POWERING THE UK GAMES INDUSTRY FORWARD

TIGA BUDGET SUBMISSIONS MARCH 2015

TIGA™

TIGA.ORG

IMAGE: Realtime

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 22 business awards, an achievement which reflects TIGA's drive for improvement and to meet best practice.

THE UK VIDEO GAMES INDUSTRY IS IMPORTANT ECONOMICALLY AND CULTURALLY.

THE UK VIDEO GAMES INDUSTRY

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 £1.02 billion to the UK's GDP and generated £419 million for HM Treasury in tax revenues. 28,000 people work in the games industry, including 9,896 in games development.[1]

IN 2014

£1.02	billion contributed to the UK's GDP from the video games sector
£419	million HM Treasury in tax revenues
28,000	people work in the games industry
9,896	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) 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.

SOME OF THE BEST PERFORMING GAMES IP GLOBALLY IS GENERATED IN THE UK.

TIGA™

IMAGE: Realtime

SUMMARY OF PROPOSALS

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 seven proposals will help to realise this objective.

1.
A Prototype Fund should be made available to enable start-up studios to access finance and develop playable prototypes.

2.
A Creative Content Fund (CCF) should be established in order to encourage new studio formation, stimulate creativity and co-fund new content development and IP generation. Both the Prototype Fund and the CCF could be financed from the National Lottery or by Innovate UK.

3.
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.

4.
An 'Export Tax Relief' should be introduced to incentivise more firms to export, thereby promoting export-led economic growth. Alternatively, the existing R&D Tax Credits could be expanded to enable businesses to claim relief on researching and developing new export markets.

5.
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.

6.
A pilot SME Training Tax Relief (TTR) should be introduced. 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.

7.
The Skills Investment Fund should be maintained to enable UK games businesses to enhance skills in the games industry.

GAMES COMPANIES FACE A SIGNIFICANT FUNDING GAP THAT IS RESTRICTING GROWTH.

1.
ESTABLISH A
PROTOTYPE
FUND

PROPOSAL

The Government should make prototype funding available for independent games developers. This could be financed via the National Lottery or via Innovate UK.

REASON

Games companies face a significant funding gap that is restricting growth. Low availability of private and public finance restricts the growth potential of games companies, particularly start-ups and small games businesses. Games development is a risky venture involving high technological, artistic and business risks. It is consequently relatively difficult to raise external finance. This can be a serious problem as the development of technology and content can be expensive.

TIGA proposes that resources should be made available to finance early stage development work in order to create playable prototypes, early stage development work or even to support full games development projects. Resources could also be deployed for marketing and distribution of games; for training; and to support businesses to attend international events. Prototype funding could be financed by re-deploying National Lottery money or financed via Innovate UK.

The UK has made some funding available to support prototype development in recent years. Abertay University delivered a prototype fund

TIGA PROPOSES THAT RESOURCES SHOULD BE MADE AVAILABLE TO FINANCE EARLY STAGE DEVELOPMENT WORK IN ORDER TO CREATE PLAYABLE PROTOTYPES, EARLY STAGE DEVELOPMENT WORK OR EVEN TO SUPPORT FULL GAMES DEVELOPMENT PROJECTS.

DEVELOPERS NEED TO BE GIVEN THE TOOLS AND KNOWLEDGE FOR COMMERCIAL SUCCESS.

THE ABERTAY PROTOTYPE FUND SUCCESSFULLY SUPPORTED OVER

70 COMPANIES

AND CREATED

210 JOBS

which enabled developers to apply for grants of up to £25,000 to create prototype games. The Abertay Prototype Fund successfully supported over 70 companies, created 210 jobs and enabled start-ups to overcome some critical business constraints.[6] However, the Abertay Prototype Fund has now closed. Creative England introduced a Development Fund in 2013, whereby small and medium-sized enterprises (SMEs) have been able to apply for grants of between £10,000 and £50,000 to develop a new game IP for commercial release, but this has now closed.

Creative England operates a number of schemes to help start-ups and more established games studios from across the English regions access finance, develop original IP and access expert industry mentoring. These are positive schemes, but demand for this kind of support, particularly growth finance, significantly outstrips available supply. For more information on current and upcoming funds, please see: **www.creativeengland.org.uk**[7]

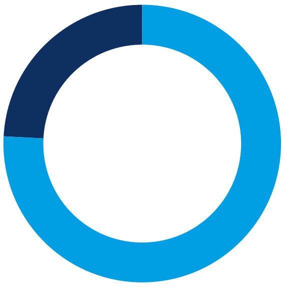
The Prototype Fund should also include business, creative and technical guidance for funded projects to maximise their prospects for commercial success.

Prototype funding should not be a stand-alone policy. Developers need to be given the tools and knowledge for commercial success. In particular, developers need business and commercial advice about how to get their prototype fully funded and released into the market. In the absence of this advice, the prototype funding could be wasted.[8] The AppCampus Award Scheme provides an interesting model of prototype funding. In addition to strict milestone funding, recipients benefit from teaching, formal classes and introductions to key industry figures including investors.[9]

EFFECT

Making prototype funding available will help start-ups and small development studios surmount barriers to accessing finance and enable more promising studios to fund prototype development and IP generation.

2. 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 encourage new studio formation, stimulate creativity and co-fund new content development and IP generation.[10]

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.[11] 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.[12] As noted earlier, 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.[13]

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.[14] 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 £150,000 to games developers. Funding could be made available in two forms. Firstly, 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. Alternatively the CCF could distribute funding in the form of a convertible loan on commercial terms (thus acting within EU rules about State Aid).[15]

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.

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.[16] This should be demonstrated by credit checks and professional assessment of the company's financial statements.

The CCF could disburse 20 convertible loans of £150,000 per annum (£3 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 £450,000 per annum.[17] Assuming the CCF is established to run over a 5 year term, the CCF is expected to cost £17,250,000 (excluding any return on investment). TIGA notes that these estimates will need detailed feasibility analysis to cost more accurately. The CCF could be financed via the National Lottery.

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.[18]

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 (and the Prototype Fund referred to on pages 6-7) via Innovate UK.

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.[19]

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.

3. 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.[20] 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.[21]

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.[22] 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.

IMAGE: Realtime

4. TAX RELIEF FOR EXPORTERS

PROPOSAL

Introduce an 'Export Box' or Export Tax Relief for UK companies that export (modelled on the Patent Box Tax), whereby eligible UK companies pay a competitive tax rate (e.g. 15 or 10 per cent) on the profits generated from their exports. Alternatively, the existing R&D Tax Credits could be expanded to enable businesses to claim relief on researching and developing new export markets (this imaginative proposal was first advanced by Grant Thornton).

REASON

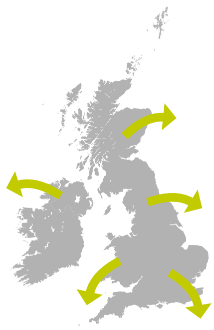
The UK needs to rebalance its economy towards exports and investment. For the UK, trade continues to disappoint. The UK has a persistent current account deficit, exporting fewer goods and services than it imports.

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.[23] 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.[24] One in five UK SMEs export compared to an EU average of one in four.[25] Lord Livingston, the former BT chief executive who became UK trade minister in December, has noted that 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.[26]

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.

UKTI helps exporting firms through a variety of useful schemes (Passport to Export, Trade Assistance Programme, OMIS, etc), but awareness of UKTI is relatively low.[27]



Moreover, while exporting has great potential for UK businesses, access to finance is relatively difficult especially for creative businesses. Also, the cost of exporting in terms of increasing production, paying for insurance against late payment, and researching new markets can be a barrier to exporting.[28]

Introducing an Export Tax Relief for UK exporting companies would help a range of business across many sectors, including many games development studios. 95 per cent of UK games development studios export at least some of their games.

The UK Government should consider introducing an 'Export Tax Relief' with a competitive tax rate (e.g. 15 or 10 per cent) on the profits generated from their exports. This could be achieved by applying an additional deduction to taxable profits, in the same manner as the existing Patent Box scheme to ensure commonality within the tax system. This method of tax relief would benefit from the fact that revenues from exports are easily identifiable, giving companies the option of identifying relevant export profits via apportionment or 'streaming' methods (depending on whether the export costs are easily separable), in a similar manner to that set out in the Patent Box legislation.

Once relevant export profits are identified, a simple formula can be applied to generate the correct deduction from the overall taxable profit figure to reflect an equivalent tax rate of 15 per cent on export profits (as is done with the Patent Box computation). If a company is losing money on exports, the identified "export losses" can be carried forward for use against the next available export profits of the trade (again – as per the Patent Box structure).

It would be prudent for HM Treasury to initially limit the Export Tax Relief to SMEs or even to just small businesses. This is because it is difficult to estimate the profits and thereby the initial reduction in Treasury tax revenues generated from exports (although over time the lower rate of corporation tax on exports should encourage more exports and therefore greater tax revenues to the Treasury).

Alternatively, instead of basing an Export Tax Relief on the Patent Box, the existing R&D Tax Credits could be expanded to enable businesses to claim relief on researching and developing new export markets. A non-exhaustive list of eligible costs could include: analysis of new markets and potential barriers; analysis of tariffs; company or branch registration costs; consideration of working capital; and consideration of repatriation of profits (this imaginative proposal was first advanced by Grant Thornton).

An Export Tax Relief is currently prohibited under EU law, but the UK Government could explore the case for negotiating and securing this Relief. However, the alternative approach of reforming the existing R&D Tax Credits to enable small businesses to claim relief on researching and developing new export markets would also be a good approach and might be politically easier to achieve.

EFFECT

The UK has a persistent current account deficit, exporting fewer goods and services than it imports. If the UK is to achieve export led growth in the future then we need to assist and encourage more firms to export. Currently, just one in five UK SMEs export compared to an EU average of one in four.

If the UK introduced an Export Tax Relief for SMEs, whereby eligible UK companies would pay a competitive tax rate on the profits generated from exports, then more businesses would have an incentive to export. This in turn could drive export led growth and help to rebalance the UK economy.

An Export Tax Relief is currently prohibited under EU law, but the UK Government could explore the case for negotiating and securing an Export Tax Relief. Alternatively, the existing R&D Tax Credits could be expanded to enable businesses to claim relief on researching and developing new export markets.

THE CREDIBILITY OF TIGA'S PROPOSAL HAS BEEN RECOGNISED BY A NUMBER OF PROFESSIONAL ACCOUNTANCY FIRMS:

JEFFREY MEEK
Partner and Head of Forensic Accounting, French Duncan Chartered Accountants, said:

"Export Tax Relief will incentivise more small firms to export their goods and services. This is an intelligent, innovative and inspired proposal which is good for firms, good for industries and good for the UK."

MARTIN LAMBERT
Corporate tax partner for Grant Thornton, notes that:

"UK businesses need to increase their exports. And for those who do export, they need to rely less on the EU and capitalise on the emerging BRIC (Brazil, Russia, India and China) and MINT (Mexico, Indonesia, Nigeria, and Turkey) economies.

"We support the introduction of a specific relief to encourage UK businesses to take advantage of these opportunities, and would also support the introduction of additional practical support for mid-sized businesses, alongside new regulations. An export tax relief together with mentoring of businesses looking to export into new markets, would incentivise UK businesses to expand in this way."

DAVID MARSHALL
Director at MMP Tax Ltd, said:

"MMP endorses these proposals which we believe would show how committed the Treasury is to supporting and growing the UK technology industry. Acceptance of these proposals would further demonstrate policy harmony with the technology tax incentives such as Video Games Tax Relief and R&D Tax Credits.

"In this current environment with the heavy media focus on tax evasion and avoidance, there is a need for tax rules and tax incentives that drive positive corporate behaviour such as export and IP development. MMP continues to help technology companies to maximise their benefits from such tax regimes in a way that helps businesses whilst reflecting government intent."

RICHARD HEAP
Technology & Media Partner at Kingston Smith LLP, said:

"With a thriving UK technology industry, and London being recognised as the global hub of the creative industries, we strongly support a tax driven initiative to increase exporting by SMEs. At Kingston Smith, we have first-hand experience of SMEs driving the growth in the technology and creative sectors, with an increasing number of those companies expanding overseas. The biggest challenge they have is cost in doing so, so any support they can get, the better."

STEVE CARTWRIGHT
Head of Creative & Interactive Media, Henderson Loggie Chartered Accountants said:

"Within the SME business community there is enormous potential for businesses to achieve growth through exports, whether to traditional export destinations or to the many emerging economies. One of the main reasons why businesses shy away from exporting is the upfront investment and costs required to establish themselves in export markets.

"Whilst many forms of assistance are available to SMEs to support them, a real tax benefit such as Export Tax Relief could make all the difference in strategic decision making. International trade is the bedrock to cement the UK's position as a global leader in the games and wider creative industries and we thoroughly support the introduction of an Export Tax Relief."

5. ESTABLISH DEDICATED GAMES DEVELOPMENT INCUBATORS

IN THE REGIONS OF ENGLAND AND THE NATIONS OF THE UK

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

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: 44 per cent of UK games companies were started up in the last two 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.


IMAGE: Realtime

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 distributed GDIs would be open to both students and to non-student start-ups, but encourage these start-ups to also approach external funders 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,[29] 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.[30]

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.[31]

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 Advisorand 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."

TIGA™

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 Hallum 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 a 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:

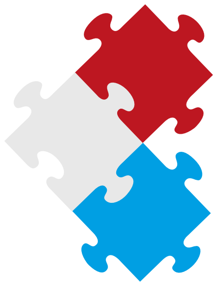
"We fully support TIGA's proposal for both Regional and National Games Development incubators. We feel that having the strong support start-up companies need to establish themselves will generally lead to more opportunities for our learners to live out their dreams."

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.

6. INTRODUCE AN SME TRAINING TAX RELIEF

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.[32]

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

REASON

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.[33] This is relatively low.[34] 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.[35] 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.[36] Equally, higher skills can raise the employability of individuals.[37]

Although many UK employers do provide training, the duration of this training is much shorter than the EU average.[38] Employers face the hurdles of cost and lost time when training their staff. This is particularly true for SMEs.[39]

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.[40]

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.

7. MAINTAIN THE SKILLS INVESTMENT FUND

PROPOSAL

Maintain the Skills Investment Fund to enable UK games businesses to enhance skills in the games industry.

REASON

The Creative Skillset Skills Investment Fund (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 up to £8m each year for two years, making the total potential investment in skills through the SIF £32m over two years.

Four key funding schemes relevant to the video games industry are available via the Skills Investment Fund: a Trainee Network (to assist games companies to take on new trainees with financial support); a Short Course Programme (to encourage companies to provide continuous professional development); Commissioned Training; and a Challenge Fund. To date, £3.8m has been spent (Creative Skillset spending £1.9m and industry spending £1.9m), with 145 games companies supported.[41]

EFFECT

Maintaining the Skills Investment Fund will enable more games businesses, particularly smaller firms, to take on trainees and to invest in training. This should enhance the productivity and competitiveness of participating firms.

IMAGE: Realtime

FOOTNOTES

1. Gibson, N., Gibson R., and Wilson, R, Making Games in the UK Today 2014 (TIGA 2014).

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. Gibson, N., Gibson R., and Wilson, R, *Making Games in the UK Today 2014* (TIGA 2014).

6. 72 per cent of respondents who had benefited from the Abertay Prototype Fund reported that the scheme had enabled them to surmount the constraint on their business of accessing working capital. 62 per cent said that the Fund had enabled them to deliver employment growth, 53 per cent stated that it had allowed them to secure new commercial partnerships and 88 per cent noted that it had helped them to develop an effective business model. 25 per cent of respondents said that the Fund had enabled them to release new IP and a further 60 per cent said that the IP was still in development. 78 per cent said that they would not have secured funding elsewhere (information from Abertay University, January 21st 2014).

7. Creative England's funds are primarily derived from either the Regional Growth Fund (RGF) or the European Regional Development Fund (ERDF), both of which are made available based on geographical eligibility and historic support (or lack of). ERDF in particular, is restricted to very specific regions, whilst Creative England is currently able to use RGF in all of the English regions outside of London.

8. Recipients of prototype funding could be required to provide some evidence of how they would ensure that their game gets funding beyond the prototype phase and out into the market as part of the application process for prototype funding.

9. https://www.appcampus.fi

10. 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.

11. 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.

12. Gardner, P., Gibson, R., and Wilson, R., *Investing in the Future: a Tax Relief for the UK Video Games Industry, second edition* (January 2011).

13. Creative Industries Council: Access to Finance Working Group Report (Creative Industries Council, December 2012).

14. *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).

15. 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.

16. 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.

17. This is based on the following estimates of £10,000 due diligence per project, 2 financially-trained administrators with investment background £200,000 + £50,000 overheads.

18. See the AppCampus as an example of this approach: https://www.appcampus.fi

19. Source: http://www.tekes.fi/en/programmes-and-services/tekes-programmes/skene/ and http://techcrunch.com/2013/12/03/rovio-supercell-finland

20. 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.

21. 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).

22. 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 investmenthttp://www.seis.co.uk/

23. See http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/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.

24. Business, Innovation and Skills, Trade and Investment for Growth White Paper (February 2011), Cm 8015.

25. 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.

26. http://www.ft.com/cms/s/0/3432879e-9562-11e3-8371-00144feab7de.html?ftcamp=crm/email/2014217/nbe/UKBusiness/product&siteedition=uk#axzz33bArN4E0

27. 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 5.18.

28. 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 4.1.

29. http://www.dutchgamegarden.nl/english/about-dutch-game-garden

30. https://www.appcampus.fi

31. 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)

32. It would be important to identify and audit bona fide courses to eliminate any potential for abusing SME Training Tax Relief.

33. Full Report – Graduates in the UK Labour Market 2013 (Office for National Statistics 2013) p.3.

34. 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.

35. 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.

36. 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.

37. Ibid.

38. 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.

39. SMEs devote significant time and resources to developing their staff. 'Business Investment in Skills' (Confederation of British Industry, August 2011) p.6.

40. Wilson, Richard, State of the UK Video Game Development Sector (TIGA, 2008), p. 6.

41. Information from Creative Skillset 18th February 2015.

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