



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI



Ministry
for Culture
& Heritage



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Title: Proactive Release of Cabinet Material: Reviewing the Government's Investment in the Screen Sector

Author: Ministry for Culture and Heritage and Ministry for Business, Innovation and Employment

These documents have been proactively released by Manatū Taonga Ministry for Culture and Heritage and Hīkina Whakatutuki, Ministry for Business, Innovation and Employment on behalf of Hon Carmel Sepuloni Minister for Arts, Culture and Heritage, and Hon Stuart Nash Minister for Regional and Economic Development. This package includes the Cabinet Papers and Cabinet Minutes as listed below.

Title: Cabinet Paper 'Shaping the Crown's approach to the New Zealand screen sector'

DEV-21-MIN-0083 Cabinet Economic Development Committee Minute of Decision 'Shaping the Crown's approach to the New Zealand screen sector'

Cabinet Paper 'Reviewing the Government's investment in the screen sector'

DEV-21-MIN-0242 Cabinet Economic Development Committee Minute of Decision 'Reviewing the Government's investment in the screen sector'

CAB-21-MIN-0507.01 'Reviewing the Government's investment in the screen sector'

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Key to redaction code:

9(2)(b)(ii) to avoid unreasonably prejudicing commercial positions

9(2)(g)(i) to maintain the free and frank expression of opinions by and between Ministers and officials

9(2)(h) to maintain legal professional privilege

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Offices of the Minister for Economic and Regional Development and Minister for Arts, Culture and Heritage

Cabinet Economic Development Committee

Shaping the Crown's approach to the New Zealand screen sector

Proposal

- 1 This paper reports back to Cabinet on the fiscal sustainability of the Screen Production Grant scheme and seeks agreement for the Minister for Arts, Culture and Heritage (MCH) and the Minister for Economic and Regional Development to review the Government's approach to investment in the screen sector.

Relation to government priorities

- 2 The screen sector is an important contributor to the New Zealand economy and has the potential to further support the Government's five-point economic plan. In a post COVID-19 recovery environment, a review of our investment into the screen sector is timely to ensure this investment remains fit for purpose and best leverages both economic and cultural benefits for the sector and all New Zealanders.

Executive Summary

- 3 In 2017, the New Zealand screen sector directly contributed \$3.3 billion¹ to the economy and employed 16,200 workers. Beyond the economic value, the investment in the screen sector generates cultural value, telling New Zealand stories on screen here and abroad, providing employment opportunities and fostering New Zealand creative talent.
- 4 Crown investment in the screen sector has increased over time and is forecast to continue growing. In 2020/21 officials expect spend on the sector to exceed \$400 million, excluding COVID-19 recovery funds. By 2024/25 spend is forecast to reach \$594 million per annum. There is insufficient data to establish whether the Crown realises benefits commensurate with this level of investment with the potential that Crown support for the sector may not be fiscally sustainable in its current form.
- 5 The majority of investment derives from the New Zealand Screen Production Grant (NZSPG) launched in 2013 to build scale and critical mass in the domestic industry, support the creation of New Zealand content and stories and encourage screen businesses to develop resilient business models over time (by for example generating and controlling intellectual property). The NZSPG is uncapped so the Crown has very limited means to manage or influence the level of investment once an application meets the criteria.
- 6 As part of approving funding through Budget 19 for the NZSPG, the Minister for Arts, Culture and Heritage, and the Minister for Economic and Regional Development,

¹ This figure derives from the 2018 Statistics New Zealand screen sector survey and comprises revenue derived from production, post-production, broadcasting, exhibition and distribution of screen content in New Zealand.

were asked by the Minister of Finance to report back on the fiscal sustainability of the NZSPG international and domestic.

- 7 In this context of growth, the screen sector was also asked by the Prime Minister in 2017 to consider a 10 year strategy for the sector. The result, the Aotearoa Screen Strategy 2030, outlines five core goals: enhancing the sector's collaboration, content, capability, contribution and culture.
- 8 In view of the outcome of the fiscal report back, in light of the 2030 Strategy, and considering the wider challenges facing the sector, it is prudent to undertake a further more thorough review of the sector to consider how to maximise economic and cultural return on the Government's investment in screen. We propose to take this work forward now and report back to Cabinet with proposals for the scope and scale of the review and to agree key objectives for Crown investment in the sector.
- 9 It will be important that this review has a clear scope, terms of reference, and is driven by clear objectives for investment in the sector as there are a broad range of issues that could be examined and a number of competing interests amongst stakeholders. There are also fiscal implications of the pace and direction of work. In the interim, the Government will provide an initial response to the industry's 2030 strategy.

Background

- 10 The New Zealand screen sector comprises mutually dependent international and domestic production activity. The screen sector globally is financially supported by government schemes - without a competitive incentive scheme New Zealand could not maintain a viable screen sector as international productions will be attracted to other locations by their incentive schemes.
- 11 New Zealand's incentive scheme, the New Zealand Screen Production Grant (NZSPG) established by Cabinet in 2013 [CAB MIN (13) 42/5 refers], has succeeded in building scale and critical mass in the domestic industry with a significant increase in production activity since 2013.
- 12 The NZSPG is uncapped and demand driven, paid after expenditure occurs, and has two components:
 - 12.1 A domestic grant, which provides an automatic rebate of 40 percent on Qualifying New Zealand Production Expenditure (QNZPE) to productions that meet a significant New Zealand content test
 - 12.2 An international grant, which provides an automatic base rebate of 18-20 percent of QNZPE to eligible international productions, and a potential top up or 'uplift' of 5% in return for delivery of agreed economic benefits to New Zealand.
- 13 Despite the growth in the sector since 2013, longstanding challenges remain. New developments are also impacting the New Zealand screen industry in a way that may shape the Government's future investment. The longstanding challenges and new developments include:
 - 13.1 Our global competitors are shifting their incentives schemes with potential impacts on New Zealand's competitive position, including significant changes proposed by Australia to their screen incentive;

- 13.2 There is significant technological change in the sector, including the rise of streaming services, gaming and virtual reality technologies. By contrast funding agencies are operating under outdated legislation;
- 13.3 COVID-19 has shifted consumer demand, which is now impacting on commercial models in the sector, including through changes to cinematic release versus online release of content.
- 14 These shifts and the significant scale of investment mean it is timely to review the government's strategic objectives and whether investment in the screen sector is sustainable, fit for purpose, and in alignment with the Government's wider economic strategy. There are complex trade-offs necessary as the Government reshapes its approach to build a productive, sustainable, inclusive and resilient economy within a post-COVID-19 environment. Decisions will also be required in the context of the Crown's investment in screen to ensure it delivers economic and cultural value that supports New Zealand's recovery.

The Crown has strategic choices to make about its support for the screen sector

Current incentives may not be creating the right behaviours

- 15 Screen sector institutions and funding arrangements create incentives that shape the behaviour of local and international production companies, investors, crew, creative talent, and the actions of agencies themselves. It is unclear whether current institutions and funding arrangements are creating the right incentives to maximise potential return on the Crown's investment in the sector. Instead, incentives may be supporting volume-based (number of productions) rather than value-based (quality of productions) growth. This includes:
 - 15.1 Under the domestic grant, a growing number of productions that may meet the minimum 'cultural' requirements to access the grant and yet not lead to meaningful cultural outcomes. For instance, using New Zealand actors, directors and writers to tell stories that do not reflect New Zealand or do not originate here S9(2)(g)(i) [REDACTED]. Other examples include importing generic formats commissioned by international studios for global distribution at profit S9(2)(g)(i) [REDACTED].
 - 15.2 Under the international grant, a constant growth in international productions, with limited means to target productions of greatest value to New Zealanders. The base rate of 18-20 percent is available as soon as a production registers in New Zealand, and there is limited studio infrastructure and crew base to service these productions. With demand exceeding capacity there may be opportunities to better allocate scarce facilities and crew to the productions that maximise return to New Zealanders.

The Crown's support for the screen sector may be unsustainable in its current form

- 16 One of the more urgent choices for the government is on the desired scale and targeting of Crown investment in the screen sector. Appendix One provides a range of figures that highlight the size and forecast growth for the government's investment in the sector. These figures show current funding is significantly higher than investment in other sectors and growing. The Crown's total investment in the sector is expected to reach \$403.9 million by the end of 2020/21, excluding COVID-19

investment options in other priority areas may be available and that this growth in Crown spend may not be fiscally sustainable.

- 23 There are challenges with estimating the net economic benefit of the NZSPG. However, in 2017 and 2018 two reports provided estimates. Sapere found the international grant returned a net economic benefit of \$2.35 for each dollar spent by the Crown while the domestic grant returned a net loss of 32 cents on the dollar. However, this study is illustrative only, owing to critiques of the methodology used to set a counterfactual. NZIER modelling showed that without the NZSPG, exports could shrink by \$257 million, household consumption by \$144 million and real GDP by \$176 million using data from 2010-2015.
- 24 MBIE is seeking funding for enhanced monitoring and evaluation of the grant under Budget 2021 and progressing work with the NZFC on an economic impacts study under an existing contract for international screen attraction.

The industry has released its 2030 strategy and a government response is expected

- 25 In 2020 the industry presented its vision for the future of the screen sector to the government, following a request from the Prime Minister as Minister for Arts, Culture and Heritage in 2017 to develop such a strategy. The strategy considered a vision for the future of the sector, which sought to grow its economic and cultural contribution to New Zealand. The strategy:
- 25.1 suggests structural changes to funding agencies, to respond to the emergence of new technologies and streaming services;
 - 25.2 suggests greater coordination and alignment of government support for the sector (including local bodies and central government);
 - 25.3 suggests industry programs to build diversity and support the environmental sustainability for the screen sector;
 - 25.4 seeks government support to build infrastructure and expand the capacity of the sector;
 - 25.5 seeks government support to improve data on the sector and boost commercial acumen of production companies; and
 - 25.6 is underpinned by ongoing and growing Crown funding for the sector, including increasing the range of productions eligible for the NZSPG.
- 26 While some proposals are cost neutral, others would require a significant investment by the Crown over and above current levels of Crown funding for the screen sector. This new investment recommended by industry has not yet been quantified, nor the government's position on these proposals agreed. Screen sector stakeholders remain eager to hear from government on its position.

We propose a review of Crown support for the screen sector

- 27 To address these significant developments and longstanding challenges, a review of Crown support is proposed. The nature and scope of review will depend on Crown objectives for the sector and how the Government wishes to balance priorities and phase the work. There are competing interests and priorities for the sector, and these will need to be effectively balanced.

- 28 The first phase of work will clearly set out the terms of reference reporting back to Cabinet in September. This report back will include:
- 28.1 Setting the Crown's key objectives for investment in, and support for, the sector, both in terms of its potential cultural and economic benefit;
 - 28.2 Considering options to review the NZSPG international and domestic, including to achieve fiscal sustainability by maximising the economic and cultural value delivered from this substantial investment;
 - 28.3 Scoping the potential work required to undertake a wider review of Crown support for the sector and the timeframes for a phased approach to this work.
- 29 In the interim, the government will provide an initial response to the industry's 2030 strategy and continue engagement with the sector on those elements of the response that are not dependent on increases in Crown investment (such as screen sector data collection and establishment of a pan sector body).
- 30 Any changes to the NZSPG resulting from the review would need to be informed by a robust assessment of policy options to ensure that changes do not undermine New Zealand's attractiveness as an international production location.
- 31 The September report back will provide effective oversight and management of risks by Ministers and Cabinet, noting the sensitivity of any work to review support for the screen sector.

Financial Implications

- 32 **S9(2)(g)(i)** [REDACTED] Current forecasts suggest that annual grant costs (international and domestic) will reach \$226 million in 2021/22 rising to \$327 million in 2022/23. **S9(2)(g)(i)** [REDACTED]
- 33 Changes to Crown support have the potential to reduce these costs and potentially reallocate existing funding for the sector to leverage greater value. The timeline and phasing of work will impact on potential fiscal costs under the NZSPG. A full assessment of fiscal impacts will be undertaken.

Legislative Implications

- 34 There is potential that a review of screen sector support may include legislative changes. The scope, extent and timing of these changes will depend on the outcome of the September report back.

Regulatory Impact Statement

- 35 A regulatory impact statement will be provided alongside final proposals for reform, as needed.

Climate Implications of Policy Assessment

- 36 A climate implications of policy assessment may be required depending on the outcome of the review.

Population Implications

37 In 2019 for writers of NZ On Air scripted and factual series, 20% identified as Māori, 12% identified as Pacific peoples and 7% as Asian. Proposals to strengthen the significant New Zealand content test, or otherwise support diversity in sector may have positive impacts for Māori, Pacific, and diverse ethnic groups. Changes may also support the equal opportunity of women and disabled workers in the sector. These impacts may relate to a higher representation of these groups in senior roles on productions (international or domestic), or greater representation of their stories in New Zealand productions. The full impacts of potential policy changes will depend on the objectives and outcomes of the review.

Human Rights

38 There are no human rights implications from the proposed review.

Consultation

39 The Treasury agrees with the need to address fiscal sustainability and strongly supports changes to policy settings to create greater fiscal control. The Treasury would prefer a faster, narrower review, aiming towards credible commitments around fiscal control of the grants for Budget 22. Such a pace would not allow for planned work to determine the Government's objectives for the sector, seen as critical to ensure any changes made maximise the economic and cultural value of the Government's investment and do not have significant unintended consequences.

40 S9(2)(g)(i) [Redacted]

Communications

41 A comprehensive stakeholder engagement plan will be developed to inform this work. This plan will provide for engagement with industry once the scope, nature and timing of the review has been agreed with Ministers. Effective communication will be essential given the anticipated high level of engagement and interest from stakeholders in the sector, including funding agencies, producers and directors, who are likely to want to preserve Crown subsidies for the sector and maintain the status quo.

42 It is proposed that, the Minister for Arts, Culture and Heritage and the Minister for Economic and Regional Development jointly announce a review of Crown support for the sector in response to the industry's 2030 strategy. This announcement will provide a basis for targeted engagement with the sector now on the future of Crown support, while work on further scoping a potential review is advanced and objectives agreed with Ministers. Subject to work on the government response to the industry's 2030 strategy, officials will prepare a joint statement that aligns with the wider stakeholder plan and enables this targeted engagement to inform policy advice and preparation of the September 2021 report back to Cabinet.

Proactive Release

- 43 This proposal is sensitive and has the potential to impact the commercial interests of large international production companies and local New Zealand producers. It may also impact the roles and function of funding agencies. It is proposed this Cabinet paper, and other relevant papers are withheld until final decisions are made on changes to Crown support for the sector. This will enable provision of robust, free and frank advice to Cabinet on key policy decisions.

Recommendations

The Minister for Economic and Regional Development and the Minister for Arts, Culture and Heritage recommend that the Committee:

- 1 Note that as part of Budget 2019, the Minister of Finance invited the Minister for Arts, Culture and Heritage, and the Minister for Economic Development, to report back on the fiscal sustainability of the NZSPG international and domestic [CAB-19-MIN-0174.05 refers];
- 2 Note that based on current policy settings forecasts suggest total Crown funding for the sector will reach \$594 million in 2024/25; \$450 million of this will be the NZSPG, which is a demand driven and uncapped incentive and that the NZSPG may not be fiscally sustainable in its current form;
- 3 Note that current screen sector institutions and funding arrangements may not be creating the right incentives to maximise the potential return on the Crown's investment in the sector, and instead may support volume-based rather than value-based growth;
- 4 Note that there are significant developments and longstanding challenges that also require a government response, including responding to Australian sectoral reforms, the industry's 2030 strategy and to ensure that the Crown's wider investment in the sector, including funding agencies, remains fit for purpose;
- 5 **S9(2)(g)(i)**
[REDACTED]
- 6 Invite the Minister for Arts, Culture and Heritage and the Minister for Economic and Regional Development to report back to Cabinet by September 2021, on:
 - 6.1 the Crown's key objectives for investment in, and support for, the sector, both in terms of its potential cultural and economic benefit;
 - 6.2 the scope of the subsequent work programme to review Crown support for the sector including potential further work required to maximise value and improve discretion over investment.
- 7 Invite the Minister for Arts, Culture and Heritage to prepare and take forward an initial government response to the industry's 2030 strategy in consultation with the Minister for Economic and Regional Development;
- 8 Agree that this Cabinet paper, and other papers relating to this work (with the exception of agreed consultation documents) are withheld until final decisions are

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made on changes to Crown support for the sector to enable provision of robust free and frank advice to Cabinet on key policy decisions.

Authorised for lodgement

Hon Minister Sepuloni,

Minister for Arts, Culture and Heritage

Hon Minister Stuart Nash,

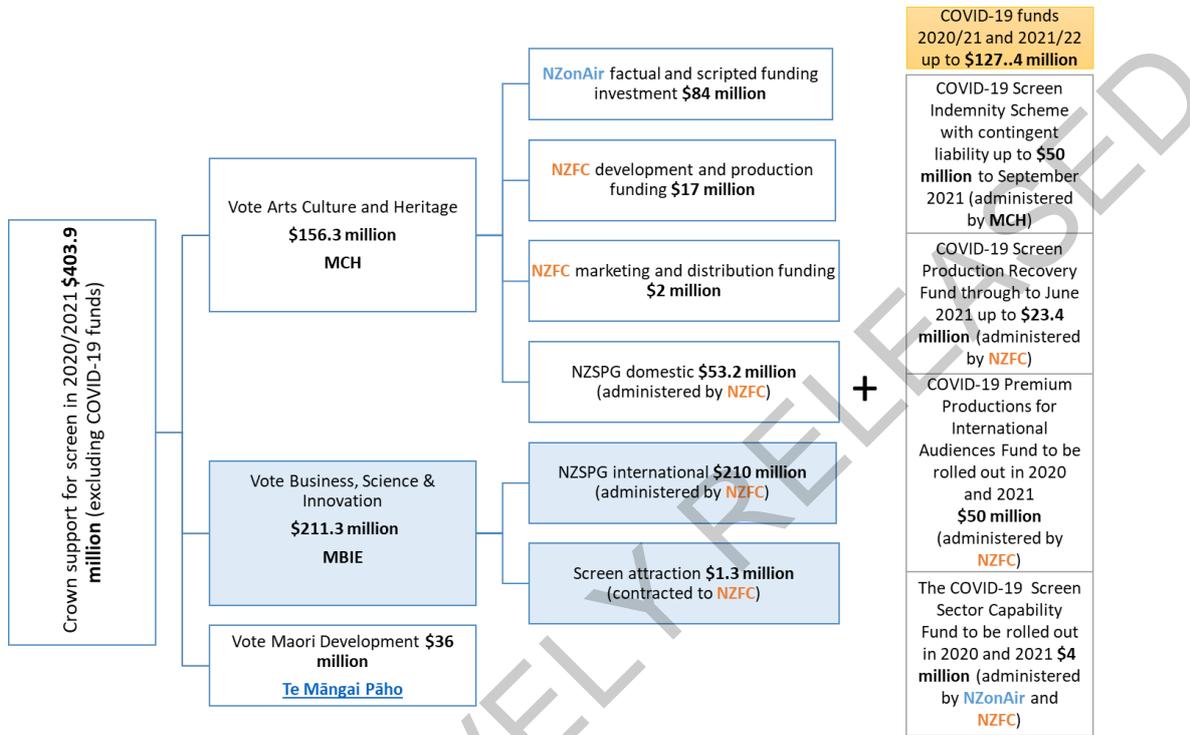
Minister for Economic and Regional Development

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Appendix One: Further detail on the current state of Crown funding in the Screen Sector

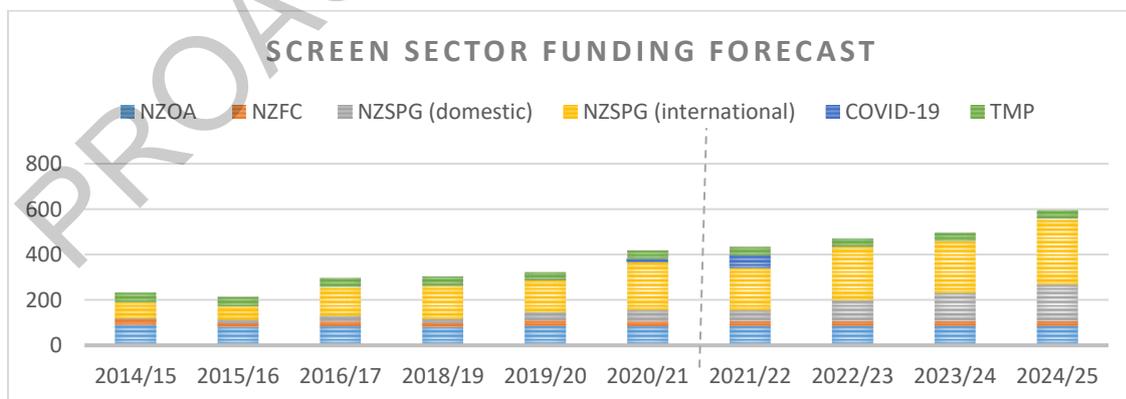
In 2020/21 The Crown’s total investment in the sector, is expected to reach \$403.9 million, excluding COVID-19 funds. Funding is managed across three primary funding agencies.

Figure 1: Current Crown investment in the screen sector



Forecasts compiled by the NZFC suggest that, without policy changes, the cost of the NZSPG is likely to grow over overtime rising to \$450 million in 2024/25. This would push annual Crown investment in screen to \$594 million.

Figure 2: Forecast Crown investment in the screen sector⁴



⁴ This graph includes \$63 million of COVID-19 funding which is forecast to be spent including the \$50 million Premium Productions for International Audiences Fund, \$6 million of the Screen Production Recovery Fund, \$4 million Screen Sector Capability Fund and \$3 million expected cost of the Screen Indemnity Scheme.

\$625 million of activity is already registered with the NZFC for the international grant to 2027/28 well in excess of current appropriations. S9(2)(b)(ii)

S9(2)(b)(ii)

S9(2)(b)(ii)

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