



8-BITS
OF
GOOD
ADVICE

**TIGA'S PROPOSALS FOR THE
2015 AUTUMN STATEMENT**

NOVEMBER 2015

TIGA™

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OUR CORE PURPOSE IS TO STRENGTHEN THE GAMES DEVELOPMENT AND DIGITAL PUBLISHING SECTOR.

INTRODUCTION: **TIGA**[™]

TIGA represents developers, digital publishers, service companies and education providers and is the trade association for the video games industry. Our core purpose is to strengthen the games development and digital publishing sector. We achieve this by campaigning for the industry in the corridors of power, championing the industry in the media and helping our members commercially.

TIGA is intent on building an enduring organisation which continually improves; a business that will make a significant impact on the games industry and so benefit our membership and the wider economy. Since 2010, TIGA has won 24 business awards, an achievement which reflects TIGA's drive for improvement and to meet best practice.



THE UK VIDEO GAMES INDUSTRY

THE UK VIDEO GAMES INDUSTRY IS IMPORTANT ECONOMICALLY AND CULTURALLY.



IMAGE: Velocity, FutureLab

The UK video games industry is important economically and culturally. The UK video games sector is the largest in Europe. In 2014 the video games sector contributed £1.115 million to the UK's GDP and generated £471 million for HM Treasury in tax revenues. 30,741 work in the games industry/are in jobs indirectly supported by studios, including 10,869 in games development.¹

IN 2014

£1.115million contributed to the UK's GDP from the video games sector

£471million in HM Treasury tax revenues

30,741 people work in the games industry/are in jobs indirectly supported by studios

10,869 work in games development

Games development is a knowledge industry par excellence. The sector sustains highly skilled, graduate employment. A typical games development studio will have 80 per cent of staff qualified to degree level or above and many studios provide on-going training.

The industry is export focused: 95 per cent of UK games development studios export at least some of their games. The sector makes intensive use of technology and many studios invest in R&D.

Some of the best performing games IP globally is generated in the UK. Notable examples include the Grand Theft Auto franchise, developed by Rockstar. Other UK studios have produced major games franchises such as Batman and Lego, as well as individual world-class titles such as RuneScape (developed by Jagex), the Sniper Elite series (developed by Rebellion) and Worms (developed by Team 17).

Video games are increasingly embedded in UK culture and society. Games are a top entertainment medium, selling more at retail and via digital distribution in 2013 than video and over twice as much as music.² Games are played in 7 out of 10 households.³ Video games are cultural, audio-visual products on a par with film, television and animation. They draw on artistic disciplines such as music and art, and sometimes involve narrative. Video games also interact with other forms of media, for example, inspiring film, television and music.

The UK games development and digital publishing sector is a success story. The introduction of Games Tax Relief in 2014 – a measure which TIGA successfully campaigned for over the last seven years – will give the UK industry an important boost and enable it to compete on a more level international playing field against overseas competitors.

DFC Intelligence estimates that the global video games market is worth:

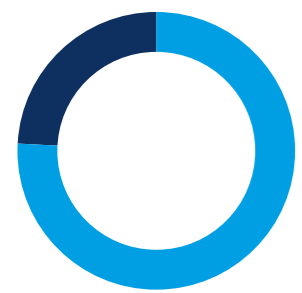


Yet too many studios in the UK fail. 29 per cent of UK games companies that have existed at any stage in the last five years have closed down.⁵ If the sector is to achieve its full potential and make a significant contribution to UK employment and growth, then we need to do more. In particular, the UK needs to build an environment that is favourable to start-ups and the growth of more sustainable studios. The following eight proposals will help to realise this objective.

1. A Creative Content Fund (CCF) should be established in order to improve studios' access to finance, stimulate new content development and IP generation. The CCF could make grants or loans available to games businesses on a pound for pound, matched funding basis. The CCF could be managed by the British Film Institute, Creative England, Innovate UK or The UK Games Talent and Finance Community Interest Company. It could be financed via the National Lottery or via Grant-in-Aid money from the Government. The CCF could build on the Prototype Fund announced in the March 2015 Budget.
2. The amount of money that a company can raise via SEIS investment should be increased from £150,000 to £200,000 per annum to reflect the rise in development budgets required to make internationally competitive games.
3. Regional/National Games Development Incubators should be established at a university or at a consortium of universities in each of the English regions and in each of the nations within the UK to enable more successful start-ups.
4. A pilot Training Tax Relief should be introduced for small and medium-sized enterprises (SMEs). TTR would operate in a similar way to the existing R&D tax credits and would enable SMEs to offset expenditure on training, Continuous Professional Development (CPD) for staff and education outreach activities against corporation tax. An SME Training Tax Relief could build on The Skills Investment Fund, which was extended in the March 2015 Budget for two years.
5. Video Games Tax Relief should be retained. The Government should carry out a cost benefit analysis of the merits of enhancing the Relief in order to stimulate further investment.
6. UKTI should enable more UK video games businesses to maximise their export potential. Additionally, UKTI should identify, engage and persuade the top twenty non-UK games development and publishing businesses in the world to invest in the UK.
7. The Government should aim to enhance the commercial, management and leadership skills of games studios. In particular, the Growth Accelerator Service should be tailored to the needs of games developers and digital publishers and policy makers should ensure that more studios benefit from the service over the life of the current Parliament.
8. Specialist roles should be added to the Shortage Occupation List (including, but not limited to, Game Analyst, Senior Game Artist, Brand Manager, Senior Game Designer, Localisation Manager, Community Manager, Senior Producer, and Engine Programmer). This will enable games businesses to address skill shortages in highly specialised roles.



1. DEVELOP A CREATIVE CONTENT FUND



76% of investment in UK games development is derived from global companies

24% is self-funded by British games companies



PROPOSAL

The UK Government should facilitate the development of a Creative Content Fund (CCF) in order to improve access to finance, encourage new studio formation, stimulate creativity and co-fund new content development and IP generation.⁶ This would build on the Government's announcement made in the March 2015 Budget to introduce a Prototype Fund (a measure campaigned for by TIGA).

The CCF could make grants or loans available to games businesses on a pound for pound, matched funding basis. The CCF could be managed by the British Film Institute, Creative England, Innovate UK or The UK Games Talent and Finance Community Interest Company. It could be financed via the National Lottery or via Grant-in-Aid money from the Government.

REASON

UK games development has traditionally been heavily reliant upon global games companies for finance. In 2011, 76 per cent of investment in UK games development was derived from global companies.⁷ The remaining 24 per cent was self-funded by British games companies, who largely relied upon existing cash resources, including retained profits, and, to a much smaller degree, private



investment to fund development.⁸ Access to debt and equity finance is comparatively difficult. Additionally, those creative businesses (including video games development studios) that are fortunate enough to secure finance typically have to trade away their IP for project capital.⁹

New IP is the engine of the games industry that opens new markets, triggers employment, raises tax revenues and delivers new growth to studios that own the IP. Retaining ownership of successful IP enables games developers to generate cash flow and support more sustainable businesses.¹⁰ While new IP financing and distribution declined in the years preceding the launch of the new consoles in 2013, new routes to market (such as mobile, online and social gaming) have opened up, thereby reducing or even obviating the need for publisher assistance on those platforms. There is a strong opportunity for a new generation of British games companies, which are starting up in record numbers but usually at small scale, to become developer/publishers, to create and distribute new IP.

The establishment of a Creative Content Fund could help overcome these challenges and exploit new commercial opportunities.

The CCF could provide funding of between £50,000 and £200,000 to games developers. Funding could be made available in three forms.

Firstly, funding could be made available in the form of grants. Secondly, loans could be made on a pound for pound matched funding basis, whereby eligible companies would need to demonstrate that they can match the funding from other sources. Thirdly, the CCF could distribute funding in the form of a convertible loan on commercial terms (thus acting within EU rules about State Aid).¹¹

Recipient companies would be able to repay the loan or convert its value into equity after a set period. The CCF would aim to recoup the money from recipients out of successful sales once they had generated a certain amount of revenue (in proportion to the convertible loan) and over an agreed time period (likely to be 3 years). The advantage of the convertible loan approach for the games development studio is that if its game did not sell as well as expected it could transform the CCF's loan into equity or a share in the business, and so remove the debt from its balance sheet.

ELIGIBLE COMPANIES AND PROJECTS WOULD NEED TO DEMONSTRATE THE FOLLOWING CRITERIA:

- The company is based in the UK.
- The company expends a minimum of 80 per cent of the development costs of this project in the UK.
- The company proposes to develop original new games IP which is innovative in terms of content, gameplay and, where appropriate, business models.
- The company retains majority ownership of the IP during the term of the loan.
- The company should have to demonstrate a robust business plan about how it intends to use the match funding to enhance its prospects for commercial success.

• The CCF should invest in projects that have the potential for commercial success, not prop up businesses that are in difficulties.¹² This should be demonstrated by credit checks and professional assessment of the company's financial statements.

The CCF could disburse 25 convertible loans (or grants) of £200,000 per annum (£5 million in total). The Fund's running costs are dependent on the level of administration and due diligence but the suggested structure may cost up to £500,000 per annum.¹³ TIGA notes that these estimates will need detailed feasibility analysis to cost more accurately. The CCF could be financed by the Government via Grant-in-Aid to a Government agency or by the National Lottery. If it was to be funded via the National Lottery then the Creative Content Fund (CCF) could be designated as an allocation body, together with arts councils and other distribution bodies, and given the right to decide which games projects and initiatives should be awarded with development funding. The CCF then, along with its other functions, would establish an application procedure for games developers to apply for this funding, evaluate applications received, and award funding to projects that fulfil a predetermined set of criteria. The CCF should be entirely impartial and independent of trade associations and businesses. However, the CCF could have an advisory board which potentially might include representatives from private sector investors. A commercial mentoring business advisory service should be provided for companies benefiting from CCF disbursements. This is necessary to safeguard investments and provide guidance to new companies.¹⁴

Alternatively, the BFI could be designated an allocation body with responsibility for video games. Another alternative would be to designate Creative England as a funding body, which could distribute

National Lottery Funds to the video games sector. The crucial point is that the designated funding body, whether it be the CCF, Creative England, or the BFI, should be competent and independent of trade associations and businesses. As an alternative to National Lottery funding, policy makers could finance the CCF via Innovate UK, the Government funded agency which funds, supports and connects innovative businesses to accelerate sustainable economic growth. Or policy makers could fund the CCF through Grant-in-Aid to an organisation like the BFI.

A recent example of the efficacy of direct government funding of games production can be found in Finland. Finland's Tekes government-backed funding agency has provided nearly \$70m in funding to Finnish games developers since the late 1990s providing financial assistance to many of the country's studios at the crucial high risk early stages of their existence. This includes providing early stage finance to Supercell and Rovio, two companies that have gone on to become global gaming giants. The success of this programme and the knock-on effect of an increase in inward investment and value realisation from subsequent fund raising and M&A activity has prompted the Finnish government to dramatically increase its direct games funding via the launch of Skene, a €70m dedicated games fund.¹⁵

EFFECT

A CCF carefully structured by industry and the UK Government would improve developers' access to finance, stimulate original IP generation and promote studio growth. It would enhance the independence and commercial viability of games developers and strengthen the prospects for the expansion of the UK video games industry. The matched funding criteria would help to drive investment and job growth.

THERE IS A STRONG OPPORTUNITY FOR A NEW GENERATION OF BRITISH GAMES COMPANIES, WHICH ARE STARTING UP IN RECORD NUMBERS BUT USUALLY AT SMALL SCALE, TO BECOME DEVELOPER/PUBLISHERS, TO CREATE AND DISTRIBUTE NEW IP.



2. SEED ENTERPRISE

INVESTMENT SCHEME

PROPOSAL

Increase the amount of money that a company can raise via SEIS investment from £150,000 to £200,000 per annum.

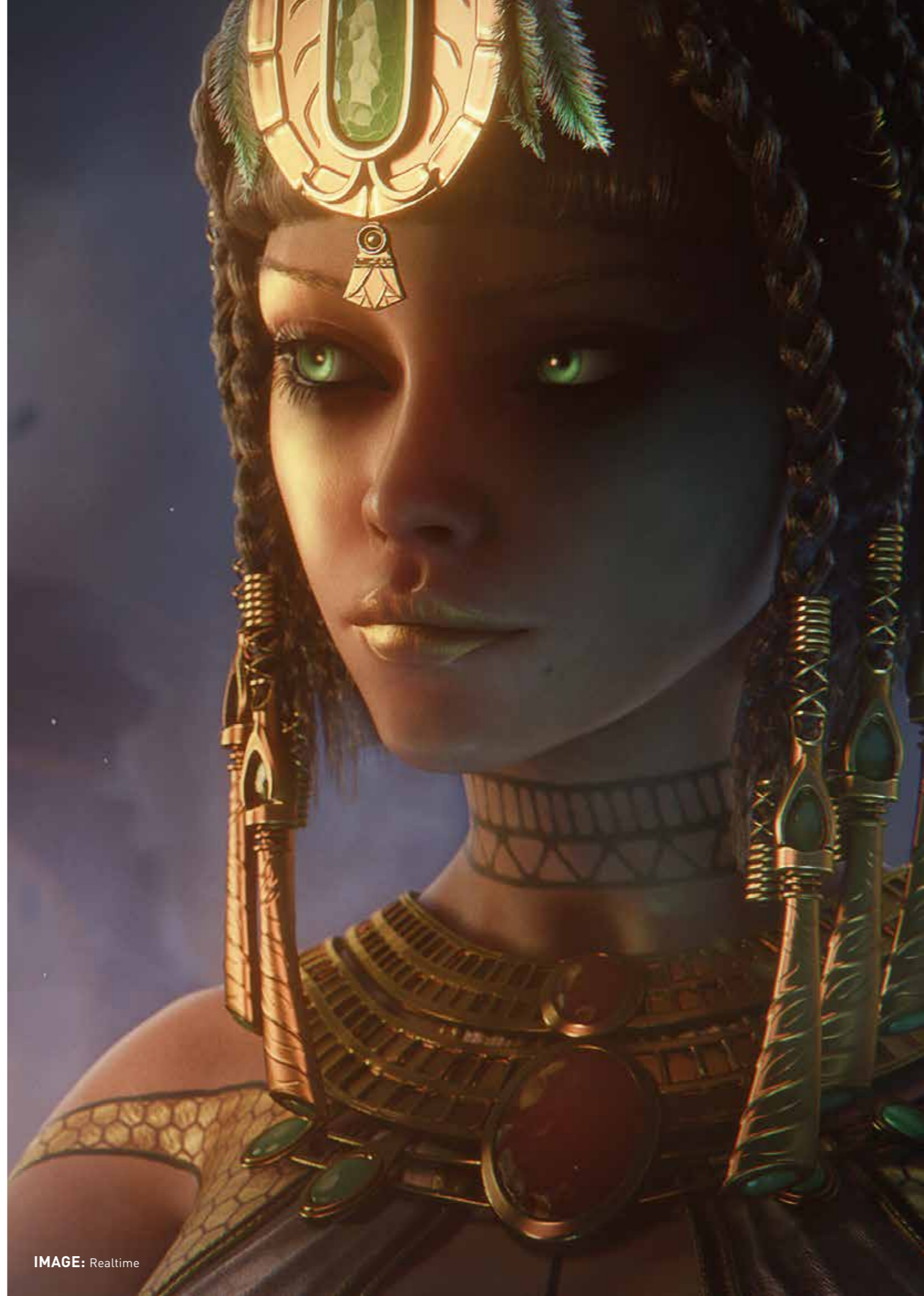
REASON

Creative businesses, including games developers, find it relatively difficult to access debt, bonds and equity finance.¹⁶ This is because of the high levels of uncertainty about consumer demand, the intangible nature of IP and in some cases the vagaries of the work for hire business model which results in development studios sometimes operating for months before receiving revenue. Additionally, games developers typically have relatively few assets and are comparatively young with little evidence of a financial track record. While developers know about their business, venture capitalists' and business angels' knowledge is more imperfect. This results in a finance gap affecting businesses that lack collateral. Moreover, private investors are disinclined to invest in small and medium-sized enterprises like many games development studios because the largely fixed costs of due diligence are too high relative to the amount of equity sought.¹⁷

The Seed Enterprise Investment Scheme can help SMEs access capital because it provides tax efficient benefits to individuals and encourages investment in small and early stage start-up businesses in the UK.¹⁸ Over the last couple of years, the SEIS scheme has successfully supported the funding of many new start-up games studios and entrepreneurs across a range of games platforms. But the development and marketing budgets required to make internationally competitive games are on the rise as game devices such as mobile phones and tablet PCs become increasingly technically advanced, rivalling game console quality, and consumer expectations of a mobile game experience get higher.

EFFECT

Increasing the SEIS cap from £150,000 to £200,000 would help ensure that new studios can continue to gain from the SEIS scheme (and get access to early funding which simply is not readily available elsewhere), whilst ensuring the projects they create are good enough to compete in a challenging marketplace.





TIGA'S OWN RESEARCH DEMONSTRATES THERE HAS BEEN A SURGE OF START-UPS OVER THE LAST FEW YEARS.



IMAGE: Realtime

3. ESTABLISH DEDICATED GAMES DEVELOPMENT INCUBATORS

IN THE REGIONS OF ENGLAND AND THE NATIONS OF THE UK

PROPOSAL

Regional and National Games Development Incubators should be established at universities in each of the English and UK national regions to enable more successful start-ups. These incubators would support both student and non-student creative enterprises and enhance the local connections between tech start-ups and academia. These connections are widely recognised as essential for sustained success in the global tech industries, as demonstrated by the likes of Cambridge's tech cluster and Silicon Valley in the USA.

REASON

TIGA's own research demonstrates there has been a surge of start-ups over the last few years.

This new wave of small studios needs the support of a local, relevant business community, and close proximity to the brightest graduate talent, if they are to maximise their potential.

TIGA proposes that the network could consist of 12 universities - one in each of the nine English regions and one in each of the other UK national regions, or it could consist of a consortia of universities working cooperatively within each region. Each university or consortia could be designated to provide a Regional/National Games Development Incubator (R/N GDI) for start-ups. This would enable them to benefit from accumulated expertise in research and enterprise, as well as access to skilled graduates.

The UK Government, the Scottish Government, the Welsh Government and the Northern Ireland Executive could select the relevant and appropriate regional and national universities via a competitive process. Universities would only be designated as Regional/National Games Development Incubators if they met key criteria relating to infrastructure, industry links and if there was sufficient regional/national demand or potential for growth.



UNIVERSITIES ARE WELL PLACED TO PROVIDE INCUBATORS TO START-UP TEAMS OF STUDENTS: THEY TYPICALLY HAVE THE PHYSICAL SPACE, SOME DEVELOPMENT EQUIPMENT AND THE IT SUPPORT NEEDED TO SUPPORT START-UPS.

The twelve GDIs would be open to both students and to non-student start-ups. The GDIs would encourage their start-ups to approach external funders and commercial advisers in order to make their ideas and businesses more sustainable. GDIs could liaise with Local Enterprise Partnerships, the Technology Strategy Board, and the EU - and where appropriate, the Scottish and Welsh Governments and

the NI Executive - to access funding to commercialise start-up projects.

Establishing dedicated games development incubators in the Regions and Nations could help promote high technology video games clusters around the UK. Creative clusters of games studios have historically emerged across the United Kingdom including Birmingham, Brighton, Cambridge, Dundee, Edinburgh, Glasgow, Guildford, Leamington Spa, Leeds, Liverpool, London, Manchester, Newcastle, Oxford, and Sheffield. North and South Wales have also seen spontaneous creation of new clusters in recent years.

Other European countries are already provided concentrated support for start-ups. For example, the Dutch Game Garden,¹⁹ an initiative in the Netherlands, provides support for over 45 start-up games development studios. Similarly, the AppCampus, a mobile application accelerator program managed by Aalto University in Espoo, Finland, provides funding, coaching and go-to-market support.²⁰

Interesting, The House of Lords Select Committee on Digital Skills recently noted the case for strengthening "regional specialisms"; recognised that universities can play a role in regional development; and suggested that Innovate UK could fund and coordinate regional opportunities for academia-industry partnerships.²¹

TIGA'S PROPOSAL HAS RECEIVED THE SUPPORT OF TEN UNIVERSITIES AND COLLEGES.

TIMOTHY BARNES

Director of UCL Advances and UCL Enterprise Operations, said:

"TIGA's proposal to establish dedicated games development incubators in the Regions and Nations could help to promote high technology video games clusters around the UK. Universities are well placed to help start-up companies, which will further strengthen higher education's links with industry. TIGA's proposal is good for start-ups, higher education and regional economic growth."

DR. MIKE REDDY FRSA

Course Tutor for the BSc Computer Games Development at the University of South Wales, said:

"South Wales has emerged from nothing in the last few years as a fast growing games development cluster, due to highly skilled graduates joining or forming start-ups, rather than Triple-A studios. This is due in part to mentoring by both Industry professionals and academic staff in the region. USW has always supported its students in achieving their ambitions, and a nationally recognised Game Development Incubator scheme would certainly be a valuable addition to the services provided by universities in ensuring their graduates are 'ready for work' in a rapidly changing creative industry. We would certainly throw our hat in the ring!"

DR. MARK EYLES

TIGA Educational Advisor and Principal Lecturer, School of Creative Technologies, University of Portsmouth, said:

"Support for the thriving creative clusters of games developers that continue to emerge throughout the UK needs to be a top priority for the government. This initiative will complement existing university incubation schemes and enable outreach to non-student start-ups. Being able to ensure that all start-ups have the best possible support through the dissemination of best practice will enable the UK's new wave of games developers to quickly compete on a global scale."

"TIGA'S PROPOSAL IS GOOD FOR START-UPS, HIGHER EDUCATION AND REGIONAL ECONOMIC GROWTH."

DR. CHRISTOS GATZIDIS

Acting Framework Leader for Creative Technology, Bournemouth University, said:

"Incubator initiatives in higher education in the UK could provide a great platform for domestic games studio start-ups and it is important to see more dedicated support for these. At Bournemouth University, in collaboration with partners from Denmark, Malta, Spain and the Netherlands, one of them being the Dutch Game Garden, we have recently been awarded approximately 300,000 Euros from the EU, under the Erasmus+ programme, for GameBiz."

This is a two-year project which will, amongst other activities, look into the creation of a framework/model for games development incubators within Universities. More UK-driven support can hopefully be provided in the future for similar excursions and we support TIGA's call for this."

MARK FEATHERSTONE

Course Leader, BSc/MComp Game Software Development, Sheffield Hallam University, said:

"There is a move in the UK games industry towards embracing micro studios, indie developers mainly focused on mobile games development. These small studios are game idea reactors that will power the next generation of smash hit IP. By setting up incubator programs at selected universities we can provide the support that these vulnerable, emerging games development companies desperately need. The incubators will naturally become the locus around which many new businesses will grow and we certainly want to be part of that."

PROFESSOR PETER COWLING

Director of the ESPRC Centre for Doctoral Training in Intelligent Games and Game Intelligence (IGGI) said:

"The University of York is very well engaged with the UK games industry, particularly through the £12 million IGGI Centre for Doctoral Training, which will see 55 PhD students graduate over the next 8 years, many of whom will go on to join the games industry or start their own games companies."

We have a good relationship with TIGA, and strongly support this initiative, particularly since we have seen first-hand some of the difficulties which our students have had to overcome in starting their own games businesses."

Games are socially and economically important, and initiatives such as this continue to promote the UK games industry as a force for good."

DR. PATRICK DICKINSON

Senior Lecturer, College of Science, University of Lincolnshire, said:

"The proposed establishment of regional incubators is an excellent idea, which will help to create positive and constructive relationships between academic institutions and the games industry. The UK games industry has, for too long, been missing a way to help games students transition from the world of study to work. Co-locating business innovation with academic study will help bridge this gap, as well as providing opportunities for new companies to exploit research-led partnerships with these institutions. This can only contribute to the future growth of partnerships and innovation in the UK games industry."



MICK STOCKTON

Principal Lecturer, School of Arts and Media, Teesside University, said:

"The industry has changed and needs a different kind of graduate. As outlined in the Brighton Fuse Report (2013) the industry requires "jacks of all trades and masters of one..." and this can only come from exposure to working practice. Incubators placed within Universities are an essential means of providing this experience of industry to complement specific academic and sector knowledge enabling delivery of employees who are experts in their field yet flexible and robust for the many changes and challenges that face new and evolving workplace challenges.

These incubators are also essential to supporting knowledge economy allowing small companies with very different skills to work together in relevant environments to achieve new and better things together. Innovation tends to exist in the spaces between specific sector skills and knowledge and incubators actively encourage these environments.

We see this collaboration and innovation in action at Teesside University. Our long-established campus incubator and our Digital Fellowships programme supports talented graduates to set up and grow digital businesses. These graduates benefit hugely from co-location in an academic environment. We have also linked these new demands to our curriculum development with the Indie Games Development degree from the School of Computing which aims to produce graduates who fit this new profile required by industry."

PAUL DURRANT

Director of Business Development, Abertay University and Governing Body member of the National Virtual Incubator (NVI), said:

"I've been involved in establishing and operating incubation-type support facilities for fledgling games companies since 1999 and it's clear to me that the UK needs the level of joined-up intervention proposed by TIGA. We must grow the volume of new IP creation in a greater number of early stage companies to maximise our chances of picking and nurturing the potential winners so that they secure success in international markets. Well-disciplined and properly resourced business incubation will help to sustain these start-ups and build them into UK companies of scale."

LEE GILBEY

Assistant Curriculum Manager of Computing and iMedia, North West Kent College, said:

"We fully support TIGA's proposal for both Regional and National Games Development incubators. We feel that having the strong support start-up companies need to establish themselves will generally lead to more opportunities for our learners to live out their dreams."

EFFECT

The formal designation of twelve Regional/National Games Development Incubators could help to produce new and more sustainable companies. The reputation of UK higher education would be enhanced, with participating institutions demonstrating strong support

from the games industry and to the wider economy. This could serve to strengthen the appeal of the universities involved to overseas students as well. The reputation of the UK as a centre for games development would be given an important boost.



PROPOSAL

A pilot SME Training Tax Relief (TTR) should be introduced. This tax measure would operate in a similar way to the existing R&D tax credits. SMEs would be able to offset expenditure on training, Continuous Professional Development (CPD) for staff and education outreach activities against corporation tax.²²



REASON

The Government's decision to extend the Skills Investment Fund in the March 2015 Budget was good news for the UK video games industry. The SIF channels industry and government investment for training and skills development into schemes to address skills gaps and shortages in film, animation, high-end TV, games and VFX. Every pound invested by industry into the SIF is matched by HM Treasury. However, funding for the SIF will come to an end in 2017.

The introduction of a cross-sectoral Training Tax Relief could build on the achievements of the SIF and promote investment in skills, training and workforce development.

Of the UK adult population, 21% possess A-levels as their highest qualification, 21% have GCSEs as their highest qualification and 19% possess unrecognised or no qualifications at all.²³ This is relatively low.²⁴ A large proportion

of the UK workforce also lacks good basic skills: 78.2% of the UK population have poor numeracy skills and 43.4% have poor literacy skills.²⁵ The UK should strive for one of the best skilled and qualified workforces in the world. Enhanced skills can improve productivity which is good for business.²⁶ Equally, higher skills can raise the employability of individuals.²⁷

Although many UK employers do provide training, the duration of this training is much shorter than the EU average.²⁸ Employers face the hurdles of cost and lost time when training their staff. This is particularly true for SMEs.²⁹

Games businesses invest in training. 85 per cent of UK games developers provide some form of training to their employees.

However, only 8 per cent provide training leading to a qualification.³⁰

EFFECT

This measure would serve to encourage more workforce development and training by games businesses in particular and other SMEs in general. Other things being equal, staff productivity and employability would be improved. It would enable developers and other businesses to finance management training, strategic skill development and promote investment in continuous professional development. It could additionally lead to an increase in training resulting in qualifications.



It would also lead to stronger business-educational links. In the case of the games industry, more developers would have the incentive and resources to provide guest lecturers to universities, contribute to course development, participate in school, college and university career days and make work placements available. Knowledge exchange between industry and universities would be strengthened.

THE SME TRAINING TAX RELIEF COULD BE PILOTED IN THE VIDEO GAMES SECTOR AND POTENTIALLY OTHER CREATIVE INDUSTRIES.



5. RETAIN VIDEO GAMES

TAX RELIEF

PROPOSAL

Video Games Tax Relief should be retained. The Government should carry out a cost benefit analysis of the merits of enhancing the Relief in order to stimulate further investment.

REASON

TIGA's seven year campaign for Games Tax Relief (GTR) came to a successful conclusion in March 2014, when the EU Commission finally approved the measure. No significant changes are likely to be made to GTR for four years. In 2017 the UK Government should notify the EU Commission of its plan to continue with the Relief and the EU Commission will decide whether the Relief can be maintained for another four years in 2018.

TIGA's research indicates that GTR is already promoting investment, job creation and the production of culturally British video games. UK policy makers should reinforce this success and examine whether GTR can be improved further. A number of games companies have already contacted TIGA to suggest reforms to GTR:

- The level of the Relief could be raised from 25 per cent to 30 per cent to stimulate further investment and to ensure that the UK's GTR is 'best in class'.³¹ The levels of tax relief available for video games around the world vary, with the most generous including Singapore; Georgia, Florida, and Louisiana in the USA; and Manitoba, Ontario and, Prince Edward Island in Canada.³² TIGA recognises that specific tax rates and tax reliefs are not the only factors influencing investment decisions. The overall business environment, including the general infrastructure, the skills base and property rights are also important. However, the UK's key competitors in the games industry include states and provinces in countries such as the USA and Canada provide not only a broadly favourable business environment but also generous tax reliefs for games production. Therefore, it is vital that the rate of GTR should be highly competitive vis-a-vis these other countries.
- Large companies should be free to choose whether to claim for GTR or

under the R&D Expenditure Credit (RDEC) scheme. At present, if a large company qualifies for the R&D expenditure credit then it cannot claim GTR on that expenditure whether or not it claims the RDEC.³³

- The £1 million limit on subcontracting could be lifted. This is because for large projects it is the norm rather than the exception to spend more than £1 million on subcontracting partners. A Triple A game could involve \$7 million in outsourcing by the time of its first release. Additional outsourcing work follows with content updates under the games as a service model. Increasing the outsourcing limit could benefit smaller UK games businesses involved in the supply chain and help to build up their skills, talent and capacity.
- The requirement for 25 per cent of the development budget to be spent within EEA could be lowered. Some big global publishers may develop a game on a global basis in a variety of different studios, taking advantage of their particular specialisms. Under this model, a single studio may not have the proficiency to deliver 25 per cent of the product. A lower threshold of EEA spend could serve to attract projects to the UK, create jobs and enhance the skills base.
- The condition to be the lead studio in order to be able to claim GTR could be re-examined. Again, this is because some projects are undertaken on a multi-studio basis, and so a UK studio could miss out on benefiting from GTR because it is not the lead studio, even though it might be carrying out an important part of the overall project. Enabling a UK studio to claim GTR, even if it is not the lead studio, could enable it to win game, employment and investment opportunities.

The UK Government could carry out a cost/benefit analysis of these ideas when considering how to improve GTR still further.

EFFECT

Enhancing GTR still further will increase the attractiveness of the UK as a place to do business, create jobs, promote investment and encourage the production of culturally British video games.



IMAGE: Realtime



6. EXPORTS AND FOREIGN DIRECT INVESTMENT

INVESTMENT

PROPOSAL

UKTI should enable more UK video games businesses to maximise their export potential. Additionally, UKTI should identify, engage and persuade the top twenty non-UK games development and publishing businesses in the world to invest in the UK.

REASON

The UK needs to rebalance its economy towards exports and investment. For the UK, trade continues to disappoint. The UK has a persistent current account deficit, exporting fewer goods and services than it imports. According to the House of Commons Public Accounts Committee, from 2000 to 2012, the annual value of UK exports nearly doubled, but during the same period, the annual value of exports globally nearly trebled. Additionally, the annual value of UK global exports has been flat for the last two years.³⁴ Small and medium-sized enterprises (SMEs) play a crucial role in the UK economy, accounting for almost 60 per cent of employment at the beginning of 2012. However, the UK has a slightly lower share of exporting SMEs than the EU average and the share of UK SME's revenues generated via exports is also lower than the EU average.³⁵ One in five UK SMEs export compared to an EU average of one in four.³⁶ For 60 per cent of companies, exports account for less than a tenth of their sales, and a third do not have exports at all.³⁷ If the Chancellor's target of the UK achieving £1 trillion annual exports by 2020 (i.e. doubling the current figure), more needs to be done to encourage and assist exporters.

According to DFC Intelligence, the global market for video games was worth \$68 billion in 2013 and is expected to be worth \$96 billion dollars by 2018. The UK should be determined to win a growing share of this expanding export market. The UK video games development sector has a high propensity to export. TIGA's

research indicates that 95 per cent of games developers export. At present, UKTI support for the video games sector is minimal. UK Trade & Investment (UKTI) should enable more UK video games businesses to maximise their export potential: In 2013/14 just 1.4 per cent (£220,100) of total UKTI Trade Assistance Programme funding was allocated to the video games sector. Additionally, just 0.18 per cent (£25,000) of total UKTI Events and Missions spending was assigned to the video games sector.³⁸

If the Government provides additional support to help games businesses to export, then, other things being equal, the video games sector should be able to make a great contribution to the UK's export performance.

Additionally, UKTI should identify, engage and persuade the top twenty non-UK games development and publishing businesses in the world to invest in the UK. Foreign Direct Investment by non-UK games businesses into the UK will bring jobs, projects and investment into the UK. If these businesses invest in the UK then they will create exporting operations which will contribute to the UK's export potential. Additionally, they may bring new ideas, processes and innovations that enhance productivity.

EFFECT

Other things being equal, if UKTI provides more support for the UK video games sector, then the industry's export potential should increase. At the same time, if UKTI focuses resources on identifying, engaging and persuading the top twenty non-UK games development and publishing businesses in the world to invest in the UK, then this should result in the establishment of new studios in the UK. This in turn will bring investment and projects to the UK and potentially further enhance productivity.

7. MANAGEMENT AND LEADERSHIP PROPOSAL

PROPOSAL

The Government should aim to enhance the commercial, management and leadership skills of games studios. In particular, the Growth Accelerator Service should be tailored to the needs of games developers and digital publishers and policy makers should ensure that more studios benefit from the service over the life of the current Parliament.

REASON

69 per cent of independent developers in the UK now self-publish. This requires new commercial skill sets (pricing and payment, distribution and discoverability, marketing and customer relationship management). These skills are not easy to master, as the closure of 30 per cent of UK games companies over the period 2008 – 2013 indicates. The UK Government could contribute to the growth and sustainability of more games businesses by adapting the Growth Accelerator Service to the needs of developers and digital publishers. In Scotland, the Scottish Government could consider introducing an analogous service (currently the Growth Accelerator Service does not operate in Scotland).

The Growth Accelerator service is now part of the Business Growth Service, a government-backed service offering support to businesses with the potential to improve and grow. The Growth Accelerator service provides recipient businesses

with access to master classes, a coach and £2,000 match funding for senior managers to develop their leadership and management skills.³⁹ In future, the Growth Accelerator Service could be customised to support games development and digital publishers by providing participants with access to additional advice. Mentors from the games industry with experience of business and commercial expertise could advise participants about the market opportunities (e.g. the suitability of the project to the target platform, audience demographics), competitive challenges (e.g. the project's USP), commercial models (e.g. pricing, e.g. integration of gameplay into the commercial model rather than the other way round), routes to market (e.g. funding, publishing and distribution), discoverability and marketing, and overall viability of their game project. The Growth Accelerator Service could also promote links between games developers and the UK's 38 business angel networks and 500 Venture Capital Trusts.

EFFECT

Businesses that seek external advice and information are 14 per cent more ambitious and 50 per cent more successful than those that do not.⁴⁰ A Growth Accelerator Service that is modified to meet the needs of the games industry will help to reduce the high studio mortality rate and give more studios the opportunity to grow.



8. MIGRATION

PROPOSAL

The following roles should be added to the Shortage Occupation List:

- Analyst: Game Analyst; Data Analysts; and Business Performance Managers (i.e. analysts but with commercial focus);
- Artists: Senior Game Artists; User Interface Artist; and Technical Artist;
- Brand Manager;
- Designers: UX Designer; Senior Game Designer; Digital Design and Marketing Manager;
- Localisation Manager;
- Social and Digital Media Specialists: Community Manager and Video Journalist,
- Producers: Technical Producer, Senior Producer, Associate Producer, Line Producer;⁴¹
- Programmers: Online Programmer; Engine Programmer; User Interface Programmer; Gameplay Programmer; Artificial Intelligence Programmer; Audio Programmer; Unity Programmer; Tools Programmer; Online Services Programmer; Mobile Game Developer Programmers including C++/Java skills; Physics Programmer, Animation Programmer, Graphics Programmer.

REASON

Since 2008 the UK has operated a five tiered Points Based System for Migration to the UK from outside the EEA. Tier 2 is reserved for migrants qualified to NQF6+, is the most commonly used tier for the employment of migrants in the game sector, and is limited to 20,700 people p.a. Tier 2 is aligned with the Shortage Occupation List (SOL). The SOL is a fast track recruitment process which enables developers to look outside of the UK/EU labour markets without having to advertise first. If a role is not on the SOL then employers have to advertise for 28 days within the UK first, including on the Job Centre Plus website. Points are accumulated on a number of set criteria.

Highly restrictive immigration policies, unless implemented very carefully

and intelligently, could hamper the growth of our small and medium-sized enterprises (SMEs), including specialist technology businesses, and threaten their competitiveness in a global market.

The UK video games industry needs a highly educated and trainable workforce in order to compete successfully. The industry relies on highly creative, technical people with skills and qualifications in areas such as design, programming, artificial intelligence, animation, mathematics and physics. UK games businesses increasingly recruit graduates in a range of disciplines, although employers typically place most emphasis on portfolio work rather than qualifications. TIGA's research shows that some studios have 80 per cent of their workforce qualified to degree level. Games businesses cannot always recruit the staff that they need from within the UK because video games development often requires people with highly specialised skills. If they are unable to recruit the talent required to produce a game or part of a game, the work will usually be transferred elsewhere if part of a global entity or the contract lost, if an independent business.

In specialised technological fields it is not foreign nationals competing against UK citizens for jobs or driving down salaries; it is UK enterprises competing against businesses from around the world for the best and brightest talent. It is already easier for some of our competitors (for example, Canada) to recruit from outside their borders than it is for UK businesses.

In the case of some specialist roles we are dependent on skilled migrants to help high technology SMEs to grow and to actually employ more British people. Migrants can also help to improve the skills of indigenous workers. For example, a UK video games studio might seek to recruit someone with online/multi-player programming skills from outside of the EU because such skills are in short supply in the domestic labour market. With this key individual, the studio could then build a team around him/her. His/her role would be to plan the online component and execute this plan via his/her team, investing time in the quality of their work and transferring his/her technical knowledge to them to enhance their skills. He/she may further guest lecture at universities and set projects for students, thereby increasing

lecturer knowledge. In short, migration can have a multiplying effect on employment and knowledge transfer.⁴² Additionally, the employment of skilled migrant workers typically results in knowledge sharing with existing teams. This entails an enhancement in the skills and knowledge of the indigenous workforce.

High technology businesses, including games development studios, are not typically seeking to hire from overseas to save money. Instead, they look outside the EU in order to find rare and specialist staff who are capable of doing the job that needs to be done and who will ideally increase the overall expertise of the business over the longer-term by knowledge-sharing.

Few people doubt that the UK needs some immigration controls. However, if the UK is to protect and enhance its high technology sectors then we need smart policy that responds to the complex realities of modern business.

EFFECT

Adding these roles to the Shortage Occupation List will enable more studios to recruit the highly skilled personnel that they need in order to operate effectively and efficiently. It will enhance the ability of studios to grow their teams, turnover and exports.

IMAGE: Realtime





FOOTNOTES

1. Gibson, N., Gibson R., and Wilson, R, *Making Games in the UK Today 2015* (TIGA 2015).
2. Source: Entertainment Retailers Association, ERA 2013 Entertainment Monitor, January 2014.
3. Source: Mintel video and computer games survey, 2011.
4. <http://www.dfcint.com/wp/?p=358>
5. The death rate remains high. Over 10 per cent of all UK games businesses closed down in 2014. See Gibson, R., Gibson, N. and Wilson, R., *Making Games in the UK 2015* (TIGA, 2015).
6. Interestingly, France currently operates a Fund for new IP that provides 50 per cent of the production cost if the game is original and innovative.
7. Publishers fund games projects according to two main models: (a) work for hire, whereby a publisher commissions a studio to develop a video game for a fee; (b) royalty advances, whereby a studio pitches a project to a publisher with whom it agrees to share royalties generated by the game in exchange for an advance that funds development activities. Once the game is released the publisher recoups the advance from the sales receipts of the game in proportion to the agreed revenue share allocated to the studio, after which it shares royalties.
8. Gardner, P., Gibson, R., and Wilson, R., *Investing in the Future: a Tax Relief for the UK Video Games Industry, second edition* (January 2011).
9. Creative Industries Council: Access to Finance Working Group Report (Creative Industries Council, December 2012).
10. *It's Time to Play. A survey on the impact of a tax credit for cultural video games in the UK development sector* (NESTA, August 2009).
11. The Funding would be within EU State Aid Funding rules and would not need to be declared to the Commission for the following reasons:
 - The funding would encompass several General Block Exemption Regulations such as 'Aid for Newly Created Small Enterprises, 'Aid for Young Innovative Enterprises' and 'Research and Development Aid'. Source: Commission Regulation (EC) No 800/2008 of 6 August 2008
 - The majority of this funding would fall under €200,000 and would therefore be considered 'de minimis' funding and would not need to be declared to the commission. Source: Commission Regulation (EU) No 1407/2013 of 18 December 2013
 - The commercial nature of the loans would also exempt them from state aid regulation. According to the Department for Business, Innovation and Skills State Aid Guide 'If the State is acting in a way that a private investor would in a market economy, for example in providing loans or capital on similar terms to that of a private investor, it is not providing State aid within the meaning of Article 107(1)'. Source: The State Aid Guide, The Department for Business, Innovation and Skills, June 2011, p.6.
12. The precise repayment mechanisms should be determined after consultation with the industry. However, even if 70 per cent of the net revenue was returned to the CCF that would still be a better royalty rate than developers receive from most traditional global publishers and should provide suitable on-going cash flow to support the recipient company in the future. In the case of one of these projects performing very well commercially 70 per cent should allow for multiple complete failures to be borne without compromising the Fund.
13. This is based on the following estimates of £10,000 due diligence per project, 2 financially-trained administrators with investment background, together £200,000 + £50,000 overheads.
14. See the AppCampus as an example of this approach: <https://www.appcampus.fi>
15. Source: <http://www.tekes.fi/en/programmes-and-services/tekes-programmes/skene/> and <http://techcrunch.com/2013/12/03/rovio-supercell-finland>
16. Bank finance is not an important source of finance for most games developers. Developers typically have no main assets that can be used as collateral unlike traditional industries with lots of plant and property on the balance sheet.
17. BIS and DCMS, Access to Finance for Creative Industry Businesses, May 2011 (Warwick Business School and IFF) [see <http://www.berr.gov.uk/assets/biscore/enterprise/docs/a/11-898-access-to-finance-for-creative-industry-businesses.pdf> and Creative Industries Council: Access to Finance Working Group Report (Creative Industries Council, December 2012).
18. The SEIS, which was introduced in 2012, currently operates under the following parameters:
 - any one company can raise no more than £150,000 in total via SEIS investment;
 - SEIS investors can allocate £100,000 in a single tax year which can be spread over a number of companies;
 - Investors cannot control the company receiving their capital and have more than a 30% stake in the company in which they invest;
 - investors can receive up to 50% tax relief in the tax year the investment is made;
 - the business company must be a UK company and have a permanent establishment in the UK;
 - in the 2012-13 tax year, tax payers can roll a chargeable gain on the disposal of assets in the tax year into shares qualifying for SEIS income tax relief, with a full capital gains tax exemption;
 - the company must have fewer than 25 employees (if the company is the parent company of a group, that figure applies to the whole group).
 - the company's trade must be no more than two years old;
 - the company must have assets of less than £200,000; and the company has to trade in an approved sector – generally not in finance or investment <http://www.seis.co.uk/>
19. <http://www.dutchgamegarden.nl/english/about-dutch-game-garden>
20. <https://www.appcampus.fi>
21. Select Committee on Digital Skills, *Make or Break: The UK's Digital Future* (House of Lords, Report of Session 2014–15) (<http://www.publications.parliament.uk/pa/ld201415/ldselect/lddigital/111/111.pdf>)
22. It would be important to identify and audit bona fide courses to eliminate any potential for abusing SME Training Tax Relief.
23. Full Report – Graduates in the UK Labour Market 2013 (Office for National Statistics 2013) p.3.
24. The UK finished 22nd out of 34 OECD countries for educational attainment 'Education at a Glance' (Organisation for Economic Co-operation and Development, 2013) p.32.
25. Considered to below GCSE grade D. '2011 skills for life survey: headline findings' (Department for Business Innovation and Skills, December 2011), p. 5 and p. 8.
26. Improving the nation's skill profile is essential to the future prosperity of the UK. The benefits of this investment are felt by individuals, employers and the economy 'Employability and Skills in the UK: Redefining the Debate' (The Work Foundation, November 2010) p.3.
27. Ibid.
28. The UK average is 7 hours vocational training, below the EU average and half the level of France. 'Business Investment in Skills' (Confederation of British Industry, August 2011) p.13.
29. SMEs devote significant time and resources to developing their staff. 'Business Investment in Skills' (Confederation of British Industry, August 2011) p.6.
30. Wilson, Richard, State of the UK Video Game Development Sector (TIGA, 2008), p. 6.
31. Interestingly, The Rt Hon George Osborne MP, Chancellor of the Exchequer, has said: "I want the UK to remain a world leader in the creative industries, that's why I am announcing tax reliefs that will be among the most generous available anywhere." See "UK to get world class creative tax breaks" (HM Treasury press release, June 18th 2012 http://www.hm-treasury.gov.uk/press_48_12.htm). However, the effective rate of relief for the UK's Games Tax Relief is less than 20 per cent. This is because Games Tax Relief is calculated by working out the level of additional deduction that is permitted for qualifying costs. The enhanceable expenditure is calculated by multiplying the applicable rate (25 per cent) by the lower of:
 - 100 per cent of UK core expenditure;
 - 80 per cent of total core expenditure.
 Therefore if you only have UK expenditure, the 80 per cent of total core expenditure will always be a limiting factor. Consequently, the maximum relief = 80 per cent x 25 per cent = 20 per cent. As you are testing total core expenditure any expenditure which is not "qualifying core" expenditure will further reduce this percentage, for example financing costs and advertising. Therefore in practice Games Tax Relief is likely to provide an effective rate of only around 16 – 18 per cent.
32. <http://www.gamesindustry.biz/articles/2013-05-22-gaming-tax-credits-a-developers-guide-to-free-money>. Although Quebec reduced its level of relief for English speaking games (<http://www.gamesindustry.biz/articles/2014-06-13-gamesubsidies-cut-as-quebec-government-slashesspending>), French language games continue to attract a high level of relief: English language games will benefit from 24 per cent tax relief, French language games will receive 30 per cent tax relief. Some Canadian provinces continue to provide for more generous levels of tax relief for video games than in the UK (<http://www.gamesindustry.biz/articles/2013-05-22-gaming-tax-credits-a-developers-guide-to-free-money>). It has been reported that a number of games businesses in Quebec, including Ubisoft and Warner Brothers, will be immune from any reductions in tax relief until 2019 at the earliest (<http://www.developonline.net/news/ubisoft-and-warner-bros-exempt-from-quebec-tax-relief-cuts/0194614>).
33. TIGA recognises that it may be advisable for companies to separate their R&D and their GTR development activities into two separate streams of costs by establishing two distinct companies.
34. See <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpublic/709/70902.htm> The Government does spend resources on promoting exports. For example, the PAC notes that in 2012-13, UKTI and FCO spent £420 million to promote exports.
35. Business, Innovation and Skills, Trade and Investment for Growth White Paper (February 2011), Cm 8015.
36. *Roads to Success: SME Exports*, House of Lords Select Committee Report on Small and Medium Sized Enterprises, Report of the Session 2012 – 13 (March 2013), HL Paper 131, paragraph 2.7.
37. <http://www.ft.com/cms/s/0/3432879e-9562-11e3-8371-00144feab7de.html?ftcamp=crm/email/2014217/nbe/UKBusiness/product&siteedition=uk#axzz33bArN4E0>
38. <http://www.parliament.uk/business/publications/written-questions-answers-statements/writtenquestions-answers/?page=1&max=20&questiontype=AllQuestions&house=commonscand%2clords&member=4070&keywords=ukti%2cand%2cvideo%2cgames>
39. See <http://www.ga.businessgrowthservice.greatbusiness.gov.uk/>
40. See <http://www.growthaccelerator.com/>
41. The role of Producer is currently on the SOL but it might be helpful for both the industry and for the MAC to delineate the precise producer roles that the games industry needs more clearly.
42. Take one of our members, Codeplay, an Edinburgh based business and an internationally recognised expert in advanced optimising technologies for computer and video game graphics. Codeplay operate in a highly specialised niche field, working with global technology giants like ARM and Qualcomm and create, for example, graphics compilers that make their chipsets run faster and more efficiently. This is a fantastic example of Britain's intellectual contribution to the progress of bleeding-edge technology around the world. Yet Codeplay is finding it increasingly challenging to meet market demand for its services and grow because it cannot find the talent locally and is inhibited from hiring specialised talent from overseas because of our immigration regulations.

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