

Written evidence submitted by Sky

Sky Response to the Culture, Media and Sport Committee's Inquiry into British Film and High-End TV

October 2023

Introduction

Sky is one of Europe's leading media and entertainment companies and is part of Comcast Corporation, a global media and technology company that connects people to moments and experiences that matter. As a British brand in millions of homes across the UK, Sky places a great importance on our heritage and our contribution to sharing British stories, talent and culture with our audiences around the world. We are an integral part of the UK content sector and make a huge contribution to the UK's cultural economy through our own productions, commissions and collaborations with our partners in the sector such as PSBs, independent productions and streaming platforms.

The work we have undertaken over our 30 years of creating and sharing stories in the UK has been supported by a flexible and healthy production industry. Film and HETV productions continue to make sizable contributions to society, culture and the economy, with combined spend by film and high-end tv production reaching £6.27bn in 2022, £1.83bn higher than 2019¹ and is forecast to hit between £7.07bn - £7.77bn by 2025². This success can be attributed to the skills, talent and incentives on offer in the UK and is reflected in the UK's inward investment figures; with inward investment* of spend on films and HETV delivering £5.37bn (92%) of the combined production spend in the UK¹. This highlights the UK's global reputation as a world-leading centre for film and TV production in which we can attract global film and production budgets as a result of our offering.

Much of the UK's inward investment is bolstered by the ability of the UK to compete globally and establish itself as the place to create, produce and shoot film and TV. The existing and recently reaffirmed HMRC HETV tax incentives have performed extremely well and demonstrably delivered in line with the public policy intent behind them. Analysis shows that for every £1 of HETV tax relief £6.44 of additional GVA is generated totalling an overall £4.2bn GVA. This has supported 30,000 FTE jobs directly and almost 75,000 in total, stimulating an additional £1.29bn in tax revenue. This success is why we are pleased to see that the government has chosen to support industry by protecting the HETV tax incentives that have proven to be incredibly fruitful.

We believe that the UK can become the global destination to produce content, especially HETV and film, but this goal will only be realised with appropriate policymaking support. This includes addressing skills shortages by reforming the apprenticeship levy; futureproofing tax incentives to continue to enable homegrown productions and global budgets to film here; and creating a supportive environment for AI to thrive while upholding safety and IP protection. We are excited for the future of HETV and film in the UK and welcome the Culture, Media and Sport Committee's inquiry into High-End TV and British Film. We hope the Committee find our recommendations beneficial and draw upon them in their output from the inquiry.

Skills and retention

Sky is a British brand grown directly out of the skills and talent of the UK. We have been able to innovate and entertain over the last 30 years because of our employees who have produced captivating content including *'Gangs of London'*, *'Brassic'* and *'Patrick Melrose'* and created new and exciting products such as Sky Glass and Sky Stream. All of these offerings are the result of a healthy workforce with diverse expertise. We recognise that in order to sustain a workforce of such calibre we need to create avenues for young people to start a career in the creative industries. We believe

¹ <https://www.bfi.org.uk/news/official-2022-statistics>

* Shows that are substantially financed from outside the UK*

²<https://www.screenskills.com/news/new-forecast-of-skills-and-training-needs-to-support-uk-film-and-high-end-tv-production-boom/>

that these avenues will be most effective when provided across our industry and is one of the reasons why we (along with other UK broadcasters) support *ScreenSkills* – an industry led body for film, TV, VFX, animation and video games who identify skills gaps and support development at every stage of a professional career in screen through mentoring, bursaries and other mechanisms³. *ScreenSkills* is funded through contributions paid by industry, in part, via the HETV fund⁵. Recently we participated in the *ScreenSkills Flexi-Job Apprenticeships Pilot* which was provided by using a grant from DCMS. The pilot recruited around 40 apprentices and provided them with up to 20 months of hands on training. The pilot directly benefitted this cohort and created greater diversity in our production workforce by providing opportunities for apprentices from diverse backgrounds that likely would have not been able to start a career in the industry without it. Across our business we try to create avenues into a variety of jobs in the creative industries and we currently employ 288 apprentices up and down the country. We have recently added to our apprentice avenues by creating an additional dozen new roles at Sky Studios Elstree for school leavers and recent graduates, specifically focussed on film and TV production. As an industry we are creating avenues where we can, but to accelerate this we need government support. We recommend that the government look to address this through its upcoming Cultural Education Plan.

The government has a vital role to play in supporting our sectors growth and ensuring that HETV and film productions can reach the potential £7.77bn by 2025. This level of productivity will only be achieved if we are able to train people and enable them to progress in their careers. Therefore, a crucial starting point would be to reform the apprenticeship levy. This is due to a culmination of factors, but in the main the apprenticeship agency model as currently structured is unsustainable. As noted above, Sky was a participant in the *ScreenSkills Flexi-Jobs Apprenticeship Pilot* and in May *ScreenSkills* published the results of their study. They found that the current apprenticeships (the Apprenticeship Programme supported by DCMS and the DfE Flexi-Job Apprenticeship Agency Programme) are not sustainable in the long-term due to the resource required to identify sufficient, suitable, continuous placements to provide on the job training at scale⁴. The report highlights that reforms to the apprenticeships on offer currently can be drastically improved by:

1. Broadening the scope of the levy beyond apprenticeships to support a broader range and diversity of industry-recognised vocational training options.
2. Reforming the funding rules so that levy funding can be used to cover the additional employer costs of providing apprenticeships, not just the cost of the apprenticeship training.
3. Removing the fixed minimum-length requirements of apprenticeship standards so they can be better aligned to the duration of the training required for the job.

There are various factors required for successful and effective production ecosystem, with two of the most important being skills and retention of skilled workers. However, the film and TV industry is currently suffering from a shortage of skilled workers. Research commissioned by *ScreenSkills* estimates that continued growth in film and HETV will require between 15,130 – 20,770 additional full-time crew within three years. In order to train both the existing and the 20,770 necessary workers to meet demand, it is estimated that between £95.1 million and £104.3 million will be needed annually by 2025⁵. Furthermore, in combination with the difficulty recruiting workers, those working in production today are in such high demand that they are stretched. With one in six reporting that they work over 60 hour weeks, compared with the UK average of one in 50 and more than 78% of workers stating that work intensity is having a negative impact on their mental health⁶.

³ <https://www.screenskills.com/about-us/what-we-do/>

⁴ *ScreenSkills' Apprenticeship Pilots: Summary Findings* - <https://www.screenskills.com/media/7376/screenskills-apprenticeship-pilots-summary-findings-may-2023.pdf>

⁵ <https://www.screenskills.com/news/new-forecast-of-skills-and-training-needs-to-support-uk-film-and-high-end-tv-production-boom/>

⁶ <https://www.bfi.org.uk/industry-data-insights/reports/bfi-skills-review-2022>

This draws into the question the long term implications of not being able to attain the necessary skilled workers for demand and consistently over burdening current workers causing them to leave or move to jurisdictions where skills are not under such strain. If this cycle continues the industry risks suffering negative consequences and the UK may fall behind other jurisdictions as the global leader in film and tv production, to the tune of billions of pounds.

Talent in the UK is the backbone of our industry and we need to reform the avenues by which people are able to skill up and progress in their careers in the creative industries. We welcome the government's support of our industry and hope they incorporate these revisions, including reform of the apprenticeship levy, into upcoming policy changes.

Global destination for production – tax incentives and production space

Tax incentives

Film and TV production incentives are a key public policy intervention that have successfully attracted valuable film and television production to the UK. The uptake of these incentives has increased tremendously since their introduction in the 1990s. In 2007, there were only 50 incentive programs across 12 countries globally, most of which were provided by US states. By December 2021, more than 100 incentive programs were in use across more than 40 countries, with numerous other countries launching incentive programs every year⁷. The UK's growth has been exceptional and the tax incentives available to us have expanded FTE jobs more than Hollywood. In 2017 the UK's production incentives created 181,000 FTE jobs and approximately 219,000 in 2019. In comparison California's tax credit programme supported approximately 110,000 jobs between 2015 and 2020⁹. Making the UK the world leader for our tax incentive spending, beating out Georgia, Canada and California for the top spot⁸. As a result, production spend and related job creation have stimulated significant tax revenues for HM Government with an estimated generation of £3.35bn in 2019⁹. In order for industry to continue to build on our success, policymakers should consistently evaluate what tax measures can be utilised in order for the UK to compete globally.

The audio-visual tax reliefs alone have been important catalysts for investment and expansion in the industry. Their impact is best highlighted in 2019 in which film (FTR), high-end TV (HETV), children's (CTR), and animation television (ATR) production delivered £12.41bn GVA to the UK economy, an increase from £7.8bn in 2016, amounting to 203,660 jobs¹⁰. With the film tax relief delivering an economic return on investment (ROI) of 8.3, showing that for every £1 invested the UK economy benefited by £8.30, HETV contributed £6.44 for every £1 invested¹¹. At Sky, we love telling stories and take pride in the content we produce. Our success owes a huge amount to the tax incentives available to us over the past 20 years including the HETV Relief that was introduced in 2013. Since the creation of Sky Studios in 2019 we have spent over £1bn across nearly 70 HETV scripted titles that qualified for tax relief. Some of these 70 titles as well as our upcoming productions would not have been made without the HETV Relief. Therefore, we are pleased that the government have recognised the value of these tax incentives and have decided to maintain the HETV threshold of £1m as confirmed in the Spring Budget and in the Draft Finance Bill. Beyond this, Government

⁷ <https://www.kearney.com/industry/media/article/-/insights/production-incentives-an-indispensable-tool-for-creating-and-sustaining-a-global-media-hub>

⁸ <https://www.kearney.com/industry/media/article/-/insights/production-incentives-an-indispensable-tool-for-creating-and-sustaining-a-global-media-hub>

⁹ <https://www.bfi.org.uk/news/screen-business-report>

¹⁰ <https://static1.squarespace.com/static/5f7708077cf66e15c7de89ee/t/61b9e2928f58880b7142c4e9/1639572116322/screen-business-summary-report-2021-12.pdf> (pg. 4)

¹¹ <https://static1.squarespace.com/static/5f7708077cf66e15c7de89ee/t/61b9e2928f58880b7142c4e9/1639572116322/screen-business-summary-report-2021-12.pdf> (page 18)

should maintain a world-leading AV tax framework by committing to a regular benchmarking exercise assessing UK incentives against competing jurisdictions, as well as broadening R&D tax credits eligibility to include creative endeavours. A fuller outline of this can be found in our 2023 Powering Creativity report¹².

Production space

In order to realise the full £7.7bn production spend potential by 2025, appropriate consideration needs to be given to adequate production space for the current and potential future demand. Demand for space by TV and film production in the UK has increased significantly over the past five years. In 2022 there were 195 UK based high-end TV (HETV) productions, the second highest year behind 2021, and a 26% increase from 2018¹³. At Sky, we have risen to the challenge of supplying production space internally with the creation of Sky Studios Elstree which is now fully operational. Sky Studios Elstree will be the UK's latest studio and will become home to new Sky Originals and film and TV series produced by our sister company NBCUniversal. Sky Studios Elstree is set to create 2,000 new production roles across 12 soundstages. Included in this group are over 100 employees who will run the site on a day-to-day basis, with additional roles created for school leavers and graduates to start their careers in production through Sky's Content Academy programme. We expect for Sky Studios Elstree to attract £3bn of new production investment to the UK over its first five years. However, we recognise there may be greater demand in the market for studio space than the industry can collectively provide.

The UK is in a unique position by having globally recognised talent, beautiful scenic locations and a strong cultural identity. Our UK identity is what makes British film and TV so special and where we are able to, we try to harness this and shoot our film and TV productions in the Nations and Regions. This is reflected in our ability to increase our share of production outside the capital to 17% in 2022 from 5% in 2020¹⁴. This is best highlighted by some of our most critically acclaimed shows including *'Patrick Melrose'* starring Benedict Cumberbatch, *'Tattooist of Auschwitz'* and our new drama *'Lockerbie'* a mini-series based on the tragic bombing of Pan Am Flight 103, all of which have been made in the Nations and Regions and frequently in partnership with local independent production houses. However, the accessibility to film in locations outside of London is challenging, of the 41 studios in the UK with sound stages larger than 15,000 sq. ft, 21 are in London or around London. The remaining 20 large studios span across Northern Ireland, Wales, Scotland and the North of England¹⁵. Of the remaining studios with sound stages less than 15,000 sq. ft there are six, five of which are in London with only one located outside of London¹⁴. As of 2022, 51% of production budgets were spent in the Nations and Regions (largely by PSBs) and the demand for appropriate space is significant and set to rise¹³. Therefore, to access suitable facilities in the Nations and Regions is incredibly difficult, policymakers need to evaluate what support mechanisms they can offer to address studio space in the Nations and Regions.

Business rates

In November last year the Valuation Office Agency (VOA) published their draft rateable values of all businesses and other non-domestic property in England and Wales for 2023, also known as business rates which are tax charged on the right to occupy a property. However, the valuation of film studios

¹² <https://www.skygroup.sky/economic-and-cultural-impact>

¹³ <https://mktgdocs.cbre.com/2299/25fa4c5b-89af-4da5-93fb-bbb90ba7b6e2-2531860745.pdf>

¹⁴ <https://www.prolificnorth.co.uk/news/nations-and-regions-account-majority-tv-production-spend-first-time/>

¹⁵ <https://britishfilmcommission.org.uk/plan-your-production/studios/>

has materially changed in comparison to the 2017 revaluation to the extent that it could damage the production ecosystem as a whole.

The British Film Commission worked with Montagu Evans LLP to understand the impact caused by the significant increase in business rates for film studios. They identified that from a sample of 31 studios, the average additional increase in rateable values for film studios will be 301%. Based on the newly published figures, with some rising by as much as 650%+. This means that their business rates payable will increase by a similar percentage, threatening the profitability, and therefore viability, of studios throughout England and Wales.

If these new rates are actioned the building of new production studios and the expansion of existing ones will become financially unviable, causing knock on impacts on large and small productions and the international viability of productions being shot in the UK. As the film and TV ecosystem is flexible, it is fluid, enabling productions to pick up and move elsewhere where tax incentives and production spaces are more commercially competitive and readily available. This has the potential for international operators attracted to the market over the past five years to pull out of the UK. This equates to the potential collapse of a pipeline of 4 million sq. ft. of new stage space scheduled to come online over the next three years, circa 2 million sq. ft. of which has been granted planning consent.

The increase in business rates for film studios is an extreme outlier in comparison to any other sector in the UK. The rateable value change from 2017 to the proposed 2023 valuations across England see film studios % change at 306%, whereas the second highest change in any industry sees a 32% increase for 'industry – storage and distribution'. On the other end of rateable value changes and ranked last for the % change between 2017 and 2023 is 'Hotels, guests and boarding and self-catering' which sees a -28% business rate. There is extreme disparity between film studios business rate changes and all other industries, which has the potential to negatively impact a successful and globally competitive sector.

Artificial Intelligence (AI)

Unlocking the potential of AI in the creative industries is an exciting prospect, but appropriate consideration must be given to identify and mitigate negative consequences of its application. Like many businesses we are investigating how AI can be utilised to better aid our staff to focus on big ideas and ideation. We believe the Government's pro-innovation regulation approach to AI with safety at its core will help businesses like ours unlock AI's potential.

As with any new technology the goal is to make processes easier, accurate, faster and cheaper. The same can be said for utilising AI in the creative industries. Frequently AI tools are being used to complete time and labour intensive work, such as searching for clips in content that state specific words, extending images and for image generation to free up time allowing humans to explore more creative and complex thinking. Polling was conducted to investigate the role of AI in the creative industries today and across 13 creative fields (including advertising and marketing, IT, software, video games, social media and animation and production) 70.5% of animators and video producers agreed that AI does not threaten their job security, 75.2% agreed that AI will support them in their role, 32.9% of respondents thought that AI would force humans to become more creative and of this subgroup, 83.3% of them use AI regularly¹⁶. There are ample opportunities for AI to support jobs in the creative industries allowing humans to have more time to spend on creative thinking.

¹⁶ <https://www.enginecreative.co.uk/blog/artificial-intelligence-in-the-creative-industry/#the-respondents>

While AI is recognised by governments across the world as having the potential to drive economic growth and social progress, AI can be prone to bias, be used for the production of convincing fake news and emit significant amounts of CO2. AI's potential is continuously expanding and in order for the UK to capitalise on this, we must take into consideration the issues that come with its use. Researchers at USC's Information Sciences Institute studied two AI databases and found that up to 38.6% of the data was biased¹⁷. In this vein, Large Language Models (LLMs) have been used to generate convincing fake news and propaganda, which can easily enter into social media channels and amongst the general public without being checked, with the potential to manipulate public opinion and in theory undermine democratic processes. Additionally, the progress made by machine learning comes at a significant cost to the environment. Researchers found that to successfully run a machine learning model (MLM) with a 176-billion parameter, it would emit approximately 50.5 tonnes of CO2 eq when accounting for all elements of the supply chain from equipment manufacturing to energy-based operational consumption¹⁸. This is equivalent to 129,459 miles driven by an average petrol car.

We believe that the creative industries value is cemented in the ability for creative minds to story-tell, share views and think big ideas. AI has the potential to support humans execute projects across film, TV, gaming, painting, storytelling etc., but AI cannot replace expertise, creativity and life experiences that make our industry and our output so special.

Sky and British film

The demand for British Film by audiences in the UK and internationally is strong but is still recovering post-pandemic. In 2019 UK films at the global box office achieved gross earnings of \$10.3bn putting the UK's global share at around 25%¹⁹. However, in 2020 this decreased significantly to \$1.1bn representing a 9% share – while each year can vary depending on the content released there has never been such a significant drop in the last 12 years. Although, in certain international jurisdictions UK content still attracts sizeable audiences, for example in North America appetite for British films is strong representing just under a fifth (18%) of total USA and Canadian box office earnings at £248m in 2020. This demand is also reflected across European territories in which the UK films market share was 18%¹⁵. British talent, both in front the camera and behind it, is imperative to achieving global success, from 2011-2020 68% of leading or supporting roles in the 200 highest earning films went to British actors and 29 of the 200 highest earning films during this period were made by UK directors.

Where we can we try to champion British talent both in front of the camera and behind it, with some of our recent Sky Originals doing just that, they include *'A Good Person'* starring Florence Pugh, *'Dead Shot'* starring Felicity Jones and filmed entirely in Scotland and *'Save The Cinema'* starring Louisa Cliffe which was shot entirely in the UK with all of the stars being British. We have even more British film led by British talent in the pipeline and are excited for the upcoming release of *'Bonus Track'*. *'Bonus Track'* is a film based on a 16-year-old who believes he is a future star musician, even when no-one else does. The film follows his friendship with the son of a famous musical duo who helps him rehearse for a talent show and leads both boys to learn from each other and grow closer. *'Bonus Track'* will be released later this year and was filmed entirely in the UK with all of the leading stars coming from the UK, it features Jack Davenport, Susan Wokoma and Josh O'Connor.

¹⁷ <https://viterbischool.usc.edu/news/2022/05/thats-just-common-sense-usc-researchers-find-bias-in-up-to-38-6-of-facts-used-by-ai/>

¹⁸ <https://arxiv.org/pdf/2211.02001.pdf>

¹⁹ <https://www.bfi.org.uk/industry-data-insights/statistical-yearbook> - UK films and British talent worldwide - full report.

Cost-of-living crisis

The cost-of-living crisis has directly impacted aspects of production in the UK. The Film and TV Charity's Financial Resilience Survey (May 2023) highlighted how significant an impact the cost of living crisis has had on all production workers, they found that 88% of those surveyed were affected by cost-of-living, 65% stated they found it difficult to manage or get by, 50% are expecting to get enough work and 46% have less than £1000 in savings. Overall, production colleagues with caring responsibilities, from Black and global majorities, and those who are disabled were more likely than their counterparts to be affected. Freelancers represent a majority of the production workforce, they are more likely to have no pension provision and be from lower household incomes and have no protection in case of financial slowdowns, cost of living crisis etc. and global events such as covid.

Our productions are built off the hard work and skills of our production colleagues. We value their contributions and understand that their work enables us to create brilliant and interesting TV and film. Therefore, where we can we have tried to support our production colleagues. From the outset of the covid-19 pandemic, we have supported our freelancers engaged with us on PAYE contracts. Until August we provided their average monthly pay in full and provided our freelancers with 70% of their monthly pay until the end of October 2021. We also led the way with other broadcasters on protocols for safe production and subsequently donated £500k to the TV and Film Charity to help freelancers in financial need. We understand that production colleagues are facing such drastic impacts on their finances during the cost-of-living crisis, with applications for stop-gap grant applications seeing an 800% increase in applications in August 2023 compared to August 2022, with a year-on-year increase of 129%. While we understand there is more that needs to be done to support our production colleagues, we have committed to providing £25k to the Film & TV Charity to fund their stop-gap grants. Industry's efforts will continue to be helpful, but policymakers should consider whether there are any Government actions that can support freelancers both during challenging times and throughout their careers.