

The Treasury

Budget 2017 Information Release

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|------|--|--------------|
| [1] | to prevent prejudice to the security or defence of New Zealand or the international relations of the government | 6(a) |
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| [38] | to enable the Crown to negotiate without disadvantage or prejudice | 9(2)(j) |
| [39] | to prevent the disclosure of official information for improper gain or improper advantage | 9(2)(k) |
| [40] | Not in scope | |

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



Reference: Treasury: T2017/443 DH-51-1 MBIE: 2654 16-17

Date: 2 March 2017

To: Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Simon Bridges)

Deadline: None

Joint Aide Memoire: New Zealand Screen Production Grant – International Multi-Year Appropriation

On Monday 27 February you met with officials and asked us to examine the anticipated accruals for 2017/18 and 2018/19, in particular whether the production of the [25] [251] is likely to generate a significant level of accruals against the New Zealand Screen Production Grant – International (NZSPG) multi-year appropriation (MYA). We have received an update from [25] this week.

Previously, we provided advice highlighting the anticipated accruals through to 2019/20 based on productions *known* to be locating in New Zealand [T2017/365 refers]. While these anticipated accruals still hold, we would like to clarify that these accruals represent a very small number of currently known productions and do not represent the likely call on the appropriation.

As an example, in 2016/17, there were 31 productions accruing against the NZSPG. However, the accrual figures below, represent only five productions in 2017/18 and two productions in 2018/19. As such, these figures do not represent the likely *total* accruals for these years. The figures below include only those productions **known to be locating in New Zealand** at this point in time. Anticipated expenditure will increase as productions decide to locate in New Zealand.

Table one: NZSPG Accruals – Actual and anticipated based only on known productions

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--|--|-----------|------------|---------|---------|-----------------|
| Accruals (\$m) - <i>actual and anticipated</i> | \$109.761 | \$118.474 | \$128.422* | [25] | | |
| Accrued (\$m) | \$356.657 | | | [25] | | |
| | [25] | | | | | |
| Appropriation (\$m) | MYA \$252.780 + \$88.872 contingency** | | | | | \$50.556 |
| | Total = \$341.652 | | | | | |

Source: the Ministry of Business, Innovation and Employment

*these figures are based on anticipated production levels for known productions only

**even with the additional contingency funding, the appropriation is still likely to be exhausted before the end of 2016/17

A breakdown of the figures in table one by the Ministry of Business, Innovation and Employment (MBIE), for the remaining two years of the MYA (2017/18 and 2018/19), illustrate [25] accruing a total of [25] (and an additional [25] in 2019/20). We understand that studio space has been booked for *Avatar* and the level of accruals represented below are appropriate, based on an update from [25]

Table two: NZSPG Accruals breakdown, 2017/18 and 2018/19

| | Expected Accrual | | Expected Accrual |
|---------|------------------|---------|------------------|
| 2017/18 | (\$) | 2018/19 | (\$) |
| [25] | | | |

While there are several factors in a production location decision¹, we anticipate the level of international screen activity occurring in New Zealand to continue as New Zealand produces high quality productions and the grant rate remains favourable. Historic levels of international production activity in New Zealand have meant that studio capacity has been at, or near, capacity for the last three years. Consequently, even if the *Avatar* sequels were not to go ahead we expect that the New Zealand screen industry would continue to experience a high level of demand from international productions.

A very recent example of the unpredictable nature of NZSPG accruals is a small production currently underway at [25] The New Zealand Film Commission (NZFC) recently advised that a studio has notified “*The immediate proposal is to award work valued at approximately [25] to [25] Then there is the possibility of a 2nd tranche of work which would take the overall QNZPE to the [25]*” [25]

[25] is another example of a production which located in New Zealand with very little notice. We understand that NZFC received as little as three weeks’ notice that this production was locating in New Zealand and has accrued almost [25] in grants to date.

These examples illustrate the difficulty in anticipating accruals against the NZSPG MYA. The joint report [T2017/131 refers], seeks your agreement to introduce a registration requirement which will bring better visibility of the international production pipeline and anticipated accruals. This will enable more accurate forecasting of grant liabilities.

¹ For example: the exchange rate; studio availability; grant rate; availability of crew

The New Zealand Screen Production Grant – International Budget 2017 Initiative

Through the Budget 2017 process, an additional \$240 million top-up to the NZSPG MYA is being sought to cover the minimum anticipated accruals against the NZSPG MYA through to 2018/19. The foregone highlights the high level of accruals against the MYA and that forecasting the accruals against the remaining years in the MYA is not clear cut. While the anticipated accruals for 2017/18 and 2018/19 for *known productions* is ^[25] , we stress that this figure is not representative of the *total* likely level of accruals across the period. We anticipate that, under current policy settings, \$240 million represents an appropriate minimum level of accruals against the remaining MYA period.

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