ukie

Ukie submission to the Autumn Budget 2024

10 September 2024

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Introduction

1. 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.

2. 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.

3. 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.

Executive Summary

4. 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.

5. 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.

6. The Video Games Tax Relief (VGTR), now the Video Games Expenditure Credit (VGEC) has underpinned significant growth in the UK video games sector since its introduction in 2014. We have seen on average 7% annual growth in the sector. However, in the past year, there have been significant challenges in the sector with high profile redundancies, studio closures and diminishing external investment. In order to supercharge the sector which can significantly contribute to the UK's economy growth and add new high skilled jobs to the UK economy, the UK Government can support the industry in several ways:

7. Maintaining Competitive Tax Reliefs: VGTR has underpinned growth in the sector which across the UK and has encouraged foreign direct investment. With 55% of development roles outside of London and the South East, it has encouraged inclusive regional growth and high skilled employment in the UKs regions and nations. However, in face of growing international competitiveness, increasing cost inflation and skills shortages, it is crucial that the UK's rate for the new Video Games Expenditure Credit remains competitive in order for businesses to continue to carry on business in the UK.

8. Supporting Funding Schemes: The UK Games Fund (UKGF) has been an essential source of funding for development projects, allowing initial development of products to take place through prototype funding – and now content grants to allow businesses to scale and bring products to market. However, its current settlement ends in 2025. International competitors like Germany and Canada are expanding their support for the video games sector with large national funds. To keep pace, the UK must ensure long-term support for its games industry by renewing the UKGF beyond 2025 and seek to addressing gaps in funding from traditional finance sources which do not readily cater towards IP based projects.

Video Games Expenditure Credit

9. The impact of the Video Games Tax Relief (VGTR) on the video games sector since its introduction in 2014 has been enormously beneficial. It is accessible to the smallest studio and is critical for them to grow, access finance options, hire people and export, while also driving significant global investment in large studios and ensuring the UK remains competitive at the top end of the market. Thanks to this flexibility to support the entire games development sector, the relief delivers an important net positive to the exchequer.

10. Most recently the impact of VGTR across the economy was covered in the BFI's Screen Business 2021 report. The report found that VGTR generated a return of investment of £1.72 for every £1 of investment in tax relief. It also directly supported over 15,000 FTEs, equating to over 21% of the total video games sector workforce in the UK. However, the rate of return as specified in the screen business report is based on historic data that undervalues the impact of the games industry, and Ukie is currently conducting further research to develop a better understanding of the true economic impact and rate of return of VGTR which we believe is far higher. We are also analysing the potential impact and return that a higher rate of relief would have on GVA and employment in the UK and we will be in a position to share the findings with the Government in the coming months.

11. The combination of VGTR, which acts to draw games companies and talent to the UK by de-risking the initial stages of games development, and the UKs well established video games industry has kept the sector broadly competitive in an increasingly tough global market. It offers a rate of relief of 25% (capped at 80% of total production budget) and a relatively simple application process. However, there are now many other jurisdictions that are also offering similarly generous incentives to the UK. For example, the French tax credit for video games sits at 30%, Greece offers a cash rebate of 40%, Canada has several Provincial incentives including, Ontario offering a tax credit of up to 40% for video games, and a base rate of 30% in Quebec,

and the Republic of Ireland has recently announced a tax credit at a rate of 32%, while Germany and Australia have also introduced new reliefs in the last three years.

12. The new Video Game Expenditure Credit (VGEC) despite a headline rate increase, is in effect only a marginal increase of 0.5% given that expenditure credits apply the base rate of corporation tax to all claims. There have also been several administrative changes to the claims process which may potentially make the claim process more complex than the predecessor scheme. We believe that VGEC must remain as generous and as easy for companies to claim as the previous VGTR for its' benefit to be fully realised. Our industry has grown significantly since the introduction of VGTR to over 2,800 companies across the length and breadth of the nation and the UK had been seen as an attractive place for international investment.

13. Given the net positive to the UK in terms of the return on investment, the introduction of VGEC must not reduce the attractiveness of the relief and of the ease of claims, and in the face of rival international reliefs, we implore the UK Government to liaise with the industry to examine how to make better use of the system of tax reliefs to underpin further growth in the sector and the wider creative industries.

Maintain successful funding schemes

14. The UK Games Fund (UKGF) has been an incredibly successful and welcomed source of funding for development projects since its creation. We welcomed Government's continued support with an additional £5 million for a content fund, announced last year, and which was opened to applications this year.

15. The presence of the fund is especially important to UK video games companies who still find it difficult to access traditional debt or equity finance from the private sector, or wider funding opportunities intended for the screen sector – as they often apply to Film and High-End TV and not always immediately relevant to games development.

16. Countries like Canada, France and Germany are doubling down on their investment in the video games sector. The introduction of substantial funding systems has helped to grow other countries' domestic video games sector. For example, Germany has seen its domestic industry grow by 46% from 2020 to over 900 companies in 2023 – which has been helped in part by the introduction of a national games fund of €70 million. Examples such as these underscore the urgency with which international competitors are acting. Germany is looking to further this growth with the planned introduction of a tax relief system in addition to its games fund, which has become oversubscribed.

17. The UKGFs prototype fund has helped support over 15 rounds of funding since its introduction offering grant of up to £30,000 to help catalyse development through de-risk early-stage development, increased headcount and develop products and concepts to unlock private finance options, on the road to commercially successful projects.

18. In the long-term reframing the video games and wider creative industries as an attractive investment for traditional investors, such as pension funds, is vital to unlock new streams of capital that can fuel sustainable growth and innovation. By educating investors and creating initiatives to de-risk video game investments, the government can encourage cautious investors to enter the sector. However, until this situation becomes a reality – funds like the UKGF are vital in de-risking developments and bridging the gap to traditional investment.

19. Companies such as Hyper Luminal Games in Dundee, who received funding in round 3 of the UKGF have recently celebrated their 10^{th} anniversary, have doubled their headcount in the past three years and have recently developed a publishing arm in addition to its development studio.

20. FuturLab, based in Brighton, who received both funding from UKGF and who have utilised VGTR have been able to increase their headcount from 15 to 100 and their title 'PowerWash Simulator' has generated over $50m in worldwide sales.

21. Despite relatively small grants in the prototype fund, the ability to develop successful concepts is vital in seeking to unlock financing from other traditional sources to grow and scale and seeks to avoid a scenario by which companies can only grow through being acquired by larger, often international entities.

22. However, the UKGF settlement does not continue beyond 2025. For an industry which struggles to access finance, and where development cycles for games can take years – the UKGF is a vital resource which needs long term certainty. The loss of the fund would serve as a blow to a domestic industry creating exciting and engaging new intellectual property and deprive our sector of the stability it needs leaving it more vulnerable to acquisition.

23. Video game culture in the UK is undeniably vibrant, but without a competitive edge in funding, we risk falling behind on the global stage.

24. **Therefore, we ask Government to, at the very minimum, renew the UKGF beyond its current funding settlement at its current levels – encompassing prototype, transfuzer and content funds.**

25. **In the long term, our industry wants to work in partnership with Government to help develop a stable, long term and expanded fund which works alongside a varied investment market which encourages long term private investment in our world leading games sector and creative industries.**