



Level 3, Myer Centre
14-38 Rundle Mall
Adelaide SA 5000
+61 8 8121 7883
hello@mightykingdom.com

17 September 2015

Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

To whom it may concern

I have been working in the Australian game development industry for over 10 years, initially as an employee of Midway Games Australia (formerly Ratbag Games) and Krome Studios, and now as the owner and director of Mighty Kingdom. Founded in 2010, Mighty Kingdom has grown to employ over 20 people in Adelaide, South Australia and is working with internationally recognised brands, such as Disney and Moose Toys.

I am passionate about growing the game development community, in Adelaide in particular and within Australia in general. I was lucky enough to get my start here and I want to be able to offer that opportunity to the next generation of game developers.

I feel that the best way to achieve this goal is the creation of billion-dollar IP that is owned and controlled by Australian companies, not foreign investors or publishers. This is something that we have invested in heavily at Mighty Kingdom, but investing in new IP is risky, and therefore government support is crucial. All it takes is a single success to reposition Australia as a game development destination.

Regards,

Philip Mayes
Owner and Director
Mighty Kingdom



The future of Australia's video game development industry

Submission from Mighty Kingdom

Gaming is a truly global business. A motivated individual with a laptop and a great idea can create a worldwide hit on their Christmas break¹. Digital distribution has levelled the playing field, allowing Australian companies to compete internationally in a USD\$100 billion² market. Many countries and cities around the world have realised the potential of a thriving gaming development industry and are aggressively investing to become the de facto destination for game companies.

So how does Australia compare? In a nutshell, not well.

There is not a level playing field internationally when it comes to support for the games industry. When considering starting a games company there are many more reasons to look overseas than there are to look domestically. Australia has shown, in the past with the Interactive Games Fund and currently in Victoria through Film Vic funding, that it is able to step up to the plate and the situation is far from terminal.

To level the playing field and reverse the brain drain, these are my key recommendations:

- 1. Fund games industry through technology and innovation, not creative arts**
 - a. Extend Screen Australia's producer offset to video game production
 - b. Focus majority of funding efforts on profit oriented businesses
 - c. Remove cultural and narrative criteria from games funding
- 2. Improve access to government funding for SMEs**
 - a. Implement 21-day turnaround on funding decisions
 - b. Introduce simplified reporting requirements for projects with funding below AUD\$100k
 - c. Fund R&D at commencement, not at conclusion
 - d. Create a public body to help SMEs access funding
- 3. Improved infrastructure**
 - a. Fund access to FTTP NBN or provided subsidized Internet access
 - b. Up to \$25k to assist in relocating business to NBN enabled area
 - c. Prioritise NBN rollout in business districts
- 4. Incentives for repatriation of Australian game industry ex-pats**
 - a. Up to \$25k for relocating ex-pats back to Australia
 - b. \$50k wage supplement for first year

These recommendations come after considering the current funding environment within Australia and comparing them to systems in place overseas. There are plenty of examples of countries, cities and states that have created a supportive environment for games developers, and so we are not flying in the dark when it comes to improving our own ecosystem.

Over the next few pages I have highlighted a handful of the most relevant examples, which will give an insight into the global nature of the games industry and the positive impact it can have on the economy.

¹ <http://www.theage.com.au/articles/2009/04/22/1240079710738.html>

² <http://www.gamesindustry.biz/articles/2014-01-14-mobile-gaming-to-push-industry-above-USD100-billion-by-2017>



Level 3, Myer Centre
14-38 Rundle Mall
Adelaide SA 5000
+61 8 8121 7883
hello@mightykingdom.com

Toronto, Ontario, Canada

In Toronto, games companies are eligible for the *Ontario Interactive Digital Media Tax Credit*, which is a 35%-40% refundable tax credit for eligible labour and marketing expenses up to a \$100k cap per product³. On top of this, they are able to apply for grants up to \$50k for concept development and up to \$250k for production with a 1:1 matched funding model⁴.

At a federal level, companies under 500 employees are eligible to apply for financial support for R&D of 50%-80% of the total project cost⁵. Unlike the R&D tax offset in Australia, this is paid up front and not at the conclusion of R&D activities.

As an example, a \$500k project would be eligible for \$250k in production funding, a \$100k tax credit via the OIMDTC and \$25k in R&D funding. This means a leverage of 1:4 on every dollar raised for the project.

Finally, to assist in financing the project, the federally owned *Business Development Bank of Canada*⁶ has a mandate to "aggressively support video game start-ups within Canada" and there are favourable visa conditions for attracting overseas talent.

When it comes to telecommunication infrastructure, Toronto has an existing a Fibre to the Node (FTTN) network and since 2009 has been upgrading it to full Fibre to the Premise (FTTP). This means that most businesses have access to 1000Mbit fibre connections.

The result? There are now over 16,500 people employed in 329 game development companies in Ontario alone⁷, in spite of a falling Canadian dollar. For comparison's sake, Ontario has a population of 13.6 million, with Toronto having 2.6 million.

Anecdotally, Toronto is now seen as a destination for game development where it had been largely ignored in the past. Companies starting up in Toronto need to raise less investment, meaning they have more ownership of their companies and their IP, and are therefore less likely to feel pressured into moving to the US or Europe.

Key points

- R&D funding at commencement, not conclusion of project
- Focus on profit-oriented business
- Focus on SMEs
- Quarterly review of grant applications
- Access to capital at low interest rates
- Ubiquitous FTTP network

³ http://www.omdc.on.ca/interactive/Tax_Credits/OIDMTC.htm

⁴ http://www.omdc.on.ca/interactive/Funding/IDM_Fund.htm

⁵ http://www.nrc-cnrc.gc.ca/eng/irap/services/financial_assistance.html

⁶ <https://www.bdc.ca/EN/about/who-we-are/Pages/default.aspx>

⁷ <http://venturebeat.com/2015/02/23/why-you-should-start-your-video-game-company-in-canada/>



Helsinki, Finland

Helsinki, with a population of only 600,000, definitely punches above its weight. Home to *Rovio* (Angry Birds) and *Supercell* (Clash of Clans, Hay Day), it has become one of the leaders in mobile gaming. Revenue from those two companies alone is over AUD\$2.64 billion^{8,9}, and both companies are former beneficiaries of government funding.

Finland has the *Tekes*¹⁰ system, which consolidates a number of different grants and loans that cover almost the entire lifecycle of a business, from initial planning, to R&D, and then on to commercialisation. This is available to businesses of all sizes, although I have focused on how they support SMEs.

The *Planning for Global Growth*¹¹ grant is available to any small business under 5 years old and offers grants up to 75% of the total cost of market research, building the team and the board, creating a business plan or any number of other early stage business costs. This grant is also intended as a stepping-stone to further *Tekes* funding.

For R&D, small companies of any scale can apply for a grant for between 50%-65% of the R&D project cost¹², depending whether or not it is an international joint venture. To make life easier for smaller companies, projects where the grant funding is under €100k use a simplified reporting model (larger organisations can claim less and are subject to stricter financial reporting).

The next step is commercialisation, and the *Development and Piloting*¹³ program, with smaller companies eligible for 50%-70% of the project cost. Unlike Planning and R&D, the commercialisation program is structured as a low interest loan, with no collateral required.

This is just the tip of the iceberg when it comes to *Tekes*. Amongst the many other offerings, the system also identifies promising young (6 years or less) companies that it will then provide additional funding to accelerate their growth¹⁴. Recognising the potential of the games sector, a special €70 million *Tekes* fund, *Skene*¹⁵, was set up in 2013 just for game companies.

The Finnish game industry has exploded in recent years, particularly in the area of mobile gaming where early pioneers, such as Digital Chocolate, have created an ecosystem of highly talented people that have gone on to create some of the largest gaming companies and brands in the world. The breakout success of Rovio and Supercell has created a second wave of growth, as alumni from the larger studios and form studios of their own¹⁶. It has achieved all this with a population of only 5.4 million and an in spite of an effective personal tax rate of 50%.

Key Points

- R&D funding at commencement of project, not at conclusion
- Support throughout the life cycle of the business
- Simplified application and reporting requirements for small businesses
- Unified funding body

⁸ <http://www.rovio.com/en/news/press-releases/495/rovio-entertainment-reports-2013-financial-results>

⁹ <http://www.theguardian.com/technology/2015/mar/24/clash-of-clans-supercell-revenues-2014>

¹⁰ <http://www.tekes.fi/en/>

¹¹ <http://www.tekes.fi/en/funding/companies/planning-for-global-growth/>

¹² <http://www.tekes.fi/en/funding/companies/research-and-development/>

¹³ <http://www.tekes.fi/en/funding/companies/piloting/>

¹⁴ <http://www.tekes.fi/en/funding/yic/>

¹⁵ <http://www.tekes.fi/en/programmes-and-services/tekes-programmes/skene/>

¹⁶ <http://techcrunch.com/2013/12/03/rovio-supercell-finland/>



Other Examples

Helsinki and Toronto are the gold standard when it comes to support for the games industry and are seeing great returns from their investments. Looking at the next tier, there are further lessons to be learned about how to create a relevant and successful funding model

London, England, UK

In Britain, games companies can claim up to 80% tax relief on eligible spending through the British Film Institute¹⁷, but they must be certified as a British production by meeting certain cultural criteria¹⁸. There is no limit on the amount of tax relief that can be claimed.

In theory, having cultural criteria leads to more uniquely British products, but in practice, due to the commercial and global nature of the business, they tend to exclude far too many projects. At best, they result in developers simply 'ticking the boxes' in order to get the funding. At worst, they force developers to look elsewhere for support.

This situation often occurs when support for the games industry is funded through creative or arts funding, often through an extension of existing film or television funding. There are many problems with this approach, not the least of which is that a game project never 'ends' in the way that a film does; the most successful gaming projects are continuously developed and updated for years.

Where Helsinki and Toronto have differed is to treat games under the umbrella of innovation and technology and by focusing on profit-oriented businesses. There is still a place for arts-based funding of games, but we are unlikely to see significant growth if funding is still applied using irrelevant eligibility criteria.

Detroit, Michigan, USA

Non-traditional markets are seeing the value in supporting the games industry. Facing a post-manufacturing future, Detroit and is investing heavily to attract game developers. To that end, they offer a 25%-35% refund of eligible expenditure on projects above \$100k¹⁹, with a maximum 21-day review timeframe from date of application²⁰. As with the BFI, this funding is an extension of the existing film funding program. Detroit also suffers from its close proximity to Toronto.

Wellington, New Zealand

Grow Wellington has been set up to turn Wellington into an innovation destination. They act as a single point of contact for access to a wide range of public and private programs, covering R&D²¹, Training and Mentoring²², and Investment and Funding²³. Although they have limited resources themselves, by acting as a mediator for all these services they take a lot of the burden off SMEs and allow them to focus on building their product.

Key Points

- Cultural criteria unnecessarily restricts development of profit-oriented games
- Film funding models are often irrelevant when applied to games
- Quick turnaround on funding decisions
- Need to be competitive with neighbouring countries/regions
- Single point of contact

¹⁷ <http://www.bfi.org.uk/film-industry/british-certification-tax-relief/about-tax-relief#video-games>

¹⁸ <http://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-video-games/summary-points-cultural-test-video-games>

¹⁹ http://www.michiganfilmoffice.org/cm/For-Producers/Files_and_Forms/FAQs%202015.02.11.pdf

²⁰ <http://www.michiganfilmoffice.org/for-producers/incentives/default.aspx>

²¹ <http://www.growwellington.co.nz/page/research-and-development.aspx>

²² <http://www.growwellington.co.nz/page/training-and-mentoring.aspx>

²³ <http://www.growwellington.co.nz/page/investment-and-funding.aspx>



Recommendations

Fund games industry through technology and innovation, not creative arts

The games industry is diverse, encompassing a wide range of products. However, the biggest returns will come from focusing on companies releasing commercial products that have a profit motive. To that end, any funding should come under the umbrella of innovation and commercialization and not arts funding. If there is a desire to have cultural outcomes, then create additional funding options within the Arts portfolio for games that meet cultural criteria, or where the main motivation is for artistic, not commercial purposes.

That said, there are some simple changes that can be made to existing screen funding that would have an immediate positive effect on the games industry.

Extend Screen Australia's producer offset to video game production

Extending Screen Australia's Producer Offset²⁴ (a 20%-40% tax offset for qualifying Australian expenditure) to cover video game production will have an immediate positive effect on employment in the games industry. It would also make it easier for games companies to raise investment.

Focus majority of funding efforts on profit oriented businesses

Whilst there is merit in the "games-as-art" debate, the simple fact is that artistic games don't help grow the industry. Funding needs to be focused on profit-oriented businesses where the intention is to increase employment.

Remove cultural and narrative criteria from games funding

None of the successful funding approaches seen overseas have cultural criteria. Cultural and narrative requirements are hangovers from film funding models that are irrelevant to building a globally successful game.

Improve access to government funding for SMEs

There are many government programs in place that cover R&D, export and marketing, and many more, but the application process is often complicated or the reporting requirements too complex for SMEs to be able to effectively engage them.

Implement a 21-day turnaround on funding decisions

We would rather a fast no as opposed to a slow yes. SMEs are often left in limbo whilst waiting for funding decisions, as it affects their ability to raise investment or hire employees. Funding decisions should be delivered within 21 days from the date of application.

Introduce simplified reporting requirements for projects with funding below AUD\$100k

To allow more SMEs to access funding, the application and subsequent reporting requirements should be vastly simplified for applications in which the funding is less than AUD\$100k. This will also enable the faster turnaround on funding decisions.

Fund R&D at commencement, not at conclusion

To be globally competitive, a games company must invest heavily into R&D. To help manage cash flow R&D should be paid at commencement, not at conclusion. R&D funding for SMEs should be at the maximum rate of 45% of eligible expenditure and subject to simplified criteria as per above.

²⁴ https://www.screenaustralia.gov.au/producer_offset/default.aspx



Level 3, Myer Centre
14-38 Rundle Mall
Adelaide SA 5000
+61 8 8121 7883
hello@mightykingdom.com

Create a public body to help SMEs access funding

Similar to *Tekes* and *Grow Wellington*, there should be a unified body whose role is to support game development companies to access grants. Currently this role is filled by the private sector, but it has not led to many positive outcomes for SMEs. Having a public body that is only invested in helping grow the sector would allow more companies to access existing grants and loans.

Improved infrastructure

I have grown Mighty Kingdom to employ 20 people in spite of the infrastructure in Australia, not because of it. Every day we are limited in our ability to service our clients due to the poor quality of our Internet connection, despite being located in the Adelaide CBD. Our size means that it is not a trivial to shift location to an NBN-enabled area.

Fund access to FTTP NBN or provided subsidized Internet access

Businesses in non-NBN enabled areas often face exorbitant costs for NBN-equivalent speeds. In the Adelaide CBD, 100Mbit connections can cost upward of \$5k/month, over 40x the cost of an equivalent NBN plan. Funding should be available to have NBN installed, or if that is not an option, to subsidise the cost of an equivalent connection.

Up to \$25k to assist in relocating business to NBN enabled area

If there is no other option for a business than to relocate, then the relocation should be subsidised, either in the form of a grant or a low interest loan.

Prioritise NBN rollout in business districts

Whilst I celebrate the intent of rolling out NBN to regional areas first, SMEs are being left behind. Future roll out plans need to prioritise business districts where there is a concentration of SMEs.

Incentives for repatriation of Australian game industry ex-pats

The 'brain drain' of talent to overseas companies is well documented. I have often stated that it is not hard to find world-class talent in Australia, but it is hard to keep them here. To combat this, I propose instituting a repatriation program that incentivizes companies to woo back Australian talent from overseas.

Up to \$25k for relocating ex-pats back to Australia

To make the process of returning to Australia easier, a grant of up to \$25k should be awarded to businesses that are repatriating an Australian game developer that has been working overseas for more than 3 years. This would cover flights, shipping costs and accommodation for up to 3 months.

\$50k wage supplement for first year

The Australian lifestyle alone is not enough to entice skilled practitioners to come back. Moving to Australia means giving up a healthy salary and accepting reduced purchasing power. To help remove the salary gap as a concern there should be wage supplement for the first year. This will be in addition to the producer offset above.

Conclusion

There is no doubt that Australia is playing catch-up when it comes to funding and support for the games industry. However, the changes outlined above would go a long way to levelling the playing field. There is no quick fix, and it will take continued investment over a number of years to see results, but the potential upside of a thriving games industry is too big to ignore.