MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

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List of documents that have been proactively released		
Date	**Title**	**Author**
29 May 2023	Next steps for the Review of Government Investment in the Screen Sector	Offices of the Minister for Arts, Culture and Heritage and Minister for Economic Development
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Information redacted **YES**

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Some information has been withheld for the reasons of Legal professional privilege, confidential advice to Government, confidential information entrusted to the Government, free and frank opinions and for international relations purposes.

In Confidence

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

Chair, Cabinet

Next steps for the Review of Government Investment in the Screen Sector

Proposal

1 This paper seeks agreement to end the Review of Government Investment in the Screen Sector (the Review) and make a small number of readily implementable changes that we expect will increase value from the New Zealand Screen Production Grant (NZSPG) while providing certainty to a sector facing significant pressure.

Relation to Government priorities

2 The proposals in this paper support the Government to focus more directly on the issues of most concern to New Zealanders by reprioritising work on the Review.

3 The proposals also support the goal of the Government's Economic Strategy for Aotearoa New Zealand to become a high wage, low emissions economy by unleashing business potential in the screen sector. The proposals also support the cultural capability and belonging domain of the Living Standards Framework by promoting cultural identity and participation in the arts through film and television.

Executive Summary

4 The NZSPG is a rebate on qualifying expenditure undertaken in New Zealand by international and domestic screen productions.[1] It is one of the main sources of public funding for the screen sector in New Zealand. Government-funded screen investment schemes are common around the world. New Zealand's screen sector would contract without an internationally competitive scheme such as the NZSPG.

5 International and domestic productions have spent $5.2 billion in qualifying expenditure in New Zealand since the NZSPG was established in 2014, with Government making $1.15 billion in rebate payments. This has generated local jobs and salaries and expenditure in associated sectors like hospitality, building and construction, as well as broader economic and cultural benefits to New Zealand. However, given the fiscal cost of the NZSPG and its uncapped, on-demand nature, it is important we maximise our return on this investment. The Review was initiated in December 2021 to consider this.

6 Public consultation on '*Increasing value from government investment in the New Zealand Screen Production Grant*' was held from 27 October to 18 December 2022 [CAB-22-MIN-0457 refers]. Feedback generally supported the Review's objectives, emphasising the NZSPG's critical role in attracting international productions to New Zealand. However, many noted the NZSPG is losing its competitiveness as other countries continue to increase the incentives available to international productions; and neither of the two proposed consultation options were fully supported. Many people reinforced concerns about the challenging global context and the uncertainty it has generated for the sector, indicating this uncertainty has been compounded by the Review.

[1] Qualifying New Zealand Production Expenditure (QNZPE) is defined in the rebate's assessment criteria. It includes production expenditure incurred or attributable to a production in New Zealand, with some conditions and exclusions.

7 Our competitiveness continues to decline as other jurisdictions, Free and frank opinions improve their incentives to attract international productions. Studios have expressed concern about the impact of this decline and the uncertainty associated with the Review on the pipeline of productions in New Zealand. Confidential information entrusted to the Government

8 Recognising the Government’s priorities and the impact of uncertainty on the sector, we considered ending the Review and making no changes to the NZSPG. However, given the evolving context and changes in our competitive position, this would create a real risk of a contraction of the sector. Even if this is avoided, the status quo provides no opportunity to generate additional benefits from Government’s investment. We expect many in the sector would react negatively if no substantive improvements were progressed, given the extensive Review process and strong levels of sector engagement.

9 We also considered whether we should increase the level of support provided by the NZSPG to international or domestic productions. Free and frank opinions

10 Considering this context and feedback from consultation, we propose to end the Review and make a small number of readily implementable and well-supported changes that we expect will increase the value from the NZSPG and provide certainty to the screen sector:

10.1 Redevelop the five per cent ‘Uplift’, to provide a more efficient process and objective criteria;

10.2 Reset the Post-Production, Digital and Visual Effects (PDV) grant to a flat rate of 20 per cent, and reduce the qualifying expenditure threshold for PDV productions from $500,000 to $250,000;

10.3 Allow all types of domestic productions to access both the NZSPG rebate and other Government funding, in particular NZ On Air and Te Māngai Pāho; and

10.4 Change the name of the NZSPG to accurately reflect it is a rebate on expenditure undertaken (rather than a grant).

11 The final detail of the proposed changes could be made and announced by 31 July. This would allow time to undertake targeted sector engagement on the redeveloped Uplift and to incorporate the changes. To support this, we propose decisions on the detailed design of the proposals at 10.1 and 10.3 above are delegated to the Minister for Arts, Culture and Heritage, the Minister for Economic Development, and the Minister of Finance.

12 The uncertain global environment makes it difficult to estimate the fiscal cost to Government of any changes to the NZSPG. They may increase the cost over time, if they attract more eligible productions to New Zealand. Equally, they may only be enough to maintain current levels of production or we may see a decline in the number of qualifying productions, despite additional investment. While work on the detailed design of these proposals will consider mechanisms to contain costs, we believe the changes will have sustained economic and cultural benefits commensurate to the funding required. Future costs of the rebate may continue to increase even under current settings.

13 The proposed changes are not likely to require additional funding for the next two to three years, given the length of the screen production cycle and the funding already committed to relevant appropriations. We are proposing that the level of current and forecast activity

in our domestic and international screen sectors are monitored closely to assess the impact of these changes; and that we are invited to report back on this assessment, and any further recommended changes to support the sector in early 2024.

14 Officials will continue to progress work on workforce development, activities to attract international productions to New Zealand, and technical changes to the NZSPG through business-as-usual. Cabinet decisions may be sought in the future on these matters.

Background

The costs and benefits linked to the NZSPG

15 The NZSPG was introduced in 2014 to support the development of a sustainable and resilient domestic screen industry; provide economic, industry development and cultural benefits to New Zealanders; and to increase the competitiveness of our incentives for international productions.

16 International and domestic productions accessing the NZSPG have spent around $5.2 billion in qualifying expenditure in New Zealand since 2014. This has generated significant direct expenditure into New Zealand’s screen sector, including in related industries such as accommodation and hospitality, and building and construction.

17 At the same time, Government investment in the NZSPG has increased as more international and domestic productions take up the rebate. To date, Government has paid around $1.15 billion in rebates since 2014/15 (an average of $144.3 million per year).

18 Alongside the economic benefits of this direct expenditure, the productions supported by the NZSPG rebate have also contributed to a range of wider benefits. This includes broader economic benefits (such as skills development, raising the international profile of New Zealand, and attracting tourism), and cultural benefits (such as telling unique New Zealand stories and reflecting New Zealand culture on screen). Given the fiscal cost of the NZSPG and its uncapped, on-demand nature, it is important that the greatest value for New Zealand from Government’s investment is realised.

The Review of Government Investment in the Screen Sector

19 The Review was jointly initiated by the Minister for Arts, Culture and Heritage and the Minister for Economic Development in December 2021 to consider how more value could be generated from Government investment in the screen sector. It sought to determine if NZSPG settings were still fit for purpose given the evolving context of the screen sector and to consider how the return on Government’s investment in the sector could be optimised [DEV-21-MIN-0083; CAB-21-MIN-0507 refers].

20 The key objectives of the Review were to:

20.1 support a more resilient and sustainable New Zealand screen sector;

20.2 support improved conditions, pay, and career pathways for the sector;

20.3 improve social cohesion by supporting the development of New Zealand cultural content that reflects our diversity and reaches a broad audience; and

20.4 maximise the benefits generated to the wider economy from the screen sector.

21 The Terms of Reference made clear that the Government would continue to invest in both international and domestic productions via the NZSPG and would not introduce a programme cap.

Consultation on options for change to the NZSPG

22 On 25 October 2022, Cabinet approved the release of a public consultation document, '*Increasing value from government investment in the New Zealand Screen Production Grant'* [CAB-22-MIN-0457 refers]. The document outlined two policy options for changes to the NZSPG, each comprised of multiple elements. Annex 1 summarises those options.

23 Public consultation was held from 27 October to 18 December 2022.[2] Feedback showed general support for the Review's objectives, with many people identifying opportunities to generate more economic and cultural value from New Zealand's screen sector. It also suggested there was a level of ambition in the sector to help drive this value creation and signalled some momentum in critical areas such as workforce development.

24 Many people highlighted the interconnection between the international and domestic elements of our screen sector, noting that the NZSPG plays a critical role in attracting international productions to New Zealand and catalysing broader economic and cultural benefits. Both international and domestic sector participants advocated for our international settings to be as competitive as possible (while still ensuring space for locally-driven productions to succeed).

25 However, views were mixed about the two options proposed, with suggestions that some elements of each would set perverse incentives rather than generate greater value. While other elements were endorsed, neither overarching option was fully supported; and many people also put forward other ideas. Views were also mixed about the NZSPG's role in targeting cultural benefits directly via stronger content requirements.

26 Feedback also reinforced concerns about the evolving challenges the sector is dealing with both globally and domestically and the uncertainty facing the New Zealand sector:

26.1 The past 12 months has seen increasing pressure on production budgets, content strategies and business models for international studios and streamers. There has also been significant investment in studio infrastructure in a range of premium production locations (including the United Kingdom, Canada, and Ireland), and continuing competition in the level and design of incentives they offer.

26.2 The Review has compounded this uncertainty in the global screen sector, as productions are unable to reliably plan around the support available through the NZSPG and other incentives in scope of the Review.

26.3 There have been reports of fewer enquiries from international studios interested in locating productions to New Zealand, Confidential information entrusted to the Government

Recent changes to the Australian screen incentive

27 On 9 May 2023, the Australian Government announced changes to its screen investment scheme. While these changes retain a rebate rate of 30 per cent for both live productions and PDV, the scheme has been simplified and will be ongoing and

[2] Engagement was high across public information sessions, in-depth sector workshops and two hui Māori, written submissions, and an online survey. Most participants were local sector stakeholders who were focused on economic and/or cultural outcomes for the local domestic sector and New Zealand.

uncapped, providing certainty to international productions and their domestic sector. Mandatory requirements (related to workforce, infrastructure and PDV) have been introduced for all productions to access this 30 per cent rebate to support their domestic sector's development. Free and frank opinions

Analysis

Ending the Review process by progressing a few key, readily implementable changes

28 It is important that Government optimises the value it gets for its investments. However, the Review has compounded the effect of global uncertainty on the sector in New Zealand, which is under increasing pressure. It is clear that we need to bring the Review to an end and give certainty to the sector, which employs a significant number of New Zealanders and makes a valuable contribution to our economy.

29 Although some of the feedback on the Review supported ending it with no changes to the NZSPG, our view is that the status quo is not a viable option for the screen sector in New Zealand. Our competitiveness is declining, particularly after the changes to the Australian incentives. We see a real risk of the sector contracting, and international production activity remaining significantly lower than in the past, if we do not make any changes. Over time a reduction in international production activity in New Zealand is also likely to adversely impact the domestic sector given the interdependency with the international sector, particularly in relation to workforce capability and capacity.[3] The extensive public engagement process and further shifts in market context also mean many in the sector would react negatively if no improvements were progressed.

30 However, increasing our rebate rates to match, or be closer to those offered in Australia could increase the cost of the NZSPG-International Free and frank opinions

31 Free and frank opinions Even if increased support led to more domestic productions, they are not a like-for-like replacement for international productions. They do not use the range of infrastructure that international productions need, such as large-scale studio space, and our high-end post-production facilities are employed much more on international productions. It is important we have a healthy pipeline of domestic productions ensuring New Zealand content is on screen, created by and employing New Zealanders, and international productions providing the opportunity for local industry to benefit from the exposure, training and development and financial opportunities that come from bigger productions.

32 At a minimum, there is a need to make our NZSPG settings simple, consistent, and objective. This will support ongoing production activity (both international and domestic) and ensure the sector continues to thrive. Considering the evolving context, feedback from consultation, and recognising the Government's policy priorities and fiscal

Free and frank opinions

constraints, we propose concluding the Review with a small number of readily implementable and well-supported changes that will unlock greater value from the NZSPG, providing certainty to the sector as soon as possible. Changes to the international rebate will retain sufficient competitiveness to continue to attract high value international production activity, while the change to the domestic rebate will incentivise greater cultural benefits from our local productions.

33 Some of these changes can be progressed with no further policy work required, while two – redeveloping the Uplift and allowing New Zealand productions to access other government production funding – will involve some further work on detailed policy design. We seek Cabinet's approval to delegate final decisions on these matters to the Ministers for Economic Development and Arts Culture and Heritage, and the Minister of Finance. We consider final decisions could be made and announced by 31 July, with implementation (i.e. translation into NZSPG criteria) to follow.

Redeveloping the five per cent Uplift

34 The Uplift was introduced by the Government in 2014 to provide an additional incentive of five per cent on top of the 20 per cent base rebate to attract medium to large international productions to New Zealand. In return, New Zealand would receive industry development and wider economic benefits as productions receiving the Uplift are required to undertake a range of activities intended to deliver 'significant economic benefits' to an equivalent value of the Uplift payment.

35 Ten international productions with qualifying expenditure over the required $30 million threshold have accessed the 20 per cent base incentive between 2015/16 and 2021/22. Only six of these received the additional Uplift rebate. This generated $752.5 million in qualifying expenditure in New Zealand and $178.2 million in rebates ($27.6 million of which was for the additional five per cent Uplift rebate).

36 An international production must currently be invited to apply for the Uplift and meet the assessment criteria. This includes a requirement for minimum qualifying expenditure of $30 million and at least $100 million in the five years prior to the invitation.

37 The 'by invitation' requirement allows some discretion to be applied in the decision-making process and acts as a form of fiscal control but results in inefficiencies. The subjectivity around the current 'significant economic benefits test', along with the long and complex assessment process, also increases uncertainty and compliance costs for international productions. This can disincentive international productions from choosing New Zealand to locate their projects.

38 Consultation confirmed the importance of the Uplift in attracting medium to large international productions to New Zealand. It also reinforced challenges about the subjective criteria and complex process which currently deters these productions considering New Zealand as their production location. There is clear support from the sector for a more efficient process and objective criteria that provides investors and studio decision-makers with the clarity and certainty they need about the level of incentive they would receive in New Zealand.

39 We propose to redevelop the Uplift to address these issues while retaining a high threshold and strong focus on generating significant economic benefits for New Zealand. This would also provide Government greater confidence in the value to be derived from these Uplift investments. Redevelopment of the Uplift will involve more targeted engagement with key international and domestic stakeholders.

40 A more efficient process and objective criteria may attract additional medium to large productions to New Zealand and/or see a greater share of productions already choosing to locate in New Zealand decide to undertake additional investments to access the additional rebate. However, the number of medium to large productions that can be accommodated in New Zealand would be limited by the available studio infrastructure and crew depth.

41 If we assume a redeveloped Uplift results in one additional medium to large production locating to New Zealand each year (attracting a 25 per cent rebate) this could increase the call on the NZSPG by $7.5 million to $50 million annually.[4] This would be the cost to government from each additional production that chooses to locate in New Zealand under revised settings. This cost would be offset by the wider and longer-term economic benefits to New Zealand that would be delivered under the revised criteria. We expect the more objective criteria in relation to significant economic benefits to also increase the certainty for Government of realising the value from this investment.

42 Confidential advice to Government

Resetting the Post, Digital and Visual Effects Grant

43 The PDV market is a fast growing, high wage, and globally competitive industry. Other countries, such as Australia, have recognised this in recent years and increased their incentives accordingly.[5] We propose two changes to the PDV grant, which could be implemented without further policy work. These changes would moderately improve the competitiveness of the PDV grant and would be well received by the sector.

44 In 2017, to control fiscal costs, the rate for the PDV rebate was reduced from 20 per cent to 18 per cent for any qualifying expenditure over $25 million. We propose resetting the grant to a flat rate of 20 per cent for all qualifying expenditure. This change is not likely to increase the drawdown on the NZSPG substantially in the short to medium-term, particularly if other countries maintain or increase their incentives. While New Zealand's PDV industry currently comprises one large business with a strong global profile, most PDV enterprises in New Zealand are small (estimated to be around 25 enterprises).[6]

45 Small businesses in New Zealand currently find it difficult to compete for international projects as the minimum qualifying expenditure of $500,000 to access the PDV grant is beyond their reach. We propose reducing this threshold from $500,000 to $250,000 to help these businesses establish themselves.

46 Reducing the threshold may increase the draw on the NZSPG in the short to medium-term if more businesses access the PDV grant. However, this is not likely to have

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[4] Assumes one international production per year with an incentive of 25 per cent of qualifying expenditure of between $30 million to $200 million. Using historical data, an average of two productions of over $30 million of qualifying expenditure are located in New Zealand per year, with average expenditure of $45 million per production. If these productions received an additional five per cent rebate, this would result in an additional cost of $4-5 million.

[5] Australia offers a 30 per cent rebate which can be combined with up to 15 per cent from additional 'state and territory government' incentives.

[6] Historical data shows only eight productions have received rebates at 18 per cent rate, the average payment being $6.9 million. If these productions were assessed at 20 per cent, the rebate would have increased by around $200,000 per production, resulting in an additional draw down on the NZSPG of $1.68 million since 2017.

significant fiscal cost in the near term (relative to the status quo) given this would only impact on projects with qualifying expenditure between $250,000 and $500,000.[7]

47 There are similarities between the PDV and game development industries in New Zealand, noting that many workers are highly mobile across industries. The New Zealand Game Developers Association raised this concern in its submission to the Review, noting the current PDV grant distorts the shared labour market at a time when the game development industry is also facing challenges from incentives in other jurisdictions.

48 We have considered other options to bring the NZSPG settings closer to key competitors such as Australia, including PDV projects shifting to a flat 25 per cent rebate. However, this would mean the PDV rebate is no longer aligned to the 20 per cent game development rebate, which was announced in Budget 2023. We are therefore not proposing to put in place different settings for these related industries, which may increase perverse incentives for investment and talent retention in each industry.

Allowing New Zealand productions to access other government production funding

49 We propose allowing New Zealand productions of all formats[8] to access both the NZSPG and other forms of Government production funding (for example through NZ On Air and Te Māngai Pāho). While not directly consulted on, many people strongly advocated for this change, including funding entities, representative bodies, and key sector players. Because NZ On Air and Te Māngai Pāho funding already has a strong local and cultural focus, consultation feedback suggested this proposal would be an effective and appropriate way to support authentic and unique New Zealand stories and incentivise greater cultural value from the NZSPG.

50 This proposal would align with the Review's objectives without limiting the range of content the NZSPG supports. It may also present opportunities for more strategic alignment – both between funding entities, which is increasingly important as lines blur between different screen formats, and with the Government's public media priorities.

51 The proposal may also provide a range of other benefits, including:

51.1 more efficient use of Government funding within and across entities;[9]

51.2 lifting the value, ambition, and/or impact of productions that would otherwise be financed only through limited, contestable funding pools like NZ On Air's, which may particularly benefit emerging, indigenous, and underrepresented voices; and

51.3 project 'substitution', where the sector's capacity constraints mean productions under the new settings are made instead of NZSPG productions that would have been made under the status quo. This would limit the proposal's additional costs and may also increase the proportional cultural value of NZSPG funding.

52 Unlocking the creation of more high-quality, uniquely New Zealand content in this way is expected to moderately increase the call on the domestic rebate. Initial estimates suggest

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[7] Since 2015/16, eight productions with a value between $0.5 million and $1 million have accessed the NZSPG, averaging about one production per year. Assuming moderate growth in production activity of around three productions per year within the lowered threshold range of $0.25 million to $0.5 million, and a maximum rebate of $0.1 million per project, the additional cost would be about $0.3 million per year from 2025/26.

[8] Access to both the NZSPG and other sources of Government production funding is already possible for feature films, children's drama, and animation, but not for other formats like series and documentaries.

[9] Under the proposal, a production that would otherwise have been made with up to 95 per cent NZ On Air funding might only receive 'gap' funding of 30 per cent (with the NZSPG providing a further 40 per cent, and non-Government financing making up the rest). This allows the balance of NZ On Air funding to be redistributed to other worthy productions.

an additional three to seven high quality productions per year, with a cost to Government of around $7.6 million to $16.4 million from 2025/26. This estimated range reflects averages of premium production costs based on those funded through NZ On Air and Te Puna Kairangi,[10] and the number of additional productions to which funding entities could contribute within their existing appropriations. It assumes no other changes to NZSPG criteria, and that costs to Government would be two to three years after implementation (noting the NZSPG process may show these costs accruing earlier).

53 Subject to Cabinet's agreement, officials will undertake further work on potential ways to ensure additional funding both optimises value and is fiscally sustainable. Delegated Ministers will then make final decisions on these design matters, if required.

Changing the name of the NZSPG to reflect it is a rebate (not a grant)

54 We propose changing the name of the NZSPG to accurately reflect it is a rebate on qualifying expenditure in New Zealand (not a grant). This was universally supported during consultation. Minor transitional costs could be absorbed within baselines.

Progressing other important initiatives through business-as-usual work

55 We note officials would continue to consider other insights arising from the Review through business-as-usual work over the medium term:

55.1 Many people in the sector commented on the importance of workforce development in improving the sector's sustainability and resilience. They also provided useful feedback on the potential introduction of a skills levy or a skills plan requirement within the NZSPG, though it was clear that further work is required to get this important piece of work right. Officials will engage further with Toi Mai (the workforce development council for creative industries) on this.[11]

55.2 Work on attracting and promoting a more strategic range of productions with high potential benefits to New Zealand will also be pursued.

55.3 A range of technical changes to modernise and future-proof the NZSPG criteria were raised during the Review. For example, feedback suggested differentiations between formats (namely feature films and other productions) and between streaming and cinematic distribution create unintended challenges in the context of modern audience preferences. Similarly, rules around market attachments and distribution rules and arms-length expenditure may not adequately account for the trend of business models and relationships that involve both production and distribution companies producing their own content. These issues will need to be considered as part of ongoing regulatory stewardship of the NZSPG scheme.

56 Cabinet decisions may be sought on these matters in the future.

57 In all business-as-usual work, we expect the Crown's obligations under Te Tiriti o Waitangi will be a key and ongoing consideration. This is particularly important given the NZSPG's current lack of recognition of Te Tiriti, which consultation feedback highlighted as a significant shortcoming.

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[10] Te Puna Kairangi, a COVID-19 fund supporting high-quality productions that tell New Zealand stories for global audiences, allowed access to multiple sources of government production funding. NZFC, NZ On Air, and Te Māngai Pāho worked closely to implement it, and it will provide a helpful case study to inform the detailed design work for this proposal.

[11] On 9 March 2023, Toi Mai publicly released ten recommendations for consultation as part of a major review of the vocational education needs of the 'below-the-line' production workforce in the screen sector. The recommendations highlight potential areas for sector collaboration with MBIE and other agencies.

Implementation

58 Subject to Cabinet approval, officials from the Ministry of Business, Innovation and Employment (MBIE) and Ministry for Culture and Heritage (MCH) would undertake Confidential advice to Government [redacted]

Financial implications

59 Multi Year Appropriations (MYA) for the NZSPG-International and NZSPG-New Zealand have a base level of funding, but frequently require top-up funding as the NZSPG is uncapped and on-demand. The NZSPG-International (Vote Business, Science and Innovation) for 2021 – 2025 is set at $391.93 million, with $136.91 million remaining. Contingency funding of $477 million was set aside at Budget 2022 to draw down as required to meet any shortfall in funding. The NZSPG-NZ MYA (Vote Arts Culture and Heritage) for 2021 – 2025 is $168.27 million,[12] noting the NZSPG-International contingency was widened in Budget 2023 to meet any NZSPG-NZ shortfall in 2023/24.

60 Fiscal sustainability is a key consideration for optimising the Government's investment in the screen sector, noting the difficulties of forecasting demand and measuring impacts.[13] Our proposals would generate some wider economic and cultural benefits for New Zealand and will support the maturity of the domestic screen sector to some extent. However, they may also increase the drawdown on the NZSPG over time.[14]

61 Strong fiscal controls on the NSZPG were either ruled out at the outset of the Review (i.e. a programme level funding cap) or were strongly opposed during consultation as they would set perverse incentives (i.e. a project cap on the NZSPG – International). Confidential advice to Government [redacted][15]

62 Indicative estimates for our proposals, which are subject to further work as the policy design is refined, suggest financial implications ranging from $16.2 million to $66.7 million per year.[16] The relatively long screen production cycle will likely mean these costs are not incurred until 2025/26.

63 The largest component of these estimates reflects an assumption that the redeveloped Uplift attracts one additional medium-to-large production to New Zealand each year (accounting for approx. $50 million of the upper estimate). Free and frank opinions [redacted]

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[12] Includes $28.1 million in COVID-19 funding for Te Puna Kairangi/Premium Production Fund (not a NZSPG initiative).

[13] This is due to a range of factors including the inherent volatility of a project-based sector, the many variables affecting production locations and spending decisions, the global competition for international productions, an uncertain counterfactual, and the imprecision of quantifying benefits, particularly cultural and social value but also economic.

[14] The additional drawdown on the NZSPG would be potentially mitigated in the short to medium-term by capacity constraints linked to access to skills and infrastructure at some level.

[15] Confidential advice to Government [redacted]

[16] This assumes around $7.5 million to $50 million per year for one additional medium-to-large production (of $30-200 million of QNZPE) accessing the Uplift as a result of a simpler process and more objective criteria; as well as $400,000 in additional funding for two additional PDV businesses accessing the grant at a flat rate of 20 per cent per year; $300,000 for two smaller businesses accessing the PDV grant at a lower threshold per year; and $8 million to $16 million to allow New Zealand productions to access other government production funding.

Free and frank opinions

64 Table 1 provides a summary of possible additional fiscal costs across our proposals, alongside the fiscal impacts of increasing rebate rates for the NZSPG – International to improve New Zealand's headline competitiveness Free and frank opinions. The estimates are indicative, based on historical data and a simple assumption about the demand response to changes in New Zealand's settings and competitiveness, which is highly uncertain.

Table 1. Cost of NZSPG changes at different rebate rates and with proposed changes[17]

Rate	**Current (20% + 5% Uplift)**	**25% Flat rate**	**25% + 5% Uplift**	**30% Flat rate**
Backcast at different rebate rates *(based on total spend on NZSPG-International 2015/16-2021/22 and no additional projects)*				
Total spend ($m)	*725*	*875*	*900*	*1,050*
Additional cost ($m) *(live action and PDV)*	-	*150*	*175*	*320*
Costs of proposed changes across different rebate rates				
Cost per year of higher rate for NZSPG - International ($m) *(from above, average over 7 years)*	-	21.4	25.0	45.7
• *If one additional medium production ($30m)*	7.5	7.5	9.0	9.0
• *If one additional large production ($200m)*	50.0	50.0	60.0	60.0
Cost of PDV changes*	0.7	0.4	0.4	0.4
Cost of NZSPG – NZ changes	7.6 – 16.4	7.6 – 16.4	7.6 – 16.4	7.6 – 16.4
Total cost of all changes per year with additional productions ($m)	**15.8 - 67.1**	**36.9 – 88.2**	**42.0 – 101.8**	**62.7 – 122.5**

*Cost of PDV changes under 'Current' includes implementing a flat 20 per cent rate for all production sizes and reducing the QNZPE threshold. For the other rebate rates, it is assumed that the rate applies to both live action and PDV projects and the cost of this is included in the 'Cost per year' of increasing the rebate rate. Therefore the 'Cost of PDV changes' reflects only the additional cost associated with reducing the QNZPE threshold.

65 We note that the sector's support for the Review's objectives translated into several alternative proposals that, while involving more Government investment, would have at least warranted further investigation.[18] The proposals in this paper may therefore carry lower financial implications than if a full review of consultation proposals and feedback had been undertaken.

66 Confidential advice to Government

[17] The cost of changes to the rebate rates are calculated based on the total spend on the NZSPG – International (including PDV) over the period 2015/16-2021/22 and assume the same quantity and size of productions (including those qualifying for the Uplift) as over this seven-year period. The per year cost is a simple average of the total cost over seven years. The effects of increased demand in response to proposed changes is captured in assuming an additional medium or large-scale production per year. The total cost of all changes sums the increased cost per year from a change in the rebate rate, an additional production per year, the cost of the changes to PDV criteria, and the cost of changes to the NZSPG – New Zealand. It is presented as a range – the lower bound including an additional medium sized production and the lower bound of the estimated impact of the NZSPG-New Zealand changes, and the upper bound includes an additional large production and the upper bound of the NZSPG changes.
[18] For example, while many welcomed the proposal to improve the uplift criteria and process, they preferred an increase to the headline rebate rate for international productions, to 25 or 30 per cent, to ensure it remained globally competitive.

67 We are proposing that the level of current and forecast activity in our domestic and international screen sectors are monitored closely to assess the impact of these changes; and that we are invited to report back on this assessment, and any further recommended changes to support the sector in early 2024. To support this, a strengthened monitoring and evaluation programme, including a demand model for the NZSPG (which MBIE is already progressing), will improve our forecasting capability and help to understand the return on investment over time.

Legislative implications

68 There are no proposed changes to legislation.

Impact analysis

Regulatory Impact Statement

69 The proposals are non-regulatory and do not require a regulatory impact analysis.

Climate implications of Policy Assessment

70 The Climate Implications of Policy Assessment (CIPA) confirmed that CIPA requirements do not apply to those proposals as the threshold for significance has not been met.

Population implications

Group	How the proposals may affect this group
Screen sector and associated industries	The screen sector comprises a range of industries and occupations, including business-oriented and creative roles as well as technical trades and services. In 2021, it employed more than 13,000 people. Most people in production and PDV are self-employed, and in 2021 more than 80 per cent of screen firms were in Auckland and Wellington.[19] The proposals in this paper will provide more certainty and support a continued pipeline of work for this sector. Stability and security of work are particularly important currently given the global shifts in the screen business and turbulent economic conditions. Ensuring an ongoing production pipeline also supports people in related industries like hospitality and tourism.
Audiences and the general public	Domestic NZSPG productions amplify and preserve local voices and stories, shaping our collective identity (including its increasing diversity) as well as entertaining and educating. International NZSPG productions showcase our country and talent, giving New Zealanders a sense of pride and place in the world. The proposals contribute to these cultural and social benefits.

[19] Economic Trends in the New Zealand Screen Sector, Firms and Employment, MBIE, 2021.

Māori	In 2021, 17 per cent of the screen sector workforce was Māori, 13 per cent of screen sector businesses were owned by Māori, and 6 per cent of screen sector businesses were significant employers of Māori.[20] The proposed change to allow all domestic NZSPG productions access to other Government production funding would help to make the NZSPG more accessible for emerging and underrepresented screen practitioners, including Māori. This will have positive impacts on Māori skills and career development, business opportunities and exposure, in turn supporting Māori role models and more representation within the sector. The proposal will also incentivise productions that tell Māori stories authentically, allowing cultural expression and preserving story sovereignty. Māori audiences will see more of themselves and their stories on screen in premium productions, and the general population will continue to grow its understanding and appreciation of our indigenous culture and people.
Other underrepresented communities in the screen sector	As above, the proposed change to the domestic NZSPG rebate would help to make the NZSPG more accessible for emerging and underrepresented screen practitioners.[21] This will have flow-on effects for skills and career development, greater representation on and behind the screen, and deeper understanding and appreciation of New Zealand's diversity.

Te Tiriti o Waitangi implications

71 Consultation feedback highlighted concerns about NZSPG settings not meeting the Crown's Te Tiriti obligations. Some pointed out this was particularly problematic given the disproportionate success (and spill-over benefits) of screen productions featuring Māori content. Feedback provided a range of insights about how the NZSPG could better nurture, value, and respect indigenous culture, stories, places, and people.

72 Ideas for change included additional incentives or specific points for showcasing indigenous culture and lowering expenditure thresholds or financing requirements for Māori productions. Broader ideas put forward by Māori to support oritetanga and tino rangatiratanga included establishing a Māori Film Commission, training and guidance for Māori, and advisors to all NZSPG productions who could provide guidance on local tikanga, key relationships, and sites of cultural significance. Our proposed approach to ending the Review does not allow substantive consideration of these matters at this time, noting the lack of commitment in the NZSPG settings to Te Tiriti will remain a live and significant issue that will require revisiting.

73 We have asked officials to consider Te Tiriti obligations in ongoing stewardship work relating to screen funding, as well as through the detailed design work on the proposals in this paper. There is specific potential in the proposal to allow domestic NZSPG productions to access other Government production funding, which consultation suggested would help lower barriers to accessing the NZSPG for emerging and underrepresented voices.

[20] Toi Mai Workforce Development Council Submission on the consultation document, 17 December 2022.

[21] The NZFC's current definition of underrepresented groups in the screen industry includes Māori, Pacific peoples, Asian communities, MELAA (Middle Eastern, Latin American, and African), women, gender diverse, LGBTQIA+ communities, people with a disability, regional communities, people below the age of 30 and above 60.

Human rights

74 The proposals in this paper do not appear to be inconsistent with the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

75 The Treasury, Te Puni Kōkiri, the Ministry of Foreign Affairs and Trade (MFAT), and the Department of Prime Minister and Cabinet have been consulted. The New Zealand Film Commission (NZFC) has been informed of the proposals in this paper.

76 Subject to Cabinet approval, officials will work with the NZFC, NZ On Air, and Te Māngai Pāho as relevant on the detail and implementation of these proposals.

Legal professional privilege

[redacted]

Communications

80 We intend to announce Cabinet's decision as soon as practicable to provide clarity and greater certainty to the screen sector in a timely manner. We will work with the NZFC, NZ On Air, and Te Māngai Pāho on a joint communications approach that ensures announcements meet our intention of providing clarity and certainty for the sector.

81 We expect our announcements will attract media and public attention due to the ongoing interest in the Review.

Proactive release

82 We intend to proactively release this paper and the relevant minute subject to redactions as appropriate. The previous Cabinet paper and minute, on the Review's public consultation proposals, will be released at the same time [CAB-22-MIN-0457 refers].

Recommendations

83 We recommend that Cabinet:

1 **Note** international and domestic productions accessing the New Zealand Screen Production Grant (NZSPG) have spent around $5.2 billion in qualifying expenditure in New Zealand since it was established in 2014 and generated significant direct expenditure into New Zealand's economy as well wider economic and cultural benefits – Government has now paid out around $1.15 billion in rebate payments since 2014/15 (an average of $144.3 million per year);

2 **Note** that Cabinet agreed in November 2021 to the *Review of Government Investment in the Screen Sector* (the Review), with a specific focus on a review of the NZSPG and generating more value from Government's investment in the screen sector [DEV-21-MIN-0083 refers];

3 **Note** that Cabinet approved public consultation on proposed changes to the NZSPG in October 2022 [CAB-22-MIN-0457 refers];

4 **Note** while there was general support for the Review's objectives, neither of the consultation options were fully supported with many in the sector emphasising the NZSPG's critical role in attracting international productions to New Zealand and reinforcing concerns about the challenging global context and the uncertainty it has generated, which has been compounded by the Review;

5 **Note** Free and frank opinions but increasing our rebate rates to match, or be closer to those offered in other jurisdictions, would be expensive and risk reducing the sustainability and resilience of the sector over time;

6 **Note** that given the challenging global context and changes in our competitive position, retaining the status quo would create a real risk of a contraction of the New Zealand screen sector, provide no opportunity to generate additional benefits from Government's investment and draw a negative response from the sector, given the extensive Review process and strong levels of engagement;

7 **Agree** to end the Review and make a small number of fast and easily implementable changes that increase the value we get from the NZSPG and would be well supported:

7.1 Redevelop the five per cent 'Uplift' to provide a more efficient process and objective criteria, providing greater clarity to international productions and decision-makers, while retaining a focus on generating wider economic benefits for New Zealand from these productions;

7.2 Reset the Production, Digital and Visual grant under the NZSPG – International to a flat rate of 20 per cent and lower the Qualifying New Zealand Production Expenditure threshold from $500,000 to $250,000;

7.3 Unlock the production of more New Zealand content by allowing all types of NZSPG production (not just feature films, children's drama, and animation as currently) to access both the NZSPG and other forms of Government production funding, including via NZ On Air and Te Māngai Pāho; and

7.4 Change the NZSPG's name to the New Zealand Screen Production Rebate;

8 **Note** that changes under recommedation 7.1 to 7.3 may increase the drawdown on the NZSPG if they result in more productions accessing the NZSPG over time and as the sector in New Zealand grows and matures;

9 Confidential advice to Government

10 **Note** officials will continue to progress work on workforce development, attraction and promotion of New Zealand as a production location, and technical changes to the NZSPG through business-as-usual activity;

If recommendation 7.1 and 7.3 are agreed to:

11 **Delegate** final decisions on the detailed design for recommendations 7.1 and 7.3 to the Minister for Arts, Culture and Heritage, the Minister for Economic Development, and the Minister of Finance;

12 **Agree** that delegated decisions on detailed design for recommendations 7.1 and 7.3 are made and announced by 31 July;

13 **Note** that officials will closely monitor the level of activity in our domestic and international screen sectors to assess the impact of the changes in recommendation 7; and

14 **Invite** the Minister for Arts, Culture and Heritage and the Minister for Economic Development to report back on this assessment, and any further recommended changes to support the sector in early 2024.

Authorised for lodgement

Hon Carmel Sepuloni
Minister for Arts, Culture and Heritage

Hon Barbara Edmonds
Minister for Economic Development

Annex 1: Summary of public consultation proposals

Public consultation on the document '*Increasing value from government investment in the New Zealand Screen Production Grant'* took place from 27 October to 18 December 2022. It outlined two policy options each comprised of multiple elements as summarised below.

Option 1
• Introduce a **clearer, more objective process and criteria for the 5 per cent 'Uplift'** for international productions to continue attracting large productions that support a steady 'pipeline' providing opportunities and benefits for the wider economy. • **Streamline the Post-production, Digital, and Visual Effects (PDV) rebate** to a flat rate of 20 per cent (it currently lowers to 18 per cent for qualifying expenditure over $25 million) to avoid limiting larger international PDV projects. • **Strengthen cultural content and local creative talent criteria** for domestic productions (excluding official co-productions), to encourage compelling and ambitious local content. • Introduce a **skills levy or requirement for a skills plan**, to ensure all productions contribute to improving local screen sector skills and career pathways.
Option 2
• Carry across **option 1 proposals on the PDV rebate and skills levy or plan** • Replace the Uplift with a five per cent **'repeat activity incentive'** for international productions, to encourage ongoing, return business in New Zealand. • Potentially introduce **a cap per project for international productions**, to smooth the unpredictable 'peaks and troughs' that very large productions may be contributing to. • **Lower the PDV rebate expenditure threshold**, from $500,000 to $250,000 to attract a wider range of international PDV business and improve the production pipeline. • **Restructure the domestic rebate** to provide a 20 per cent base incentive, and up to four additional five per cent increments for productions meeting strengthened cultural content and local creative talent criteria (and apply these changes to official co-productions too).