

The Victorian Government's Submission

to the

**Review of Australian Government Film Funding
Support**

AUGUST 2006

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Executive Summary

Industry Outcomes

Victoria is committed to a vibrant Australian screen content industry. Culturally the Australian screen content industry is critical to the development and expression of Australian identity. In a converging media world, the potential economic benefits of positioning Australia as a leader in one of the global economy's fastest growing sectors are considerable. To ensure success for the Australian screen content industry differing strategies will be required for component sectors of the industry.

The Australian film and television production industry component of screen content industry has declined significantly. Victoria urges the Commonwealth to consider additional regulatory measures to stimulate this component of the industry, in particular television series: the major provider of long term employment in the industry.

Victoria's submission takes into account the following desired outcomes for the Australian industry.

- *Multiple funding options for Australian producers.*
- *A converging media world.*
- *Cultural and economic benefits of the industry.*

Specific Submission Recommendations

Direct Funding

Victoria acknowledges substantive funding the Commonwealth provides to its film agencies and organisations. Victoria urges the Commonwealth not to decrease its levels of direct funding to the industry.

Indirect Funding

Victoria proposes that:

- *10BA be extended to cover animation and digital content production*
- *Borrowings for 10BA film production should be allowed as deductible items.*
- *Investors to be able to claim a 50% deduction in respect of earnings of a project.*

In principle Victoria supports a variation of the Tax Offset Scheme to enable Australian producers to access private sector funds, thus opening a second financing door for the industry. Victoria endorses the following:

- *An Offset of 20-35% for Australian television series (level to be determined after consideration of detailed modelling).*
- *An Offset of 40% for Australian feature films, telemovies, mini-series, documentaries, children's drama and some digital content.*
- *The Offset be used in conjunction with 10BA, but no access for any production utilising the Offset to Film Finance Corporation (FFC) or other direct Commonwealth funding.*
- *A threshold of \$1m for features and \$300,000 per hour for documentaries.*
- *An Australian eligibility test to replace the 70% minimum expenditure test.*

Victoria's major concern is that the level of Tax Offset be amended so that it becomes sufficient to generate the level of television series production that is crucial, particularly to the Victorian industry, to maintain critical mass.

Victoria does not support the concept of appointing a number of licensees to operate a revised Tax Offset Scheme on behalf of the Commonwealth and does not support any expenditure cap on the Scheme.

Victoria sees that its own \$15m Cash Flow Facility could be significantly complementary to Victorian producers accessing a proposed revised Tax Offset Scheme.

Film Agency Structures

Victoria acknowledges the Commonwealth's concern that its film agencies be structured to fulfil the Commonwealth's goals. Though there may be administrative advantage in a rationalisation of the present six agencies it is critical to ensure that this does not lead to a blunting of focus and impact at time when the levels of Australian film and television production have declined significantly. The immediate focus of all film agencies – Commonwealth and State - should be increased levels of quality Australian production

In the event, however, that a restructure of Commonwealth agencies and organisations were to occur, and a new single Commonwealth film Agency established, Victoria makes several observations in regard to its structure, purpose and operation.

Conclusion

Victoria believes that the measures outlined in this submission will both address the issues critical to the component sectors, while promoting convergence.

Provision of a second funding door will provide a means for the film and television sector to access much required extra private investment. By including digital content within the eligibility investment criteria of the new funding proposal, and by extending the eligibility criteria of 10BA to include

digital content, the Commonwealth will promote growth across the spectrum of Australia's screen content industry.

Economically these labour intensive industries can only continue to grow if given the assistance, infrastructure and regulatory environment needed for sustainability. Culturally they are critical to the development and expression of Australian identity.

Introduction

Film Victoria has prepared this submission on behalf of the Victorian Government following the invitation by the Department of Communications, Information Technology and the Arts to respond to its *Review of Australian Government Film Funding Support*. Film Victoria acknowledges the Review's Terms of Reference as detailed in the Issues Paper and will specifically address two of the three points: funding measures and structure of agencies.

The five State bodies with responsibility for aspects of the film, television and multimedia industries in Victoria are as follows:

- **Film Victoria** is the State Government agency that provides strategic leadership and assistance to the film, television and digital media sectors of Victoria. Film Victoria develops and invests in both projects and people, and promotes Victoria as a world-class production destination nationally and internationally. Film Victoria offers incentives to encourage interstate and international producers to locate film and television projects in Victoria.
- **Australian Centre for the Moving Image (ACMI)** is world leading and state-of-the-art. It is Australia's premier engine for film and digital culture industries. ACMI presents a unique program of exhibitions, film programs, talks, forums, education programs, production workshops, community activities and lending services. ACMI celebrates the convergence of art and technology, and fosters innovation in Australia's dynamic screen industries.
- **Multimedia Victoria** is the Victorian Government agency responsible for developing and implementing the Government's information and communications technology policies. Multimedia Victoria has secured Victoria a leading role in the ICT industry including computer games in Australia. Its priorities include implementing the following Government policies:
 - ICT Industry Plan 2005- 2010
 - Broadband Framework, and
 - Connecting Communities: Putting People at the Centre
- **Arts Victoria** is the Victorian Government body charged with advising on and implementing arts policy, developing the arts and cultural industries across the State and ensuring access for all Victorians. It supports the arts and cultural industries to encourage excellence, develop good ideas, build audiences, encourage participation and improve facilities.
- **The Department of Innovation, Industry and Regional Development (DIIRD)** is the Victorian Government's lead agency for economic and regional development. Government's goals for more quality jobs and thriving, innovative industries across Victoria will be fostered through

DIIRD's five priority objectives: Investment Attraction, Trade Development, Developing Innovative Industries, Regional Development and Marketing Victoria.

Screen Content Industry

Australian film and television industry: Current issues

The Australian film and television industry has declined over the past decade. In 2004/05 Australian feature film and television drama production amounted to \$248 million. The 10 year average is \$307 million.¹

In 2004/05 Australian feature films accounted for 18% of total (i.e. foreign and domestic) feature film expenditure in Australia. In 1995/96 it was 60%.²

In 2004/05 Australian television drama production amounted to \$205 million, below the 10 year average of \$297 million. In 2001/02 the figure was \$321 million.³ During that period – 2001/02 to 2004/05 – the number of television hours produced fell by 20% from 765 to 610, below the 10 year average of 759.⁴

These statistics clearly demonstrate that the Australian film and television production industry is in a precarious situation. While Victoria acknowledges the importance and potential of emerging screen content platforms, it believes that is essential – culturally and economically – that the decline in the film and television production industry is prevented.

Victoria notes that the current Commonwealth Government support measures are yet to achieve its cultural objective:

*To promote the development of a sustainable Australian film industry and enable the creation of a diverse range of quality film and television product.*⁵

Victoria urges the Commonwealth to consider additional regulatory measures to stimulate Australia's production industry, in particular television series, the major provider of long term employment in the industry.

The diminution of series production in Victoria is the principal reason the Victorian industry has experienced a decline.

¹ *National Survey feature film and Television drama production. 2004/05. AFC. p 3*

² *National Survey of feature film and Television drama production. 2004/05. AFC. p 2*

³ *National Survey of feature film and Television drama production. 2004/05. AFC. p 7*

⁴ *National Survey of feature film and Television drama production. 2004/05. AFC. p 7*

⁵ *Review of Australian Government Film Funding Support: Issues Paper. July 2006. p 3*

Desired Outcomes for the Screen Content Industry

Victoria's submission takes into account the following issues and desired outcomes:

Multiple funding options for Australian producers. Victoria believes current FFC and Australian Film Commission (AFC) direct funding mechanisms and current levels of direct funding to Commonwealth agencies and organisations should not be decreased. The current major mechanism of indirect funding, namely 10BA, should be retained.

As well, an alternate indirect funding measure should be established to provide a second door for industry. An alternate means of fund raising, independent of direct subsidy, will stimulate private investment. It will also enable producers to make film and television which do not meet current criteria. Direct and indirect funding will ensure a balance.

A converging media world. Victoria notes that Film Victoria has taken the lead among State film agencies in promoting convergence between the traditional film and television sector and the games/digital content sector.

Film Victoria's Digital Media Fund, with funding from Multimedia Victoria, has led Australia with its programs to back Australian practitioners to develop and produce their own Intellectual Property in games and other forms of digital content.

Intellectual Property is at the core of Australia's screen content industry. Through distribution and exhibition of its product in cinemas, on television and video, the film and television industry has exploited the Intellectual Property it created.

New platforms – games, broadband, mobile phones and other handheld applications - offer additional exciting opportunities to exploit content created across the spectrum of film, television and digital content. Increasingly content created for one platform will have a parallel life in another format. To grasp those opportunities in a converging media world Australia will need to develop an integrated industry, supported by a creative, highly skilled, educated workforce.

The benefits will be:

- Increased economic activity, employment, and exports.
- Positioning of Australia as a leader in one of the global economy's fastest growing sectors.
- Projection of Australia as a confident, diverse, mature nation.

Cultural and economic benefits of the industry. Victoria believes a vibrant Australian screen content industry is vital to the social fabric and economy of this country.

Until the 1960's there were few Australian voices heard telling Australian stories on our screens. Now our stories are heard, in our own voice, in our cinemas and our homes. Internationally our stories have brought an increased understanding of Australia and Australian culture in its many aspects to a wider audience.

Australians are proud of the achievements of their film and television industry and the international recognition it has won. That would not have happened without the support successive Commonwealth and State Governments have extended this industry.

Victoria is committed to a vibrant Australian screen content industry. Stories and ideas converted into moving images are consumed by almost one hundred percent of the Australian population. The influence of this industry is far reaching and long lasting.

The screen content industry is labour intensive. It takes a considerable number of skilled Australians – writers, musicians, actors, directors, producers, technicians, post production personnel – to realise creative concepts that are at the core of screen content. Further, screen content is a 21st century industry which has the capacity to grow exponentially.

Specific Submission Recommendations

Direct Funding

Victoria acknowledges substantive funding the Commonwealth provides to its film agencies and organisations. In 2006-07 the Commonwealth will provide a total of \$160 million to the Film Finance Corporation, the Australian Film Commission, Film Australia, Australian Film Television and Radio School, Australian Children's Television Foundation and Ausfilm. Victoria urges the Commonwealth not to decrease current levels of direct funding to the industry.

Indirect Funding

10BA

Effectiveness of the 10BA Scheme has markedly lessened since it was reduced to a 100 percent deduction in 1988. Nevertheless Victoria believes it has an important role to play in financing Australian film and television production. 10BA should be allowed to stand alongside other schemes which the Commonwealth might introduce, maintain or vary. It provides producers with flexibility in meeting funding shortfalls. Very importantly it is a means of financing low budget productions of under \$1 million. This latter point is crucial to the low budget independent production industry

Victoria suggests 10BA be extended to cover animation and digital content production such as computer games, broadband and mobile phone content. It acknowledges that work will be required to define criteria to enable these additional sectors to be considered eligible under relevant provisions of 10BA.

Further, Victoria is in favour of a variation to 10BA to enable investors to claim a 50% deduction in respect of earnings of a project.

Tax Deductibility

Victoria is of the view that borrowings for film production should be allowed as deductible items against other income. This would significantly enhance the attractiveness of 10BA to private investors. Presently film production is considered capital expenditure by the Australian Taxation Office.

Film Licensed Investment Company (FLIC) Scheme.

This scheme has not met with the success envisaged when it was introduced in 1997. The two FLIC licensees appointed in 1999 raised \$22.4 million out of a possible \$40 million. There have been no reports that the third licensee has raised any concessional capital.

Victoria is of the view that it will be difficult for any FLIC licensee to raise capital unless the Commonwealth enhances the level of 10BA deductibility. As this does not appear to be the preferred option of the Commonwealth, this submission will focus on measures such as a variation of the Commonwealth's Refundable Tax Offset.

Variation of Refundable Film Tax Offset

The Tax Offset has been successful since its introduction in 2001 in attracting high budget film and television productions, mainly from overseas. It is well regarded by the industry as it is simple, transparent and effectual.

In principle Victoria supports a variation of the Tax Offset Scheme to enable Australian producers to access private sector funds, thus opening a second financing door for the industry. Victoria understands that the Australian Film Commission, Film Finance Corporation and Australian Screen Council have proposed variations of the Tax Offset Scheme which would apply to local production, and at a much lower budget level. Victoria broadly endorses the Australian Film Commission proposal, but notes that further work may be required.

Specifically, Victoria endorses the following:

- An Offset of 20-35% for Australian television series (level to be determined after consideration of detailed modelling)
- An Offset of 40% for Australian feature films, telemovies, mini-series, documentaries, children's drama and some digital content.
- To be used in conjunction with 10BA, but no access for any production utilising the Offset to FFC or other direct Commonwealth production funding.
- A threshold of \$1 million for feature films and \$300,000 per hour for documentaries.
- An expansion of current 10BA eligible formats and delivery platforms to include television series and some digital content.
- The introduction of an Australian eligibility test to replace the 70 percent minimum expenditure test.
- Variation to 10BA to enable investors to claim a 50% deduction in respect of earnings of a project.

Victoria's principal concern is that the level of Tax Offset proposed for series be sufficient to ensure a healthy level of television series production. Following discussions with broadcasters, Victoria questions the level of 20% as being sufficient to generate the level of television series production that is crucial, particularly to the Victorian industry. The level should ensure sustainability so that there can be continuity in the production industry, which provides the benefits of viable long term employment opportunities and meaningful industry training possibilities.

Television has always been the backbone of Victoria's film and television industry, providing long term employment and career opportunities. Many of the State's producers, writers, actors, directors, technicians and post production personnel began their careers at Crawford Productions. Much of the best television series this country has produced came from Victoria, for example *Blue Heelers* and *Sea Change*. Presently the only long form television production in Victoria is *Neighbours*. The long term viability of Australia's television industry depends on several television series being in production concurrently.

Tax Offset Licensees and Cap

Victoria does not support the concept of appointing a number of licensees to operate a revised Tax Offset Scheme on behalf of the Commonwealth. This would impose a layer of costly *private* bureaucracy for producers to negotiate, thus restricting diversity in that projects chosen by licensees would reflect their judgement. A licensee system would mimic elements of the FLIC Scheme, which has not met with success.

Victoria does not support any expenditure cap on the proposed Scheme. Victoria believes that the Scheme will find a natural ceiling in that the requirements of marketplace participants – distributors, television networks, sales agents, investors – will restrict activity to a level that can be sustained by genuine commercial activity.

Because of the nature of this Scheme – a tax offset is generated only against an expended budget which has been rigorously assessed by experienced industry operatives employed by the Australian Taxation Office – it does not lend itself to abuse or manipulation.

Victoria believes that provision of a second financing door through a revised Tax Offset Scheme could, over a period of five years, approximately double the size of the Australian film and television industry to around one billion dollars annually. Victoria believes that the annual cost to the Commonwealth occasioned by a revised Tax Offset Scheme would be roughly that of its present level of annual funding to the Film Finance Corporation: \$70.5 million. Nevertheless it would be prudent to allow for a review of the Scheme – its efficacy and cost - after a suitable period: perhaps, three years.

Cash Flow Facility

The Victorian Government has a \$15 million Cash Flow Facility. Victoria sees that the Cash Flow Facility could be significantly complementary to Victorian producers accessing a proposed Tax Offset Scheme, noting that applications to the facility would be required to satisfy its *no risk* criteria.

Film Agency Structures

Victoria acknowledges the Commonwealth's concern that its film agencies be optimally structured to fulfil the Commonwealth's goals in regard to the film industry. It acknowledges there may be administrative advantage to be had in rationalisation of the present six agencies however it is critical to ensure that this does not lead to a blunting of focus and impact, at a time when the levels of Australian film and television production have declined significantly.

Victoria believes the immediate focus of all film agencies – Commonwealth and State - should be increasing the levels of quality Australian screen content production.

In regard to the issue of structure and goals for the Federal film funding bodies Victoria also notes the importance of:

- developing an informed and passionate audience for cultural film and digital media;
- attracting and retaining the brightest new talent for the industry; &
- showcasing new ideas, applications and talent that are just emerging and not yet in the mainstream.

These goals are critical to developing an Australian climate of support for distinctive Australian film/media content and talent, which is part of the cycle of supporting a sustainable industry.

Victoria would suggest that the review strongly considers the appropriate role and structures to ensure a thriving screen culture framework to support and work in synergy with industry investment. This may involve encouragement for projects and initiatives that create closer alliances between Australia-wide screen culture institutions, including over new investments in areas such as digital projection networks, and interactive/online/mobile content distribution.

In the event, however, that a restructure of Commonwealth agencies and organisations were to occur, and a new single Commonwealth film Agency established, Victoria would make the following points:

- Composition and structure of a new Agency should be responsive to the industry that it has responsibility to grow. Victoria believes the majority of Agency Board members should be experienced in the film, television and multimedia industry, while being balanced by members with skills in law, finance, administration and corporate governance.
- The structure of a new Agency should be modelled on the corporate structure of the Film Finance Corporation as the FFC structure lends itself to greater flexibility.
- Victoria is aware of the significant contribution the research and analysis functions of the AFC and FFC make to both the

Commonwealth and the industry - and of the value the industry places on the arms-length relationship between the Commonwealth and those agencies. Victoria believes research and analysis functions should be an integral part of any new Agency's structure and activities.

- In the event of a new Agency being established Victoria suggests its Head Office be in Victoria - with offices in all other States. Victoria's production and investment history alongside its pioneering initiatives in convergent/multi-platform media (MIFF, AFI, MoS, and ACMI) and leading role in screen culture as one of the rationales — for suggesting any new Federal Agency should be located here. Further Victoria leads Australia as the games/digital content capital.
- Victoria sees great benefit in a single agency being responsible for a coordinated export and marketing strategy that sells Australia's creative screen content internationally under the one brand. A new Agency could be responsible for such a strategy.
- Victoria believes it is essential a new Agency focus long term on greater sustainability of the industry. This will result in practitioners acquiring business skills with the goal of developing and producing a slate of projects which might attract private investors to their operations.
- Engagement with audiences must be paramount when the Agency is evaluating projects to back in development and production.
- It is essential the Agency have as a priority the convergence between the traditional film and television sector and the games/digital content sector. The platforms that will deliver content in the 21st century will evolve swiftly. It is imperative that Australia's content creators capture the opportunities that will present themselves.

Ausfilm

Victoria believes that, whatever changes are made to the structure of Commonwealth agencies, Ausfilm should remain as a separate organisation.

Representative of the Commonwealth, State agencies and a diverse range of companies from the private sector, Ausfilm is distinguished from other agencies by the fact that its focus is commercial, not cultural. Victoria believes Ausfilm is successfully fulfilling its charter.

Victoria's only recommendations would be to provide resources for Ausfilm to encompass games and digital content, and for it to have a research and analysis capacity to address practical applications such as training.

Conclusion

Victoria believes that the measures outlined above will both address the issues critical to the component sectors of the screen content industry while promoting convergence.

Provision of a second funding door will provide a means for the film and television sector to access much required extra private investment. By including digital content within the eligibility investment criteria of the new funding proposal, and by extending the eligibility criteria of 10BA to include digital content, the Commonwealth will promote growth across the spectrum of Australia's screen content industry.

Economically these labour intensive industries can only continue to grow if given the assistance, infrastructure and regulatory environment needed for sustainability. Culturally they are critical to the development and expression of Australian identity.