



# 2008/09 financial review of Television New Zealand Limited

Report of the Finance and Expenditure  
Committee

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# Television New Zealand Limited

## Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2008/09 performance and current operations of Television New Zealand Limited, and recommends that the House take note of its report.

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## Introduction

Television New Zealand (TVNZ) is a Crown entity company under the Crown Entities Act 2004 and the Television New Zealand Act 2003. The Television New Zealand Act requires TVNZ to “give effect to its Charter while maintaining its commercial performance.” Maintaining commercial performance is defined as maintaining financial viability, generating an adequate rate of return on shareholders’ funds, and operating as a successful going concern.

## Financial performance

TVNZ described its operating environment in 2008/09 as probably the most challenging in history for advertising-reliant media, but considers that it weathered the storm better than most in the industry, in New Zealand or elsewhere. It noted that few media companies in Australasia recorded a profit.

TVNZ reports that its results were tracking well in the first half of the financial year, but advertising revenue dropped sharply from the beginning of 2009 as the recession affected business confidence. It responded promptly by finding \$25 million in cost reductions, with savings of \$13.1 million made in 2008/09 and the balance to be effected in 2009/10.

In 2008/09 the company’s total income was \$384.8 million (compared with \$392.3 million in 2007/08), of which \$51.2 million was Government funding (\$51.4 million in 2007/08). TVNZ’s after-tax profit in 2008/09 was \$2.1 million, a drop of 89 percent from \$19.4 million in 2007/08. It attributes the change largely to a 5.4 percent (\$17.1 million) decrease in advertising revenue. The company announced a dividend to the Crown of \$1.47 million.

We consider that TVNZ has performed reasonably well in the difficult circumstances of 2008/09.

## Outlook and strategy

The company said that trading conditions in 2009/10 are likely to be challenging as advertisers remain reluctant to commit to campaigns. However, it considers that its five-year strategy of “inspiring New Zealanders on every screen” is positioning it well for the future as consumers adapt to rapidly changing technologies, and increasingly access their news and entertainment through computers and mobile devices as well as television.

The strategy, launched in late 2006, was refined in 2008/09 in the light of the recession and the change of Government, and aims “to transform TVNZ from a traditional analogue advertising-reliant television broadcaster into a multi-platform digital media company with diversified revenue streams”. The company said that the strategy now has a more commercial focus, and the change has highlighted some of its activities that do not contribute to its commercial performance, which it intends to discuss with the Government.

Some of us are concerned about what the increased commercial emphasis will mean for services that TVNZ currently provides, particularly its public service programming and sports coverage. We discuss this further below.

### **TVNZ’s charter and public service role**

The Government has signalled that it intends to repeal TVNZ’s charter by amending the Television New Zealand Act 2003. The charter sets out guiding principles for TVNZ’s activities, emphasising its public broadcasting responsibilities. We note that with the repeal of the charter, TVNZ would no longer have a dual mandate with an obligation to provide public services as well as to operate as a successful business, making it essentially a commercial broadcaster.

The company informed us that it is comfortable working within whatever framework the Government provides, noting that State-owned television has operated in various forms without a charter for the majority of its history. Should the charter be repealed, it would prepare a revised statement of intent for tabling in the House.

### **Funding for public service programming**

From 1 July 2009 TVNZ must seek funding from a contestable fund, the Platinum Television Fund, administered by NZ On Air, instead of having charter funding provided directly. In 2008/09, TVNZ received \$15.1 million of Government funding to assist with charter programming.

We discussed with TVNZ whether programming is likely to focus more on what is profitable for the company than on what is socially important. TVNZ said it does not see removal of the dual mandate as a bad thing; to succeed commercially it must remain attuned to what New Zealanders value, such as local content, and respond appropriately. It would be aiming to compete successfully to obtain as much of NZ On Air’s contestable funding as possible, and to continue to supply such public-service outcomes as the Crown wished to purchase, such as Māori programmes, captioning services, or distribution of news and current affairs to the Pacific.

TVNZ observed, however, that the amount of Government funding available through NZ On Air had been steadily reduced over recent years. It would be seeking to review with the Government the current framework for NZ On Air’s funding, as it sees the development of local content as vulnerable under current arrangements. It noted, for example, that licence fees for broadcasters to access NZ on Air funding are twice the cost of an international programme. It would also like to see more funding for minority programming through TVNZ 6 and 7 on the Freeview platform, as it believes it could reach a wider

audience on these channels in prime time than off-peak on a commercial channel like Television One.

### **Future of public ownership**

Some of us note that the removal of TVNZ's charter mandate as a public broadcaster could be viewed as also removing its rationale for remaining in public ownership, making it vulnerable to privatisation in the future.

### **Free-to-air sports coverage**

Some of us are concerned about the future of free-to-air sports coverage, and believe that the absence of a regulatory framework in New Zealand to preserve free-to-air rights could drive all sports on to pay-to-view platforms, and undermine the value of the taxpayer's investment in TVNZ.

TVNZ confirmed that it is finalising negotiations for Sky to take over the broadcasting rights to next year's Commonwealth Games; TVNZ estimated that it faced a loss of \$5 million on the games. The company noted that it had purchased the rights in a different economic climate; now, with revenues back to 1998 levels, it needs to protect its profitability. TVNZ added that it struggles to afford sports coverage in New Zealand's regulatory environment, where rights essentially go to the highest bidder. It noted that a preferable alternative might be regulation to allocate the rights to sports coverage to providers in separate markets—free-to-air, pay, radio, and on line. Such a framework exists in many other countries.

TVNZ says it seeks to cover as much New Zealand sport as possible in order to promote its brand, but increasingly sees its best option as partnering with others, as it has done in its recently-announced joint bid with TV3 and the Māori Television Service for the free-to-air rights for the Rugby World Cup 2011.

### **Digital platforms**

TVNZ notes that its large investment in digital infrastructure and in securing the rights to various platforms over recent years has proved justified, with its digital media division recently recording its maiden profit.

In March 2008 TVNZ purchased a 33 percent stake in the Australian company Hybrid Television Services, which has exclusive Australasian rights to Tivo, a Freeview-compatible personal video recorder that enables consumers to record television programmes while they are watching a different channel. Its online television catch-up service, TVNZ ondemand—one of the first in the world—is now used by nearly 1.5 million New Zealanders a month. Time-shifted viewing through services such as these can increase the number of television hours watched, and thus its advertising revenue.

We are interested that the consumption of programming via screen-based devices is expected to almost double over the next 10 years, but sought clarification of how online television services will be profitable if they remain free to view. The company said it earns revenue by selling advertising at the start, middle, and end of a clip, but noted that it was conceivable that it might introduce a pay-per-view service at some stage, as it had with Tivo.

## Freeview

Since April 2007 Freeview Limited has provided free-to-air digital television in a joint venture between TVNZ, Can West MediaWorks, Māori Television Service, and Radio New Zealand. TVNZ reports that its channels TVNZ 6 and TVNZ 7, with 65–70 percent local content, have been very popular.

TVNZ 6 and 7 are supported by Government funding until the end of 2011. TVNZ received \$12 million in 2008/09. We were told that the company has been invited to present proposals to the Government for funding options beyond 2011, and will do so in the first half of 2010. We will monitor this issue with interest.

## Plain English promotions

In defining “Who we are and what we do” in its statement of intent, TVNZ states that “editorial independence is enshrined in the Television New Zealand Act, and freedom from political influence is a fundamental principle”.<sup>1</sup> We endorse this statement, as we consider independence and impartiality in broadcasting to be fundamental principles of our system of government.

We discussed with TVNZ how these principles are applied in advertising campaigns promoting its programmes, in the light of the public criticism of its promotions in October and November 2009 for the TVNZ 7 programme *The Recession—in Plain English*. They featured Finance Minister the Hon Bill English, who is also one of TVNZ’s shareholding Ministers.

TVNZ told us that promotions are the responsibility of its marketing department, and that neither the chief executive nor the board is involved. We understand that the corporate services department was also involved, but TVNZ noted that the chief executive, the board, and the news and current affairs department were not consulted.

TVNZ considers that its current promotions responsibility policy remains appropriate. However, it acknowledged that with hindsight the *Plain English* promotions probably entailed an error in judgement, and in future any potentially controversial advertising campaign—for example, involving a shareholding Minister—should be subject to more rigorous scrutiny and clearance processes. We note that TVNZ spent \$16,000 producing the “*Plain English*” promotions, but estimates the market value of the slots used to be around \$125,000.

Some of us are concerned that the standards of political impartiality expected of TVNZ were not observed in this instance, and that the *Plain English* advertising campaign should have been recognised as potentially controversial and considered by the chief executive as editor-in-chief, under the same editorial standards of balance that it is required to apply to news and current affairs programmes.

## Remuneration

The appropriateness of the large increases in remuneration paid to TVNZ’s chief executive and other senior staff in 2008/09 have come under question in the light of the recession

<sup>1</sup> Television New Zealand Limited *Statement of Intent For 3 Years ending 30 June 2012*, p. 2.

and the company's reduced profitability, which required 88 redundancies in the past year. We were informed that the chief executive's salary comprises a fixed element and an at-risk component, the latter determined by the previous year's profitability. The accounts report the amount of remuneration paid in a financial year, not the amount earned; thus the \$830,000 to \$840,000 reported in the 2008/09 accounts was based on the company's strong profitability in 2007/08. We were told that the chief executive's remuneration on an "earned" basis would be \$710,000 to \$720,000 in 2008/09 and \$800,000 to \$810,000 for the previous year, which more closely reflects actual profitability.

We note the chief executive's comments that he believes TVNZ's salaries across the range would be lower than its competitors "From what I've read in the newspaper I imagine that they [TV3] are paid a lot more than we are." However, TVNZ noted that "TV3 doesn't share its compensation details with us".

We understand that the board's remuneration committee met once in 2008/09. We were told that as the committee comprises all board members, one meeting was sufficient for it to complete its business.

## Appendix

### Approach to this financial review

We met on 18 November and 16 December 2009 to consider the financial review of Television New Zealand Limited. We heard evidence from Television New Zealand Limited, and received advice from the Office of the Auditor-General.

### Committee members

Craig Foss (Chairperson)  
Amy Adams  
David Bennett  
John Boscawen  
Brendon Burns  
Hon David Cunliffe  
Aaron Gilmore  
Raymond Huo  
Rahui Katene  
Peseta Sam Lotu-Iiga  
Stuart Nash  
Dr Russel Norman

### Evidence and advice received

Television New Zealand Limited, *Annual Report 2009*.

Television New Zealand Limited, *Statement of Intent 2009–2012*.

Office of the Auditor-General, Briefing on Television New Zealand Limited, dated 18 November 2009.