in this area that could be expanded: the National Lottery International Connections Fund supports UK screen professionals to build networks

[49] The impact of Covid had a destabilising impact on commissioning patterns, with periods of slowdown being followed by an intense period of catch-up activity. It is not clear yet the extent to which more recent levels of activity are simply part of an ongoing stabilisation process.

around the world, including through travel to forums and festivals; the new Creative Enterprise programme will support businesses across the regions of England to prepare for and secure investment, including through innovation, and expected to be complemented by further awards to the Nations in the future; and the Global Screen Fund's International Business Development strands makes over £200,000 available to businesses to develop international business strategies for independent UK film, and create/acquire IP that they can exploit for greater international revenues across any screen media.

- **Support pipelines to ensure new generations of skilled talent.** Our recommendations are about supporting the development of creative, technical and business skills, and supporting talent discovery and development across the UK are set out in detail in Section I ("The skills pipeline and supporting production in the Nations and Regions").

Support successful initiatives to secure, and remove unnecessary obstacles that obstruct, capital investment in studios and facilities

Recognising the importance of keeping up with demand for world class production facilities, Government has funded the Stage Space Support and Development (SSSD) initiative which is run by the British Screen Commission (BFC). Since the launch of the SSSD initiative in 2020, the BFC has directly supported the completion of over 149,000 sq. ft. of new stage space throughout the UK's nations and regions. This has contributed to a 34% growth of stage space outside London and South East England. In addition, the BFC is continuing to assist the development of 306,000 sq. ft. of stage space with planning consent, plus an additional pipeline of 690,000 sq. ft. of viable stage space throughout the nations and regions, helping to drive high value growth and employment opportunities throughout the UK.

However, this successful drive to support investment in studio development is currently being undermined by the recent, dramatic business rate increases for studios, which represents a major obstacle to maintaining existing capacity and building new studios to meet international demand.

The Valuation Office Agency's (VOA) 2023 Non-Domestic Rating Revaluation is having a damaging impact on film studios in England and Wales. The recent revaluation has seen rates rise by an average of 300%, and by significantly more in many cases. While Transitional Relief will temporarily cap increases at 30% in 2023/24, rates will increase over the subsequent two years, and the relief does not apply to new studio developments and expansions.

This is significantly damaging for the UK's flourishing studio development pipeline and renders the UK's existing studios uncompetitive and in some cases at risk of closure. Triple-digit inflationary rates for any business are not consistent with the stable political environment that the UK Government should be seeking to ensure in all sectors. The British Film Commission is working with Government and the VOA to address this issue with the aim of ensuring a mutually acceptable agreement is reached as soon as possible. It is essential that this issue is resolved quickly.

We understand that the earliest it is likely to be resolved is the end of 2023 or early 2024 and there is no guarantee of a satisfactory outcome. Given that this issue was identified at the draft Revaluation in late 2022, it means that even under a best-case scenario, it will have caused a year of uncertainty for the industry, with a consequent impact on investment. We note that some projects have already come to a halt.

Our recommendations are to:

- **Support successful initiatives such as the SSSD.**

- **Ensure a speedy resolution to the concerns expressed by the sector around planned rises in business rates for film studios of 300% or more**. We would also urge the Government to review its processes to prevent such unnecessary disruption happening again, given the damage caused to businesses that are affected.

- **Ensure new financial incentives remain competitive.** Our key recommendation is to maintain the competitiveness of the financial incentives for film and high-end TV. This year, HM Treasury launched an important consultation on a radical reform to the tax incentives, in which they proposed changing to an expenditure credits model.

  British Screen Forum issued a detailed response to this consultation, in which we highlighted some important concerns with both the substance of the consultation and the lack of detail underlying some of the proposals. We supported the broad thrust of the proposals but stressed the importance of ensuring that the details of the switch to an audiovisual expenditure credit do not inadvertently reduce their attractiveness in terms of their economic value.

  There has been a constructive dialogue between HM Treasury and the industry over the course of this year, and we welcome some of the changes that have been made to the original proposals. However, we have the following ongoing concerns about unintended consequences in relation to some aspects of the draft legislation, and we encourage HM Treasury to address them:

  - **The new provisions on connected party transactions are damaging and unnecessary.** There are new provisions in the current HM Treasury proposals on payments for goods or services supplied by a connected party. Under these rules, only the actual cost of such goods or services could be claimed. This is a problem for a parent company running a project through an SPV, both in terms of reducing the amount that can be claimed and the substantial administrative burden of stripping out any profit from any transaction. The proposed carve-out for studio use does not sufficiently deal with this. We believe that the concerns that may be motivating these provisions are already addressed by existing 'transfer pricing' legislation, and we therefore argue that this new provision is unnecessary and should be dropped.

- **The proposed new provisions on 'going concern' fail to take account of normal business practices in the sector and would be very damaging**. The draft legislation includes a new requirement that in order to be eligible to claim relief a production company must be considered a "going concern". While we appreciate that this condition has applicability in other areas of the economy, in film and television production there will be certain scenarios where such an obligation would be contrary to normal business activity. This is because the vast majority of UK film and television projects are made through Special Purpose Vehicles (SPVs) that are created to deliver particular productions and which are closed down once the production is complete. Should the proposed changes come into effect, there will be a significant number of companies that will be unfairly penalised and will not be able to claim the AVEC simply because they expect to wind up the company in the next accounting period. This would also have a detrimental impact on abandonment claims as they would normally close the company in the next accounting period after the abandonment. We understand the policy intent to exclude companies that may be in distress or undergoing insolvency, but the legislation as currently drafted would unfairly penalise companies that simply no longer have a commercial reason to exist. It is important that the legislation is amended or clarified to take this into account.

- **The definition of 'documentary' is currently too tightly drawn**. This means that some projects that we believe ought to be eligible for the relief would be excluded.

The process of transitioning from tax reliefs to expenditure credits has underlined the importance of Government engaging fully with the sector in the design of any new scheme or when making amendments to existing schemes.

H. Cinema

A thriving theatrical sector is important for the film industry, for UK citizens and for the economy.

The Committee specifically highlighted the challenges facing British cinemas as one of the topics in its Call For Evidence, following the recent Cineworld restructure and the collapse of the Empire chain and Edinburgh Filmhouse. We address these challenges in this section.

Cinema-going has always played a central role in the film industry. For a long time, of course, it was the only way to see films, and even after the successive waves of technological development over the last century – that saw the growth of television, video, DVD and internet-delivered streaming platforms – cinemas have retained their place as the optimal way to watch films, offering the most immersive communal experience for consumers.

From an industry perspective, the theatrical window remains a key part of the business model for film: as well as generating revenues directly, it acts as the focus for marketing campaigns and generating awareness. A film's premiere in cinemas is the moment when it is reviewed in the press and when its director and stars promote the films. Its theatrical performance plays a big role in driving revenues in other windows.

And there are wider cultural, social and economic reasons why cinema is not just another window. Film-going is the most accessible cultural artform, with more people going to the cinema each year than attend other arts events. An Arts Attendance report drawing on recent DCMS Participation surveys[50] showed that 49% of adults went to a cinema screening in 2022 Q3, significantly more than any other events: live music was in second place with 32% of adults, followed by theatre (28%), festivals/carnivals (23%) and arts exhibitions (20%).

At a time when people spend more of their time consuming content in isolation on their personal devices, cinema-going is an inherently communal activity that brings people together from all walks of life. In economic terms, cinemas contribute to the attractiveness of high streets, city centres, retail parks and other communal spaces: people will often be drawn to these places in the first instance by the wish to see a film and will then combine a trip to the cinema with a meal or drink out or some other leisure activity.

There is strong evidence of the enduring appeal of cinemagoing and many of the most acute pressures that the exhibition sector is facing are temporary ones related to the recovery from the pandemic. We note that cinemas had not required public support prior to the Covid related lockdowns. There is merit in looking at short-term support measures to speed its recovery, such as temporary tax incentives (eg zero VAT rate for ticket sales) designed in close consultation with all relevant industry stakeholders.

Along with other retail and entertainment venues, cinemas have struggled in the last few years. The theatrical sector was the hardest-hit part of the film sector during the Covid-19 pandemic: while safety protocols were developed quickly to enable film and TV production

[50] Source: "Arts attendance in England, Oct 2020 – Sep 2022," Campaign For The Arts.

to resume quickly when the pandemic hit, and home viewing platforms such as TV and video-on-demand experienced boosts in demand during the lockdowns, cinemas were forced to remain completely closed for prolonged periods of time in 2020 and 2021.

Notwithstanding the significant safety measures introduced by cinemas, the theatrical sector was also the slowest part of the film sector to recover when restrictions began to be lifted, reflecting the intrinsic nature of the experience. Although no Covid outbreaks have been traced back to cinemas, some audiences have proven slower to return to cinemas than to other activities such as eating out, shopping or sports events. Across the whole of 2020, cinema admissions in the UK dropped to just 25% of the pre-pandemic level based on the five-year average from 2015 to 2019. As Covid-19 restrictions were slowly lifted, admissions rose to 43% of the pre-pandemic level in 2021 and to 68% in 2022.

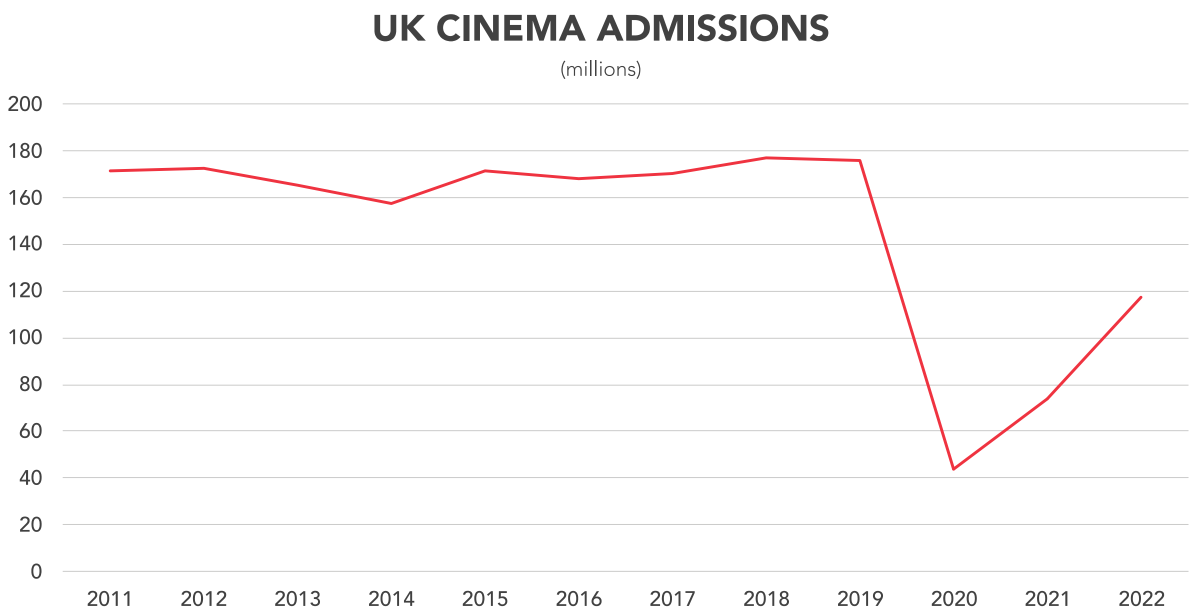
The Arts Attendance report cited above provides further context for this slow recovery: its comparisons of pre-Covid-19 survey data showed a 56% participation rate for film prior to the pandemic, and that film and theatre were the two artforms with the biggest percentage-point shortfall in participation since the pandemic: post-pandemic participation was seven percentage points lower for cinema-going than the figure for 2019/20 (only theatre had a bigger shortfall, of ten percentage points).

This slow recovery has been hampered by the cost of living challenges which have affected consumers and businesses alike. Despite this, the cinema-going experience remains important, for the reasons described above. As evidence of cinema's ongoing cultural and economic relevance, two of the five highest-grossing films of all time in the UK were released in the last couple of years: *No Time To Die* (the most recent James Bond film) and *Spider-Man: No Way Home* (both 2021), while this summer's 'Barbenheimer' phenomenon has shown that theatrical films retain the potential to become huge cultural events, with Barbie already in the all-time Top 10, having grossed almost £100 million in the UK by early September, and Oppenheimer having grossed more than £50 million despite being a three-hour film with challenging subject matter.

Box office data through to mid-August 2023 shows that the sector has experienced growth this year of almost 10%. If this growth rate continues for the next two years, then the value of UK box office would return to its pre-pandemic level by the end of 2025 (in nominal terms) with audience levels taking a little longer to catch up and return the sector to its strong pre-pandemic position.

We are therefore looking at an overall recovery period of around five years, from the economy beginning to reopen in 2021 through to the recovery being completed by 2026. Right now, in the latter half of 2023, we are at the mid-point of this process. For a sector that was disproportionately badly affected by the pandemic, the next two years will be difficult – and the challenges are exacerbated by the current high energy prices, which represent a largely fixed cost for cinemas, which need to keep the lights, heating and air conditioning on however busy each screen is; by the cost-of-living crisis, which is likely to deter people from going to the cinema as often as they would like; and by the ongoing strikes by US writers and actors which is seeing some large scale releases pushed back from 2023 to 2024 and which may negatively impact the availability of titles in future months. But there is a clear end-point for the companies that can survive.

Admissions returned to 68% of their pre-pandemic levels in 2022



Data source: UK Cinema Association: Facts and Figures

Globally, admissions in 2022 averaged 58% of their average pre-pandemic levels (between 2017 and 2019), according to recent analysis by the European Audiovisual Observatory.[51] The UK's recovery rate according to the EAO methodology was 67% in 2022, nine percentage points above the global average, but significantly below territories such as France, Denmark, Japan and Australia.

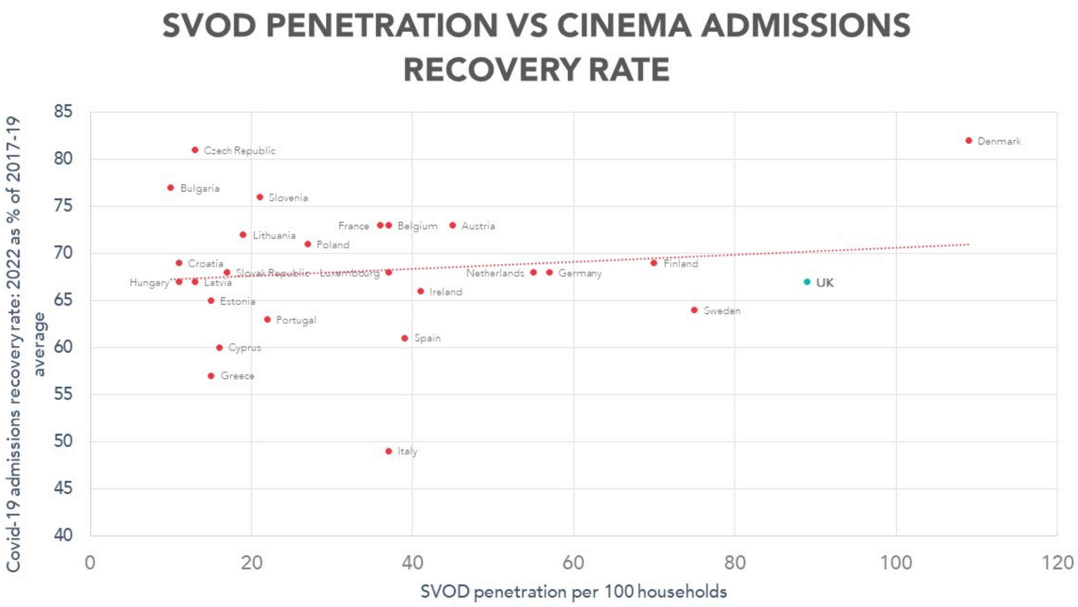
We do not believe that there is compelling evidence to date of a structural decline in cinema-going. Regarding the problems experienced by Empire and Cineworld, our view is that these are not typical and should not be seen as evidence of a wider malaise. The reasons behind the collapses of Cineworld and Empire are believed to be specific to those companies, although such factors were, of course, significantly exacerbated by the impact of the pandemic and related lockdowns which affected all cinemas. For example, Cineworld had taken on large amounts of debt before conditions changed dramatically in early 2020.

If there were structural change driven by the take-up of streaming services, we might expect to observe a negative correlation between cinema recovery rates and penetration rates for SVOD services, as people who subscribe to the likes of Netflix and Disney+ would have a higher tendency to stay at home rather than go to the cinema. But looking at the 26 European countries for which the European Audiovisual Observatory provides data on both cinema recovery rates and SVOD take-up, the figures do not support such a hypothesis. The data shows that cinemagoing has recovered quicky in some countries with high SVOD penetration rates (such as Denmark, where admissions in 2022 were 82% of the 2017-2019 average), but slowly in others with low SVOD penetration (such as Italy, where the equivalent

[51] Source: "Focus 2023 - World Film Market Trends," European Audiovisual Observatory, 2023.

recovery rate was just 49%). Whilst recognising that recovery rates in cinemas are driven by many factors and that this is a very partial analysis, nonetheless it is striking that a scatter chart showing data on the 26 countries in the sample does not show a negative correlation between SVOD penetration and cinema admission recovery rates.

High SVOD penetration does not appear to have negatively impacted the return of audiences to cinemas in European countries



Data sources: Trends in the VOD market in EU28, European Audiovisual Observatory; Focus 2023, World Film Market Trends, European Audiovisual Observatory

Other research suggests that awareness of slate is a key factor, rather than a reluctance to return to cinemas per se. This does not appear to be linked to a decline in advertising spend. Data from the Film Distributors' Association shows that in 2020, total ad spend by UK distributors fell to £51 million, just 24% of its 2017-19 average of £209 million. It was only slightly higher in 2021, at £61 million (29% of the pre-pandemic figure), but recovered significantly in 2022 to £181 million (87% of the pre-pandemic figure). This suggests that the industry's promotional activities are close to their pre-pandemic levels, but that it is harder now to cut through at a given level of P&A spend. The proposal discussed above (in the section on UK film) in relation to tax relief for P&A spend on UK films within a given budget range would help to address this 'cut through' issue for UK independent films in particular. Some in the sector have also cited a decline in film review programmes on television as a contributory factor.

It is also worth noting that despite the UK being earlier adopters of SVOD services compared with other European territories, cinema admissions were healthy pre-pandemic, in contrast to a number of other countries. In 2022, according to the Focus 2023 report, average UK admissions per capital stood at 1.7, substantially higher than the corresponding figure of 0.9 in Germany, where admissions have been falling even despite their lower SVOD penetration, and higher also than the figures for the likes of Spain (1.3) and Italy (0.8).

A key concern for the exhibition sector is that the overall film slate has become skewed, with deeper peaks and troughs than in the past. With the success of the *Barbie* and *Oppenheimer* films, 2023 recorded the biggest single box office week in a decade. The biggest blockbuster films each year are continuing to perform extremely well: 5 of the 15 highest-ever grossing films in the UK market have been released since 2021[52]. But cinemas screens are emptier than before for much of the rest of the year, and this may be attributed to the reduced number of low- and medium-budget British and other films with commercial appeal. Using data for the first half of each year only (to allow 2023 like-for-like comparisons), the figures[53] show that:

- In the decade from 2010-2019, more than 10% of new releases in H1 each year would gross over £1 million. But Since 2020, fewer than 10% of all new releases in H1 have reached £1m+ at the box office.

- The biggest decline has been in films in the £10-25 million budget range: again looking back to 2010, in H1 these films would often account for 35%-45% of total box office, whereas this dropped to just 24% in 2022 and 21% in 2023.

- For British films[54], average box office has dropped significantly, from £950k as the average between 2015 and 2019 to just £544k in 2022 and £327k in 2023, respectively 57% and 35% of the 2015-19 figure.

All of this suggests that audiences will come back for the right films, but that there are not enough domestic films, especially in the £10-25m budget range, coming into the market.

In summary, our view is that policymakers should care about the health of the exhibition sector, and that its cultural, social and economic importance justifies public support interventions to help it to thrive. Policymakers can be reassured that any measures they take to support the sector will not be wasted and need only be temporary in nature. We do not see evidence of structural decline and believe that the theatrical sector remains viable over the longer term, provided it can weather its short -term challenges.

We would also emphasise that the Committee should consider the entire theatrical market when considering policy responses (it is worth noting that the large commercial cinema chains, and even a US-owned arthouse chain like Curzon, did not benefit from the Cultural Recovery Fund). All cinema operators are facing the challenges discussed in this section, and

[52] These are: *Spider-Man: No Way Home*, *No Time To Die*, *Barbie*, *Top Gun: Maverick*, and *Avatar: The Way Of Water*.

[53] Analysis of Comscore figures by Odeon for British Screen Forum. It is worth noting that full year comparisons may present a slightly different picture, as patterns vary from year to year and according to the performance of individual titles. However, as the Committee has referenced the recent developments affecting Cineworld and Empire, and the sector is on a recovery path, we have taken the view that it is useful to provide the most up to date evidence, rather than ignore H1 2023.

[54] Comscore define a 'British film' as one having the United Kingdom listed as one of its origin countries. It therefore includes films which might not be described as 'independent' films.

a successful sector needs all operators – big and small, mainstream and arthouse – to be able to thrive.

We have two specific proposals to address the specific short-term issues, which are intended to complement our longer-term proposals set out further below:

- **Support UK cinemas through the post-Covid recovery period through a zero or reduced rate of VAT on cinema admissions until audiences recover.**
  This would be a temporary initiative, designed in close consultation with all relevant stakeholders, with a clear end point when admissions return to 95% of their pre-pandemic levels. This targeted scheme, aimed at encouraging consumers to go to the cinema more, would help to re-establish the cinema-going habit during the period when the impact of the pandemic is still being felt. This would be an adaption of a successful initiative that was adopted by the Government during the pandemic, when VAT was reduced on cinema admissions (and certain other attractions), with reduced rates of 5% applying from 15 July 2020 to 30 September 2021, and 12.5% from 1 October 2021 to 31 March 2022. This scheme was seen to be highly beneficial in encouraging audiences to return to venues.

- **Work with relevant industry stakeholders to consider whether there may be lessons to be learnt from time-limited schemes introduced in other countries to aid recovery.**
  There may be initiatives adopted in other countries that could be effective in the UK if adapted to the specific needs and attributes of the UK theatrical market. Sweden, Finland, Norway, Germany, Italy[55] and Spain have all introduced measures aimed at supporting cinemas during the period of the pandemic and the ongoing recovery period. There are significant differences between the exhibition sectors in each of those territories and that in the UK, and any such scheme would need to be fully assessed in consultation with relevant stakeholders, but we would encourage the Develope to look beyond the UK for examples of successful interventions.

Over the longer-term the priority needs to be to grow the pipeline for commercially focused British independent films to ensure cinemas have a balanced, year-round slate.

The longer-term priority for the exhibition sector is straightforward: we need to make sure there is a pipeline of content to get cinemas busy throughout the year. There has been a growing reliance on the biggest holiday-period studio blockbusters, many of developh have performed very well. However, this had had the result that there remain significant troughs in the year: periods when there are no blockbuster films on recent release and a lack of other commercially viable films to occupy screens during the interregnum.

In the past, as we highlight above, there would have been a steady flow of low- and medium-budget British and other films with commercial appeal. As we discuss in *Section E: UK Film*, funding for such films has collapsed as the amounts of finance that can be raised

[55] See: https://www.beniculturali.it/comunicato/25010 .

against DVD and TV windows has fallen away and have not been replaced by funding from new windows such as streaming.
As a result, domestic film titles have a smaller share of the UK theatrical box office than is the case in European countries such as France and Czechia, whose cinema audiences have returned in greater numbers, and whose market share for domestic films in 2022 was around 35%-40%.[56] The BFI's recent box office report[57] shows that in the first half of 2023, the UK's overall domestic theatrical market share of UK films was 30.7%, similar to the 30.1% level reported in the Focus 2023 report for 2022. But independent UK films only accounted for 5.6% of this, with US studio-backed films representing the other 25.1%. One consequence of the UK's success in attracting inward investment is that a significant proportion of the domestic box office is accounted for by UK-qualifying films with studio backing, and this inflates the headline figure for UK films' market share. Turning to the European comparisons, the UK is likely to have a lower market share for independent films than countries such as Denmark (whose market share for domestic films was 30%) and Norway (24.5% domestic market share): while these countries' headline domestic market shares are similar to or slightly lower than the UK's headline figure, the presence of several independent domestic titles in their Top 10 lists for 2022 (4 for Denmark and 3 for Norway, compared to 0 for the UK) suggests that their market share of non-studio domestic films is very likely to be higher than that of the UK.

This has led to one of the key interconnected challenges in this paper, and a key focus of the Develope's inquiry: the need to develop new funding models to grow back the pipeline for commercially-focused British independent films. A steady supply of such films would simultaneously address multiple challenges:

- helping to grow indigenous production,
- boost the independent film production sector – the source of much of the next generations of talent,
- ensure more, and more diverse, culturally-relevant British films are made
- provide a pipeline of attractive content for cinemas across the year.

A pipeline of attractive content would enable cinemas to fill their screens throughout the year and help them to maintain admission levels at pre-pandemic levels. A greater supply of British films would ideally also include titles that might appeal to under-served demographics, such as older audiences, and those with the potential to become break-out hits at quieter times of the year.

Underlining our overarching point about an interconnected screen sector, the exhibition sector would thus be supported by the measures to help independent film production proposed in Section E.

Alongside these, we propose the following:

[56] European information is from the Focus 2023 report.
[57] See: "The UK box office, January-June (H1) 2023," BFI , July 2023.

- **Support the theatrical exhibition and distribution of UK films of a particular scale through**:
    - **A zero or reduced rate of VAT on cinema admissions to such films.**
    - **A tax relief which includes prints and advertising (P&A) expenditure as qualifying spend for such films.**

  The design of such schemes to be developed in close consultation with all relevant stakeholders, with the aim of building cinema audiences for independent UK films. These proposals draw on the recommendations relating to the exhibition sector from the Economic Review of Independent Film by Alma Economics, commissioned by the BFI. As noted above, VAT reductions were trialled during two periods between 2020 and 2022. Proposals relating to P&A expenditure are currently being drawn up by industry stakeholders, with the aim of supporting larger advertising and marketing budgets for applicable films, and thus helping to make them more marketable and raising UK audiences' awareness of the broader slates of films in cinemas beyond the blockbusters.

- **Consider whether there may be lessons to be learnt from "culture vouchers" and other schemes used in other countries that seek to improve young peoples' access to arts and culture.**
  We would also ask the Committee to consider the cultural and economic contributions that the exhibition sector makes. Several European countries offer "culture vouchers" for young people to improve access to arts and culture for school pupils and provide them with enriching experiences. We believe that such a scheme could be attractive in the UK and that it would be appropriate to include cinema going within such a scheme (possibly targeted to focus on culturally British titles). Such a scheme would help to establish or re-establish cinema-going habits.

- **Given the positive spillover effects of visits to the cinema across retail spaces, ensure the Committee's work is joined up with the Government's strategy to regenerate high streets**. [58]
  Cinema's are effective cultural hubs and can be vital in placemaking initiatives.

[58] See: "Government strategy to regenerate high streets", July 2021.

I. The skills pipeline and supporting production in the Nations and Regions

Addressing skills shortages, including by drawing on the talent that exists across the Nations and Regions, is vital to the future success of the Screen Sectors.

As noted in *Section D: An Interconnected Sector*, skills and talent development, and the need to ensure that the industry is accessible to all and draws on the talent that exists right across the nations and regions of the UK, is crucial to all parts of the Screen Sectors. Indeed, without a skills pipeline which is attuned to the needs of the sector and which is at a scale appropriate to the ambition set out in the Creative industries Sector Vision, it is difficult to see how the target of 1 million new creative sector jobs can be met.

The importance of an appropriate skills pipeline, and of drawing upon all demographics, has long been understood by the sector and much important work has been, and is being, undertaken. However, it is clear that more needs to be done. The BFI Skills Review 2022[59], alongside National Lottery funded skills shortages research[60], found the UK has struggled to meet its potential due to an insufficient supply of skilled crew and the fact that Screen Sector workforce still fails to represent the makeup of the UK's wider working population, missing out on the talent that exists within under-represented demographics and geographical locations.

In response to the Skills Review, an industry-led Screen Task Force[61] - chaired by Georgia Brown and comprised of senior screen sector representatives - has been set up to produce a plan to address long-term skills shortages, gaps, and related challenges.[3] The Task Force is focusing on three key areas: industry training and investment; improving access to the Apprenticeship Levy; and pathways to industry from further and higher education. The Screen Task Force is expected to deliver an appropriate route map for meeting the skills needs of the UK Screen Sectors as whole and we would encourage the Committee to take note of the Screen Task Force plan when it is published.

Within any skills plan, it is important that delivery takes place through those with appropriate sector knowledge and understanding.

With this in mind, we would underline the importance of the recent £1.5 million BFI National Lottery funding delegated to the industry-led national skills body ScreenSkills for a Skills Bursary Fund, providing direct financial support to help new entrants and those already working 'behind the camera' in the screen industry to access new training, skills and professional development opportunities. This will build on work previously delivered by ScreenSkills, and complement bursary support from the industry Skills Councils, to ensure an even greater diversity of talent is supported to progress into and through a career in the Screen Sectors.

[59] See: "BFI Skills Review 2022," BFI, June 2022.

[60] See: "Forecast of labour market shortages and training investment needs in film and high-end TV production," ScreenSkills, Nordicity, Saffrey Champness, June 2022.

[61] See: "Georgia Brown to chair industry-led Skills Task Force for UK's screen sectors," BFI, March 2023.

It also complements a wide range of other work undertaken by ScreenSkills - across animation, children's television, film, games, high-end television (HETV), unscripted television and visual effects (VFX) - to support professional development training courses, E-learning, apprenticeships and mentoring, as well as quality marking and signposting of higher and further education courses identified by practitioners as relevant to working in the industry. ScreenSkills oversees five Skills Funds (Animation, Children's TV, Film, High-End TV and Unscripted), which are paid for by industry from voluntary levy contributions, based on a percentage of production budgets. These Funds directly support skills and investment programmes for people working in the sector at all stages of their career, from new entrants to programmes for mid-career professionals and executives and across the industry, from production accounting to 3D animators, and from grips to writers. Since its launch in 2013, the High-End TV Fund, for example, has raised nearly £36m in industry contributions to support training and skills in the sector, with 1,090 productions contributing. This enabled it to support training for 5,000 individual beneficiaries in 2022/23.

Investment decisions for the Funds are made by Skills Councils and working groups comprised of industry figures. Their work is informed by data identifying the key skills gaps and shortages across the industry, so that training can be tailored to meet these gaps. For High-End TV and film in particular, mid-career development is a key priority for the Funds. They also tailor to different skills needs across the country - for example, the Unscripted Fund has targets for at least 50% of its investment to be spent on individuals outside London, rising to 100% in specific shortage areas. A minimum of 50% of the spend on training goes to providers in the Nations and Regions.

It is important that the design and delivery of skills programmes reflect the particular needs, priorities and strengths of the different geographical areas that have emerged as key Screen Sector clusters. We therefore also note the BFI National Lottery Skills Clusters programme which began earlier this year and under which £8.1m has already been allocated to six partners across the UK to support skills development in the following locations, with the majority of the funding going outside London and the southeast of England:

- North of England
- London, Hertfordshire, Surrey, and Buckinghamshire
- Scotland
- West Midlands
- Northern Ireland
- Berkshire

Importantly, each Skills Cluster is led by an organization with both local and sector expertise, and which works with local industry, education and training providers, and other screen organisations across the UK, to coordinate skills and training in their respective areas. Skills Clusters work to identify skills gaps and develop clearer pathways to employment for anyone in their area, with a view to building local skills bases, leading to more people across the UK, especially those from underrepresented backgrounds, working in the screen industry.

For example, The BFI Berkshire Skills for Screen Cluster, now branded as Screen Berkshire, consists of Resource Productions CIC, Berkshire Film Office (including all six Berkshire Councils), the University of Reading and Shinfield Studios. There are four strands of activity which are available to supply chain stakeholders based in Berkshire, which includes Slough, Reading, Wokingham, Royal Borough of Windsor & Maidenhead, Bracknell Forest and West Berkshire. These four strands are:

- Create and Credit
    - Free support with recruiting locally based crew and finding locations & facilities.
    - Paid local trainees available to book for shoots.
    - Paid opportunities to ‘step up’ on productions by regional Indie filmmakers.
- Train and Develop
    - Access to a pool of diverse new talent, graduating from our courses.
    - Free 121 skills support for experienced freelancers from all grades/departments.
    - Bespoke free training and peer mentoring for new and experienced crew.
- Recruit and Retain
    - Free networking events for Berkshire-based crew and HODs.
    - Free job listings for and active support with recruiting freelancers.
    - Support for any crew with access needs ranging form childcare to transport.
- Reflect and Share
    - Connections to local education and training providers.
    - Sharing of best practice.

Although funding was only announced in April 2023, the Screen Berkshire cluster had delivered its first programme - the Runner SWAP (Sector-based Work Academy Programme), for unemployed participants and delivered in partnership with the DWP, in June 2023. This consisted of a workshop on 'how to be a Runner in film & TV', covering an overview of the film and television industry and the variety of roles within it, the necessary skills and tasks asked of a runner and how to get an entry level role with on-going support. It was supported with talks from industry professionals and studio site visits. A further programme, a Film & TV Skills Bootcamp (with the Department of Education (DfE), Berkshire Local Enterprise Partnership (LEP), University of Reading & Pip Studios) was completed in July 2023, demonstrating the speed and agility of the cluster model.

Meanwhile, Screen Alliance North, the Northern Skills Cluster, is a partnership between the four northern screen agencies: Screen Yorkshire, Screen Manchester, North East Screen and Liverpool Film Office. The National Lottery funding it receives through the BFI enables the cluster to focus on establishing localised support for skills development and training with a clear aim to create new opportunities for people from underrepresented backgrounds to pursue careers in the sector. Its key objectives are:

- Preparing New Entrants from diverse backgrounds for work in the screen industries.
- Helping priority entrants access work through hands-on craft, technical and production training.
- Supporting diverse crew to progress within a more inclusive and responsible workplace culture.
- Mapping and measuring impact of the screen workforce and carbon reduction.

Since its launch in April, Screen Alliance North has already put a number of skills training programmes and placements in place, and each partner is currently trialling ongoing apprenticeships.

The Northern Skills Cluster achieved almost 100 placements and traineeships in its first quarter, and exceeded targets set around mentoring and broader skills support, providing opportunity for a thriving, accessible and diverse community of new entrants. In the North-East, new entrants and local crew are engaging with industry through networking events including with local Heads of Departments and set open days (through the CBBC series The Dumping Ground). These engagements will also create pathways for attendees to placement opportunities. A new wave of skills- based Bootcamps and placements linked to productions (such as long running series Waterloo Road and newly greenlit projects like Virdee) are currently being launched across Yorkshire, Liverpool and Manchester.

A full programme of cluster-wide activity is in planning, including four flagship events to engage new entrants. Work has begun via all alliance partners on the roll out of the cluster-wide programme 'Connected Campus', which will see Higher Education (HE) and Further Education (FE) providers from all four corners of the North engage with practical, meaningful industry activity via a collective and uniform approach. The cluster has already achieved engagement with 500 HE/FE students on initial Connected Campus activities. It is also working closely with the BFI on strategies around good work practice, environmental and social sustainability.

A key issue being reported by Screen Sector stakeholders relates to training, especially in smaller companies (which are typical of our sector), for workers who have been rapidly promoted or have taken on more responsibility to meet increased demand.

Skills gaps and shortages are most acutely felt at the mid and senior levels across a range of departments as these are the most critical for providing key leadership responsibilities and high-quality technical skills across a range of workflows and projects. The shortages are reflected in practice in reports of increased 'poaching' of such staff by other companies, sectors and jurisdictions. Given that these roles also fail to be representative of the wider working population, especially in relation to socioeconomic and ethnic diversity, there may be scope to further develop the local skills and training clusters to support further access to training and jobs in these mid and senior level roles.

It is worth noting at this point that issues around training provision vary according to sub-sector, business model and company size. For example, VFX and post-production companies can struggle to secure skilled workers due to a highly competitive, international market for such services which is particularly sensitive to changes in prices and variation in commissions; independent production companies are often small or micro businesses hiring freelancers on a project-specific basis, resulting in high staff turnover, hindering knowledge sharing, consistent professional development, and effective planning for quality training; while larger established businesses are more likely to have well-financed training programmes. Funding to support freelancers and those in small companies to get the training and continuing professional development they need in order to succeed in mid and senior level roles is therefore particularly important.

Apprenticeships should be a key means of providing structured training routes to progress talent into and through the sector. However, the current Apprenticeship Levy scheme effectively excludes many companies in the Screen Sectors

Many Screen Sector companies 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.

We note that action has been taken over recent years in relation to the Apprenticeship Levy scheme, including allowing large companies to transfer up to 25% of their levy funs to smaller businesses (a scheme under which Amazon established a £1m fund specifically for the creative industries), Government support for two Flexi-job Apprenticeship Levy pilot schemes (with involvement from ScreenSkills, Netflix, Warner Bros. Discovery, Sky, Amazon Prime Video, Banijay and others) to test a new model of provision[62], and legislation in 2022 on portability. This is all 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 through a portable/modular delivery model without having to make tortuous attempts to retrofit the current approach.

Levy funds should be available for use 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.

Part of the reason for the skills shortages the sector faces can be traced back to a lack of understanding about the opportunities the sector offers at a time when young people are making key choices about their education and the future careers they would like to pursue.

We would therefore encourage improved careers information, advice and guidance (IAG) for children and young people to raise awareness of and understanding about the true breadth of careers across screen. Young people, their families and teachers are generally not well enough informed[63], with the result that progression into screen careers fails to be encouraged to a degree commensurate with the opportunities it offers and its potential for future growth equally to careers in other parts of the economy despite screen being a growth sector.

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[62] See: ScreenSkills Apprenticeship Pilots Summary Findings , May 2023.

[63] As evidenced in "BFI and ERIC screen careers research", June 2022.

We note that the BFI is investing £5.95m of lottery funding between 2023-2026 in a new Careers and Progression Programme, being led by Into Film, which seeks to make inroads into this challenge and help us better understand the interventions needed. However, we would again challenge whether the quantum of support in the areas matches the growth ambition for the sector and note that the National Careers Service currently contains minimal IAG on screen careers. We would also encourage more coordination between careers interventions such as the Creative Careers Programme and the National Careers Service so that sectoral IAG is streamlined to reduce confusion for target recipients.
The focus on STEM over STEAM subjects over many recent years has also been unhelpful in this regard; not only has it narrowed curricula in a way that has excluded creative subjects, but it has also reinforced a sense that creativity has less value in the workplace and that creative skills are not a foundation for a successful career. 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.

In order to support future growth in the Screen Sectors, primary, secondary, further and higher education must therefore focus far more on the development of creative, technical and business skills.

For example, for schools this would involve 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 which can develop "visual literacy" as a critical component of digital skills, particularly in an age dominated by visual communication, digitisation, and AI. Such skills transcend the film and TV industry and are becoming increasingly indispensable across diverse sectors, acting as a catalyst for growth in advertising, gaming, new entertainment forms, and tourism.

Beyond Key Stage 4, we have world class exemplars in the BFI Skills Academy, London Screen Academy (sixth form) and NFTS (higher education), but the scale of provision needs to increase at pace. Industry partnerships with schools, local authorites and grassroots organisations can extend the reach and amplify the impact of such initiatives, especially among under-represented demographics.

Beyond a number of world class exemplars, many of the creative courses that exist 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[64] and just £1 million on TV production initiatives.

It is worth noting that the Screen Sector workforce is dominated by graduates[65], yet such graduates often lack the practical skills required by Screen Sector companies. Degree

[64] See: "Multi-million-pound culture boost for children in schools", January 2020.
[65] On average over 66% of the workforce holds a degree, rising to 70% in screen production specifically.

programmes are often focussed on theoretical understanding, which is valuable, but fail to develop minimal skills to enable people to perform actual roles in the sector: courses are typically not designed with a view to 'occupational competence'. Many companies would, given the choice, have a preference for candidates with high quality technical training and skills over candidates with degrees, but currently do not have that choice. We would encourage efforts to raise the profile, status and availability of technical training routes. This would also provide benefits in terms of encouraging a more inclusive workforce, given the under-representation of certain demographics among the graduate population.

It would also be helpful if higher-level technical qualifications do not seek to replicate the first and second years of Bachelors Degrees/Foundation Degrees, but rather provide dedicated and occupationally specific technical training.

In Further Education, level 2 and level 3 vocational provision that has been working effectively to aid progression into the sector needs to be protected, particularly where T Level options are not available and in occupational areas in which delivery of T Levels is particularly challenging (for example in relation to production activity, where privacy issues practices and health and safety concerns can preclude under 18s).

In all these skills areas, the following statement in the Creative Industries Sector Vision captures the challenge to which public policy must now rise: *"To meet future demand we must better understand the range of progression routes available and ensure they work specifically for the creative industries"*.

We fully support the development of sustainable geographic clusters and regional hubs to enable local talent to build a career without moving to London and ensure that the benefits of growth are spread throughout the nations and regions.

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. Over the last decade or more 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[66] 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 (whose responsibilities will soon pass to local authorities).

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,

[66] Source: "Independent Review of the Creative Industries," Sir Peter Bazalgette, September 2017.

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.

All this has been recognised in the Creative Industries Cluster Programme and though the development of a number of production hubs, most notably those centred around Belfast, Bristol, Glasgow/Edinburgh, Leeds/West Yorkshire, London/Southeast England, Manchester/Liverpool and South Wales. Further hubs are developing in other areas, such as the North East and the West Midlands.

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. As noted above, 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.

Finally, and more broadly, while there are a great many very positive aspects to working in the Screen Sectors, as with 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, especially in sectors in which various forms of freelancing are commonplace.

J. Artificial Intelligence

Artificial Intelligence offers a myriad of opportunities for screen sector companies, but we are still at the foothills of our understanding of how it will transform our sector, and of the risks and benefits it offers to both existing and new players.

Artificial Intelligence (AI) offers a myriad of opportunities for Screen Sector companies, in terms of the creation, distribution and monetisation of audiovisual content. The sector itself is well placed to manage the changes that AI will facilitate, having navigated through a number of advances over recent years and decades, including the switch from analogue to digital technologies, and the advent of streaming and virtual production. Indeed, many Screen Sector companies are already exploring the possibilities that AI tools will offer to them in all parts of the value chain. Screen Sector companies fully understand that AI technologies succeed best with access to and investment in high quality, broad, diverse and trusted datasets and source material. Indeed, some companies have a direct interest in both developing AI technologies and monetising audiovisual content.

As with previous technological advances, alongside the value that may be generated using AI comes the potential to undermine and/or transfer value. For the Screen Sectors that value rests in intellectual property (IP) rights which form the bedrock on which creative businesses are built and on which the Creative Industries' £123bn contribution to UK GVA depends.

The aim of public policy in this area should therefore be to maximise the benefits of AI without damaging the vital economic contribution made to the UK economy by the Creative Industries, including the Screen Sectors which are the particular focus of this inquiry. In developing appropriate policy, it will be important to ensure that, in the development and deployment of new products and features, both creative expression and IP rights are protected without unnecessarily hindering innovation, including the separate desire for IP rights holders to use AI tools in conjunction with their own IP.

New forms of creativity are often inspired by the world around us, including the artists, creative works, and styles that we admire and learn about. LLMs tailored to create generative AI content work in a similar way - learning from data sets and creating new text, images, video, music and more. It is clear that an AI tool which draws on pre-existing content used in its training in order to create new content may in some circumstances reduce the value of the pre-existing content, for example by producing a substitutable product. That is not an argument against using AI to create new content, but it is an argument for such creation to take place within a legal framework which supports and rewards human creativity and innovation.

The territory of legal use of existing IP by third parties has always been navigated through the use of licensing agreements freely entered into by both the rights holder and the party wishing to make use of the IP in question. An exemption to copyright protection already exists in relation to research for a non-commercial purpose, and we note that in the Government Response to the Consultation *'Artificial Intelligence and Intellectual Property: copyright and patents'*, the Intellectual Property Office (IPO) stated "*Data mining systems* *copy works to extract and analyse the data they contain. Unless permitted under licence or an exception, making such copies will constitute copyright infringement."*[67] This issue is currently the subject of active consideration by the IPO through engagement with a wide range of relevant stakeholders - including British Screen Forum.

It should go without saying that those developing and using AI should comply with all relevant UK laws at all stages, including copyright, performers' rights, and all other intellectual property rights, including training of AI models and output of material by them.

We are still at the foothills of our understanding of how AI will transform the Screen Sectors, and of the risks and benefits it offers to both existing and new players in the sector. At this time it is therefore important that Government and Government agencies, such as the IPO, promote clarity, certainty and understanding about copyright and AI for developers and rights holders, including around datasets used for training purposes. As LLMs and the power of AI develops, the IPO should commit to continuing to protect the open internet and to ensuring that those involved in the Creative Industries can continue to generate appropriate revenue from their creative work.

Finally, we would ask the committee to note that issues around AI and copyright have a very significant international dimension. It is therefore important that UK Government consider and engage with other countries when designing a policy response.

[67] Source: "Artificial Intelligence and Intellectual Property: copyright and patents: Government response to consultation - GOV.UK (www.gov.uk)", para 32.