

A briefing for the incoming Minister for Arts, Culture and Heritage

November 2008

Introducing the New Zealand Film Commission

The New Zealand Film Commission (NZFC) is charged with supporting and promoting New Zealand's film industry.

The NZFC has a wide range of responsibilities covering the development, financing, production and marketing of feature films and short films made by New Zealanders both in New Zealand, (and very occasionally) offshore when structured as official co-productions.

We work with film makers, supporting their films from inception to exhibition. We assist with the making, promoting, distributing and exhibiting of New Zealand films.

We also work with other industry players to provide professional development to ensure the film industry continues to grow and that our film makers are constantly upskilling themselves.

In the past 30 years, the NZFC has invested more than \$150m in 140 New Zealand-made feature films. The subsequent success of those films, both here and abroad, has seen the birth of an internationally acclaimed film industry and a pool of world class film makers and infrastructure.

Our presence and support has enabled New Zealand film makers to have greater access to international markets and to be more competitive on the world stage than might otherwise be the case.

The NZFC is also responsible for administering the Large Budget Screen Production Grant scheme (LBSPG) offered to production companies filming a large budget production in New Zealand; and the new Screen Production Incentive Fund (SPIF) targeted at encouraging feature filmmakers to produce films with significant New Zealand content. In addition, the NZFC also certifies productions applying for New Zealand nationality and administers projects seeking official co-production status.

A key measure of the industry's success (and the NZFC's) is that international distributors and sales agencies believe our films are of international standard, international film financiers are getting involved in New Zealand projects, our people are regarded as being some of the best in the world, and film audiences in this country positively engage with New Zealand feature films.

Key issues ahead for the New Zealand Film Commission:

1. NZFC's changed government funding
2. Additional costs to film producers caused by the necessity to cashflow SPIF grants
3. Contracting production investment options in the international marketplace
4. Recruitment of new chief executive
5. Preservation: alignment with NZ Film Archive

These issues are covered in more detail later in this document (see page 4).

The New Zealand Film Commission: Fast Facts

- **30 years young:** The NZFC recently celebrated its 30th anniversary having been established in 1978 by an Act of the New Zealand Parliament.
- **Responsibility:** The NZFC has the statutory responsibility to encourage, participate and assist in the production, promotion, distribution and exhibition of films made in New Zealand by New Zealanders on New Zealand subjects. It provides financial assistance solely to films with significant New Zealand content as defined in the Act (this definition includes official co-productions).
- **Activities:** The NZFC provides loans and equity financing to New Zealand filmmakers to assist in the development and production of feature films and short films. The NZFC does not itself produce films. It is active in the sales and marketing of New Zealand films through its sales agency NZ Film and organises high-profile New Zealand participation at major international film festivals and markets. It also assists with training and professional development within the industry by partnering with other industry organisations.
- **Vision:** To expand its leadership and strengthen its partnerships to ensure the continuing momentum of New Zealand's national cinema within the wider screen production industry. (*Statement of Intent 2008/09-2010/11*)
- **Key Objectives:** The NZFC aims to invest in at least four feature films (including digital and larger budget) and nine short films every year. In the financial year ended 30 June 2008 it exceeded its target by investing in 12 feature films.
- **Annual Budget:** This varies according to the availability of public funding and the returns on film investments. Total budgeted income (excluding SPIF) in the 2008/2009 financial year is \$15.778 million:
 - 23 per cent of the NZFC's budgeted income comes from the Government
 - 61 per cent from State Lottery profits
 - the remainder from film earnings and interest.

The NZFC has budgeted to invest \$10.07 million in the production and development of feature films in the current 2008/2009 year. It has also committed \$1.6 million for the production of short films and \$2.5 million for the promotion and marketing of feature and short films.

- **Board:** NZFC decisions are made by an eight-member board appointed by the Minister for Arts, Culture and Heritage. Board members represent the film industry and the wider business and arts community:
- **Staff:** The NZFC is run by a staff of 19 headed by an acting chief executive.
- **Production Output:** In the 30 years since the NZFC was established, over 200 feature films have been made in New Zealand, of which more than 140 have had NZFC finance. In the preceding 30 years fewer than 20 feature films were made in New Zealand.

Expenditure Summary

	08/09 Budget#	07/08 Actual*
Creating cultural capital with quality NZ films Production: feature films NZFC investment <i>(includes NZFC SPIF co-investment of \$2m)</i>	\$10.07m	\$20.71m
Building a talent pathway Production: short films Script development: feature films Professional development initiatives	\$5.14m	\$4.01m
Maximising the domestic profile of NZ feature films Domestic marketing initiatives <i>(including prints and advertising grants to support cinema releases)</i>	\$1.02m	\$0.382m
Maintaining a high international profile for NZ films and filmmakers NZ participation at international film markets Screenings of NZ features and shorts at international film festivals	\$1.46m	\$1.40m
Maintaining strong stakeholder relationships Joint ventures with guilds, associations and government agencies	\$1m	\$1.54m
Maintaining standards of governance, business practice and accountability Administration	\$2.74m	\$2.57m
TOTAL	\$21.45	\$30.61

Figures from NZFC Statement of Forecast Service Performance 2008-2009

* Figures from NZFC annual report 2007-2008

Key issues currently facing the NZFC

1. NZFC's changed government funding

The NZFC has a key role in the production financing of New Zealand films, with average annual investment of \$13 million per annum over the last four years to support the production of a total of 22 New Zealand feature films.

However, annual funding available to the NZFC for film production financing for 2008/09 and beyond is now substantially diminished. In the short term (next two to three years) this shortfall will be made up by drawing on the NZFC's existing financial reserves.

The introduction of the Screen Production Incentive Fund (SPIF) from 1 July 2008 has been funded by \$6.5m per annum which was previously available to the NZFC, and by \$7.2m per annum on average of new money, with an initial five year commitment from the Government totalling \$68.5 million (existing and new funds) A feature of the SPIF scheme is that the grant cannot be drawn down to the NZFC's bank account until after film production criteria have been met – as a consequence, the grant is not available to producers until some months after production has been completed. Another feature of SPIF is that the NZFC has the discretion of investing on average \$2 million per annum on a co-investment basis.

An element of the SPIF approach was to encourage producers to use the equity position (from SPIF) to encourage more private sector finance into specific projects. The timing of the introduction of SPIF has coincided with the difficult international credit situation, with real evidence of funding lines being cut on specific projects. This is resulting in producers placing more pressure on the NZFC to further assist production financing at a time of reduced overall funds.

2. Additional costs to film producers caused by the necessity to cashflow SPIF grants

As discussed SPIF grants for New Zealand feature films and television programmes are not available to cash-flow production. The grants cannot be paid till production has been completed, an audited expenditure statement has been approved, and a final certificate has been issued. This is estimated to be four to six months after the project is completed.

To the extent that the SPIF grant is required to meet the production budget, producers will need to find a third party to cashflow the amount.

The NZFC has no resources to cashflow the grants, which require a minimum of \$4 million in qualifying New Zealand production expenditure. No banks or other entities in New Zealand have so far agreed to provide loans against the grants.

The cost to the producer of such a loan includes interest, a loan fee, and substantial legal costs. In some cases, a share of any SPIF surplus or gross film receipts may also be stipulated by the lender. The expected result is an increase in the average budget of between 15-20 per cent of the amount of the loan.

Furthermore, if loans can be found they are not likely to guarantee more than 85 per cent of the anticipated grant, depending on the project and personnel. In such an example, alternative sources to finance the 15 per cent shortfall will also be required.

An Australian company (which has been cashflowing productions that are supported by a similar system in Australia) has cashflowed the first SPIF grant to a New Zealand production. However indications are that the worldwide credit crunch is affecting the ability of this entity to continue making advances.

The NZFC plans an approach to a New Zealand bank, to discuss the possibility of cashflowing from within New Zealand. There is a low expectation of success with this proposal.

3. Contracting production investment options in international market

In recent years, investment from international sources has been a necessary part of financing larger-budget New Zealand feature films.

The NZFC has been active alongside local producers in the search for such investment and has also assisted indirectly by supporting government-to-government negotiations which have resulted in the creation to date of 10 co-production treaties with other countries.

Two of the most successful feature films supported by NZFC investment have also attracted investment from offshore. In the case of *Whale Rider*, investment came from Germany. For *The World's Fastest Indian*, a significant proportion of investment came from Japan.

However in the annual report for 2006-2007, the NZFC chairman reported a "tightening of the international financing market" and after attending the Cannes Film Festival and market in 2008, the NZFC's head of sales and marketing reported a contraction in finance for feature films caused by recession, uncertainty about the viability of new media, and the contraction of the US market.

The *Financial Times* in London recently reported that one of the most active British investors in feature films is having to scale down funding. Aramid Capital (one of the investors in the NZ-UK co-production *Dean Spanley*) said it was reducing lending in the short term. Aramid is a hedge fund, and the *Financial Times* said that hedge funds, which have been important backers of the entertainment industry, are struggling to cope with a flood of redemption requests from clients and a squeeze on capital by banks. The chief executive of the UK Film Council told the newspaper "the next year or two will be difficult for smaller independent film makers. Like any industry that relies heavily on credit, these are going to be tough times."

As a result of the international financial uncertainty, the challenge to the NZFC is for support programmes or activities which encourage the development of high-quality projects which will stand out in the international marketplace, and which enable New Zealand producers to compete effectively for the reduced amounts of available commercial financing for their feature-film projects.

4. Recruitment of new Chief Executive

Ruth Harley, chief executive of the NZFC for more than 11 years, was farewelled in October after being appointed the founding chief executive of Screen Australia, based in Sydney.

The NZFC Board has hired Signium Executive Search to assist it to find a new chief executive. The position has been advertised, and the schedule is for the Board to have a shortlist to consider in December with the aim of the appointee taking up the post early in 2009.

Key qualities being sought for the new chief executive include an excellent strategic appreciation of creative developments, project funding and commercial disciplines. The ability to manage relationships with filmmakers, the Crown, and media, and a passion for and knowledge of the cultural media industry, are required to ensure the growth of the film

industry within New Zealand and internationally. An ability to effectively work with producers to ensure a momentum of film production is maintained is also important, particularly at a time of international financial uncertainty.

NZFC chairman David Cullwick told *OnFilm* magazine "The first thing is to have the right sort of leadership and talent, somebody who can relate to a passionate industry and who is positive about the mandate of the NZFC."

Deputy chief executive Mladen Ivancic has been appointed as acting chief executive until the new chief executive takes up the position.

5. Preservation: alignment with NZ Film Archive

The NZFC has legislative responsibility under its Act "to encourage and promote the proper maintenance of films in archives."

To this end, the NZFC makes an annual grant to the New Zealand Film Archive, where original materials of almost all films supported by the NZFC are stored and preserved.

The work of the New Zealand Film Archive also supports the NZFC's legislative responsibility "to encourage and promote, for the benefit of the New Zealand film industry, the study and appreciation of films and of filmmaking." The Film Archive presents regular weekly screenings of New Zealand films, plus a wider selection of films from international sources. The Film Archive maintains a media library, in which students can view the entire output of New Zealand filmmaking, and a research library where students can access a wide range of published material about New Zealand and international cinema.

To ensure that international (and local) audiences are given the best possible experience when viewing films representing New Zealand's film history, the Film Archive with the NZFC's support is seeking specific additional budget funding in 2009 to create new screening prints of the most important feature titles made with public money during the last 30 years.

Recent surveys and research

The NZFC regularly carries out research to ensure it is providing the best service and best use of funds for the New Zealand film industry. In the past two years we have completed five research projects: reviewing New Zealand audiences (published in *A Coming of Age* by Random House in October 2008), short film strategy, support for independent documentaries, industry support for the NZFC and an audit of NZFC's sales and marketing arm. Full copies of all published research available on request from the NZFC.

Research findings:

A Coming of Age:

Includes results of nationwide audience survey carried out in New Zealand by Kudos Organisational Dynamics in 2007

- 75 per cent of respondents had seen NZ movies that made them proud to be New Zealanders
- 78 per cent had seen NZ movies that made them think about what makes this country unique
- 88 per cent agreed that NZ movies help us showcase NZ to the world
- 67 per cent supported the need for public funding of NZ filmmaking.

Review of NZFC short film strategy.

October 2007
(Published on www.nzfilm.co.nz)

- The short film programme contributes to broader cultural objectives through achieving international profile and talent development
- 50 per cent of NZFC-financed short films achieved recognition by selection at A-list film festivals
- From these films 52 per cent of directors and 65 per cent of producers went on to access NZFC finance for feature film development or production
- Filmmakers acknowledged the support of NZFC sales and marketing staff in promoting them and their work internationally.

Research into New Zealand's independent documentary sector

Commissioned by the NZFC and Creative New Zealand in 2008
(Published on www.nzfilm.co.nz)

- There is a lack of opportunity for a full range of documentary voices
 - As a result, the Screen Innovation Production Fund will be replaced (in June 2009) by the Independent Filmmakers Fund with new criteria which will finance fewer projects with a higher level of grants, especially for senior filmmakers aiming to engage audiences with quality projects.
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<p>A review of stakeholder perceptions Senate Communications survey commissioned by the NZFC. (Commercial in confidence)</p>	<ul style="list-style-type: none"> ▪ <i>100 per cent response rate from nine producers and four distributors</i> ▪ A high level of support for the NZFC and a very good understanding of its role and mandate. ▪ Agreement there is a role for a government agency in the film industry because of New Zealand's unique place in the world. ▪ Geographical distance and subsequent costs identified as the biggest hurdles for NZ filmmakers. ▪ Agreement NZFC is critical to the survival and success of the industry ▪ Perception that the NZFC should be telling the NZ film "story" more persuasively.
<p>NZFC's international sales and marketing of NZ films Part 1. Senate Communications survey commissioned by the NZFC. "Presence and effectiveness" reviewing the NZFC's international marketing initiatives (Commercial in confidence.)</p>	<ul style="list-style-type: none"> ▪ <i>Interviews with 42 NZ filmmakers who have attended Cannes with the NZFC, plus 13 representatives of international agencies and 18 film buyers with whom the NZFC has worked at Cannes</i> ▪ A high regard for NZFC among NZ filmmakers, international partner agencies, buyers and distributors ▪ Agreement the NZFC is the organisation best placed to lead the NZ delegation to the annual Cannes Film Festival and Market (which is almost unanimously regarded as the most significant and prestigious international film event) ▪ The NZFC's presence at other international events is less well known ▪ NZ filmmakers and international contacts would like to receive additional briefing material ahead of markets and festivals. ▪ NZ filmmakers would like to receive detailed post-market briefings
<p>NZFC's international sales and marketing of NZ films Part 2. Audit of performance of NZFC sales agency NZ Film.</p>	<ul style="list-style-type: none"> ▪ Report from film marketing consultant Sue Murray due before the end of November.

NZFC: Key Contacts

Acting chief executive:

Mladen Ivancic

NZFC Board:

David Cullwick (chairman)

Bill Birnie (deputy chairman)

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