

**OFFICE OF MINISTER FOR ECONOMIC DEVELOPMENT
OFFICE OF MINISTER FOR ARTS, CULTURE AND HERITAGE**

MEMORANDUM FOR CABINET

IMPLEMENTATION OF THE NEW ZEALAND SCREEN PRODUCTION GRANT

Proposal

- 1 This paper updates you on progress in implementing the New Zealand Screen Production Grant (NZSPG) agreed to by Cabinet on 2 December 2013, and presents the key design elements of the new grant effective from 1 April 2014.

Background

- 2 In December 2013, the Government made a number of alterations to the current screen incentive regimes to encourage a stronger domestically-sourced screen industry that, over time, will be less dependent on taxpayer incentives. At the same time the Government increased the incentives for international productions in the short-to-medium term to ensure New Zealand continued to attract high-value international productions for New Zealand while developing the domestic industry. [CAB Min (13) 42/5 refers.]
- 3 These changes build on earlier Cabinet decisions to assist the screen industry to diversify and extend the range of inwards production, particularly in response to the emerging opportunities in television. [EGI Min (13) 14/2 refers.]
- 4 The key changes agreed to by Cabinet in December 2013 are to:
 - combine the Large Budget Screen Production Grant (LBSPG) and Screen Production Incentive Fund (SPIF) into a new grant – the New Zealand Screen Production Grant (NZSPG);
 - increase the grant rebates from 15 per cent for international productions to 20 per cent, with an additional 5 per cent available if applicants can meet a significant economic benefits points test (refer to *Appendix 1*);
 - introduce a single 40 per cent rebate for domestic feature film and television productions which meet the significant New Zealand content points test (refer to *Appendix 2*);
 - introduce arrangements for a 40 per cent Crown share in revenue from New Zealand productions with qualifying New Zealand production expenditure (QNZPE) in excess of \$15 million and up to a maximum of \$50 million.
- 5 A visual overview of the NZSPG is available in *Appendix 3*.
- 6 Cabinet also (inter alia) invited the Minister for Economic Development and the Minister for Arts, Culture and Heritage to announce and finalise detailed arrangements to give effect to the changes.
- 7 The Ministry of Business, Innovation and Employment (MBIE) and the Ministry for Culture and Heritage (MCH), in conjunction with the New Zealand Film Commission

(NZFC) and Film New Zealand (Film NZ), consulted the industry in February 2014. The consultation process included input from both the New Zealand screen industry and New Zealand's principal market for offshore production, the United States. More than 150 people participated in the consultation, representing studios, producers, production companies, professional guilds, local authorities, regional film offices, suppliers, and legal and financial advisors.

- 8 The participants were generally supportive of the Government's objectives for the new grant. The industry consultation process provided high calibre, valuable and constructive feedback on implementing the changes. Industry feedback contributed to the final design of the new grant.

New Zealand Screen Production Grant – Policy Intent

- 9 The final criteria have been developed to support the transition over time of the screen industry from a primarily service industry to one that also generates its own intellectual property (IP). This should help the New Zealand screen industry:
 - build scale and develop the means to become more financially sustainable and internationally competitive;
 - build the skills and connections to engage internationally;
 - generate revenue streams through more frequent commercial success for reinvestment in new IP;
 - become less dependent on incentives for future business growth.
- 10 The final criteria, particularly for international productions, have also been guided by a recognition that the distinctive feature of international screen productions (such as *Lord of the Rings*, *Avatar* and *The Hobbit*) is that they can profile New Zealand on the world stage. They can enhance our brand reputation, attract high value tourists and profile our innovative and creative people and technologies.

Criteria for international productions which offer significant economic benefits

- 11 For international productions, 20 per cent will become the new baseline rebate. Eligibility for the grant will be assessed on the basis of QNZPE over certain qualifying expenditure thresholds.¹ To gain an additional 5 per cent grant, applicants will need to meet a significant economic benefits points test (refer to *Appendix 1*).
- 12 The challenge in designing the NZSPG has been to position the points test for significant economic benefits in a way that meets the government's requirements and particularly helps to market and promote New Zealand, attracts business, assists industry development and operates effectively within the tough commercial realities of the global marketplace.
- 13 A key issue is where to set the bar for the additional 5 per cent grant. Setting it too high may result in very few productions choosing New Zealand, and the Government's broader policy objectives not being realised. Setting it too low may result in 25 per cent

¹ Qualifying production expenditure thresholds are as follows: feature film \$15 million, television \$4 million and post, digital and visual effects \$1 million.

becoming the default rate and New Zealand not securing sufficient economic benefits. The additional grant remains reserved for projects that offer significant economic benefits, with the 20 per cent baseline rate available for all other eligible international productions.

- 14 We have established a significant economic benefits points test for those productions seeking the additional 5 per cent grant. This test is demanding, and will require considerable stretch from all applicants. The screen industry is likely to see the points test as challenging, and it will require them to engage with New Zealand in new ways.
- 15 To gain an additional 5 per cent rebate, applicants will need to meet requirements relating to:
 - the size of proposed and/or past expenditure in New Zealand;
 - the level of production activity in New Zealand;
 - the proportion of New Zealand personnel involved;
 - a mandatory commitment to market, promote and showcase New Zealand;
 - the delivery of other economic benefits, such as:
 - investing in infrastructure;
 - investing in innovation; skill and technology transfer and research and development;
 - supporting skills and/or talent development.
- 16 Directed by guidance notes, applicants can use the points test to determine whether or not they qualify for the additional 5 per cent grant. Initial applications will be rigorously verified by the NZFC. The NZFC will also draw upon expert advisors who have appropriate expertise to help with this assessment, for example in tourism leveraging.
- 17 The points test, coupled with guidance notes and the initial verification process, provides applicants with clarity as to the Government's expectations.
- 18 We intend to review the impact of this approach in 12 months' time.

Criteria for New Zealand productions

- 19 The Government is uncapping its support for domestic film and television productions. The overall budget cap of \$63.5 million over five years is being replaced by an uncapped provision and caps on individual productions are being increased to \$20 million (40 per cent of \$50 million QNZPE). This will allow larger-budget New Zealand screen productions to access funding.
- 20 Changes to criteria for New Zealand productions under the NZSPG include:
 - amendments to the residency status, share of income and distribution eligibility requirements for New Zealand productions;
 - an updated significant New Zealand content points test (refer to *Appendix 2*). This includes expanding the definition of New Zealand creative material so that projects with a strong creative connection to New Zealand can qualify when the source material is not written by a New Zealand citizen or resident;

- new arrangements for a Crown share of the producer's returns from New Zealand productions with QNZPE in excess of \$15 million and up to a maximum of \$50 million. It is intended that this revenue will be reinvested in the screen sector by the NZFC.

New Zealand Screen Production Grant Cabinet Appropriations paper

21 Cabinet approved new appropriation arrangements for the NZSPG earlier this month, and considered proposals for improving the development and resilience of the screen sector.

22 There will be new five year multi-year appropriations under Vote Economic Development and Vote Arts, Culture and Heritage named *New Zealand Screen Production Grant – International* and *New Zealand Screen Production Grant – New Zealand* respectively. These will commence on 1 July 2014 and expire on 30 June 2019.

Next Steps

23 The NZSPG is effective from 1 April 2014. The points tests, guidance notes and application forms will be published on the NZFC website.

24 The full suite of combined and aligned NZSPG criteria covering minor criteria changes will be published by mid-May 2014.

25 Officials will report back to Vote Ministers by October 2014 with an assessment of the impact of the NZSPG including the extent to which this is putting pressure on available baseline funding for the respective schemes and options for how any such pressure might be managed.

26 Officials will work with NZFC and Film NZ, and where appropriate NZ On Air, to develop a comprehensive and prioritised suite of initiatives to help build the scale, skills and connections of New Zealand screen sector businesses to engage and compete internationally.

Consultation

27 The MBIE and MCH have consulted with NZFC and Film NZ in the development of this paper.

Financial Implications

28 There are no direct financial implications resulting from this paper.

Human Rights

29 This paper has no human rights implications.

Legislative Implications

30 This paper has no legislative implications.

Regulatory Implications

31 The proposals in this paper have no regulatory impacts. A regulatory impact statement is not required.

Publicity

32 Officials will liaise with Vote Ministers' offices on communications material for release on 1 April 2014.

Recommendations

It is recommended that Cabinet:

- 1 **Note** that on 2 December 2013, Cabinet agreed to changes to the structure and level of government support for international and New Zealand screen productions. The key changes are to:
 - combine the Large Budget Screen Production Grant and Screen Production Incentive Fund into a new grant – the New Zealand Screen Production Grant (NZSPG);
 - increase the grant rebates from 15 per cent for international productions to 20 per cent, with an additional 5 per cent available in some circumstances;
 - to introduce a single 40 per cent rebate for domestic productions;
 - introduce arrangements for a 40 per cent Crown share in revenue from New Zealand productions with qualifying New Zealand production expenditure in excess of \$15 million and up to a maximum of \$50 million.
- 2 **Note** that in February 2014, the screen-related agencies consulted with the screen industry on implementing Cabinet's decisions relating to the new grant.
- 3 **Note** that informed by this industry feedback, the Ministry of Business, Innovation and Employment and the Ministry for Culture and Heritage, in conjunction with the New Zealand Film Commission and Film New Zealand, prepared key criteria for the new grant.
- 4 **Note** that we have approved the key criteria to come into effect on 1 April 2014.

International productions

- 5 **Note** that for international productions, 20 per cent will become the new baseline rebate. To gain an additional 5 per cent grant, applicants will need to meet a significant economic benefits points test (refer to *Appendix 1*).
- 6 **Note** that to gain an additional 5 per cent rebate, applicants will need to meet requirements relating to:
 - the size of proposed and/or past expenditure in New Zealand;
 - the level of production activity in New Zealand;
 - the proportion of New Zealand personnel involved;

- a mandatory commitment to the delivery of marketing and promotion of New Zealand;
- the delivery of other economic benefits, such as:
 - investing in infrastructure;
 - investing in innovation; skill and technology transfer and research and development;
 - supporting skills and/or talent development.

7 **Note** that the impact of the approach outlined above will be reviewed in 12 months' time.

New Zealand productions

8 **Note** that for New Zealand productions:

- the significant New Zealand content points test has been updated to include more flexibility about what is considered New Zealand subject matter (refer *Appendix 2*);
- both New Zealand film and television productions will be eligible for a 40 per cent grant; previously television productions were eligible for a 20 per cent grant;
- the current appropriation cap for New Zealand productions has been removed and there is an increase in the cap on individual productions to \$50 million of qualifying New Zealand production expenditure;
- productions between \$15 million and \$50 million qualifying New Zealand production expenditure that meet additional criteria relating to export potential and producer's track record will be entitled to the 40 per cent grant with a proportion of net income and profit being returned to the Crown, for reinvestment in the screen sector.

Next Steps

9 **Note** that officials from the Ministry of Business, Innovation and Employment and the Ministry for Culture and Heritage will report back to Vote Ministers by October 2014 with an assessment of the impact of the NZSPG including the extent to which this is putting pressure on available baseline funding for the respective schemes and options for how any such pressure might be managed.

10 **Note** that the Minister for Economic Development, the Minister for Arts, Culture and Heritage, and the Minister of Broadcasting will report back to Cabinet no later than 31 October 2014 with recommendations on initiatives to help build the scale, skills and connections of New Zealand screen sector businesses to engage and compete internationally and their budgetary implications.

Hon Steven Joyce
Minister for Economic Development

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Hon Chris Finlayson
Minister for Arts, Culture and Heritage

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New Zealand Screen Production Grant

Significant Economic Benefits Points Test for the additional 5% grant for international productions

A – Size of Proposed or Past Expenditure <i>Up to a maximum of 6 points</i>	Points Available
Either: past expenditure QNZPE in NZD on past screen productions. If the applicant company (including any related company of the applicant company), has incurred QNZPE of \$100m or more in previous 5 years then go straight to Section D.	Fast-track
Or: proposed expenditure QNZPE in NZD on the current screen production. <u>Feature film</u> A mandatory minimum \$30m QNZPE (1 pt). Additional point for each \$10m QNZPE up to \$80m. (If above \$150m then go straight to Section D.) <u>Television</u> A mandatory minimum \$25m QNZPE (1 pt). Additional point for each \$10m QNZPE up to \$75m. (If above \$80m then go straight to Section D.)	Up to 6 Fast-track Up to 6 Fast-track
Max – Section A (minimum 1 point)	6
B – New Zealand Production Activity	
B1 – Shooting – Location/Studio (50% for 1, 75% for 2, 90% for 3)	3
B2 – Visual Post-Production (50% plus)	1
B3 – Audio Post-Production (50% plus)	1
B4 – Digital or Visual Effects (50% for 1, 75% for 2 or \$5m for 1, \$10m for 2)	2
B5 – If applicable, Concept Design & Physical Effects (Period/Genre) and/or Research and Development (Documentary) (50% for 1, 75% for 2)	2
B6 – 75% or more of total budget is QNZPE (bonus point if maximum not achieved in B1-B5)	1
Max – Section B	9
C – New Zealand Personnel	
<i>NB: To qualify, individuals must be a NZ citizen or permanent resident at the time the production is being made.</i>	
C1 – Director/Producer/Writer (1 point if 1 of 3, 2 points if 2 of 3)	2
C2 – Lead and/or Supporting Cast (1 point if 2 supporting cast, 2 points if 1 lead or 3 or more supporting cast)	2
C3 – Majority of Cast (75% plus)	1

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C4 – Key Production Staff – DOP, Editor, Production Designer, Composer, Sound Designer, Sound Editor, Sound Mixer, VFX Supervisor, 1 st Assistant Director, 2nd Unit Director, Line Producer, Costume Designer, Key Makeup & Hair (0.5pt per role, maximum of 3 points)	3
C5 – Majority of Crew (75% plus)	1
C6 – Bonus point if 90% or more of cast or crew are qualifying (if maximum not achieved in C1-C5)	1
Max – Section C	9
D – Wider economic benefits <i>Up to a maximum of 6 points.</i>	
<i>Are you able to provide wider economic benefits to New Zealand or the New Zealand’s screen industry? Refer to Guidelines for examples of activities.</i>	
D1 – Enter into marketing, promotion or other beneficial arrangements for NZ (e.g. , tourism leverage, DVD extras, ‘making of’ productions, director’s commentaries.)	Up to 3
D2 – Placement of New Zealand in screen production (setting, characters, etc) leading to New Zealand brand recognition	Up to 2
D3 – Invest in infrastructure	Up to 2
D4 – Invest in innovation (e.g. providing a research and development initiative, transferring technological skills or know-how to New Zealand, enabling other business activity such as interactive digital media productions)	1
D5 – Support skills and/or talent development	1
D6 – <i>For productions which fast-track from Section A only.</i> Additional activity in New Zealand via Section B or additional involvement by NZ personnel via Section C	1
Max – Section D (minimum 3 points including 2 points from D1 and/or D2)	6
Total – an overall minimum of 20 points qualifies for 25% grant subject to achieving the minimum points in each section	30
Applicant companies with past QNZPE of \$100m or more in previous 5 years and that meet the requirements of Section D qualify for 25%. Feature films with QNZPE of \$150m and that meet the requirements of Section D qualify for 25%. Television with QNZPE of \$80m and that meet the requirements of Section D qualify for 25%.	

New Zealand Screen Production Grant

Updated Significant New Zealand Content Points Test for New Zealand Productions

A – New Zealand Subject Matter	Points Available
A1 – Setting	3
A2 – Lead Characters	3
A3 – Creative Material – Original Screenplay, Underlying Material or Significant Creative Connection with New Zealand	3
A4 – Contribution to New Zealand Culture/History	2
Total – Section A (minimum 3 pts for film and 2 pts for TV)	11
B – New Zealand Production Activity	
B1 – Shooting – Location/Studio (based on the percentage of shooting days to be carried out in New Zealand: 1 point for 50 per cent, 2 points for 75 per cent)	2
B2 – Drama or Documentaries: Visual Post-Production, Digital or Visual Effects Animation: Shooting, Visual Design, Layout, Storyboarding also eligible (based on the amount budgeted to be spent in New Zealand as a proportion of the total amount budgeted for this work: 1 point for 50 per cent, 2 points for 75 per cent)	2
B3 – Music Recording, Voice Recording, Audio Post-Production (based on the amount budgeted to be spent in New Zealand as a proportion of the total amount budgeted for this work: 1 point for at least 50 per cent)	1
B4 – If applicable, Conceptual Design & Physical Effects (Period/Genre) or Research and Development (Documentaries) (based on the amount budgeted to be spent in New Zealand as a proportion of the total amount budgeted for this work: 1 point for at least 50 per cent)	1
Total – Section B	6
C – New Zealand Personnel	
<i>NB: To qualify, individuals must be a NZ citizen or permanent resident at the time the production is being made.</i>	
C1 – Director (2 points if the director is qualifying or where there are multiple directors, 1 point if more than 33 per cent and 2 points if more than 66 per cent)	2
C2 – Producer (2 points if at least one of the producers is qualifying or if there are more than three, one of the three lead producers is qualifying).	2
C3 – Scriptwriter (2 points if the writer is qualifying or where there are multiple writers, 1 point if more than 33 per cent and 2 points if more than 66 per cent)	2
C4 – Music Composer/Source Music (1 point if the composer is qualifying <u>or</u> if more than 50 per cent of the source music is by NZers)	1
C5 – Lead Actors (1 point if one of the lead actors is qualifying, 2 points if 2 of the lead actors are qualifying) Animation: Voice Actors Documentaries: Presenter/Narrator/Subjects	2
C6 – Majority of Cast (1 point if at least 50 per cent of the cast are qualifying)	1
C7 – Key Production Staff (1 point if 2 of the key production staff are qualifying, 2 points if 3 of the key production staff are qualifying) Drama: lead cinematographer, lead production designer or art director, lead editor, lead digital/visual/special effects supervisor Documentaries: lead camera, lead/field sound recordist, sound designer, sound mixer,	2

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sound editor, lead editor, lead researcher Animation: animation director, lead layout supervisor, lead production designer, lead character designer, lead editor, lead sound designer, lead visual effects supervisor, lead modelling supervisor	
C8 – Majority of Crew (1 point if at least 50 per cent of the crew are qualifying)	1
Total – Section C (minimum 3 pts from C1 – C3)	13
D – New Zealand Businesses	
D1 – Ownership of Intellectual Property	1
D2 – Business development outcomes including ownership of applicant company, rights of recoupment of New Zealanders, sources of financing	1
Total – Section D	2
Total – minimum 20 points (feature film) or 15 points (other screen formats)	__ (out of 32)

New Zealand Screen Production Grant – Visual Overview

