

17 January 2022

NSW Treasury
GPO Box 4569
Sydney NSW 2001

Pre-Budget Submission (2021-2022)

About IGEA

The Interactive Games & Entertainment Association (IGEA) is the peak industry association representing and advocating for the video games industry in Australia, including the developers, publishers, and distributors of video games. We also manage The Arcade in South Melbourne, Australia's first not-for-profit, collaborative workspace created for game developers and creative companies that use game design and technologies. IGEA is also known for organising the Game Connect Asia Pacific (GCAP) conference for Australian game developers and the Australian Game Developer Awards (AGDAs) celebrating the best Australian games of the year.

This letter provides our contribution to the 2022-23 NSW Budget.

Submission

The industry we represent continues to experience record growth globally. The result of the COVID pandemic inspired millions of people to engage or re-engage with playing video games. Research company Newzoo estimates that in 2020 the market generated \$244.4 billion, up 23.1% year on year, the highest growth since it began tracking revenues in 2012.¹ While comprehensive numbers for 2021 are not yet readily available, first reports indicate that the record trend of 2020 continued into last year. Analytics company App Annie reports that worldwide consumer spending on mobile games alone reached close to \$160 billion in 2021.² This figure represents an increase of 15% year-over-year compared to 2020. Globally, the market will continue to grow with a CAGR (2019 to 2024) of +8.7% to reach US\$218.7 billion in 2024, passing the coveted US\$200-billion threshold in 2023.³ In Australia, between FY2016 and FY2021, revenue has almost doubled for the local industry. The last three years have seen year on year growth of over 20%

¹ <https://whitepapers.gamesindustry.biz/gibiz-whitepaper-2021-console-market>

² <https://www.gamesindustry.biz/articles/2022-01-11-app-annie-mobile-games-consumer-spending-in-2021-was-usd116b>

³ <https://whitepapers.gamesindustry.biz/gibiz-whitepaper-2021-console-market>

Key points

- Video games are the world's fastest growing creative industry, the global market has expanded 20% since COVID alone and is worth \$250+ billion annually.
- We welcome the NSW's government's move to commit to a state-based tax offset to complement the federal DGTO. It will make the state one of the world's most attractive destinations for video game development.
- However, the funding ecosystem is still missing a crucial component: We advocate for a competitive funding program for game development by supporting independent studios that do *not* meet minimum expenditure thresholds. It would be administered by Screen NSW.
- Direct funding will be highly effective in attracting investment, creating skilled full-time future-proof jobs, and generating export-generating projects that will aid Australia's post-COVID recovery.

With a view to these highly positive developments, we would like to congratulate the NSW government on its move to follow the federal government's landmark decision to commit to tax offsets for the Australian video games industry. The combination of federal and state-based incentives make NSW one of the world's most attractive destinations for video game development.

We expect these programs to fully unlock the potential of the Australian sector and accelerate growth beyond global rates to an AUD\$1 billion industry over the course of the next ten years. Their impact can already be felt: Investor confidence in the games sector has increased remarkably. Within the short timeframe between the announcement of the federal Digital Games Tax offset and this submission, Australian studios have attracted publicly disclosed investments of up to AU\$320m and signed contracts with a range of prestigious global publishers. Some of the biggest deals took place in NSW, notably Immutable's \$82m series B round and the IP acquisition of Black Matter's *Hell Let Loose* by Team for \$58m (with potential earnouts over the next two years of up to \$28m).

However, despite these positive developments, a crucial part of the funding ecosystem is still missing. To complete it, we recommend introducing a competitive funding program for game development by supporting independent studios that may not meet minimum expenditure thresholds. Currently, smaller developers, constituting the majority of Australian/NSW-based studios in terms of sheer numbers, lack access to direct assistance for games production.

Like budding film and TV producers, game developers have difficulties obtaining financing through traditional capital markets (like banks), creating products, and reaching audiences. Direct funding will address this and ensure the success of smaller studios, helping them transition into medium to larger studios.

Australia's most successful game of 2021 is a great example: *Unpacking* won the Game of the Year at the Australian Game Developer Awards (AGDAs), was featured in numerous best games of 2021 lists, and was recognised as Game of the Year by Eurogamer.⁴ Since its release in November, it has sold more than 100,000 copies, the vast majority of which is export income.⁵ However, with a budget of less than AU\$500,000, it would not have been eligible for tax rebates under the current scheme.

⁴ <https://www.eurogamer.net/articles/2021-12-30-eurogamers-game-of-the-year-is>

⁵ <https://www.nintendolife.com/news/2021/12/indie-hit-unpacking-sold-over-100k-units-in-just-10-days>

Accordingly, we advocate for a direct funding program administered by Screen NSW to focus on prototype financing and bringing products to market. Each dollar of support invested in the world's fastest-growing creative industry will aid the creation and retention of original IP, provide a source of financing to facilitate the development of innovative titles, and assist developers in increasing the ambition and quality of their games. As such, this funding will be highly effective in attracting investment, creating skilled full-time jobs, and generating export-generating projects that will help to stem COVID's profound and lasting impact on Australia's economy.

To complement this approach, funding would support broader business strategies such as the marketing and release of games, travel to industry events, porting titles to different platforms, commercialising middleware, expanding staff, internships, training or enhancing business skills.

Such grassroots incentives create a virtuous cycle of talent accumulation that will increase the effectiveness of tax offsets and retain highly mobile talent in a borderless industry. We are confident that each dollar of funding would at least be paid back in full via increased tax receipts, and almost certainly much more. In fact, previous programs of similar nature speak to the success of this approach: Studios ended up paying back more than ten times the value of the support they received from the fund through increased income taxes they were able to generate via successful titles (which only came about because of the funding support).

We encourage the government to complete the funding cycle to establish a solid future-proof foundation for the New South Wales' games industry – and help create the next *Unpacking* in the process.

With regards,



Ron Curry
CEO