

A Review of Recurrently Funded Television Series

1998/1999 – 2009/2010

Report to NZ On Air

December 2010

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Please note this version of the document that is being publicly released has had some information withheld on the grounds that it is commercially sensitive. Where deletions have been made, they are clearly marked. While we acknowledge this affects full understanding of the issues, NZ On Air has released this paper to indicate the type of analysis used when considering television programme funding policy.

Executive Summary

1.0 Background

NZ On Air currently invests over \$81 million per annum into New Zealand television programmes and films. Since 1998/1999 NZ On Air has invested \$198.2 million into recurrently funded primetime series.

As part of finance and performance evaluation, NZ On Air has undertaken this review of recurrently funded television series to consider and evaluate whether the investment in each of these series provided value for money for the taxpayer and the audience.

'Recurrently funded series' means series that have received funding support from NZ On Air for two or more series. These series tend to fall into two groups:

- a. Series for special interest audiences, usually screening off peak
- b. Prime time series, mainly drama, documentary and popular factual

The focus for this study is on **primetime series** where NZ On Air has invested over \$500,000. Reference to off peak series has been made for comparative purposes.

NZ On Air's initial funding policy has been to support series, particularly those of high cost for a limited period, at which point it would be expected that popular support would allow the series to continue as a commercial commission. However only one series has ever achieved this.

Key issues addressed in this review are:

1. Have NZ On Air's, broadcasters' and third party proportional contributions to these series increased, decreased or stayed the same over the review period?
2. Was the level of NZ On Air subsidy comparable to similar series?
3. Have production costs increased, decreased or stayed the same?
4. Would the series have been produced if NZ On Air had declined to invest?
5. Did these series enjoy consistent (or growing) audience appreciation/ratings?
6. Did these series return any meaningful sales income to NZ On Air?
7. Have comparative trends over time led to reduced, increased or relatively static public funding investment (by individual series and by overall genre)

Data sources used for this review included the NZ On Air website, production files, annual reports, consultancy and research reports, NZ On Air internal database, Public Information Monitors, A C Nielsen ratings data, TVNZ annual reports and industry publications including Encore, Broadcast, On Film and C21 Media.

2.0 Financial Conditions

The economic recession has had a significant impact on the financing of local programmes in the latter part of the review period. A soft advertising market has led to temporarily reduced broadcaster contributions, a situation that is compounded by increasing production costs year on year and greater scrutiny of public spending. Even in the buoyant advertising market of the early 2000s, however, licence fees did not appreciably increase.

In addition to this, since the beginning of the review period it has become increasingly difficult for New Zealand producers to attract substantial investments from international co-production partners, distributors or private investors. This is due to a range of factors including declining advertising revenues internationally, audience fragmentation and the economic recession putting pressure on New Zealand's traditional co-production partners in Australia and the UK. These economic factors have placed increasing pressure on NZ On Air funds, resulting in NZ On Air's proportional investment in most recurrently funded series increasing during the period under review.

Direct Government Funding to TVNZ to assist with its charter objectives formerly provided a source of funding for TVNZ's contributions to some NZ On Air funded programmes, resulting in a range of programmes being 100% publicly subsidised. This was likely to have been an unintended outcome of the charter funding, and was the subject of ongoing debate between TVNZ and NZ On Air. Additionally, broadcasters have moved away from taking an equity position in projects, instead the trend is toward broadcaster contributions comprising licence fee only. Meanwhile total broadcaster contribution has reduced in many cases.

NZ On Air's original goal was to withdraw funding to recurring series, particularly high cost series, once they have become established, leaving broadcasters and producers to find other means of funding ongoing series. With one exception, no series has been fully funded by a broadcaster after NZ On Air has ceased funding. The exception is *Shortland Street*; however the cessation of NZ On Air funding for this series predates the period under review.

3.0 Income Derived From Recurrently Funded Series

NZ On Air currently takes a 25% return on net sales of programmes where its investment is \$200,000 or more. *Outrageous Fortune* is by far the recurrently funded series returning the highest level of sales income to NZ On Air, totalling over \$[REDACTED]. The second highest share of sales income to NZ On Air came from *Orange Roughies* and *Go Girls*, each series having returned over \$[REDACTED] to NZ On Air. This income is invested in new programmes.

NZ On Air has attempted to estimate broadcasters' advertising income for a select number of these recurrently funded series, with advice from a media agency. While these dollar figures must be regarded with caution, they do nevertheless give an indication that there is a degree of truth to the long held argument put forward by broadcasters: that they do not make large profits from screening most locally commissioned programmes.

4.0 Ratings

As a method of measuring audience consumption of publicly funded television, NZ On Air monitors ratings for the programmes it funds - particularly those screening in primetime. While ratings must be seen in context as one method of quantitative measurement only, they do provide a measure of value for public money. The 5+ demographic has been used as a broad measure of audience reach, and suggested ratings targets have previously been recommended to NZ On Air based on those used by Screen Australia.¹ While there are variations within and between genres, three quarters of the primetime recurrently funded series have met or exceeded the proposed ratings targets, particularly in the documentary genre.

Popular Factual documentary series were consistently the highest rating genre of those recurrently funded, with almost all series far exceeding the ratings targets. With all genres, broadcasters have largely paid lower licence fees for these series in recent years, a factor that when combined with the demonstrated commercial success of these programmes could support an argument for lower public subsidies in this genre. One outcome of lowered public subsidies however is likely to be that despite receiving high ratings for primetime local programmes, broadcasters would probably look to acquire more international product at a lower cost than locally commissioned programmes. The challenge for NZ On Air is to find a balance between the levels of public subsidy for series that prove to be commercially successful, while retaining (and growing) broadcasters' support for locally commissioned programmes.

5.0 Off Peak Series

Recurrently funded children's drama series have had relatively consistent funding from NZ On Air throughout the review period, with broadcaster contributions varying according to a range of factors. *Paradise Cafe* proved the current exception to the rule by attracting substantial co-production investment despite the soft international market. Ratings for children's drama series vary, with late afternoon/early evening timeslots attracting larger audiences.

Children's magazine series have been adversely affected by reduced licence fees paid by TVNZ in particular. The impact on *What Now* is most significant, with a drop in licence fee from █% of the total budget in 2004 to █% by 2007. NZ On Air's proportional contribution to *What Now* increased to fill this gap, which is significant as this series now receives almost 25% of NZ On Air's total allocation to children's programmes.

A further pressure is rising production costs, leading to a need for producers to seek funding through programme partnerships or deferrals. The soft advertising market combined with constraints on advertising to children, have made commercial partnerships in children's programming more difficult to forge than ever before.

¹ MPics Group, Report on Comparative International 'Best Practice' Performance Measures for Funding Local Content Television. Report to NZ On Air, January 2010 on www.nzonair.govt.nz

Some special Interest series are fully funded by NZ On Air and these tend to screen in advertising-free positions on the schedule. Of the two series reviewed, *Attitude* and *Rural Delivery*, the latter has enjoyed particularly strong ratings throughout 2010, topping 100,000 viewers in ten episodes. NZ On Air funding for these two series has increased year on year over the period under review.

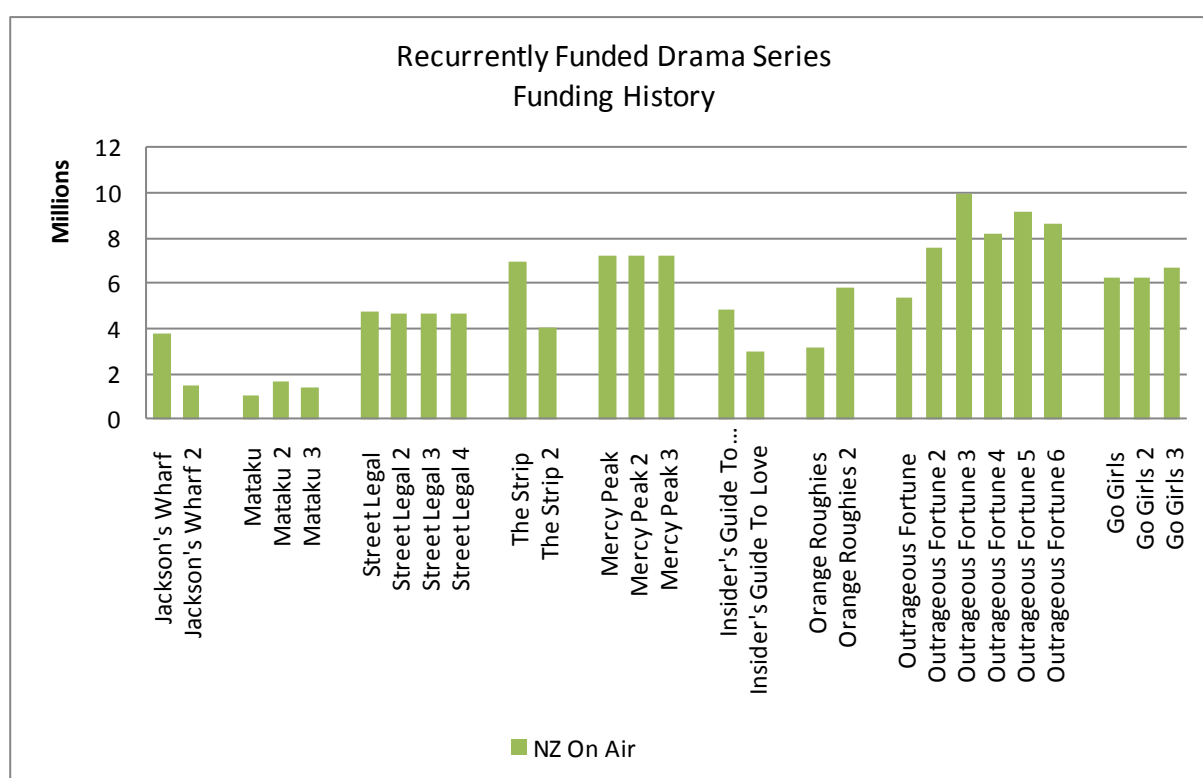
1: Overview of recurrently funded primetime series

1.1 Drama

Drama is a statutory priority for NZ On Air because of its high cost and high risk to a broadcaster. NZ On Air seeks a mix of series and one-off dramas, the latter being particularly difficult to undertake because of cost.

Since 1998/1999 NZ On Air funding for recurrently funded drama series has totalled more than \$143 million, from a total drama spend of over \$200 million. Recurrently funded drama series included in this review are (in chronological order from the first year of funding): *Jacksons Wharf*, *Mataku*, *Street Legal*, *The Strip*, *Mercy Peak*, *Insiders Guide to Happiness*, *Insider's Guide to Love*, *Orange Roughies*, *Outrageous Fortune* and *Go Girls*.

As the following chart shows, NZ On Air funding has comprised an average 80% of drama production budgets, however there was a wide range within the genre. This reflects the softening of the international market during the period under review, with third party investment becoming increasingly difficult to obtain. Decreasing broadcaster contributions have also had some effect.



NB: Other funding sources withheld from this chart due to commercial confidentiality

Annex A, a full funding history of each title, has also been withheld

The following chart shows broadcaster contributions for these titles, which ranged from \$[REDACTED] per hour for *Street Legal* in 1999/2000, to \$[REDACTED] per hour for series three of *Mercy Peak* in 2002/2003. The \$[REDACTED] licence fee for *Go Girls 3* in 2009/2010 reflects the recent temporary agreement between

NZ On Air and broadcasters for reduced licence fees due to the economic recession. This agreement, combined with difficulties attracting third party investment in recent years, has led to increased NZ On Air contributions to recurrently funded drama series over the review period.

Recurrently Funded Drama Series

Broadcaster Contributions Per Hour

Chart withheld due to commercial confidentiality

TVNZ's contributions to *Go Girls* 1 and 2, *Mataku* series 3 and *Insider's Guide to Happiness* were funded from the former Direct Government Funding (Charter). Five of the drama titles included third party funding by way of distribution advances, international co-productions, private investment and/or producer funding including deferrals. These titles are *Jackson's Wharf*, *Mataku*, *Street Legal*, series two and three of *Mercy Peak* and series four, five and six of *Outrageous Fortune*. Furthermore broadcasters have moved away from taking an equity (investment) position in programmes to paying a licence fee only for the rights to broadcast.

The third party amounts ranged from \$[REDACTED] ([REDACTED]% of the total production budget) on series one of *Jackson's Wharf* (1998/1999) to \$[REDACTED] ([REDACTED]%) on series four of *Outrageous Fortune* (2007/2008). A discussion of factors impacting on the level of third party investment in drama series over the review period is in Section 3 of this report.

Audience Reach

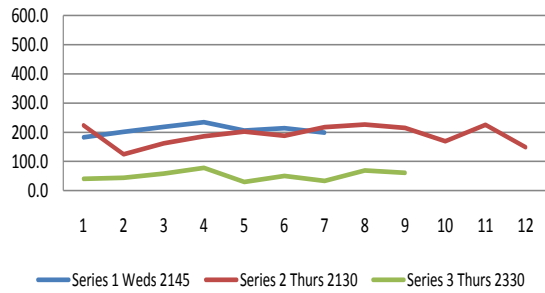
Television ratings measure the estimated number of viewers for a programme, relying on data from boxes in the homes of a scientifically representative number of viewers. With increasing scrutiny on public spending, and as a measure of value for money for the taxpayer's dollar, it is prudent that NZ On Air takes ratings into account. NZ On Air has always monitored ratings for the programmes which it funds, particularly in primetime and for high cost genres such as drama and comedy. While some commentators are critical of the limitations of using ratings as an audience measurement tool (for example Lealand and Martin, 2001)², ratings in the All 5+ demographic give a broad brush indication of audience consumption for publicly funded programming.

The broadcasters themselves use a different set of demographics, currently TV ONE and Prime 25-54, TV2 18-39; TV3 will move from 18-49 towards 25-54 over the next year, and the newly rebranded FOUR will target 18-39.

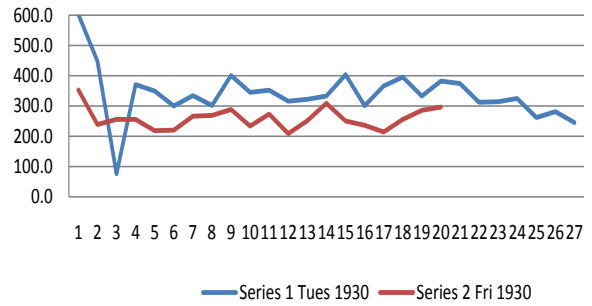
The following charts show how the drama titles under review performed in the All 5+ demographic. The numbers on the vertical axis represent thousands of viewers.

² Lealand, G. and Martin, H. *'It's All Done with Mirrors: About Television'* (Dunmore Press, Palmerston North: 2001)

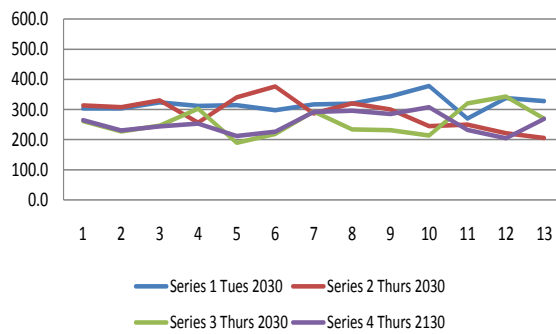
Mataku 1-3
All 5+ Audience
TV3 2002-3, TV ONE 2005



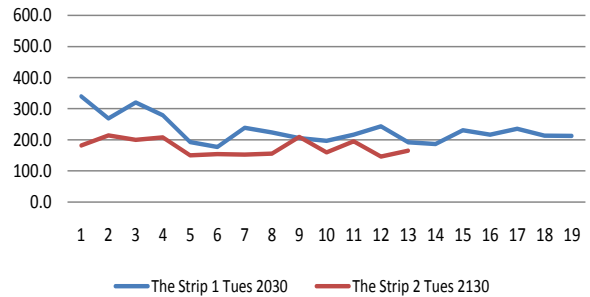
Jackson's Wharf
All 5+ Audience
TV2 1999 & 2002



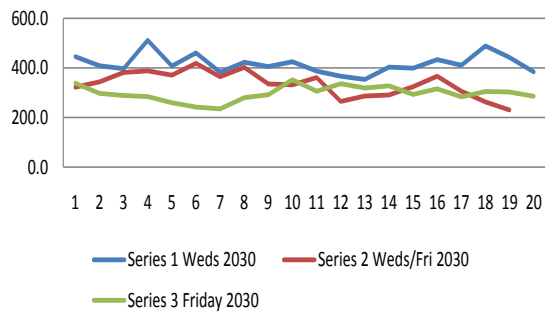
Street Legal 1-4
All 5+ Audience
TV2 2000-2003



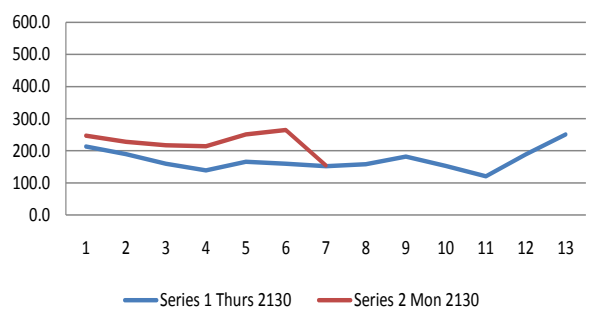
The Strip 1 & 2
All 5+ Audience
TV3 2002-2003

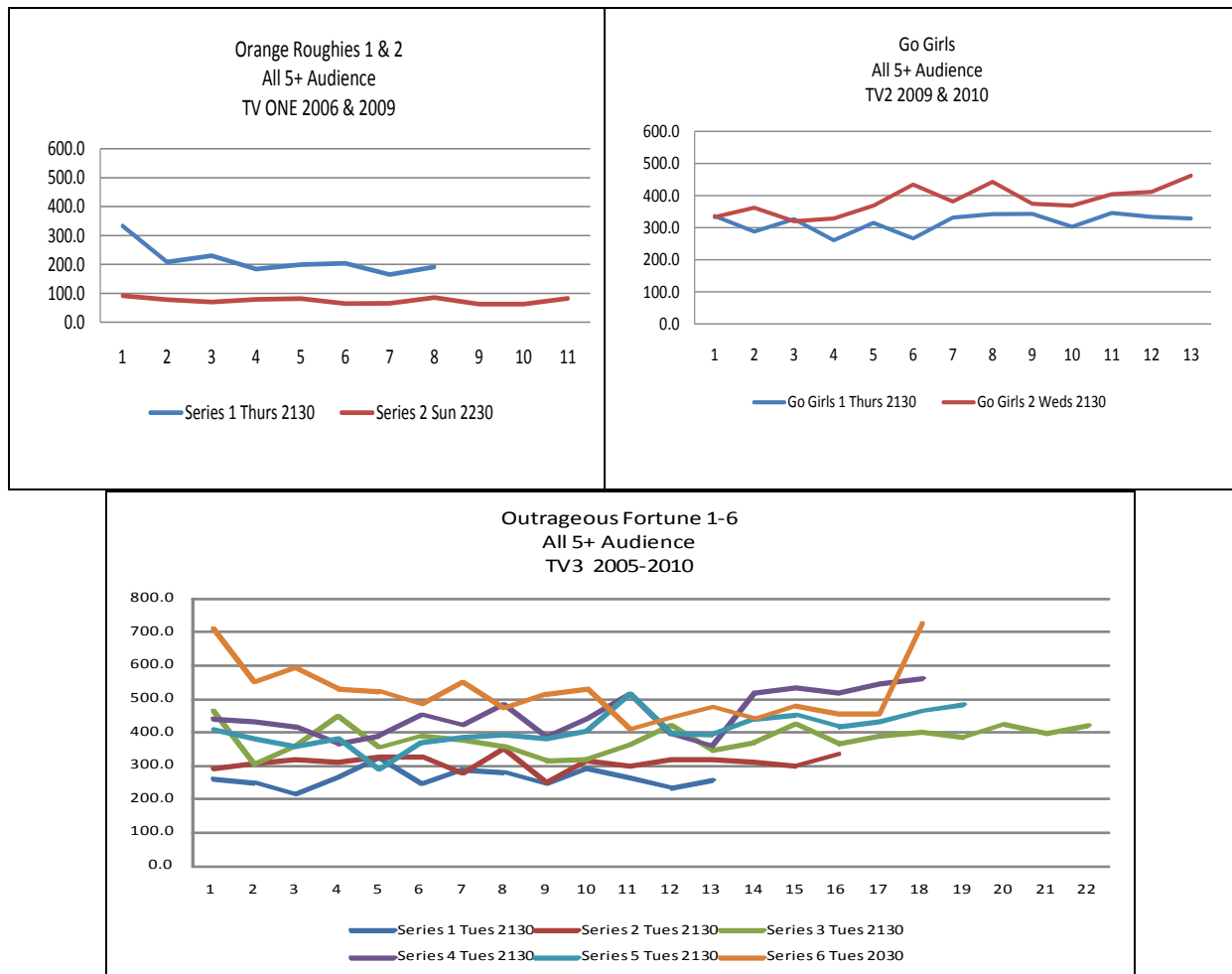


Mercy Peak 1-3
All 5+ Audience
TV ONE 2001-4



Insider's Guide to Happiness
Insider's Guide to Love
TV2 2004-2005





Outrageous Fortune, *Go Girls* and *Insiders Guide* are the only drama series to have consistently grown their audience from one series to the next.

It is important to note, however, that there are many factors that affect a programme's rating performance, such as the channel's overall performance, timeslot, night of the week, available audience lead-in ratings and competitive programming from other channels.

Sales Income

NZ On Air does not make programmes to secure international or DVD sales income (namely it is a subsidy-based structure, not a bank). If the programme was intended to be profitable for the producer, public investment would generally not be needed. However NZ On Air requires a 25% share of net income as, in effect, a retrospective subsidy adjustment.

The majority of the drama series reviewed have yet to return any meaningful sales income to NZ On Air.

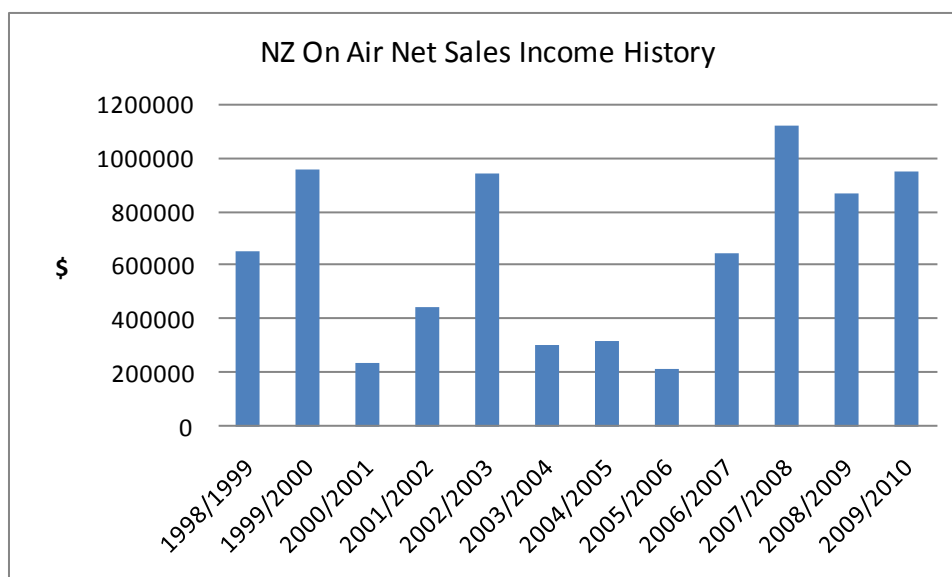
The chart below reflects NZ On Air's share of net sales income for these titles.

NZ On Air Share of Sales Income

Recurrently Funded Drama Series

Chart withheld due to commercial confidentiality

The following chart reflects NZ On Air's total sales income receipts for the review period.



Broadcasters tend to compare their contribution to a local programme with the comparative cost of acquiring international programming. In all genres, it is much more cost effective for a broadcaster to buy internationally. The cost to acquire a foreign drama is in the range of \$19,000-22,000 per hour, substantially less than the \$████ per hour they are currently paying in licence fees for local drama.

The high cost of commissioning local drama compared with the substantially lower cost of acquiring foreign programming was summed up recently by New Zealand drama producer John Barnett.

"You can't get away from the fact that a New Zealand drama on New Zealand television is only going to generate, in net advertising, about 10-15% of its production cost. And if the network can acquire foreign programming, like *Desperate Housewives* or *House* or *Grey's Anatomy*, which return three-to-four times their cost in ad revenue, it's unrealistic to expect a [free-to-air] broadcaster to fund a lot of New Zealand primetime one-hour drama. Hence, the need for NZ On Air. The alternative is no New Zealand drama on our screens."

Barnett acknowledges having a market of only four million people may limit a hit show's longevity. "But the funding model is the sole reason that any New Zealand drama appears at all, so it's critical and it does a bloody good job."³

³ July 13 TV update: "Outrageous Fortune goes west", www.onfilm.co.nz, retrieved 20 August 2010

Barnett's comments are supported by this email from TV3 to NZ On Air regarding *Outrageous Fortune* series one:

"The harsh reality is that NZ On Air needs to be in the business of getting New Zealand dramas on air and we support you in that aim, as well as the commercial reality allows us. The truth is that we are at the edge in terms of what is commercially viable for us – and in truth we don't need it. *CSI* costs us a fraction of the cost and gets us a 20 share."

This extract from a NZ On Air board paper outlines NZ On Air's policy, and relates to series four of *Outrageous Fortune*:

"Although NZ On Air has previously advocated a policy of withdrawing funding support after the third series in the belief that popular ongoing series should thereafter be able to be sustained by the broadcaster – TV3 have indicated that without continued substantial funding support they will not be able to continue making *Outrageous Fortune*.⁴"

NZ On Air has begun to investigate the likely revenue broadcasters have derived from some local programmes, and early indications confirm that broadcasters are not profiting greatly from locally commissioned programmes.

The following table illustrates NZ On Air's findings to date for a small sample of recurrently funded series.

| Programme Name | Day | Start | Eps | BC | Avg Cost per 30" spot | Avg Max. Income per ep (26 spots/hr) | Assume 50% discount on ratecard | Licence fee paid per ep | Est. net profit per ep |
|----------------------------|-----|-------|-----|-----|-----------------------|--------------------------------------|---------------------------------|-------------------------|------------------------|
| 7 Days 2 | Fri | 21:31 | 13 | TV3 | \$6,831 | \$88,803 | \$44,402 | | |
| 7 Days 2 | Fri | 21:30 | 9 | TV3 | \$8,589 | \$111,657 | \$55,829 | | |
| | | | | | | | | | |
| Whats Really in Our Food 2 | Tue | 20:00 | 11 | TV3 | \$8,140 | \$105,820 | \$52,910 | | |
| What's Really in Our....? | Tue | 20:00 | 10 | TV3 | \$8,200 | \$106,600 | \$53,300 | | |
| | | | | | | | | | |
| Beyond The Darklands 3 | Tue | 21:28 | 4 | TV1 | \$5,100 | \$132,600 | \$66,300 | | |
| | | | | | | | | | |
| Radar's Patch | Sun | 19:00 | 8 | TV1 | \$10,971 | \$142,623 | \$71,312 | | |
| | | | | | | | | | |
| Go Girls 2 | Thu | 20:33 | 13 | TV2 | \$9,615 | \$249,990 | \$124,995 | | |
| | | | | | | | | | |
| Outrageous Fortune 6 | Tue | 20:31 | 18 | TV3 | \$13,894 | \$361,244 | \$180,622 | | |

NB: These figures are indicative only and have not been verified by broadcasters
Some data has been withheld due to commercial confidentiality

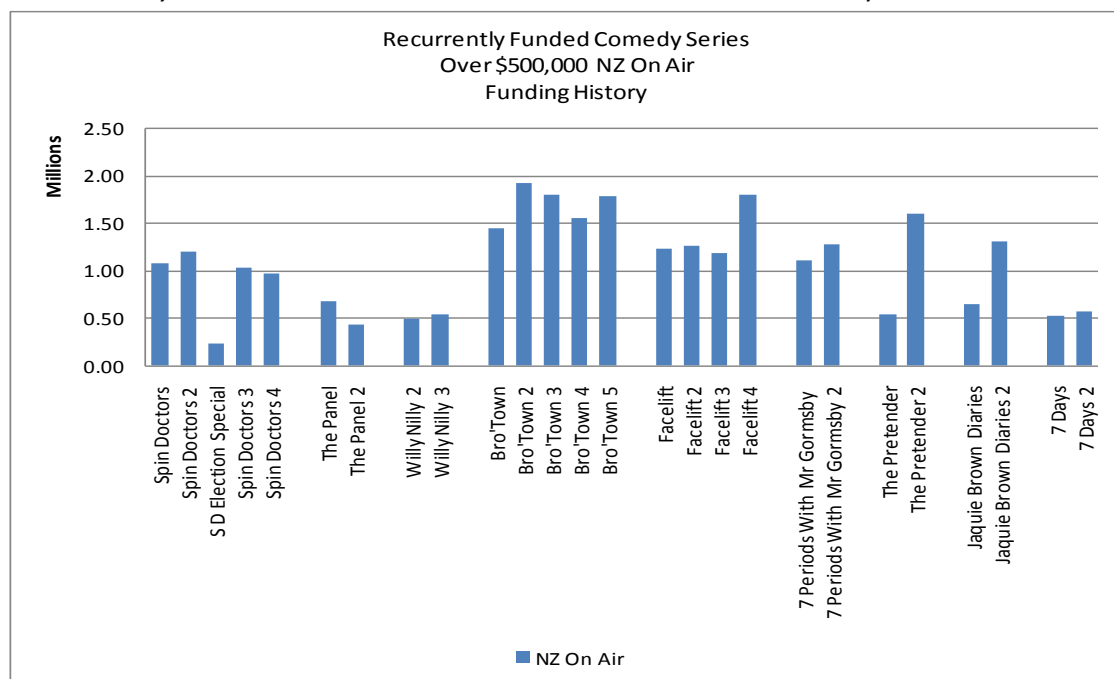
⁴ NZ On Air Board Paper, *Outrageous Fortune* 4, August 2007

The estimated profit figures above have allowed for agency commissions but do not include any broadcaster overheads, which would likely further reduce the net profit by up to 20%. Based on this preliminary work, we can see that there could be some truth to broadcasters' long held argument that they do not profit financially from screening local programmes. Moreover Brent Impey, former Chief Executive of Mediaworks gave a succinct analysis of why we cannot rely on advertising revenue to contribute to local programmes.

“Television advertising has rebounded this year with growth on last year in excess of 8%. It will still be 2016 before television advertising is back to 2006 levels. The economy is predicted to be tight these next 3 or 4 years, and this has a direct relationship to advertising spend... In advertising, we are witnessing the same phenomenon that followed the 1987 share market crash: a tough 1988, tougher 1989, a rebound in 1990, and then a 3 year grind. My point here is that you cannot rely on advertising growth in the next few years to sustain and grow the independent production sector. I believe the free to air television market is going to be tough going forwards.”⁵

1.2 Comedy over \$500,000 NZ On Air Funding

We have selected recurrently funded primetime comedy series receiving over \$500,000 NZ On Air funding for this review. They are (in chronological order from first year of funding): *Spin Doctors*, *The Panel*, *Willy Nilly*, *Bro'Town*, *Facelift*, *Seven Periods With Mr Gormsby*, *The Pretender*, *Jaquie Brown Diaries* and *7 Days*. NZ On Air has invested a total of \$28.29 million over 10 years in these series.



NB: Other funding sources withheld from this chart due to commercial confidentiality

⁵ Impey, B. John O'Shea Memorial Address, Screen Production and Development Association Conference, 12 November 2010

NZ On Air contributions to these series started at █% of the total production budget on *Willy Nilly 2* (2001/2002), which was an unusually low contribution due to the broadcaster having fully funded the first series. The highest NZ On Air contribution was █% to *Jaquie Brown Diaries* series one (2006/2007). This was unusually high, due to this series being funded from the Innovation Fund. Excluding these two outliers, the lowest NZ On Air contribution was █% of the total production budget for each series of *7 Days* (2008/9 and 2009/10), and the highest was █% for *The Pretender* series two (2006/2007), with the average NZ On Air contribution just under 78% of the total production budget (slightly less than the drama average of 80%).

Bro'Town was the only recurrently funded comedy series to include third party funding, which averaged just under █% across each of the five series. This comprised █ and █.

Overall, comedy series funded by NZ On Air tend to fall into three categories: scripted comedy, innovation, and entertainment, and each has a different funding model.

Firstly, NZ On Air makes a higher proportional contribution to scripted comedies such as *Spin Doctors*, *Willy Nilly*, *Bro'Town* and *Facelift*, which are funded in the same way as drama series due to their high cost and the broadcasters' unwillingness to fund such risky programmes in a commercial marketplace. They have a majority contribution from NZ On Air, a licence fee from the broadcaster and occasionally some third party investment.

Secondly, the funding model for innovation is predicated on the perceived risk to the broadcaster of commissioning innovative series, particularly given NZ On Air's preference for programmes that could screen in primetime or fringe peak slots. The innovation category was established to elicit "exciting, challenging and entertaining ideas aimed at a mainstream audience that would provide a fresh insight into New Zealand's current identity and culture."⁶ The first series of both *Jaquie Brown Diaries* and *The Pretender* were funded from this category, with NZ On Air contributing █% and █% respectively to the series one budgets.

The fact that both *Jaquie Brown Diaries* and *The Pretender* went to a second series was a successful result for NZ On Air from the Innovation initiative.

Thirdly, the funding model for entertainment programmes is substantially different for a number of reasons. NZ On Air has contributed to popular entertainment series since the mid 1990s, the majority of which have supported NZ On Air's popular music strategy, funded from the Arts, Culture and Performance category and been targeted at youth audiences. Often these series have screened in off-peak slots where the case for a subsidy is more easily made. The following extract from an NZ On Air board paper, while lengthy, does explain the rationale well.

"The funding of popular entertainment series is not a core NZ On Air programme priority as expressed in the Broadcasting Act, but this style of programme does effectively reflect and develop the creative aspect of New Zealand's culture and identity.

⁶ NZ On Air Board Paper, *Jaquie Brown Diaries 2*, December 2008

While programmes of this type are often successful in attracting large audiences, their relative high cost often means that they are not strictly 'profitable' from a broadcaster perspective.

The series NZ On Air has previously supported have usually met two or more of our funding criteria, i.e. in addition to culture and identity they have either promoted New Zealand music, been targeted to one of our special audience groups, incorporated regional elements or been of such high cost that a subsidy was warranted. What they generally haven't been are local versions of overseas formats, programmes at the reality end of the entertainment spectrum, or series which derive their 'entertainment' value from the detrimental exploitation of the participants.

Funding for series, particularly those of high cost, would generally be supported for a limited period i.e. the first one or two series, at which point it would be expected that popular support would enable the series to continue as a commercial commission."⁷

For primetime entertainment programmes NZ On Air expects a substantial contribution from the broadcaster, hence TV3's contribution of █% of the budget for *7 Days*, which NZ On Air sees as "good value for money."⁸

Recurrently Funded Comedy Series

Broadcaster \$ contributions per Half Hour

Chart withheld due to commercial confidentiality

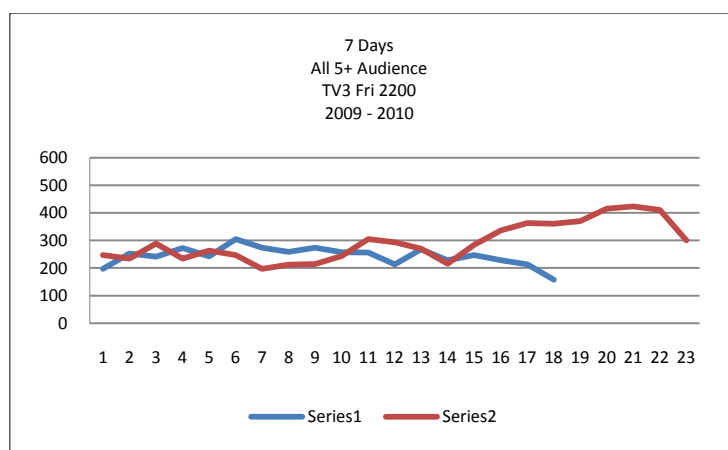
Audience Reach

Given the drama target of 350,000, a target of 250,000 viewers would be reasonable for primetime comedy. All of these series except *The Panel* and *The Pretender* have met or exceeded this proposed target.

⁷ NZ On Air Board Paper 'Entertainment Programmes Policy' August 2008

⁸ NZ On Air Board Paper, *7 Days* 2, December 2009





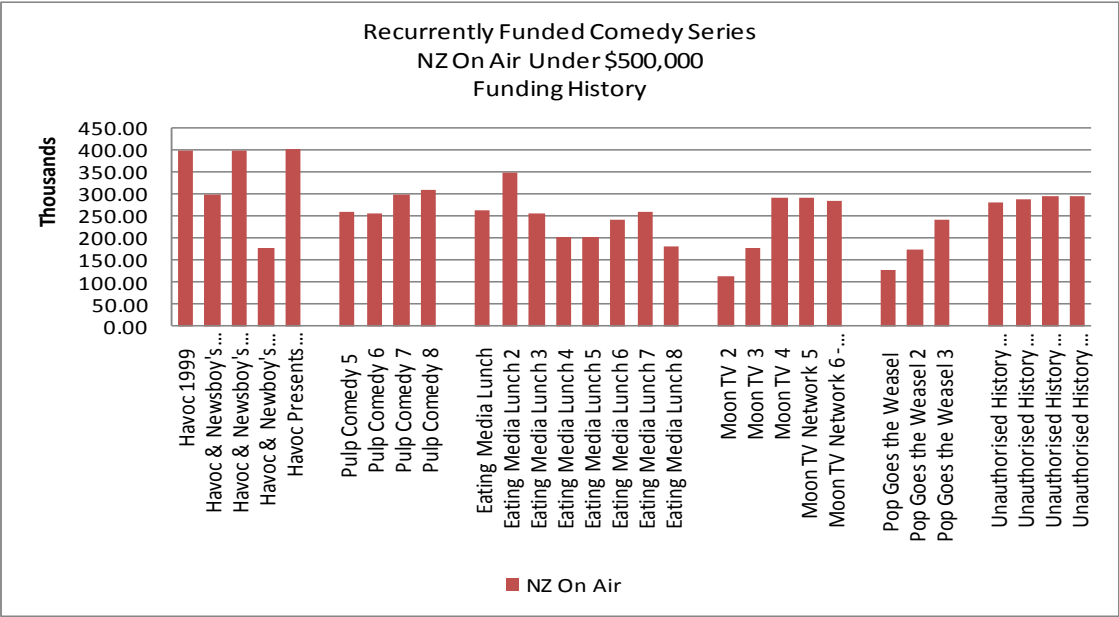
Sales Income

Of the nine recurrently funded primetime comedy series, three have returned sales income to NZ On Air. The most substantial is *Bro'Town* (\$██████) with *Jaquie Brown Diaries* and *Facelift* each returning less than \$██████.

1.3 Comedy under \$500,000 NZ On Air Funding

Recurrently funded comedy series with under \$500,000 of NZ On Air funding per series are included by way of comparison with higher cost programming. NZ On Air has invested a total of \$9.23 million over 10 years in these types of comedy series. The series reviewed (in chronological order from the first year of funding) are: *Havoc* (various titles), *Pulp Comedy*, *Eating Media Lunch*, *Moon TV*, *Pop Goes the Weasel* and *The Unauthorised History of New Zealand*.

NZ On Air's proportional contribution ranged from █% on two series of *Eating Media Lunch* and one series of *Havoc*, to over █% on three series of *Moon TV*.



NB: Other funding sources withheld from this chart due to commercial confidentiality

NZ On Air contributions were lower on those series that were commissioned for fringe peak slots, such as *Unauthorised History of NZ*, *Eating Media Lunch* and *Havoc and Newsboy*. *Pop Goes the Weasel*, *Pulp Comedy* and *Moon TV* featured relatively unproven talent and were commissioned for off peak slots, where the case for a higher subsidy is more easily made. Broadcaster contributions were as follows:

Recurrently Funded Comedy Series

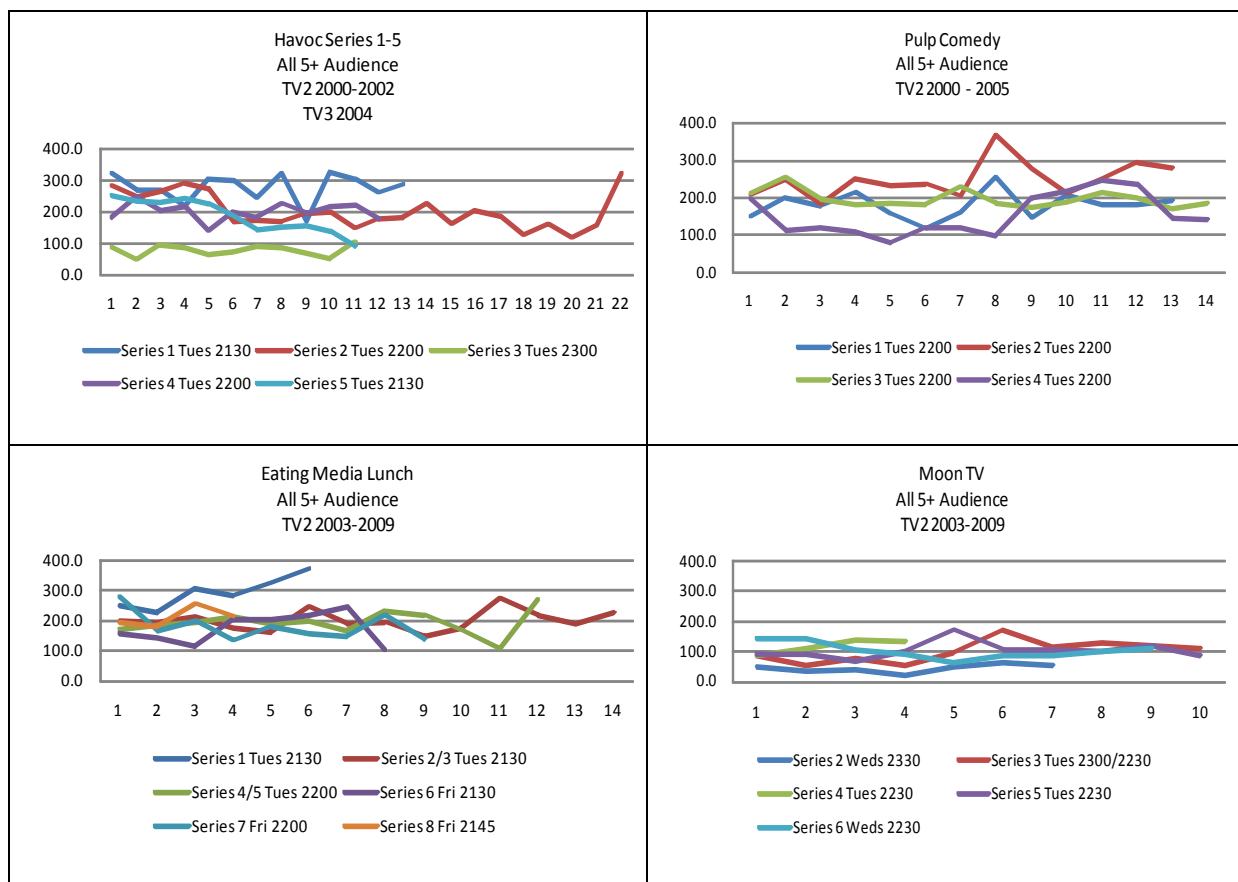
NZ On Air Under \$500,000

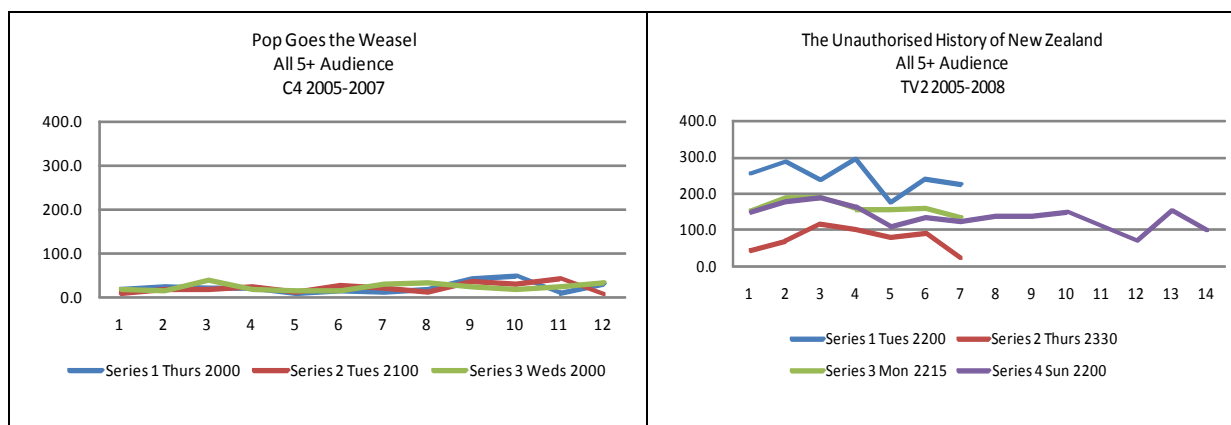
Broadcaster \$ Contributions Per Half Hour

NB: Chart withheld due to commercial confidentiality

Given the innovative and at times risky nature of these programmes it is unlikely that the broadcasters would greatly increase their contributions, hence a case can be made for ongoing subsidies from NZ On Air.

Audience Reach





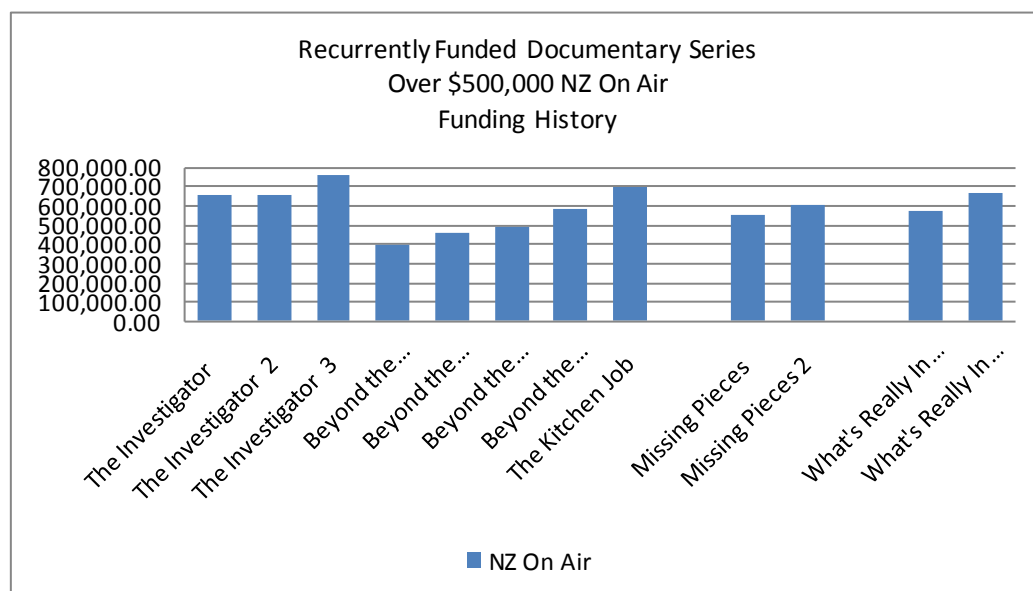
Sales Income

None of these series has returned sales income to NZ On Air.

1.4 Documentary

Recurrently funded documentary series with over \$500,000 NZ On Air funding since 1998/1999 are (in chronological order from the first year of funding): *Give It A Whirl*, *The Investigator*, *Beyond the Darklands*, *The Kitchen Job*, *Missing Pieces*, and *What's Really in Our Food?*

These titles have received a total of \$10.2 million in NZ On Air funding across 10 years, comprising an average 66.5% of production budgets, substantially lower than the 78-80% for comedy and drama. NZ On Air's contribution to these documentary series ranged from █% on *Beyond the Darklands* series one, to █% on *What's Really in Our Food* series three.



NB: Other funding sources withheld from this chart due to commercial confidentiality

NZ On Air has funded an average of 30 of hours per year within the two documentary strands – TV3's *Inside New Zealand (INZ)* and TV ONE's *Documentary New Zealand (DNZ)*. Ratings for one-off documentaries declined during the early 2000s, so by 2005/2006 DNZ had evolved into umbrella

strands under which short series were commissioned, with fewer one-off documentaries. Both broadcasters have shifted local documentaries from their traditional 8.30pm timeslot to 9.30pm as they look to secure consistent ratings in the 8.30 slot.

Recurrently Funded documentary Series

NZ On Air Over \$500,000

Broadcaster \$ Contributions Per Hour

Chart withheld due to commercial confidentiality

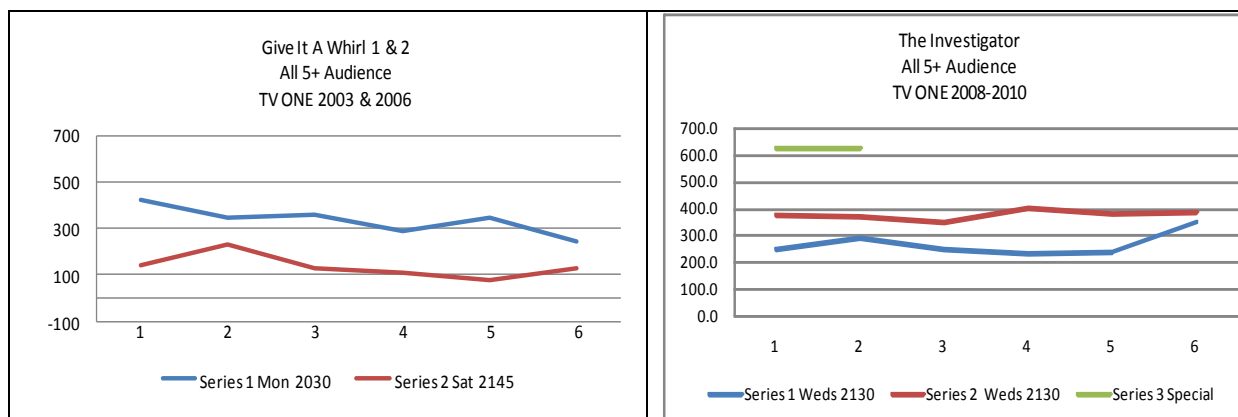
These licence fees are slightly less than those recently paid per hour of drama, and more than scripted comedy licence fees. Broadcasters pay approximately \$12,500 per hour to acquire international programming in this genre.

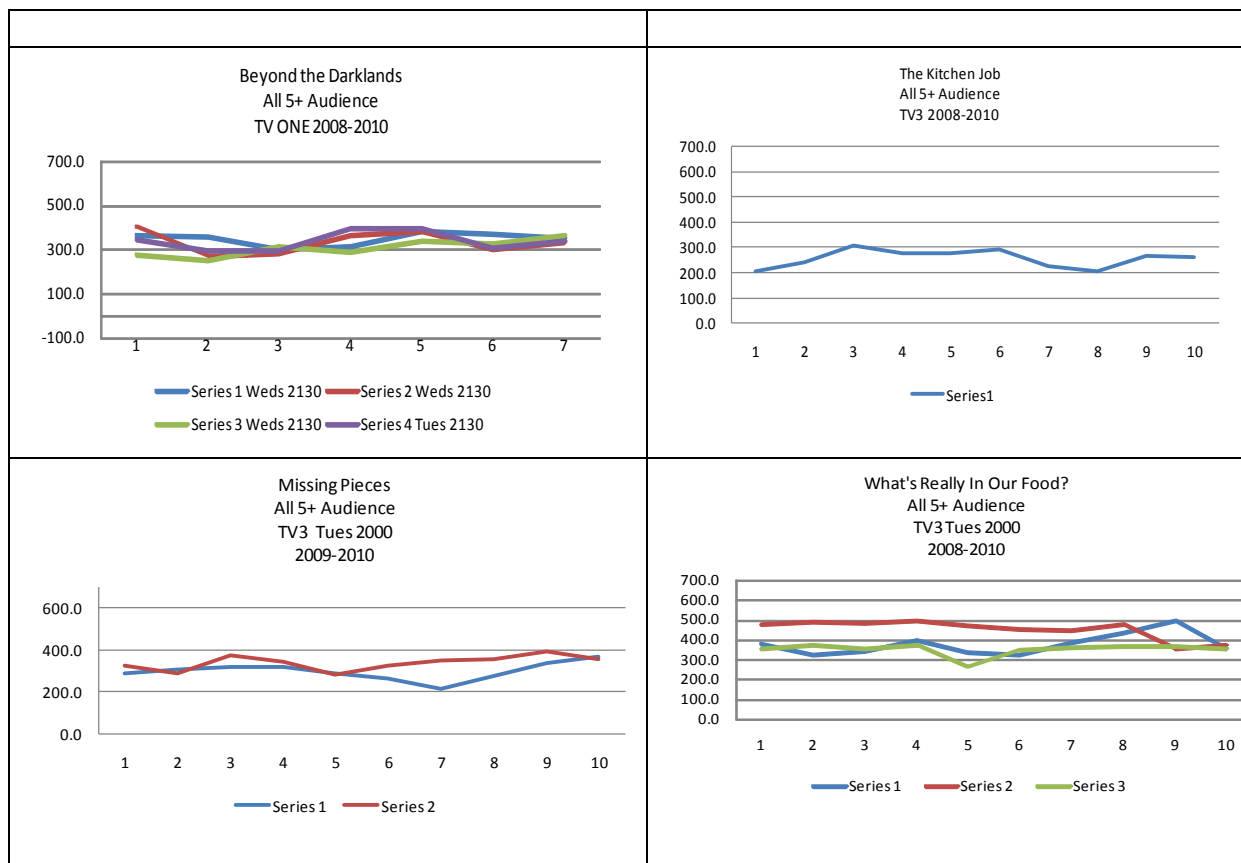
The production cost of long form drama series averages \$████ per hour (*Outrageous Fortune* and *Go Girls*) and scripted series comedy averages around \$████ per hour (*The Jaquie Brown Diaries*, *Facelift*). By comparison the average production cost per hour for a documentary series is \$████.

The consistently highest rating of these series is *What's Really In Our Food?* which averaged 452,000 viewers per episode for series two. Indeed series four of *Beyond the Darklands* averaged 340,000 viewers, series two of *The Investigator* averaged 378,000 viewers, and 626,000 viewed *The Investigator Special: The Case Against Robin Bain* earlier this year.

Given the lower cost of production for documentary series (compared with drama and scripted comedy), and the commercial value of these documentary series to the broadcasters, a case could be made for a lower subsidy for recurrently funded documentary series such as these, as broadcasters could feasibly fully fund more documentary series production. This must be balanced however against the likelihood that lower subsidies could drive broadcasters to acquire more international content at a lower cost than local commissions.

Audience Reach





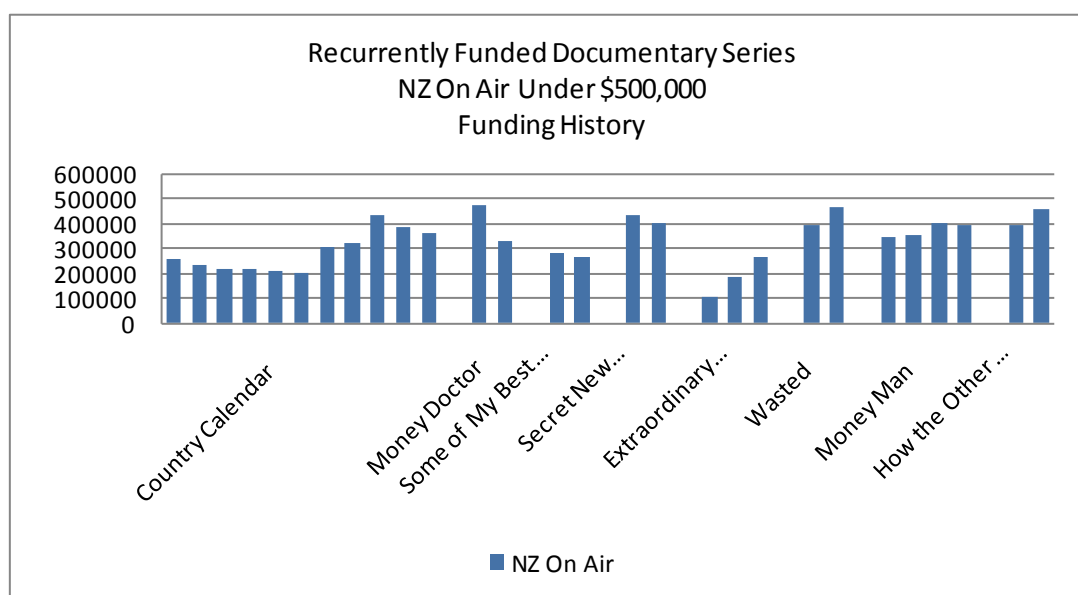
Not all publicly funded documentary series however have been as successful as those above. TVNZ commissioned several documentary series using the former Direct Government Funding (Charter), including *Wicked Weather*, *NZ Exposed*, *NZ At Home* and the first series of *Here To Stay*. NZ On Air went on to fund a second series of *Here To Stay*, half of which has yet to go to air. These charter funded series could possibly have been funded by NZ On Air given the opportunity, as their content fulfils a number of NZ On Air's statutory requirements. However it is possible NZ On Air may have required a more rigorous development process. Few have been presented to NZ On Air after cessation of Direct Government Funding because NZ On Air has a preference for funding new series.

Sales Income

Two of the documentary series under review have returned sales income to NZ On Air. They are *Beyond the Darklands* (\$████) and *What's Really in Our Food* (\$████).

1.5 Documentary under \$500,000 NZ On Air Funding

Recurrently funded documentary series with under \$500,000 of NZ On Air funding per series are included by way of comparison with higher cost series. NZ On Air has invested \$8.98 million in the following documentary series across 10 years, listed in chronological order from first year of funding: *Country Calendar*, *Money Doctor*, *Some of My Best Friends*, *Secret New Zealand*, *Extraordinary Kiwis*, *Wasted*, *Money Man*, *How the Other Half Lives*.



NB: Other funding sources withheld from this chart due to commercial confidentiality

NZ On Air's contribution to *Country Calendar* has been in the █% range over the period of this review. This is low due to the programme's ongoing commercial success, averaging 590,000 viewers per episode for more than ten years, with a peak series average of 642,000 viewers in 2001. It is also the only documentary series under review to be produced in-house by the broadcaster (TVNZ), which makes a substantial contribution to the production budget through a programme partnership investment. TVNZ has also used the former Direct Government Funding to contribute to *Country Calendar*. NZ On Air's continued support for *Country Calendar* for this commercially successful programme can be put down to the programme's "iconic status and the value for money it represents."⁹

Another anomaly is the first series of *Some of My Best Friends Are...*, which was fully funded by NZ On Air out of the Special Interest allocation. TVNZ went on to screen it in a primetime slot and commissioned a second series with a █% contribution from NZ On Air, a good, but unusual outcome.

Excluding *Country Calendar* and *Some of My Best Friends Are*, NZ On Air's contributions to these documentary series ranged from a low of █% on *Money Doctor 2*, to █% on the first series of *Money Doctor*. The average NZ On Air contribution is 65.7%, which is almost equivalent to the level of subsidy for higher cost recurrently funded documentary series. With the exception of *Money Doctor*, *Some of My Best Friends* and the fourth series of *Money Man*, NZ On Air's proportional contribution to these recurrently funded series has increased slightly over time.

⁹ NZ On Air Board Paper, August 2009

Recurrently Funded Documentary Series

NZ On Air Under \$500,000

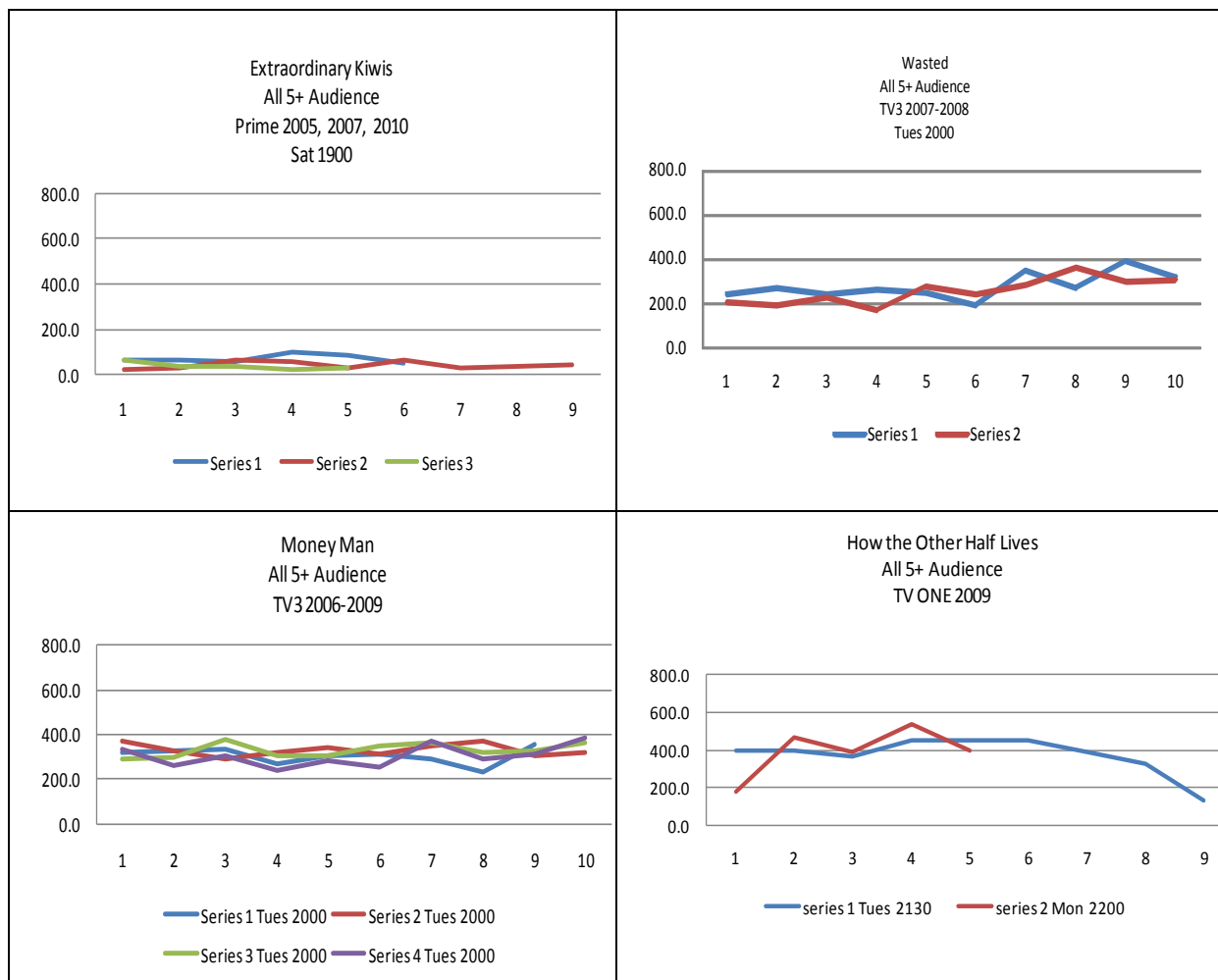
Broadcaster Contributions Per Half Hour

Chart withheld due to commercial confidentiality

Audience Reach

As for higher cost documentary series, these series have achieved considerable commercial success. A notable exception is *Extraordinary Kiwis*, the only one of these series to be broadcast by Prime, which achieved considerably lower ratings, reflecting the lower audience share of that channel. Overall however, a case for lower subsidies for these types of series could possibly be made on the basis of ongoing commercial success, combined with relatively low production costs which could feasibly be raised by broadcasters, possibly in conjunction with programme partnerships.





NZ On Air contributes to documentary series that emphasise information delivery, and is less likely to support series that tend toward the popular factual and reality end of the documentary spectrum.

A number of documentary series have been commissioned by broadcasters without NZ On Air support. They include *Intrepid Journeys*, *Border Patrol*, *Animal House*, *The Real Hustle NZ* in the more informative category, and others that tend more towards the popular factual end of the documentary spectrum. This supports the possibility that some series like these would still be commissioned without a subsidy from NZ On Air. However due to broadcasters' limited commissioning budgets the number of local documentary series overall would be lower without NZ On Air support.

Sales Income

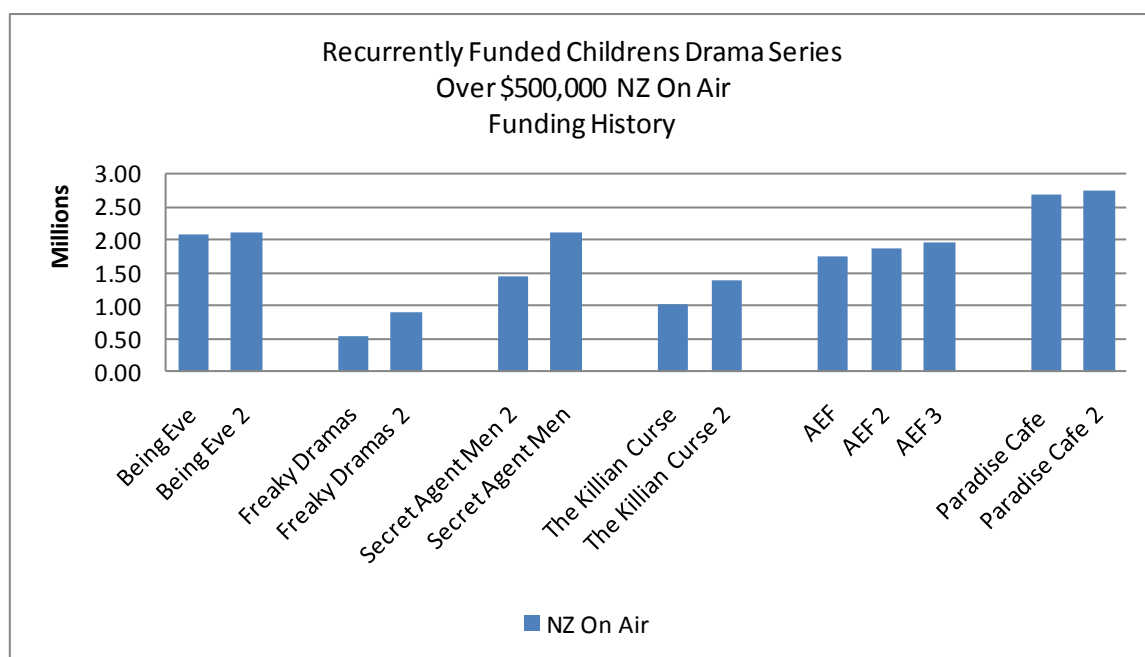
Country Calendar has returned \$█ to NZ On Air in net sales income. *Extraordinary Kiwis* has returned \$█, and *How the Other Half Lives* \$█.

2: Overview of recurrently funded off peak series over \$500,000 NZ On Air funding

2.1 Children's Drama

Recurrently funded children's drama series are listed in chronological order from the first year of funding: *Being Eve*, *Freaky Dramas*, *Secret Agent Men*, *The Killian Curse*, *Amazing Extraordinary Friends*, and *Paradise Cafe*.

Since 1998/1999 NZ On Air funding for recurrent children's drama series has comprised an average 81% of production budgets. The lowest proportional NZ On Air contribution was █% for *Paradise Cafe* (2007/08), which was unusually low as it was an NZ-UK co-production and the majority of the budget was raised offshore. NZ On Air's highest proportional contribution to a recurring children's drama series was █% for *Being Eve* (1999/2000), as it was funded from a children's drama initiative designed to stimulate innovative, contemporary new drama. It was also TV3's first foray into local children's drama.



NB: Other funding sources withheld from this chart due to commercial confidentiality

Broadcaster contributions to recurrently funded children's drama series range from \$█ per half hour of *Secret Agent Men*, to nearly \$█ per half hour of *The Killian Curse*, as the following chart demonstrates:

Recurrently Funded Children's Drama Series

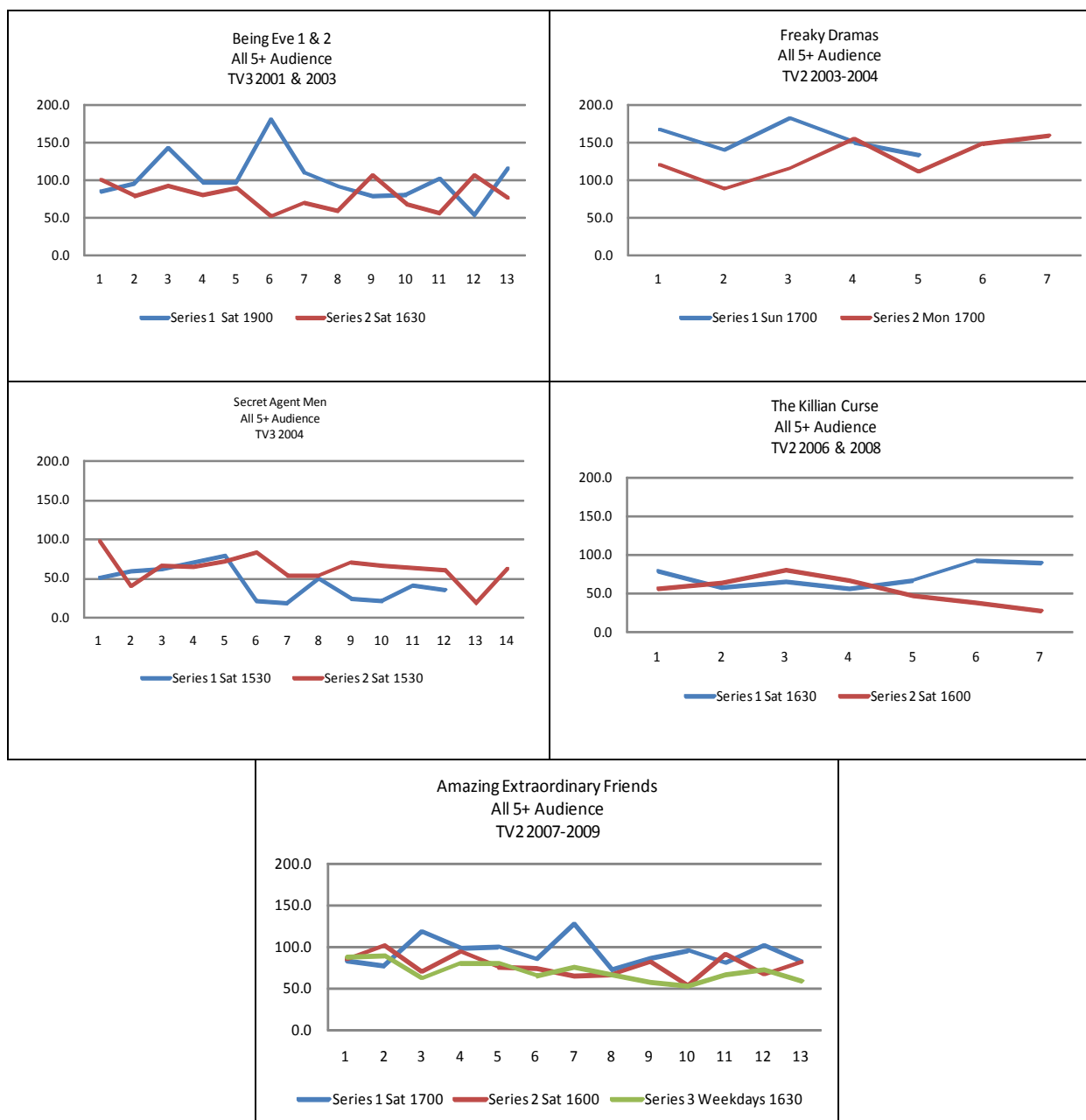
Broadcaster \$ Contributions per Half Hour

Chart withheld due to commercial confidentiality

There are several reasons for this wide variation. TV3 has historically not taken an equity position in programmes it commissions from independent producers, so its contributions to *Being Eve* and *Secret Agent Men* were all licence fee. The contribution to *Secret Agent Men* was █% of the total budget for both series. *Freaky Dramas* and *The Killian Curse* were both produced in-house by TVNZ, so the broadcaster contribution was all equity and made up of a substantial resources contribution. TVNZ also used the former Direct Government Funding (Charter) to fund the licence fees for *The Killian Curse* and *Amazing Extraordinary Friends*, so they were fully publicly subsidised.

Audience Reach

Ratings figures for these series vary widely, with early evening timeslots attracting higher audience figures than afternoons.



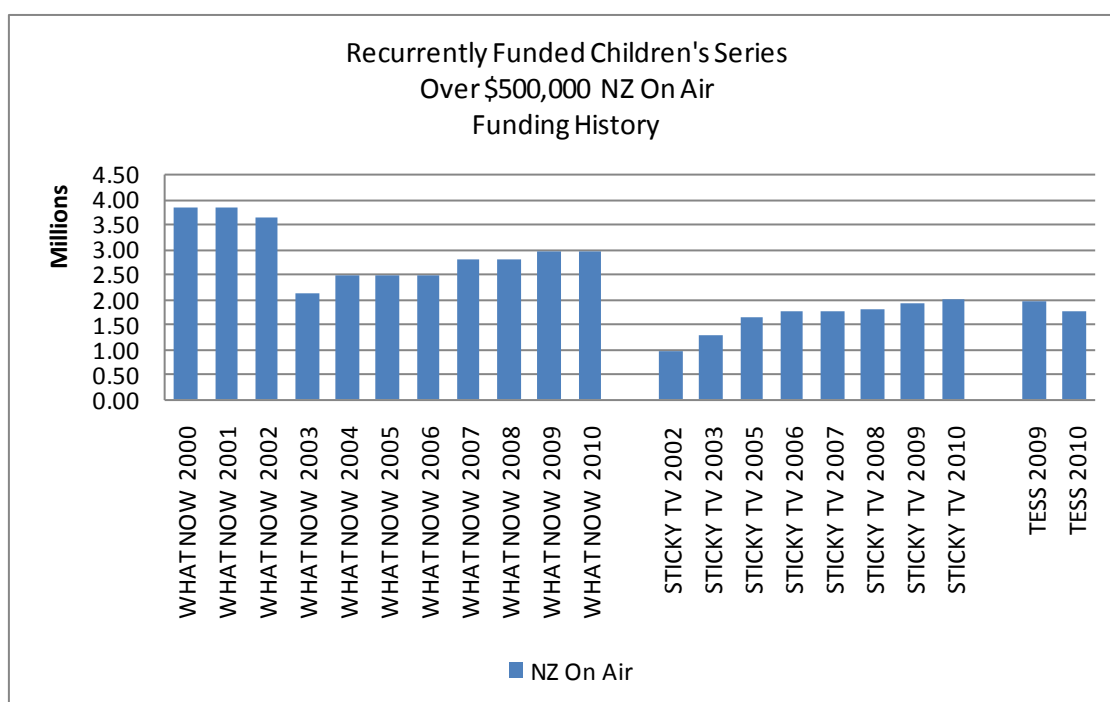
Sales Income

Secret Agent Men has returned a net \$[REDACTED] to NZ On Air. *Amazing Extraordinary Friends* \$[REDACTED], and *Freaky Dramas* \$[REDACTED].

2.2 Childrens

What Now, *The Erin Simpson Show (TESS)* and *Sticky TV* are three ongoing children's series recurrently funded by NZ On Air at over \$500,000 per series.

Overall NZ On Air's proportional contribution to TVNZ's children's series has increased over time, largely due to TVNZ's reduced contribution to *What Now*, as the following chart demonstrates.



NB: Other funding sources withheld from this chart due to commercial confidentiality

Since 2004 the broadcaster contribution to *What Now* has dropped from \$[REDACTED] ([REDACTED]% of the total budget) to just under \$[REDACTED] ([REDACTED]%), largely due to the economic pressures described elsewhere in this report. In addition to this, *What Now* currently screens in a non-commercial timeslot, which does not enable the broadcaster to offset any of its costs relating to *What Now* against advertising revenue. In the last five years the deficit for *What Now* has been funded by a combination of increased NZ On Air funding and some producer funding by way of programme partnerships. These commercial partnerships [REDACTED].

The Erin Simpson Show (TESS) is also partially funded by commercial partnerships, [REDACTED].

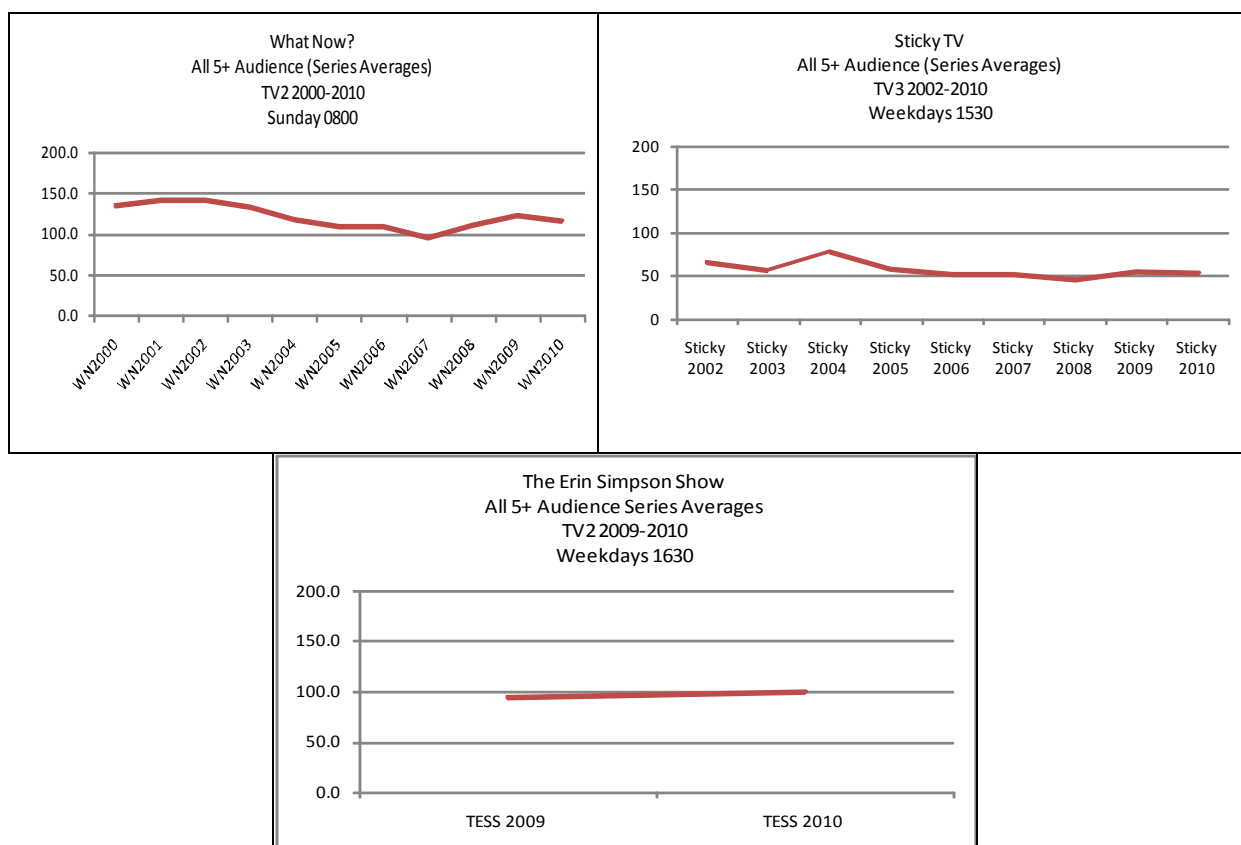
The budget and number of episodes for 2010 was revised to include a smaller amount of producer funding, which led to an increase in NZ On Air's proportional contribution. TVNZ's contribution to *TESS* was [REDACTED]% for series one and [REDACTED]% for series two.

By comparison, TV3's proportional contribution of █% of the *Sticky TV* budget has remained constant since series one, totalling \$█ in 2010. However in 2010 for the first time *Sticky TV*'s budget also included a small amount of producer funding (\$█).

Given the cost of these programmes, they would not be commissioned without NZ On Air's high level of funding support. However there is a disparity between the contributions made by the two broadcasters as TV3 contributes to *Sticky TV* almost █ the proportional cost that TVNZ contributes to *TESS*. Given that *TESS* reaches double the audience of *Sticky TV*, a broadcaster contribution at least the same, if not more than *Sticky TV* could reasonably be expected. Furthermore, if at some time in the future *What Now* moves to a commercial timeslot, the level of broadcaster contribution could be revisited to bring it more into line with TV3's contribution to *Sticky TV*.

Audience Reach

The following charts show the annual average All 5+ audience for these children's series.



2.3 Special Interest

These programmes are also a statutory priority for NZ On Air under its requirement to serve the needs of minority audiences. Special Interest series are mostly fully funded by NZ On Air, with the broadcasters making a contribution by way of airtime. Special Interest programmes serve a niche audience that is generally too small to be economic for broadcasters. Without NZ On Air's funding support these programmes would not be commissioned.

In fact Brent Impey, an industry leader and commentator recently, and somewhat mischievously questioned NZ On Air's support for Special Interest programmes such as these.

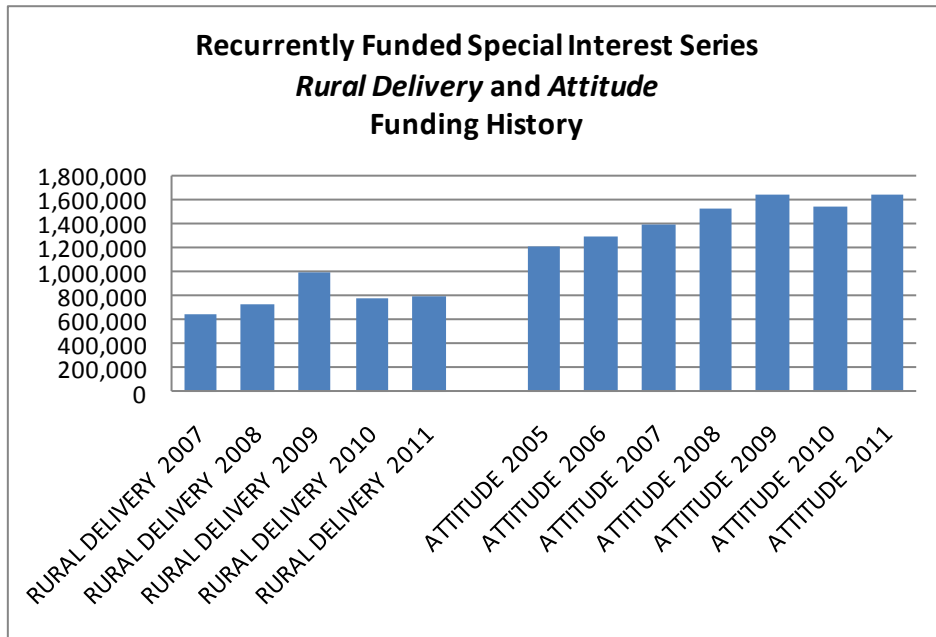
"Praise Be might be an icon in some people's eyes, however its audience is tiny and yet received funding of \$500,000. Why should this religious show receive public money in a society where there are multi religions which have to fund their own broadcasts, yet one is picked out, what for historical reasons? *Asia Downunder* is another off peak show, which received \$1,200,000- why is it that Asian radio stations can operate local programmes without public support, and World TV broadcasts Asian programmes on Sky, yet the taxpayer privileges this one show? Or *Rural Delivery* with \$1,060,000 where *Country Calendar* is already so well established, and where a dedicated Country Channel is underway, albeit with financial challenges?"¹⁰

TVNZ has had a long-term commitment to a range of Special Interest programmes, including all of those mentioned above, most of which play in Sunday morning non-commercial time, weekend afternoon or late-night slots. There are signs however that this commitment, particularly on Sunday mornings, may be reduced in future. TV3's long term commitment to screening *Pacific Beat Street* recently ended, which currently leaves TV3 with only *Open Door* funded by NZ On Air's Special Interest category. 2010 has also seen a significant change to Special Interest programming with the advent of TV ONE's *NZ Stories*, which aims to involve three separate production companies, and "give New Zealanders a greater understanding of the diversity of the people we live alongside."¹¹

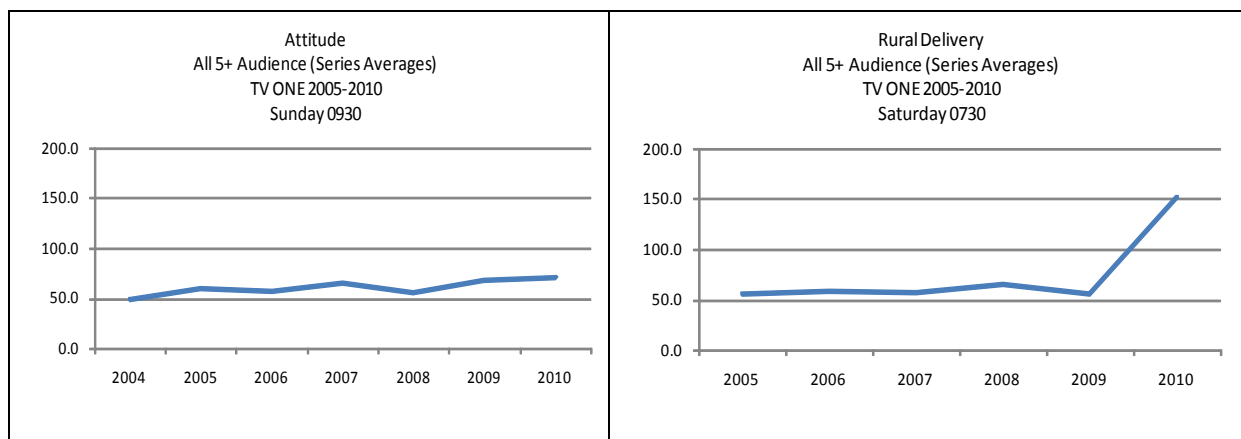
Two long-run Special Interest series that have found a regular audience and enjoyed ongoing support from the broadcaster (TVNZ) are the primary sector magazine series *Rural Delivery* and the disabilities series *Attitude*. These are both fully funded by NZ On Air, with production costs increasing year on year over the period under review.

¹⁰ Impey, B. John O'Shea Memorial Address, Screen Production and Development Association Conference, 12 November 2010

¹¹ Television New Zealand/NZ On Air 'NZ Stories: Seeking Expressions of Interest, 7 November 2010



As the following charts show, *Rural Delivery* has achieved significantly higher ratings in 2010, averaging over 100,000 viewers for ten episodes. *Attitude* has consistently grown its audience through its seven year run, and the *Attitude Awards* screened in a fringe peak late evening slot in 2008 to 99,000 viewers and in 2009 to 133,000. *Attitude* has also returned \$████ to NZ On Air in sales income through sales of completed stories and field footage to the Accident Compensation Corporation, as well as some modest returns from Screenrights.



3. Relevant International Trends

3.1 UK and USA

Changes in the global television drama market over the last decade have made international finance for New Zealand programmes increasingly difficult to raise.

The growing popularity of American drama over UK drama in English-speaking territories has put pressure on UK drama production. One of the outcomes of this is that UK companies can no longer risk co-investing in foreign drama (including NZ drama) to the extent that they once did. The sale for £800,000 in August 2010 of loss-making Target Entertainment Group, the same company that invested in *Street Legal* and *Mercy Peak*, is an indication of the difficulties faced by some players in the UK drama market.

In a May 2010 industry speech David Graham, CEO of UK analyst Attentional, predicted far-reaching changes to UK drama, and UK television as a whole, as the industry there grapples with a difficult set of circumstances.

He mentioned declining advertising revenues and audience fragmentation as key drivers for broadcasters seeking strong content, quoting Laurent Storch, programming director at French network TF1, "For each of our shows, we're looking to reach at least two generations (either parents and children, or parents and grandparents), all three of them being ideal." Graham pointed out that the most successful entertainment shows in the UK have fulfilled these criteria: *X Factor*, *Britain's Got Talent*, *Dancing On Ice* and *I'm A Celebrity*.

He argued that public service broadcasting has shaped UK drama content to the extent that "year after year... foreign buyers tell us UK drama is too dark, too slow, too miserable and packaged in the wrong shapes and sizes." He also questioned the foundation that UK television drama is built on – government subsidies for public service broadcasting (PSB).

" I have already argued that the new managers of ITV and C4 will reshape their channels around the best commercial options. ITV, for sure, regards PSB as useless baggage and wants out of it. Perhaps there will be growing realisation in government also that PSB is largely a form of protectionism and could be doing more harm than good. For protectionism leads to closed thinking and narrow aims - exactly what we don't want from a key industry in deficit-ravaged Britain."¹²

The new Chief Executive of UK commercial broadcaster ITV, Adam Crozier, announced the type of programming he requires: "long run returning series as opposed to short term slot filling."¹³ Crozier

¹² Graham, David, 'A Moment For Change?' From www.c21media.net, retrieved 20 August 2010

¹³ Kanter, Jake "Crozier looks to Disney to inspire ITV's turnaround," [Broadcast](#), 6 August 2010

is looking to shift ITV's drama slate towards long run series which can be licensed and sold overseas, boosting ITV's international sales revenue.

An influential UK media journalist responded to Crozier's announcement thus:

"Crozier wants long-running, returnable series, made by ITV Studios, shown on ITV1, which can be exported around the world – a triple whammy of bottom-line goodness for ITV plc... But there's a snag. Rather a big snag, in fact: with the exception of soaps and Doctor Who, we just don't make TV drama in that way in the UK. In the US, studios and networks are geared up for habitual runs of 13 or 22 episodes. Writers genuflect before showrunners, and are used to working in teams – or, at least, to writing individual episodes of long-running shows as part of a larger pool of writers. That's how it is over there, and the size of the US market, combined with a huge international appetite for US shows, pays those writers enough to swallow their amour-propre."¹⁴

The sale of the *Outrageous Fortune* format into both the United Kingdom and the United States is indicative of an international trend in the latter half of this decade. American broadcasters in particular are more inclined to adapt foreign series than buy complete series (examples of other foreign series remade for the American market include *Ugly Betty*, *Life on Mars* and *In Treatment*).

3.2 Australia

Commercial Australian broadcasters work to quota requirements for local production, with at least 55% of programmes broadcast in a year required to be Australian content. Quota is the public policy response to local content in Australia; contestable NZ On Air funding is New Zealand's response. The recently created Screen Australia funds the development and production of Australian film and some TV programmes.

The annual quota requirements¹⁵ are 390 hours children's (including 130 'P' programmes for preschoolers) and 20 hours per year of first-run documentaries. The quota for first-release Australian adult drama is at least 250 points per year and a three year score of 860 points. The score is calculated by multiplying a 'format factor' by the duration of the programme. In 2009 all of Australia's networks exceeded their quota requirements.

New Zealand programmes also count toward local content quotas, with NZ programmes screening on Australian commercial networks more than trebling since 2005. Nonetheless New Zealand broadcasters still screen more Australian programming than this.

¹⁴ Midgeley, Neil "More drama at ITV," Blogs.telegraph.co.uk/finance, retrieved 3 August 2010

¹⁵ Australian Communications and Media Authority, 'Broadcasting Services (Australian Content) Standard 2005'

The Australian Communications and Media Authority (ACMA) sets minimum licence fees. In 2010 drama's minimum is \$366,000 per hour¹⁶, and broadcasters pay from this minimum up to \$500,000 per hour. Production budgets for primetime drama series are in the \$800,000-\$900,000 per hour range.

Like ITV in the UK, Australia's commercial networks (Seven, Nine and Ten) also want long run returning series. However there is a tendency to commission a telefeature before committing.

Seven produces most drama in-house (e.g. *Packed To the Rafters*, *Home & Away*); Nine and Ten tend to outsource their drama. 2009 Australian content figures showed that Seven and Ten had a clear preference for drama series, while Nine's drama hours output was more than 50% mini-series, 25% series and 25% feature films.

Mini-series and iconic one-offs are still being sought in Australia with the *Underbelly* series of telefeatures recently commissioned at \$1.1m per episode. A \$A2.9 million 90 minute telefeature on politician Bob Hawke pulled in 1.6 million viewers for Channel Ten in July 2010.

Comedy remains strong in Australia, with state broadcaster the ABC producing some of the most successful local comedies – *Kath & Kim*, the *Chris Lilley Shows* and *The Chaser's War on Everything*.

Documentary makes up 2-3% of audio-visual production in Australia, 11% in New Zealand and 21% in Canada. Australia produces an average of 331 hours of documentary for \$A74 million. For documentary series budgets vary with the number of hours produced, but generally exceed New Zealand production budgets. On average 30% are made for less than \$A500,000, with 37% made for less than \$A1,000,000. The average cost per hour for a documentary series is around \$A250,000. Top rating documentary series include *Border Security*, *The Zoo* and *RSPCA Animal Rescue*.¹⁷

The value of children's television production in Australia is around \$A103 million across 15 titles, producing 151 hours (including drama). ABC3 is a dedicated children's channel serving up a range of genres including documentaries, reality, game shows and sitcoms. Commercial broadcasters contribute 20-25% of the budget for children's programmes, with the balance coming from government funds, distribution advances and tax breaks. The ABC produces a great deal of children's programming in-house.

Screen Australia funds children's drama with a mandatory requirement for foreign presales recently being relaxed to allow for "intrinsically Australian programmes that may not have the mandate to travel."¹⁸ This may also reflect the current difficulties securing international coproduction funding.

¹⁶ Australian Communications and Media Authority, 'Australian drama format factor and licence fees' Unpublished report January 2010, www.acma.govt.nz Retrieved 10 September 2010

¹⁷ Screen Australia, *Documentary Production in Australia 2010: A Collection of Key Data*, www.screenaustralia.com.au Retrieved 28 September 2010

¹⁸ www.screenaustralia.com.au/industry_support/Production/childrensTV Retrieved 28 September 2010