



**Ukie response to
the Business,
Energy, and
Industrial
Strategy
Committee
inquiry on post-
pandemic
economic growth**

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UK Interactive Entertainment response to the Committee's post-pandemic economic growth inquiry

About Ukie

1. Ukie is the trade body for the UK's games and interactive entertainment industry. A not-for-profit, it represents more than 480 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. We welcome the opportunity to respond to the Committee's inquiry.

About the UK games industry

2. The UK video games industry is an economic powerhouse, supporting 47,620 FTEs and £2.87 billion in gross value add to the UK economy¹. The games industry is 35% more productive than the UK industrial average and is spread across the country: 55% of games development jobs are based outside of London and the South East². Games businesses are natural exporters, too: over 90% of the UK video games industry export products and services³.
3. Games businesses require both STEM and creative skills to succeed, operating at the intersection of technology and creativity. Innovations in video games, such as artificial intelligence and graphics engines, have broad applications across both traditional and emerging industries. The research and development undertaken by games businesses supports the UK in remaining globally competitive and a significant force on the world stage.

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

4. The impact of the pandemic has not been felt equally across the economy. The Government will need to take different approaches to different sectors in order to maximise our chance of recovery.

¹ <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-full-report-2018-10-08.pdf>

² https://ukie.org.uk/sites/default/files/cms/docs/Ukie_Think_Global_Create_Local_Jan2020.pdf

³ https://ukie.org.uk/sites/default/files/cms/docs/Ukie_Think_Global_Create_Local_Jan2020.pdf

5. Some sectors will need ongoing Government support to survive. We believe that this is the right thing to do where a sector, outside of an extraordinary crisis, is in good health. Other sectors will not need direct Government intervention to survive. Some of these sectors will have shown resilience throughout the crisis. These sectors are likely to be the dynamos that power the UK's economic recovery. That recovery must be long term and sustainable. The Government should aim not just to rebuild the economy to its pre-pandemic level, but to accelerate growth beyond that. For this the Government will need to back the sectors that offer broad value to the economy. For instance, sectors that drive technological innovation and adoption across the wider economy, improving national productivity and competitiveness.
6. **The Government should assess these sectors for opportunities to provide financial and other support that allows for an even greater contribution to economic recovery and growth.** The Government should not be afraid to back the industries of the future.
7. This has been a global crisis, and the UK is not alone in planning for its economic recovery. Other nations and groups of nations will be aiming to capture the value of sectors with the potential for real and sustainable growth post-pandemic. They will do this by creating attractive investment environments, by allowing businesses in their jurisdiction access to the best and brightest of global talent, by backing the skills of the future and by investing heavily in infrastructure from full fibre and 5G to rail.
8. **The Government must be willing to truly compete, and to support businesses to compete, in an international market for investment, talent, skills and more. Otherwise the UK will lose some of the best people and businesses to other nations.**

How can the Government borrow and/or invest to help the UK deliver on these principles?

9. The Government should invest significantly in sectors that can drive the recovery we need: future-focused and sustainable.
10. Investment in these sectors offers significant and multiple benefits. It can help to build successful businesses paying large amounts in tax to the Exchequer, it can develop a workforce with the skills required for a future economy, and it can boost the development of content and products that promote the UK around the world.
11. Despite the world renown for the UK games industry, the Government has yet to take full advantage of the potential of the industry. The VGTR is a welcome intervention that attracts foreign direct investment to the UK while at the same time supporting domestic

business to create intellectual property enjoyed the world over, but it could and should be expanded. The £1 million per year contributed to the UK Games Fund and Tranzfuser ('UKGFT') is welcome and has supported game developers at the earliest stages to create original intellectual property since 2015. More than 1,000 applications for funding have led to just over 100 companies being supported. Whilst the Fund has been highly effective and targeted it was limited in scope and has now run its final round of funding. It has demonstrated the demand and value of expanding the scope and quantum of Government support for a winning sector. As games have again demonstrated their resilience and growth potential, now is the time for the Government to significantly upscale its ambition.

12. This expanded scope and quantum could be modeled on the approach of the Finnish Government. Between 2004 and 2016 the Finnish Funding Agency for Technology and Innovation (*Tekes*) invested €100 million into roughly 100 Finnish video games businesses. This led to the creation of world-leading businesses such as Supercell and Rovio. Between 2012 and 2014 Supercell alone contributed €1.7 billion in tax.
- 13. We have called for the Government to create a UK Games Development Fund with £25 million available to games businesses over three years. We estimate that this would provide support to 400 businesses, creating and protecting 2,000 high skilled, high paid jobs. We also estimate that it would deliver a tax return to the Exchequer in the region of £250 million over six years.**
14. The **Video Games Tax Relief** ('VGTR') was introduced in 2014, and has demonstrated a strong return on investment for the taxpayer. The British Film Institute's Screen Business report found that for every £1 of relief granted, £4 of gross value add was generated for the UK economy.¹ and is cited as fundamental to the investment environment in the UK by domestic companies and international businesses alike.
15. We believe that there is a strong case for increasing the quantum of relief available to ensure the scheme's efficacy in a post-pandemic world. **We recommend that the rate is increased from 25% to 30%.** This would incentivise development to take place in the UK, boosting economic activity and backing high-tech, high-productivity businesses that create high-paying and high-skilled jobs and thus driving economic recovery.
16. There are also strong cases to make for investment in skills, and for investment in trade. We make these cases in sections 6 and 11 respectively.
17. If the UK is to compete globally in the post-pandemic recovery, the Government must be willing to back high-performing sectors with an even higher potential. We believe the UK video games industry is a prime candidate for backing.

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

18. As we have asserted, some sectors are better placed than others to contribute to and drive the UK's post-pandemic economic recovery. We believe the Government should prioritise sectors that can be significant contributors to this recovery.
19. In assessing which sectors can contribute to recovery, the Government should consider various criteria and conditions. We recommend including the following:
 - 20. Productivity compared to national industrial average** - as this inquiry's terms of reference note, the UK has historically struggle to increase national productivity. The Government should prioritise supporting sectors where productivity is already higher than the national industrial average. By supporting these sectors, high productivity businesses and jobs will be created which will, in turn, contribute to economic recovery and growth. The UK games industry is 35% more productive than the national industrial average.
 - 21. Tendency to export and attract foreign direct investment** - this inquiry's terms of reference also note the opportunity to fix the UK's sluggish exports. The Government should support sectors with a tendency to export and to attract foreign direct investment. Particularly, the Government should back businesses that export bits rather than atoms. Through the pandemic businesses that export digital products have been more resilient than businesses that export physical products. 95% of the UK's games businesses export their products and services.
 - 22. Resilience** - in driving and encouraging sustainable growth the Government should focus on supporting sectors that have demonstrated resilience through crises and uncertainty. If this is not prioritised there is a risk that an unknown future crisis will undo the recovery and growth that is achieved. The UK games industry has maintained roughly 80% productivity throughout the pandemic, and a quarter of companies have continued to hire. At the same time consumer confidence has remained strong, with many people finding games a new source of entertainment and a way to socialise during the pandemic.
 - 23. Contribution to wider economy** - the Government should look to back sectors that are not only contributors in their own right, but which offer value across the wider economy. This may for instance be through driving technological innovation, or through developing a workforce with the skills required by the future economy. The games industry has been crucial to the development of cutting edge technology, from artificial intelligence through to virtual reality.

24. Geographic spread - it will be crucial that recovery and growth is not centred around a limited geographical area. The Government should consider the geographical spread of sectors in prioritising support and should make spend outside of London and the South East a condition of financial support. 55% of games development jobs in the UK are outside of London and the South East. The Government should also provide greater freedom to mayoralities, LEPs, powerhouses and councils to spend funding on supporting and growing sectors they want to attract. This will allow for the creation of hubs with powerful network effects.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

25. As mentioned in section 3, the UK economy has been and will continue to be in a global competition for people with the key skills we need to achieve sustainable growth. This competition will be fiercer as nations around the world work hard to recover and grow post-pandemic.

26. It is important to note that many of those with the skills that will be key to economic recovery and growth will be able to work from anywhere in the world. While it is important that they are encouraged to work for UK-based businesses, it is also important that they are encouraged to base themselves in the UK.

27. To retain the key skills in the UK, the Government needs to back the businesses that hire and pay the people with these skills, while also maintaining and building upon the UK's reputation as an attractive place to live and work.

28. The Government can back the businesses that hire people with key skills by maintaining an attractive investment and operating environment with a pro-business regulatory environment. This should include maintaining the rate of corporation tax as well as maintaining and expanding relevant reliefs and credits. It also means avoiding unnecessary and overly burdensome regulation that will dissuade businesses from basing themselves in the UK, or encourage them to move elsewhere.

29. The Government can make the UK attractive for workers with key skills in two ways. First the Government should maintain a competitive rate of income tax. Compensation and take-home pay are crucial factors in attracting and retaining highly skilled workers.

30. Second, the UK's visa system must be streamlined and improved. It is not uncommon for highly skilled workers to accept positions in the UK, only to end up taking up an offer elsewhere because the UK's visa process has lagged. This happens despite the cost of

applying for a visa being higher than in competing territories, particularly in Europe. Losing talent like this is an unaffordable luxury as the Government looks to support the UK economy to recover and grow.

31. As we come into the recovery and growth phase post-pandemic there will be large numbers of people, both new entrants to the workforce and those that are retraining, in need of work.
32. High-growth, high-productivity sectors are well placed to provide future-proof jobs in and to promote and facilitate the training needed for work in a 21st century economy. Government could match fund on the job training in sectors that are assessed to be likely to contribute to post-pandemic recovery.
33. Government should also look to back skills development initiatives from industry. For instance, the UK video games and interactive entertainment industry runs Digital Schoolhouse. The programme is helping to fix the widening digital skills gap in the UK while inspiring and equipping the next generation with the foundational creative and technical skills of the future. Digital Schoolhouse has reached nearly 60,000 students in the UK.⁴
34. Another strong example is the National Videogame Museums' ('NVM') Pixelheads initiative and Pathways Programme. Pixelheads provides a learning community for young people to develop their own video games, teaching them crucial STEM skills. Programmes such as Digital Schoolhouse and Pixelheads are building long term skills bases, while also supporting future growth, productivity and innovation.
35. The Pathways programme is a public education campaign which encourages diverse young people from all backgrounds to take up STEM through a range of conferences, exhibitions, development camps, ambassadors, awards and industry engagement events, backed by a national PR campaign about diversity in games. It brings schools,

⁴ Digital Schoolhouse is an inclusive and accessible programme which has proven to appeal to a diversity of pupils. It supports the drive to increase the creative computing skills base in UK, as well as supporting growth, productivity and innovation in the creative and digital industries in the long term. It does so by facilitating regional school networks that support teacher delivery of the computing curriculum and promotes STEAM skills and related career opportunities to pupils. Crucially teachers are upskilled through learning alongside pupils and free personalised support after the visit.

The Digital Schoolhouse programme has reached nearly 60,000 pupils since its inception with 56 DSH schools reaching local primary schools, their teachers and pupils.

universities, industry and the third sector together to tackle poor diversity in education and creative tech careers, using our sector as poster child. We therefore propose the government support the development and expansion of the Pathways programme to continue to encourage take up of STEM from diverse young people of all backgrounds.

36. We welcome Government's announcement of its unprecedented £1.57bn investment in UK culture, arts and heritage, a bold measure which will help protect the nation's cultural backbone under threat from Coronavirus. Games are an important part of UK culture which are rarely funded by Arts funders. Government should ensure that the rescue package includes support for the UK's only museum dedicated to videogames, the NVM, to enable this important cultural institution's survival alongside its more established peers. The NVM is a bridge between the games industry, cultural sector and education, which uses the popularity of games, especially with young people, to encourage the uptake of STEM skills for thousands of visiting schoolchildren.
37. Finally for skills, the Government should radically reform the Apprenticeship Levy. The Levy is inflexible on standards, funding bands, contract length and more besides. This makes it unsuitable for some industries, including the creative industries. Changes to the Levy would help to unlock new jobs across the creative industries. These sectors can be a driver of post-pandemic growth: between 2011 and 2018 the creative industries saw jobs growth of over 30%, employing two million people⁵.
38. Without changes to the Apprenticeship Levy it will only succeed in taking money out of the sector, as is argued by the Creative Industries Council's Education Working Group. This would negatively impact the UK's post-pandemic economic recovery.

What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

39. As mentioned in section 5 we have seen the resilience of digital exports as compared to physical exports throughout the pandemic. These industries are natural exporters.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811903/DCMS_Sectors_Economic_Estimates_2018_Employment_report.pdf

40. The Government clearly sees this opportunity as demonstrated by the International Trade Secretary's recent announcements on a future trade strategy for UK technology businesses. The Government should double down on this approach, growing the UK's digital exports and thus driving prosperity. In this, the Government must also listen to the sector about barriers to growing digital trade, such as data regulations.
41. It will also be important post-pandemic and Brexit to reach out to global markets to bring in foreign direct investment into our high-tech, digital export ready sectors. Initiatives such as trade missions represent excellent value for money here.
42. The Government could take the following specific actions to support export growth and foreign direct investment for the UK:
- **Expanding the Tradeshow Access Programme** - The Ukie International Trade Program has secured business wins of £300 million over the past three years. In the last year alone £80 million of business wins were secured with £140,000 of Government funding (primarily through the TAP program). If this funding was increased to £200,000 a year the predicted export wins rise to £150 million. This would provide huge opportunities to games businesses - particularly SMEs - to grow their businesses through access to new markets. This demonstrates the return available for relatively small investment Government investments in boosting digital trade.
 - **Supporting trade missions** - One government funded, Ukie managed, trade mission last year resulted in £2 million in business wins. Similar trade missions for high potential, high growth sectors can take place across the UK, bringing direct investment to local economies and levelling them up. We estimate, for instance, that £150,000 of funding for five games industry trade missions would deliver £20 million in business wins.
 - **Developing sector-specific UK trade and export shows** - the creation of UK-based, sector-specific trade shows and conferences is a huge opportunity to showcase the UK's technical and creative talent and act as a conduit for increased investment into the UK and to establish vital export connections. The Government should co-fund 'GREAT' branded trade shows and expos with industry. We forecast that, in the games industry, £175,000 of Government funding would lead to business wins of £40m.
 - **Secure a data adequacy decision from the European Commission** - Digital trade often relies on the ability to transfer data between jurisdictions. It is essential that the UK government secures a data adequacy decision from the European Commission to ensure that UK digital exports to the European Union are not unnecessarily hamstrung.

43. The Government must be bold in backing digital exporters for post-pandemic and post-Brexit growth.