

Chapter 5

Committee view and recommendations

5.1 Video games are big business, both in Australia and throughout the world. The evidence available about consumer demand for video games and the value and growth of the global market for them suggests that the industry will continue to expand significantly. Not only are games for entertainment in high demand, but so-called 'serious games' for health, education, workplace training and various other purposes are also expected to become more common. Expected and unknown future technological advances will likely also support the industry's bright future; for example, virtual reality could significantly change how consumers and businesses interact with technology in a wide range of areas. Game development is among the industries that are at the forefront of such developments.

5.2 To maintain economic growth, prosperity and international competitiveness, advanced economies such as Australia need to embrace innovation and transition to a knowledge economy that relies on technology and highly skilled jobs. The game development industry fits this description. Many other countries appear to have already reached this conclusion with respect to their domestic video game development industries. The committee has heard how governments in Canada, various European countries (such as the United Kingdom and Finland) and, closer to home, New Zealand, offer grants, tax incentives and other forms of support to promote growth in their video game industry.

5.3 Conveniently, Australia has a proud record of successful video game development. Opportunities exist, however, for Australia to build on its existing industry and to ensure that this creative and technology-focused industry can play a key role in helping Australia transition to a leading digital economy.

A recent history of challenges and setbacks

5.4 While other countries have expanded their video game industries, Australia's has contracted in size. It is evident that the Australian industry has faced significant challenges in recent years. The downturn in the world's economy following the global financial crisis of 2007–2008 and the sustained appreciation of the Australian dollar relative to the United States dollar has changed the structure of the industry. International game development companies that had studios based in Australia reconsidered their Australian operations. Other Australian-owned companies also closed or downsized.

5.5 The video game industry was not unique in encountering challenges caused by Australia's resources boom and the two-speed economy. However, it has undergone significant structural change and lost many experienced professionals. For example, it appears that many Australian video game professionals have chosen to further their career elsewhere. In an emerging industry, losing experienced developers

whom others can learn from is problematic. The reduction in the number of large, established studios, including international studios that bring expertise from elsewhere, is also a problem: these studios can perform many useful roles that provide positive flow-on effects for the overall industry.

5.6 The video game development industry also suffered a setback as a result of the Australian Government's decision in the 2014–15 Budget to abolish the Australian Interactive Games Fund (AIGF). The AIGF was announced by the former Labor Government to help support the development of the video game industry in Australia. The committee considers that this was a sensible investment in an emerging industry. It was also relatively modest in its upfront cost to the Government: \$20 million over three years from 2012–13.

5.7 As the evidence taken during this inquiry has demonstrated clearly, the AIGF supported several successful projects. These included both specific titles and projects that helped the industry to grow, such as a shared office space that facilitates collaboration and reduces overhead costs. However, the AIGF was ended before the return on investment could be demonstrated.

5.8 Despite the renewed focus and discussion on innovation following the release of the Australian Government's National Innovation and Science Agenda in December 2015, it is not apparent that the Government has given explicit attention to interactive game development and the potential for Australia's future that this industry could provide.

The Australian Government could assist the industry to reach its potential

5.9 The committee is not advocating that the Australian Government 'pick winners' or growth sectors. As noted in Chapter 3, Senate committees and the Australian Government often hear cases for particular industries to receive government support or tax incentives. Regardless of how compelling these arguments may be, it would be neither possible nor desirable for the Government to fund every measure that is proposed.

5.10 The Australian Government does have a role, however, in ensuring policy settings assist entrepreneurs and innovative businesses to flourish. The Government should also consider whether programs or incentives that are provided to one industry are being denied to other similar industries without a clear reason for doing so.

5.11 The committee has also given consideration to the different roles that the Australian Government and state governments can, and should, undertake in relation to support for the video game development industry. Various state government programs, particularly those operated by Film Victoria, appear to be successful. The evidence provided to the committee indicates that state government support has been a significant factor in the different growth rates of the video game development industries in individual states.

5.12 Nevertheless, the Australian Government has previously administered a successful funding program that made a positive net contribution to Australia's economy. The reasoning that originally accompanied the introduction of the AIGF is fundamentally sound and continues to be relevant. The self-sustaining design of the AIGF was also a key feature—the reinvestment of funds recouped from successful projects would have maintained the AIGF beyond the initial funding committed by the previous government.

Recommendations

A successor to the Australian Interactive Games Fund and extension of the producer tax offset

5.13 The primary recommendation made by the committee is that the Australian Government introduces a scheme similar to the previous AIGF. The AIGF is the most effective means to address the access to finance issues that small studios face and to help those studios grow into mature, stable businesses. The economic return from funds provided as grants and loans during the AIGF's short life presents a compelling argument for the Australian Government to return funding to Screen Australia for such a program.

Recommendation 1

5.14 The committee recommends that the Australian Government introduce a funding scheme based on the former Australian Interactive Games Fund.

5.15 Grants and loans from the AIGF, however, are unlikely to be enough to secure a sustainable video game development industry in Australia. Small businesses would typically be targeted for grant funding or government-backed finance; however, businesses operating in Australia that grow beyond that size still face significant challenges. When considering this, the committee was mindful of the apparent inconsistency in the treatment of video game developers and other creative industries that stride between arts and commerce, such as the film industry.

5.16 The film industry has access to taxation offsets that are designed to support and develop the Australian screen media industry by providing concessional tax treatment for Australian expenditure. In particular, a refundable tax offset for Australian expenditure in making an Australian film is provided in subdivision 376-B of the *Income Tax Assessment Act 1997* (known as the producer offset).

5.17 The committee considers that government support should be provided as equitably as possible across related industries. A tax offset would also be an effective way to support the continued growth of mature game development studios that have progressed beyond initial projects that may, or may not, have been supported by grant funding. The existence of a tax offset would help firms with access to finance, as the ability to borrow against the estimated amount of the tax offset could help alleviate some of the risk financiers associate with creative industries.

5.18 The offset should be modelled on the producer offset, although whether a 20 per cent offset or 40 per cent offset should be applied will require further consideration as part of the policy development process. Adjustments to the general eligibility and expenditure criteria may also be necessary to ensure that the offset is appropriate for the video game development industry. The eligibility criteria should exclude certain types of games, such as games that involve gambling. It may also be appropriate to exclude from the tax offset projects funded under the replacement to the AIGF referred to in recommendation 1.

5.19 Given the small size of the Australian video game development industry, the committee does not envisage that the cost to the Commonwealth associated with this measure would be high. However, the offset should be reviewed at an appropriate time after its introduction, such as two years, to ensure it is operating effectively. It may also be appropriate for a sunset clause, of perhaps ten years, to apply to the offset so a case has to be made in the future for its continued operation.

Recommendation 2

5.20 The committee recommends the introduction of a refundable tax offset for Australian expenditure in the development of game titles. A review of the operation of the offset should be undertaken at least two years after the offset commences.

Shared, collaborative workspaces for video game studios

5.21 Many submissions and witnesses at the committee's public hearings highlighted the benefits of innovation hubs and shared workspaces for video game developers. The site visit to The Arcade in Melbourne organised by the GDAA allowed the committee to see firsthand how a shared space can operate. The committee encourages relevant Australian Government ministers to visit The Arcade.

5.22 Shared workspaces that can house several studios and developers present many advantages. Direct financial benefits for small studios include reduced overhead costs, as expenditure on office space is likely to reduce. A shared workspace can also be fitted with access to high-speed internet that is essential for game developers, but which they may struggle to obtain elsewhere.

5.23 There are other benefits of shared workspaces that are more difficult to quantify. A challenge that the Australian industry faces is project expertise—as the industry consists of many small studios, there is a risk that multiple businesses devote a great amount of time and effort to solving problems that someone else has solved previously. Spaces like The Arcade encourage knowledge sharing and collaboration within a community, allowing developers more time to focus on seeing their projects through to successful completion.

5.24 The committee considers that the Australian Government should contribute funding for the development of additional shared working spaces based on The Arcade. As the committee considers that state government support for their local video game industry is essential for such a project to succeed, the specific location of the next Arcade-type space should take into account whether the relevant state government has demonstrated support for the growth of the industry.

5.25 The committee also considers that the Australian Government should consider the contribution that the game development industry can make to economic activity in regional areas. Games have been developed successfully in regional areas, and the National Broadband Network (NBN) provides a further opportunity for game development to occur outside of metropolitan areas. It may be feasible to support the establishment of an innovation hub in a regional centre that could support video game development and other high-skilled, technology focused businesses.

Recommendation 3

5.26 The committee recommends that the Australian Government encourage, and contribute financial assistance for, the creation of shared working spaces modelled on The Arcade in other locations. This support should be contingent on co-funding provided by a state government and further evidence that the state government supports the growth of a video game development industry in its state.

5.27 The committee further recommends that the Australian Government consider the viability of establishing an innovation hub for video game development and other technology startups in a regional centre.

How the Government can promote the potential of 'serious games'

5.28 The committee received compelling evidence about the potential for 'serious games' in health care, education, training, defence and many other applications. The committee considers that demand for these products will naturally increase without government intervention; however, the immediate need for these products may not be readily apparent in some sectors. The Australian Government could help promote the development of serious games in Australia by assisting the game development industry to connect with the sectors that may have a need for serious games. The Government could also consider how such games could be useful for the various services it provides.

Recommendation 4

5.29 To encourage the further uptake of 'serious games' in health care, education and other sectors, and production of these games by the Australian video game development industry, the committee recommends that the Australian Government facilitate dialogue between video game industry associations and groups that use, or could potentially use, serious games.

Crowd-sourced funding

5.30 The committee received a limited amount of evidence on taxation matters that affect small video game development businesses. As noted in Chapter 4, the committee was provided with an example where money raised by crowd-sourced funding was treated as assessable income for taxation purposes. The crowd-sourced funds were used for a business project, however, they were subject to taxation before the expenses related to the project were incurred.

5.31 This may be an isolated example caused by particular timing issues, such as the rollover of one taxation year to the next. Also, the tax implications of crowd-sourced funding affect a wide range of businesses in different sectors. However, the committee considers the issue is worthy of further investigation.

5.32 The committee does not have sufficient evidence to make a recommendation for a specific amendment to taxation law or administrative practice. Instead, it draws this issue to the Australian Government's attention for further consideration. There may be possible changes that could specifically target startups that use crowd-sourced funding. One option that could be considered is allowing small businesses to rollover assessable income from crowd-sourced funding to the subsequent taxation year.

Recommendation 5

5.33 The committee recommends that the Australian Government consider the tax implication of crowd-sourced funding for startups, including whether temporary tax relief should be available for income that new businesses gain from crowd-sourced funding.

Marketing and travel assistance

5.34 The Australian video game industry is essentially an export industry. The committee is concerned by the evidence it received about the limited utility of the Australian Government's Export Market Development Grant (EMDG) scheme for the video game development industry, despite a need for assistance in developing export markets.

5.35 The committee notes that the scheme was reviewed in 2015. Nevertheless, this is an issue that the Government should consider further, particularly given the growing importance of securing successful businesses that operate in the digital economy. It may be beneficial to consider the relevance of the EMDG scheme to all businesses in the digital economy as, although this inquiry has focused on video game development, there may be other types of businesses in the digital economy that encounter similar issues.

5.36 A related matter is expenses for game developers to travel to domestic and international game conventions and exhibitions. When considering whether changes to the EMDG scheme could make the program more relevant for video game developers, the Government should give attention to this issue as well.

5.37 Overall, however, the committee is of the view that the Australian Government should focus on matters that state governments may not be well-placed to address, such as ensuring to the extent possible that businesses which have grown beyond the initial seed funding stage operate in an environment that supports their continued growth. The committee does not consider it appropriate that the Australian Government supplant state government support for local game development industries. Continued state government engagement with the video game industry is important for the industry's sustainability.

5.38 Game conventions and travel expenses appear to be an area that the state governments can focus on and support. It is clear that state governments are able to provide assistance for travel costs—the Victorian Government's efforts in this regard are a key example. Not only does it appear unnecessary for the Australian Government to duplicate or replace such state-based schemes, the committee considers that it is beneficial for the game development community to engage with state governments about the importance of domestic and international game conventions, particularly as state governments can support such events in their jurisdictions.

Recommendation 6

5.39 The committee recommends that the Australian Government develop a discussion paper and consult on the utility of the Export Market Development Grants scheme for businesses that operate in the digital economy.

Employment matters

5.40 The committee cannot conclude this report without commenting on the state of diversity in the developer workforce and workplace practices in the industry.

5.41 As noted in Chapter 2, the latest estimate of gender breakdown in the industry suggests that only 12.7 per cent of the workforce is female. This is disappointing. The low rate of female participation in the industry weakens not only the industry's case for government support, but also its economic prospects. The committee is of the view that the industry's long-term success and sustainability depend on a more diverse workforce. The committee acknowledges, however, that the industry is working to address this issue.

5.42 The committee also notes the evidence received about past cases of poor working conditions, overworked employees and businesses that collapsed leaving unpaid wages.

5.43 In developing measures to promote growth in the industry, and when later reviewing the success of these measures, the committee calls on the Government to be cognisant of these employment issues. The committee wishes to see meaningful progress towards a more diverse workforce. Separately, the committee also considers it is important to ensure that working conditions do not deteriorate. Government programs should not assist businesses that perform poorly against either of these measures.

Recommendation 7

5.44 When considering and reviewing measures to support the industry, the committee recommends that the Australian Government take into account whether the industry is improving the diversity of its workforce and is providing fair employment conditions.

Broadband infrastructure

5.45 The committee notes that Australian video game businesses are often at a competitive disadvantage when it comes to high-speed, reliable broadband. Evidence received by the committee emphasised the importance of high-speed internet, in terms of both download and upload speeds, for businesses that develop products such as video games. It is clear that inadequate broadband access presents productivity and market access issues for video game developers. The rollout of fast, affordable and reliable broadband is one of the most effective ways to support sustainable growth in industries such as video game development. High-speed, reliable broadband can also help unlock regional Australia's economic potential by supporting the creation of high skilled jobs outside of the capital cities. Game development can and does occur outside metropolitan areas, and the type of work undertaken in the sector accommodates flexible working practices, such as remote work, which can be of particular importance for developers in regional areas.

5.46 The consensus among submitters is that Australia's internet infrastructure is simply not good enough. For Australia to be home to innovative, technology-focused businesses that can successfully compete in the digital economy, 21st century broadband infrastructure needs to be available. Many countries are overtaking Australia in terms of the broadband speeds customers can access. In recent global broadband rankings released by US company Akamai Technologies, Australia has slumped to 60th in terms of average peak connection speed, down from 30th in the third quarter of 2013.¹ This has occurred in part as a result of the current Government's NBN policy to halt the rollout of fibre-to-the-premises (FTTP) and replace it with a 'mix' of technologies, including fibre-to-the-node (FTTN), which relies on the ageing copper network to deliver broadband.

¹ Akamai, *The State of the Internet*, Vol. 6, No. 3 (Quarter 3, 2015), p. 22; and Vol. 8, No. 4 (Quarter 4, 2015), p. 30.

5.47 Continued reliance on ageing infrastructure is likely to exacerbate the competitive disadvantage suffered by Australian firms, particularly as overseas markets increasingly gravitate towards gigabit-capable internet infrastructure.

Recommendation 8

5.48 The committee recommends that the Australian Government commit to rolling out 21st century broadband infrastructure.

Final comment

5.49 The committee has devised and outlined in this chapter specific recommendations that should receive immediate consideration from the Government. However, the committee emphasises that the body of this report has relayed and discussed many other ideas that could potentially help Australia's video game industry to flourish into a sustainable and valuable sector that can keep Australia's talent here, rather than overseas.

5.50 The committee calls on the Government to take the opportunity to do everything possible to secure a larger share of this growing, high-skilled industry for Australia. The committee hopes that the industry has a bright future in this country and that this inquiry helps to secure a positive operating environment for local businesses.

5.51 The committee commends this report to the Senate and the Government.

**Senator Anne Urquhart
Chair**

