



**Ukie response to  
the BEIS  
consultation  
"Subsidy control:  
designing a new  
approach for the  
UK"**

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**ukie**

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## Ukie response to 'Subsidy control: designing a new approach for the UK'

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### 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 500 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 this call for evidence.

### About the UK games industry

2. With 2.5 billion players globally, video games are central to modern culture. In the UK alone, there are an estimated 37 million players playing games across mobile, PC and console. Video games are enjoyed by people of all ages and backgrounds thanks to the incredible diversity of content available within the medium. The games industry has delivered the fastest and biggest selling entertainment product of all time in Grand Theft Auto V, and created globally successful franchises which hold appeal to all types of people, all around the world.
3. The games industry sits at the nexus of creativity and technology, and is exactly the kind of sector that is crucial to the future economy: a digital industry with intellectual property at its core.

### Current state of subsidies for the UK games industry

4. The UK video games industry benefits from the Video Games Tax Relief (VGTR). The VGTR allows for developers of games that pass a British cultural test to claim a deduction on qualifying spend to reduce profits or increase losses. Losses can be surrendered for a payable tax credit at a rate of 25%.
5. The VGTR is a significant net positive for the UK. 2018's Screen Business report demonstrated that each £1 of VGTR granted leveraged an additional £4 of economic activity for the UK economy<sup>1</sup>. Additionally, VGTR-qualifying expenditure supported 9,240 FTEs all across the UK in 2016.
6. VGTR addresses two significant issues in the UK Games Sector. First: domestically, whilst a minority of companies are claiming the relief, of those that do, the support is vital for their business. 63% of recipients of the tax relief would not have been able to undertake their projects without it<sup>2</sup>. This would lead to a significant reduction in the number of culturally British games made. The VGTR allows companies to invest more in the expansion of their businesses than they would otherwise be able to, supporting high sectoral growth.
7. Considering the video games industry's geographical distribution across the UK, we see that VGTR supports the levelling up ambitions of the Government – indeed, over 85% of VGTR spend occurs outside of London and the South East. It is clear that the VGTR does not have a distortive or depressing effect on competition in the United Kingdom games industry. There

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<sup>1</sup> BFI Screen Business <https://core-cms.bfi.org.uk/media/853/download>

<sup>2</sup> ibid

are thousands of games businesses in the United Kingdom that compete healthily with one another.

8. Second: for international businesses, the VGTR is instrumental in ensuring the UK, relative to its population size, remains globally competitive when it comes to choosing a development location. It is often cited as a significant factor to the investment environment in the UK by domestic companies and international businesses alike. Ultimately, the VGTR is a powerful incentive for games development to take place in the UK, helping underpin high-tech, high-productivity businesses that create high-paying and high-skilled jobs across the UK. We believe this is a positive to be maintained for Global Britain.
9. The VGTR is designed specifically to support the development of culturally British games. With over 90% of the UK games industry exporting products and services, the relief has a positive impact on the cultural soft power of the UK. The resulting VGTR-supported games are consumed and enjoyed around the world, boosting the objectives of Global Britain and reinforcing the UK's world-leading status when it comes to the creative industries.
10. UK produced video games currently enjoy significant market share both at home and abroad, far above that of other national European games sectors. Ukie research indicates that between 2016 and 2019, UK-made games made up between 12% and 17% of the domestic market (across both physical and digital sales), around three times that of French games in the French market or German games in the German market. At an international level, over the same period, UK-made games represented a similar percentage of STEAM's Global Top 100 Grossing Games, indicating the UK's strength in global markets.

### **The role of Research and Development**

11. As technological advances blur the lines between economic activity and place, there is a risk that growth opportunities are missed without thriving high productivity, high growth sectors such as video games.
12. Consequently, the UK will need a business environment that is both effective and sensibly targeted. It will need to incentivise innovation and creativity to build on the UK's creative and technical knowledge base while attracting and capturing high growth, high productivity businesses and jobs. This will protect and grow the tax base, and that will be crucial to the UK's economic recovery by growing out of the post-pandemic recession.
13. The games industry has been instrumental in the development of new technologies, for example facial recognition, voice recognition, VR, AR, AI, gesture control, cloud computing, data analytics and other such emerging technologies all find immediate use cases in video games and are innovated within games environments.
14. Support for R&D in the UK is a necessary and integral part of making the UK one of the best places in the world to innovate and create. By encouraging a vibrant R&D friendly environment in the UK, the whole of the economy stands to benefit, including the games industry. In order to achieve the ambition set out by the government for R&D we welcome the current consultation on the R&D support package, in particular the desire for the support to be tailored to remain relevant to the evolving economy and global challenges presented by it.
15. As a result of the targeted and proportionate support afforded to the UK video games industry, it has become an economic powerhouse, supporting nearly 50,000 FTEs and

contributing £2.87 billion in gross value add to the UK economy<sup>3</sup>. The games industry is 35% more productive than the UK industrial average and is spread across all four nations from Dundee to Belfast and from Cardiff to Newcastle<sup>4</sup>. It is ideally positioned to support the Government's levelling up ambitions with 55% of games development jobs being based outside of London and the South East. Games businesses are natural exporters, too: over 90% of the UK video games industry export products and services.

### **Our views on a future subsidy control regime looks like for the games industry**

16. We consider that the Government's four proposed objectives for a future subsidy control regime are right and appropriate. We believe that subsidies that meet one or more of these objectives, without causing harm or distortion to the UK's internal market, should be considered subsidies that are beneficial to the United Kingdom.
17. We believe that the Government should be broad in its definition of the United Kingdom's strategic interests. These must include traditional industry, but also have a keen focus on newer industries that will shape the future economy. As the Integrated Review of Security, Defense, Development and Foreign Policy noted, science and technology will be an area of continued international competition. Ensuring that the United Kingdom is a competitive place to start and do business for companies in sectors where science and technology is central will be crucial. The games industry specifically has the dual benefit of both producing products which are cultural exports, but also from being an industry which has often been at the forefront in the development of technologies such as artificial intelligence and augmented reality. Such emerging technologies developed within the games industry have wider applications across other sectors and society – from film, to medicine<sup>5</sup>.
18. Maintaining the competitiveness of the UK is particularly crucial for science and technology intensive sectors which are subject to targeting by foreign states for relocation, often with subsidies used as an incentive. Indeed, other territories are increasingly recognising the potential of the games industry in this regard<sup>6</sup>. We consider that a future subsidy control regime will need to pay sufficient regard to the subsidies and incentives available globally, to ensure that sectors are not "drained" from the United Kingdom.
19. In this way, we believe that a future subsidy control regime must allow for the supporting of next generation industries that will support the development of a future facing economy. This will help to deliver on the United Kingdom's strategic interests. Specifically, therefore, the new subsidy regime should ensure a broad range of public policy objectives should be

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<sup>3</sup> <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy>

<sup>4</sup> <https://ukie.org.uk/resources/think-global-create-local-the-regional-economic-impact-of-the-uk-games-industry>

<sup>5</sup> <https://unity.com/solutions/real-time-filmmaking-explained>;  
<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6798020/>

<sup>6</sup> One example of this can be seen through France's 'Join the Game' campaign to encourage games businesses to set up in France, or invest in French video games companies – with its financial and tax incentives as the main offer. <https://jointhegame.fr/why>. In Germany, the recent German Games Fund <https://www.game.de/en/positions/german-games-fund/> has been introduced to specifically address competition and market opportunity.

capable of benefitting from aid, rather than being too narrowly drawn in a way that goes against the United Kingdom's strategic interests.

20. It is further the case that subsidies should be considered in terms of domestic priorities such as levelling up. We consider that a future subsidy regime should pay attention to the geographical distribution of an industry to understand where benefit is most likely to be accrued. If, for instance, a sector is overwhelmingly based in London, there should be consideration as to whether a subsidy will be distortive by further centering the sector in London, to the detriment of the rest of the United Kingdom. Where, alternatively, if a sector is based broadly around the United Kingdom, this would be less of a concern. As demonstrated, over half of games development roles are based outside of London and the South East in clusters of high-tech talent, from Sheffield, Brighton, Edinburgh, Derry/Londonderry.<sup>7</sup>
21. We also agree that a future regime must support a competitive and dynamic market economy. We believe that subsidies that support the location of economic activity in the United Kingdom over other jurisdictions, without giving undue support to a single business or industry, should be considered highly valuable and desirable.

### **Conclusion**

22. We believe that the existing VGTR has been highly successful in supporting the videogames sector, creating jobs across the UK and making the UK highly competitive. A future subsidy control regime should allow for VGTR to be stated as compliant to avoid any unnecessary legal uncertainty.
23. We recommend that a future subsidy control regime, appropriately designed, should maintain these benefits of the VGTR as well as enabling other support, including R&D support, to be tailored according to the UK's strategic needs. We therefore broadly agree with the Government's views set out in the consultation. An appropriately designed, flexible, new regime that recognises existing schemes such as the VGTR are consistent with the proposed new subsidy principles and ensures support for highly productive, technology intensive sectors that are spread across the UK and internationally competitive can only be a good thing for the UK.

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<sup>7</sup>Our report 'Think Global, Create Local', further demonstrates the wide geographical spread of the UK games industry and the economic regional impact of local clusters of games development.  
<https://ukie.org.uk/regional-economic-report>