Ukie submission to the Communications and Digital Committee's Call for Evidence – 'Scaling up: AI and creative tech.'

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Introduction

1. I am writing to you on behalf of the UK Interactive entertainment association (Ukie) to respond to the Communications and Digital Committee's call for evidence as part of its inquiry into Scaling up: AI and creative tech.

2. Ukie is the trade body for the UK's video games and interactive entertainment industry. A not-for-profit, it represents more than 690 games businesses of all sizes from start-ups to multinational developers, publishers, and service companies, working across online, mobile, console, PC, esports, virtual reality and augmented reality. Ukie aims to support, grow, and promote member businesses and the wider UK video games and interactive entertainment industry by optimising the economic, cultural, political, and social environment needed for businesses in our sector to thrive.

Executive Summary

3. The UK video games industry is an economic powerhouse and a hotbed for the development of emerging technologies, generating £6 billion in gross value added to the UK economy and supporting 76,000 FTEs in 23 key locations across the UK. The average GVA per FTE reaching £113k, nearly double that of the UK economy average. 55% of games development jobs are based outside of London and the South East.

4. The UK's established video games sector is a global leader in the emerging technologies which will develop and shape the industries of the future, including across the creative sector. This sees the UK leading the world in fusing creativity, art and technology, using cutting-edge techniques to develop new games and to bring new products to the market. We estimate that the spillover effects of video games technology into other sectors, like advanced manufacturing, contributes an additional £760m in GVA growth in the UK alone.

5. The UK video games industry is a powerhouse of creativity, innovation and economic growth. As the fastest-growing sector in the UK's creative industries, it has the potential to be a cornerstone of a bold, mission-based approach to national renewal. However, to fully realise this potential, the UK Government must think ambitiously about how to support and leverage the video games sector as a driver of economic and social transformation as part of the UKs creative industries. This includes addressing ongoing key issues, such as maintaining competitive tax reliefs, unblocking access to finance, attracting investment and tackling skills shortages.

6. Addressing these issues would support our domestic video games sector and the wider UK economy in the face of ever-growing international competition and a fast growing global market – estimated to be worth over $200bn globally in 2024. Other developed nations are replicating generous tax reliefs or developing clear growth strategies for their domestic games industries. Canada has been a leader in introducing a video games tax relief, whilst countries like Ireland, France and Australia have all since established or renewed generous tax reliefs to attract foreign

direct investment and grow their domestic industries. Germany recently announced the introduction of a national tax relief, which will support it's already generous €70m funding for game developers.

7. Whilst tax reliefs mainly support the larger companies in the UK games sector, SME video games companies often face structural, financial and operational barriers to scaling up which a tax relief alone cannot single handedly solve. By improving the scale-up landscape, the UK could significantly increase this figure, particularly if the sector is supported to exploit the rapid advancements in AI that are already having a significant impact. Failure to support startups in the cultural and creative industries could result in the migration of talent, innovation and investment to regions with environments more conducive to scaling.

8. To address this, Ukie's accelerator and scale-up program supports companies with resources and mentorship to drive growth and innovation across platforms like console, mobile, and VR/AR. Furthermore, the government funded UK Games Fund (UKGF), established in 2015, has been a vital funding source, fostering commercial and socially impactful game projects and contributing to the sector's growth—from £2.8 billion in 2016 in economic impact to £6 billion in 2021 – according to the BFI Screen Business reports. However, as international competitors like Germany increase their investment in their domestic games industries, expanding the UKGF beyond 2025 is crucial to sustaining the UK's global position and unlocking further economic and cultural potential in the industry.

<u>Access to funding</u>

9. One of the primary barriers for SMEs in creative technology, including video games, is limited access to finance. Many creative SMEs struggle to secure traditional bank debt because they often lack tangible assets or predictable revenue streams, and this issue is specifically stark video games where access to funding for projects is done mostly through traditional avenues and that in some cases funding opportunities intended for the wider screen sector do not always immediately apply to games development.

10. To support game companies navigate the difficult business environment, Ukie launched this year's accelerator and scale-up program, in collaborations with the Department for Business and Trade, which supports 30 game development companies across two stages—an accelerator track for emerging companies and a scale-up track for high-growth-potential businesses. Selected from over 50 applicants, these companies receive tailored support, networking opportunities, and industry mentorship to help them scale their businesses and develop cutting-edge projects. In partnership with DBT and Tencent, the programme encourages developers to use a global mindset by enabling them to develop strategies in corporation with industry veterans for substantial growth and expansion.

11. The program not only fosters a diverse community of game creators, with founders spanning various genders, ethnic backgrounds, and regions across the UK, but also supports the development of groundbreaking content across multiple platforms, including console, PC, mobile, and AR/VR/XR. Several participants bring fascinating backgrounds and stories, from Yaldi Games, which merges games with real-world educational themes, to Sanford Tech, which leverages VR to elevate mobile games experiences. Other notable entries include Noun Town, which integrates VR for language learning. This cohort highlights the resilience and creativity in the gaming industry, with companies like Twisted Works and Electric Sheep Studios formed by

developers made redundant from larger studios, and shows how startups are exploring new intersections of technology, education, and social inclusion in gaming.

12. Another successful example of government backed funding for SMEs is the UK Games Fund, which, since its inception in 2015, has been a cornerstone for the national video games industry. Over the course of its operation, the fund has launched more than ten rounds of funding, offering up to £25,000 to promising projects and visionaries in the sector.

13. From a modest funding settlement, the games fund has had helped fund studios who have seen exceptional commercial success including Roll 7, FuturLab, and Tag Games. It also fulfils a wider remit of helping to develop a wider range of games which have public and social value. Evidence has shown that the video games industry overall provides a positive return on investment when it comes to support from Government. According to the BFI screen business report in 2016, the overall economic impact of the sector was £2.8 billion – however when we look at the same figure for 2021, the industry is two times larger at £6 billion in a period of just five years. The impact of VGTR for example across the economy was covered in the BFI's Screen Business 2021 report and was found to generate a return of tax investment of £1.72 for every £1 of investment.

14. The Government has recognised this in its recent additional £5m of funding for the UKGF which is aimed at developing more varied content, through larger targeted grants for projects reaching maturity. However, in the face of ever-growing international competition – the next Government can and should be more ambitious in its support for our sector and the UKGF when it looks to renew its funding beyond 2025.

15. The impact of the UK games fund cannot therefore be underestimated – and whilst there are a great number of recognisable successes through the fund, we must also accept the evolving and competitive landscape of the global video games industry. Countries like Canada, France and Germany are doubling down on their investment in the video games sector. The introduction of substantial funding systems, such as Germany's recent initiative to increase their own national games fund to €70 million, which since its introduction since 2020 has helped increase the size of the German games industry by 46%, underscores the urgency with which international competitors are acting.

16. Video game culture in the UK is undeniably vibrant, but without a competitive edge in funding, we risk falling behind on the global stage. It is therefore imperative to renew and significantly expand the UK Games Fund. An amplified commitment from the government can lead to increased investment, job creation, commercially successful games and the development of a greater variety of culturally rich intellectual property.

Copyright

17. There are also regulatory challenges that need to be addressed, particularly in protecting the IP rights of content creators as generative AI continues to push the boundaries of copyright law. For many SMEs in the cultural and creative industries, the unauthorised use of their IP can prove a significant barrier to them scaling their businesses. Ensuring robust IP protection is essential to help SMEs safeguard their creative input, while also fostering an environment where innovation can thrive.

18. A further regulatory obstacle exists as intangible assets, such as IP and creative output, are treated differently under international accounting standards compared to physical assets, like property or machinery. This difference poses a significant challenge for the cultural and creative industries, as intangible assets are often considered "riskier" by financial institutions, due to how they must be accounted for.

19. Under these standards, banks lending against intangible assets must retain more capital on their balance sheets, making it costlier to lend to creative businesses compared to more traditional sectors, like real estate. This can stifle access to finance for creative SMEs, even though the actual risk of lending to these firms may not be higher.

20. As alluded to previously, businesses in the creative and AI sectors operate at the intersection of content creation and technological innovation. This in turn exacerbates the barriers to scaling as creative SMEs deal with both technological and cultural complexities.

<u>Research and Development and other initiatives</u>

21. On the question of the effectiveness of exiting Government initiatives, our members wanted to raise the argument that existing initiatives through UKRI, for example, tend to favour sectors like biotech or fintech where scale-up timelines and return on investment are more predictable. This is a major challenge for creative tech SMEs who have not benefitted to the same extent due to their perceived higher risk profile and longer R&D cycles.

22. Currently, R&D tax relief focuses heavily on advancements in science and technology, excluding the arts and humanities. Yet, innovation within the creative industries is equally transformative, often pushing the boundaries of both technological and cultural output. For example, creative companies are at the forefront of developing new digital tools, immersive experiences and AI-driven content creation, which could potentially qualify under broader R&D definitions. This is especially true for small and medium-sized enterprises (SMEs) which, due to their size, struggle to access the same level of support as their larger counterparts.

23. SMEs in the creative industries drive economic growth and cultural innovation. They invest in R&D to develop new methodologies, processes, and platforms; but many lack the financial resources to take these projects to full maturity. A report from Nesta highlighted how R&D investment in creative technology is often overlooked, despite its role in driving competitive advantage for UK companies internationally. Smaller firms, especially those outside London, have shown that even modest R&D projects can generate significant social and economic value when given the right support.

24. As previously mentioned, reforming and redefining R&D tax credits to include creative processes and content-driven innovation would incentivise more companies to invest in cutting-edge and often overlooked projects. Additionally, extending tax relief to companies that combine AI with creative outputs could level the playing field for creative tech SMEs.

25. With regards to non-financial measures, strengthening regional creative clusters by providing a better investment infrastructure, networking opportunities and access to mentorships would help distribute growth beyond London and the South East. The Creative Clusters Programme is a step in the right direction, but initiatives like this require long-term, sustained investment for them to realise their full potential.

26. A focus on skills development, such as fostering AI and creative tech-specific skills through HE institutions and on-the-job training programmes, would also help address barriers to scale. This would ensure creative SMEs have access to a workforce capable of scaling innovative projects; and we hope the establishment of Skills England will help advance progress in this area.

27. Additionally, there is also a need for many of these skills to be developed at a much earlier stage. As such, a long-term, cross-government strategy is needed to support creative education and skills development, ensuring that creative industries are recognised for their significant economic and cultural contributions. This should include reintegrating arts subjects into the core school curriculum, expanding access to vocational training and internships, and supporting creative career pathways from an early age. Re-embedding creativity into the curriculum is critical to innovative thought, with creative thinkers demonstrating greater flexibility and adaptability in their approach to problem-solving.

Conclusion

28. The UK video games industry stands as a global leader in creativity, innovation, and economic growth, contributing significantly to both the national economy and the development of emerging technologies. However, to fully capitalise on this potential, the UK Government must adopt a more ambitious approach to support the sector, addressing key challenges such as access to finance, skills development, and regulatory barriers.

29. Expanding funding initiatives like the UK Games Fund, refining R&D tax relief to include creative processes, and ensuring robust intellectual property protection are crucial steps to maintaining the UK's competitive edge on the global stage. By supporting creative SMEs, fostering regional growth, and prioritising skills development from an early stage, the UK can unlock the full transformative power of its video games industry as a cornerstone of its creative industries and economic future.