

# CONFIDENTIAL

## Ministry for Culture and Heritage



## Strong Public Media

### Final Draft Strategic and Economic Case

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This document has drawn heavily both on preceding work by the Ministry and other stakeholders and substantial input from key stakeholders.

In particular, we would like to acknowledge the input and subject matter expertise of:

- The Chief Executive Sponsoring Group (consisting of the Chief Executives from MCH, TVNZ, RNZ, NZ On Air, the Senior Responsible Office for the Strong Public Media work, and representatives from the Treasury (in an observer role) and State Services Commission)
- The Strengthening Public Media Board (consisting of the Senior Responsible Officer, and representatives from MCH, TVNZ, RNZ, NZ On Air and Treasury (in an observer role))
- TVNZ
- RNZ
- NZ On Air
- All those stakeholders and industry parties included at Appendix 3 who participated in the market sounding discussions

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## Glossary

Abbreviation	Term
ASA	Advertising Standards Authority
AUT	Auckland University of Technology
BCNZ	Broadcasting Corporation of New Zealand
CAGR	Compound Annual Growth Rate
CBA	Cost Benefit Analysis
CE Advisory Group	Chief Executive's Advisory Group
CEO	Chief Executive Office
CPI	Consumer Price Index
DBC	Detailed Business Case
FAANGS	Facebook, Amazon, Apple, Netflix, Google and Spotify
ILM	Investment Logic Mapping
JMAD	Research centre for Journalism, Media and Democracy at AUT
MCA	Multi-criteria analysis
MCH	Ministry for Culture and Heritage
NCA	News and Current Affairs
NPV	Net Present Value
NZ On Air	New Zealand On Air
NZBC	New Zealand Broadcasting Corporation
NZD	New Zealand Dollar
NZME	New Zealand Media and Entertainment
OECD	The Organisation for Economic Co-operation and Development
OTT	Over-the-top (form of online media)
Public Media	See section 3.1.2 for definition
PSM	Public Service Media
PwC	PricewaterhouseCoopers
RAG	Red, Amber and Green
RNZ	Radio New Zealand Limited
SKY	Sky Network Television Limited
SPM	Strong Public Media
SVOD	Subscription Video on Demand
TVNZ	Television New Zealand Limited
UK	United Kingdom
VR	Virtual Reality

# 1. Executive summary

## 1.1 A strong media sector is critical to a well-functioning democracy

News media and press are commonly referred to as the fourth estate – joining the ranks of the executive, judiciary and legislature. Media wields this power both due to its explicit capacity of advocacy and implicit ability to frame political issues. Although media is not formally recognised as a branch of government in New Zealand, it has significant social influence.<sup>1</sup> As such, the media sector makes a unique contribution to the political landscape of a country.

In addition to fostering better outcomes for democracy, New Zealand media also promotes diversity. The public is able to consume a diverse range of entertainment, sport, news and information that reflects the languages, experiences and communities of many nations.

Public service media (or Public Media) is a critically important component of the media sector, through its contribution to a strong democratic society, building national identity and its role in educating, informing and entertaining citizens. A core characteristic of a Public Media entity is that it is mandated by government to serve the public good through production and dissemination of content that<sup>2</sup>:

- contributes to living in a participative democracy and exercising democratic rights;
- acknowledges and enhances cultural and social values; and
- contributes to personal wellbeing by informing, educating and entertaining.

Public Media also forms the basis of trust, impartiality and national voice in many OECD countries. New Zealand is no different in that Radio New Zealand Limited (RNZ) and Television New Zealand Limited (TVNZ) both rank highest in measures of trust in news in New Zealand. However, New Zealand also benefits from having a number of other well trusted sources of private media, which also play a critical role in informing, educating and entertaining New Zealanders and providing plurality to the sector. Public Media plays a key role in contributing to a participative democracy but is not a substitute for the additional role of private media in a democracy.

Over the past decade, the way New Zealanders have consumed media has changed significantly and traditional media entities are finding it challenging to meet the needs and interests of the public. Increased competition from international content providers, new business models (including delivery platforms and pricing approaches), declining revenue shares, and a transformation in audience behaviour are driving changes in the media sector. More New Zealanders are forgoing traditional media options for streaming platforms offered directly to viewers via the internet (commonly referred to as 'over-the-top' (OTT) media services, which generally includes a library of international content). OTT consumption and penetration (and resulting revenue) is shifting consumption from passive (e.g. broadcaster scheduled, one product for all) to active (viewer scheduled, tailored to viewer preference).

## 1.2 The FAANGS are biting and traditional media is hurting

Facebook, Amazon, Apple, Netflix, Google and Spotify (FAANGS) have changed how, when and where audiences expect to view or listen to content. These, and other online platforms, have opened new ways of consuming video, audio and traditional print content, taking

<sup>1</sup> *Dictionary.com Unabridged*. Random House. Retrieved 6 April 2020.

<sup>2</sup> CAB-20-MIN-0004, Strengthening Public Media



audiences and advertising spend away from traditional players, whilst also growing overall advertising spend. Audiences are drawn to these new platforms for their user experience, convenience and, in the case of some platforms, high quality content. These new platforms have seen particularly rapid growth, with global OTT video revenues growing by more than 29% per annum since 2014.

In New Zealand, the change in the media landscape has been extremely rapid. Subscription Video on Demand (SVOD) revenues have grown to \$350m per annum in 2019, from less than \$20m per annum in 2014. Today, more than 2.4 million New Zealanders have access to Netflix in their household, with its launch only five years ago in 2015<sup>3</sup>. Advertising revenues have also shifted online with 2019 online advertising of more than \$1billion, up nearly 290% on 2012 online advertising levels. Audiences are enjoying the new ways of accessing content, as investment in content and platforms are providing an exceptional audience viewing experience.

Traditional broadcasters, such as New Zealand's media entities, are finding themselves caught in the middle of this storm and increasingly unable to meet the needs and interests of New Zealand's dynamic and diverse population. The investment required to compete both with the sophistication of platforms and the spend on entertainment content of these large players is not tenable for most Public Media organisations. However, without investment or change, it is anticipated that there will continue to be a deterioration in Public Media outputs and outcomes, and greater risk of reduction in national identity and democracy. Public Media is critical for New Zealand and traditional platforms are still critical for serving the entertainment needs of a large proportion of New Zealand audiences, but how these organisations transform themselves, adapt to reach audiences and maintain financial viability with changing audience behaviour and expectations is challenging. This problem is not unique to New Zealand, with Public Media around the world facing this same disruption.

### **1.3 Without change, Public Media in New Zealand will continue to decline**

Without change and investment, it is clear that New Zealand's Public Media entities will not be able to meet the Government's Public Media goals. Public Media will increasingly struggle to maintain audience engagement and promotion of New Zealand stories in the face of this significant global media shift. Evidence of this is being seen today, with:

- Dilution of New Zealand content and stories;
- Public Media under-serving core areas of New Zealand society;
- Reduction in the quality of New Zealand news and current affairs; and
- Traditional media struggling to respond in an agile manner.

If the status quo were to remain, it is expected that current funding challenges will lead to continual service declines and constraints by New Zealand's Public Media entities. If this trend cannot be reversed (an outcome considered unlikely by many in the sector), the level of service delivered can only reasonably be expected to decline. If that occurs, potential outcomes include:

- Increasing disenfranchisement within sectors of New Zealand society who are primarily being provided incorrect or non-relevant information for the New Zealand context or cultural information from a different context;
- Impacts on civil society, as segments of the community increasingly do not relate to New Zealand culture or do not trust authoritative information;

<sup>3</sup> Roy Morgan research 2020. See: <http://www.roymorgan.com/findings/8357-new-zealand-pay-tv-services-december-2019-202004060257>

- Public Media becomes increasingly irrelevant to a growing segment of New Zealand society, as it continues to focus on the easier-to-reach aging sectors of New Zealand;
- New Zealand media's news focus will increasingly be on fast turn-around news at the expense of investigative journalism and regional journalism;
- Public Media's content focus will continue to focus on serving mainstream interests of New Zealanders rather than the more diverse interests of an evolving culture; and
- Service cuts, reduced delivery of New Zealand content or reduced quality of content delivered.

## 1.4 New Zealand's journey to Strong Public Media

Concerns about the state of the media environment led Cabinet to establish a Ministerial Advisory Group on Public Media (the Ministerial Advisory Group) in February 2018. The work undertaken by this Ministerial Advisory Group, with officials, led to the Cabinet decision in August 2019 to establish public media goals and to investigate three options to strengthen Public Media in New Zealand. The three options were:

- establishing a new Public Media organisation, combining the existing operations of TVNZ and RNZ;
- consolidating the news services of TVNZ and RNZ; or
- substantially increasing the funding of New Zealand On Air (NZ On Air).

Following the August 2019 Cabinet decision, a Chief Executive's Advisory Group (the CE Advisory Group) was established to assist officials with advice on the three options for Strengthening Public Media. The findings and recommendations of this group resulted in Cabinet directing officials in January 2020 to undertake a Detailed Business Case to test the viability and most cost-effective means to:

- Establish a new Public Media entity and ultimately disestablish RNZ and TVNZ; and
- Confirm NZ On Air's continued role in providing contestable funding for public media content and services in a way that complements the new entity and supports the wider media sector.

This approach was recommended as the optimal way of promoting and preserving the value Public Media provides for New Zealanders. Cabinet noted that this change will provide for stronger alignment between TVNZ, RNZ and NZ On Air, with further design and funding changes to be assessed to best achieve the Government's public media goals.

## 1.5 The outcomes and objectives of investing in Strong Public Media

In January 2020, Cabinet agreed a set of outcomes for the Strong Public Media work. These are:

- New Zealand audiences choose to access mainstream and targeted content and services that support:
  - their needs and interests as people living in Aotearoa and which in particular reflect the language and experiences of Māori and Pacific peoples and other under-served audiences;
  - their ability as New Zealanders to be informed and engaged members of our participative democracy and open civic society; and
  - their access to a range and diversity of content that they value and trust.
- Public Media in New Zealand are:

- operationally and editorially independent;
  - securely and sustainably funded;
  - able to respond effectively to an evolving operating environment and relevant to changing consumer preferences, in particular younger audiences; and
  - complementary to and collaborative with private media.
- Public Media plays an integral role in contributing to New Zealand being:
    - a connected, informed, cohesive, and independent nation;
    - a healthy, participative democracy; and
    - confident in and aware of our unique identity, cultures, and languages.

Additionally, the Strong Public Media Investment Logic Map (see Appendix 1) defined the expected benefits from the Strong Public Media work to be:

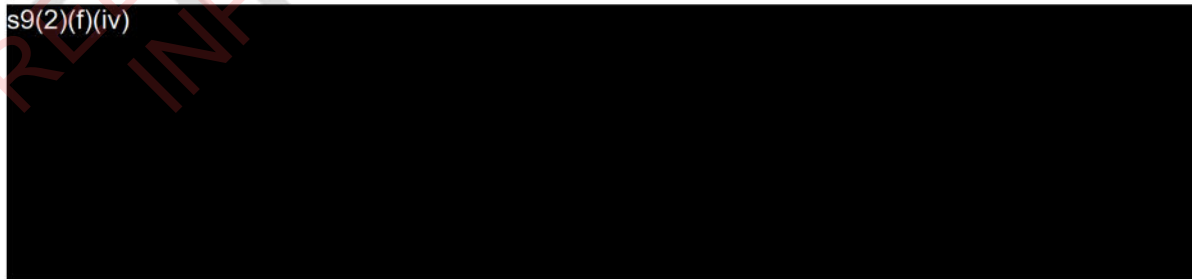
- An increased sense of national identity and culture;
- More engaged and better-informed citizens; and
- Content is delivered effectively and efficiently to New Zealand and beyond.

Reflecting on the Crown's public media goals, the above outcomes and benefits, and the output from workshops with key stakeholders, the following investment objectives for the establishment of a new Public Media entity are recommended for further development with the business case. These investment objectives have been targeted as a combined set to capture the wider contribution to society of TVNZ and RNZ, or the new entity. Independently each of these measures only show part of a picture, but collectively allow assessment of the contribution towards the Strong Public Media outcomes.

These investment objectives are planned to be developed in two phases, with the first five areas where data is available today, and the final two sets of measures to be developed as survey tools, data and analysis are created and collated to provide a baseline for measurement.

Some of the detail behind below investment objectives was still being developed at the point of pausing the business case work and will require further data to finalise. As work is completed on the Financial and Management cases the further required detail should be provided in spaces marked with square brackets or marked with X or Y. It is recommended further discussions be held with key stakeholders to define measurements, refine and confirm these objectives once the business case is restarted. The current draft investment objectives are:

s9(2)(f)(iv)



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<sup>4</sup> Currently measured in JMAD/Horizon research. 2020 levels are RNZ 7.0 and TVNZ 6.8. See: <https://www.aut.ac.nz/study/study-options/communication-studies/research/journalism,-media-and-democracy-research-centre/projects/trust-in-news-in-new-zealand>

s9(2)(f)(iv)



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## 1.6 Defining the way forward

The purpose of the Economic Case is to consider and recommend an option to take forward for further development that best addresses the investment objectives and problem definition identified through the Strategic Case.

There are a number of choices that will need to be made along the journey to potentially establishing a new Public Media entity (combining the existing functions of TVNZ and RNZ). Ministers have provided clear guidance on the parameters within which the way forward is developed, s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

The preferred option has been identified through the application of a best practice decision making framework (based on the Treasury's Better Business Cases approach), which steps through the following decision points in conjunction with representatives from the Ministry, TVNZ, RNZ and NZ On Air. This has involved

- Assessment of the long-list of options against a set of evaluation criteria that reflects the desired outcomes and objectives of the investment into Strong Public Media, to identify a smaller set of three options to be targeted for closer economic evaluation; and
- Undertaking an economic assessment of the three short listed options to identify the preferred option.

The output of this analysis is summarised below.

s9(2)(f)(iv)

s9(2)(f)(iv)

## 1.7 The impact of COVID-19 on the media sector and this business case

During the course of the development of this Business Case, New Zealand entered a state of national emergency in response to COVID-19. This has caused significant disruption to the New Zealand economy and the ability of stakeholders to progress this business case. In particular, the economic impact of the lock-down and other measures taken to control COVID-19 has placed immense stress on the New Zealand media sector, including the key stakeholders that are part of this business case development. Given this disruption, it has been agreed that the business case work be placed on hold.

This document provides an artefact for the Ministry and the media sector to record the work undertaken to April 2020, being the Strategic Case and the Economic Case. While work on the other cases was commenced, it was at an early stage and, given the changes in the media landscape resulting from COVID-19 placed on hold, with an expectation that it will be revisited at a later stage.

How New Zealand's media sector will look post COVID-19 is very difficult to tell and what the Government may, or may not, do to support these organisations is unknown. This document and the analysis contained in it only reflects the potential impact of such a changing landscape. It has been written principally with a pre-COVID-19 perspective, rather than trying to anticipate what a post COVID-19 world may look like. The majority of workshops and external discussions that have fed into the Strategic and Economic Cases were held prior to the Level 4 COVID-19 lockdown.

While change is constant, readers should note that components of this document may be quickly out of date. If, and when, the Business Case work is recommenced, an assessment of the impact of the change in environment should be undertaken, particularly focusing on

how better knowledge of the post COVID-19 environment would impact on early Cabinet decisions and analysis and decisions made in this document.

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## 2. Introduction

In January 2020, Cabinet directed officials to undertake a Detailed Business Case to test the viability and most cost-effective means to:

- Establish a new Public Media entity, and ultimately disestablish Radio New Zealand Ltd (RNZ) and Television New Zealand Ltd (TVNZ), with the following core features:
  - it is a single legislative entity;
  - it has a clearly defined Public Media mandate and purpose, with the core functions of a globally recognised Public Media entity;
  - it provides Public Media services across a variety of platforms, some of which will be advertising-free;
  - it has a mixed funding model, with revenue derived from Crown and non-Crown sources;
  - it operates as a not-for-profit entity; and
  - it has statutory provisions for editorial and operational independence.
- Confirm NZ On Air's continued role in providing contestable funding for public media content and services in a way that complements the new entity and supports the wider media sector.

The Minister of Broadcasting, Communications and Digital Media was invited to report back to Cabinet in July 2020 on the outcome of the Detailed Business Case and to seek final decisions on this preferred approach and an implementation plan.

Following this Cabinet decision, the Ministry for Culture and Heritage (MCH) engaged PricewaterhouseCoopers (PwC) to work with the Ministry and key stakeholders to deliver a Detailed Business Case for the proposed new Public Media system. This business case was planned to be delivered at the end of May 2020.

During the course of the development of this Detailed Business Case, New Zealand entered a state of national emergency in response to COVID-19. This has caused significant disruption to the New Zealand economy and the ability of stakeholders to progress this business case. In particular, the economic impact of the lock-down and other measures taken to control COVID-19 has placed immense stress on the New Zealand media sector, including the key stakeholders that are part of this business case development. Given this disruption, it has been agreed that the business case work be placed on hold.

### 2.1 Scope of work

The plan for this work was to develop a Detailed Business Case (DBC) as per the Treasury Better Business Case Guidelines. The DBC would include:

- The Strategic Case – the case for change;
- The Economic Case – the option that will deliver optimal value for money;
- The Commercial Case – steps required for investment preparation;
- The Financial Case – the affordability of the investment and how it will be funded; and
- The Management Case – how the preferred option can be implemented.

This work does not cover:

- An assessment of the decisions and analysis up to and including the January 2020 Cabinet decision;



- Consideration of wider sector changes that could help support Strong Public Media or the wider Media Sector in New Zealand; or
- Appropriate funding levels for NZ On Air and/or the economic value of increased funding to NZ On Air.

With the Detailed Business Case placed on hold, this document provides an artefact for the Ministry and the media sector to record the work undertaken to April 2020, being the Strategic Case and the Economic Case. While work on the other cases was commenced, it was at an early stage and, given the changes in the media landscape resulting from COVID-19 placed on hold, with an expectation that it will be revisited at a later stage. This document has been prepared for use by the Ministry for Culture and Heritage only. As it is not a complete DBC, it is not intended to provide a recommendation, action or to support an investment decision.

This document reflects the collective work of MCH, PwC, TVNZ, RNZ and NZ On Air in contributing to this business case development. It also reflects the wider input and insight provided by other stakeholders through this process.

## 2.2 Business case context

This business case is one for investment into Public Media through the creation and additional funding of a new Public Media entity with a clear Public Media mandate, created from the existing TVNZ and RNZ. This is not a business case for structural change alone. Public Media in New Zealand is facing significant disruption with dynamic market, audience and technology challenges - structural change alone will not help solve these issues. These disruptive market forces were present pre COVID-19, but have been significantly accelerated and exacerbated by the sharp decline in advertising revenue arising from the economic impact of the response to COVID-19 nationally and internationally. In this case, structural change should help, as it will bring coordinated action in response to these challenges and will also bring some scale advantages. However, significant investment and ongoing funding will also be required to help the new entity succeed and achieve the goals and outcomes outlined in earlier Cabinet papers.

It should also be noted that this is an investment decision with significant cost, execution risk and potentially wider impact on the media sector. This is an important decision for New Zealand, but it is also one that will need financial support and capability to ensure it is executed successfully.

## 2.3 Stakeholder engagement

A number of key stakeholders have been engaged with as part of this work. The below graphic provides an outline of those that have been consulted to date as part of the business case process.

**Figure 2: Key stakeholders consulted with to date**



Key points of stakeholder engagement for this work have included:

- **SME working sessions:** Weekly workshops facilitated by PwC with key representatives from MCH, TVNZ, RNZ and NZ On Air. These were supplemented with regular discussions and working sessions with key personnel at each of these organisations.
- **Sandbox and Workshop:** A two-day Sandbox and workshop was held on 2 & 3 March 2020. This session was opened by the Honourable Kris Faafoi, Minister of Broadcasting Communications and Digital Media and included representatives from MCH, TVNZ, RNZ, NZ On Air, Te Puni Kōkiri, the Treasury, PwC and Tregaskis Brown. This session brought these multiple parties together to co-create the foundations for the business case and develop a long list of options for a new Public Media entity.
- **Alignment with Māori and Pacific Media Strategies:** Regular meetings were held with representatives from Te Puni Kōkiri and the Ministry for Pacific Peoples to discuss the concurrent development of their respective media/communications strategies and the alignment, or not, with the Strong Public Media business case work.
- **Market Sounding:** Individual discussions were held with industry organisations or representative bodies to understand their perspectives on the preferred approach and potential opportunities or industry impacts of this approach. These discussions were held with the twelve organisations shown on the right of the above diagram, Te Māngai Pāho and Māori Television. Appendix 3 contains further information on the parties and topics engaged on as part of these discussions.
- **Wider Government engagement:** Input into this work was also provided by the following Government agencies:
  - The Treasury
  - The State Services Commission, particularly on the topic of organisational form.
  - The Ministry of Business Innovation and Employment.
  - The Ministry of Foreign Affairs and Trade.

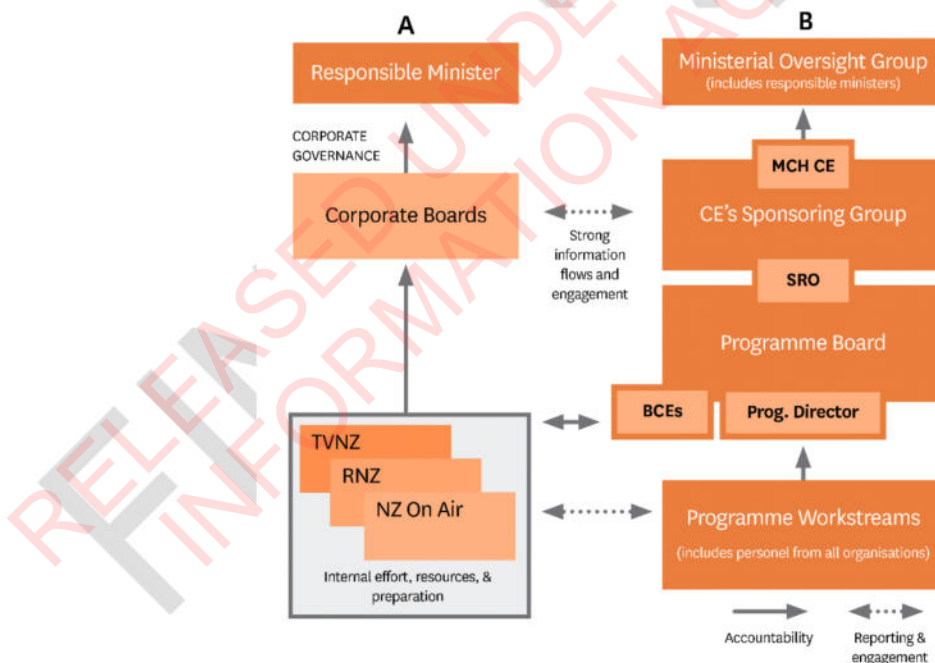
## 2.4 Governance, advisory groups and assurance of this work

Two levels of governance and an advisory group for the Minister of Broadcasting, Communications and Digital Media have been established to oversee the first stage of the Strong Public Media Programme, being the development of the business case and resultant policy development work. These levels are:

- SPM Ministerial Group (advisory group), consisting of the Minister of Broadcasting, Communications and Digital Media, Minister of Finance, Minister of State Services, Minister for Māori Development, Minister for Pacific Peoples and a Ministerial representative from each of New Zealand First and the Green Party. The purpose of this group is to provide strategic oversight of the Strong Public Media Programme.
- Chief Executive Sponsoring Group, consisting of the Chief Executives from MCH, TVNZ, RNZ, NZ On Air, the Senior Responsible Office for the Strong Public Media work, and representatives from the Treasury (in an observer role) and State Services Commission. This group met monthly and their primary purpose is to provide the strategic oversight and leadership to ensure the Government's expectations for the Strong Public Media work programme are met.
- Strong Public Media Programme Board, consisting of the Senior Responsible Officer, and representatives from MCH, TVNZ, RNZ, NZ On Air and Treasury (in an observer role). This group met fortnightly and were responsible for driving and overseeing the planning and successful implementation of the Strong Public Media work programme.

The programme governance structure is represented in the diagram below.

Figure 3: Programme Governance and Advisory Group Structure



An assurance programme consistent with the requirements for a DBC was also established. This included a Point of Entry clinic run by the Treasury's Investment Management and Asset Performance team and held on 19 February 2020. The plans for the development of the Strong Public Media Business Case were discussed at this meeting. The meeting was attended by representatives from the Treasury, Department of Internal Affairs, Department of the Prime Minister and Cabinet, Ministry for Business, Innovation and Employment, State Services Commission, MCH and PwC.

## 2.5 Structure of this document

To capture the work completed to date on the Strong Public Media DBC, the remainder of this document is structured into three sections:

1. **Background.** This section includes:
  - a. Background on New Zealand's Media and Public Media sector; and
  - b. A summary of the process that led to the January 2020 Cabinet decision.
2. **Strategic Case, the case for change.** This section includes:
  - a. Description of how the Strong Public Media investment supports the Government's Public Media and wider Wellbeing goals;
  - b. An outline of the case for change; and
  - c. The outcomes and investment objectives from an investment in Strong Public Media.
3. **Economic Case, exploring the preferred way forward.** This section includes:
  - a. Development of a set of detailed criteria for undertaking a comparative assessment of different options.
  - b. Development of a long-list of options, which could potentially address the problems and deliver the outcomes identified in the strategic case.
  - c. Assessment of the long-list of options against the criteria, using multi-criteria analysis (MCA) to identify a short list of preferred options.
  - d. An economic assessment of the short list of options to identify the preferred option.

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## 3. Background

### 3.1 New Zealand's media sector and the role of Public Media entities

News media and press are commonly referred to as the fourth estate – joining the ranks of the executive, judiciary and legislature. Media wields this power both due to its explicit capacity of advocacy and implicit ability to frame political issues. Although media is not formally recognised as a branch of government in New Zealand, it has significant social influence.<sup>9</sup> As such, the media sector makes a unique contribution to the political landscape of a country, as well as its important social and cultural role for society.

In New Zealand, all media entities, including those that are state owned, operate independently. Independent media has often been contested as a normative principal in media policy and journalism.<sup>10</sup> This is because independence is able to foster better outcomes for democracy. Independent media organisations have a role in holding corporations and the Government accountable for their actions and providing the public an opportunity to participate in informed debate.

Without independence, the control of an external organisation would likely introduce biases and obfuscations which have negative impacts for informing citizens and may harm democratic principles. The importance of credible and independent media is reflected in the fact that all modern pluralistic democracies have some form of publicly funded independent media.

In addition to fostering better outcomes for democracy, New Zealand media also promotes diversity. The public is able to consume a diverse range of entertainment, sport, news and information that reflects the languages, cultures, experiences and communities of many nations.

Over the past decade, the way New Zealanders have consumed media has changed significantly and traditional media entities are finding it challenging to meet the needs and interests of the public. Increased competition from international content providers, new business models (including delivery platforms and pricing approaches), declining revenue shares and a transformation in audience behaviour are driving changes in the media sector. More New Zealanders are forgoing traditional media options for streaming platforms offered directly to viewers via the internet (commonly referred to as 'over-the-top' (OTT) media services, which generally include a library of international content). OTT consumption and penetration (and resulting revenue) is shifting consumption from passive (e.g. broadcaster scheduled, one product for all) to active (viewer scheduled, tailored to viewer preference).. Given the scale and wide availability of international English language content, risk of market failure has always been a concern for key genres within the New Zealand media sector.

In this 'new media', consumption is influenced by algorithms and artificial intelligence (AI) that target content recommendations to individuals in order to increase engagement and, where utilised, target advertising. These factors are resulting in a fragile local media system with a reduced ability to inform, educate and entertain New Zealanders and showcase New Zealand content.

Historically, traditional media models have served New Zealand audiences well and New Zealand's independent and diverse media has been a trusted base to inform New Zealanders and deliver the unique and great New Zealand culture and stories. However, for

<sup>9</sup> *Dictionary.com Unabridged*. Random House. Retrieved 6 April 2020.

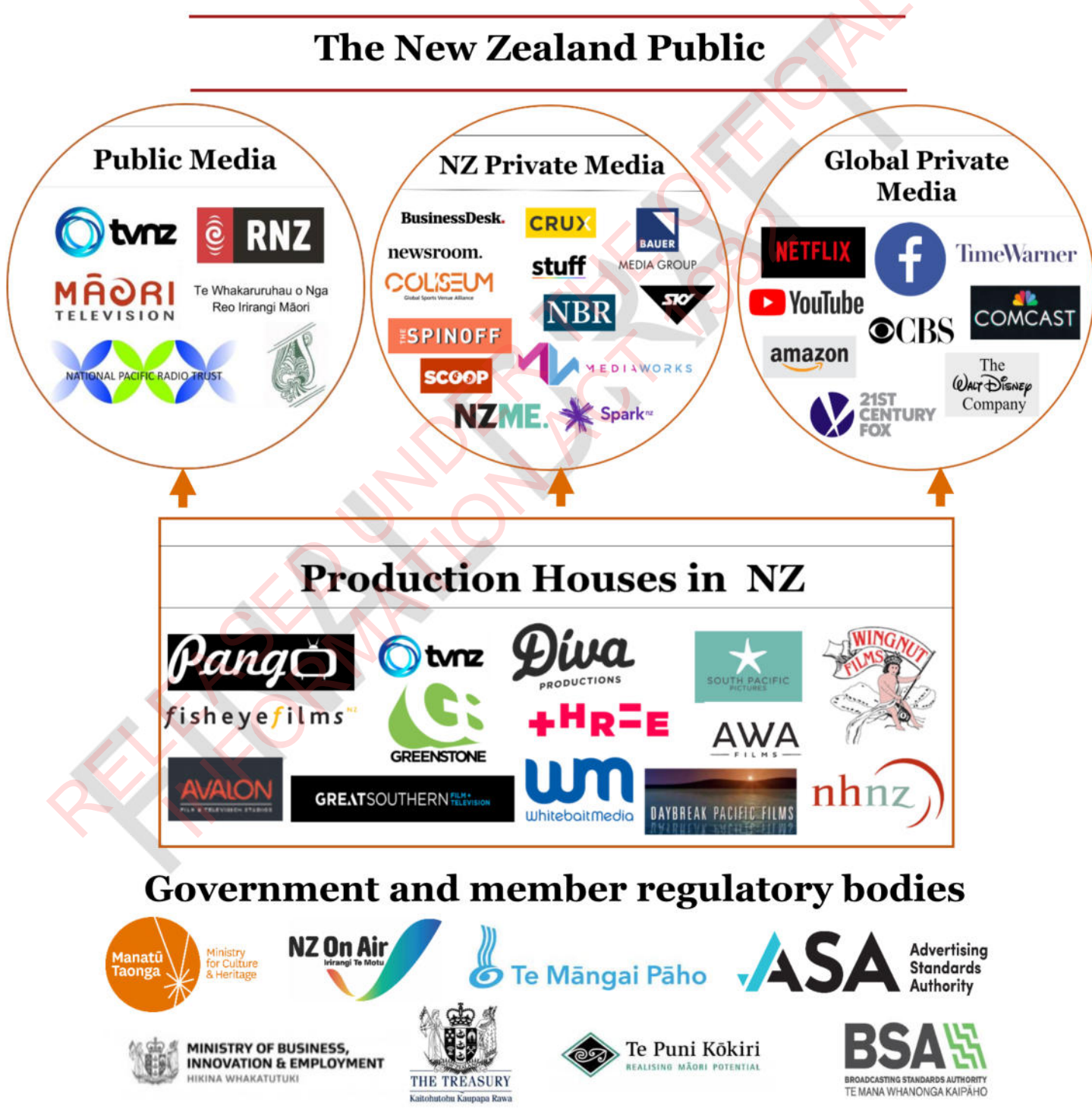
<sup>10</sup> Karppinen, Kari; Moe, Hallvard (2016). "What We Talk About When We Talk About "Media Independence".", *Javnost - The Public*. Journal of the European Institute for Communication and Culture". *Javnost - the Public*. 23 (2): 105–119.

local media to survive and thrive, it must respond to the threat posed by international content providers and adopt new delivery models that appeal to New Zealanders.

### 3.1.1. Key industry players

The diagram below shows key media organisations in New Zealand. With the preferred approach focused on RNZ, TVNZ and NZ On Air, the diagram highlights broadcasting and related content. This diagram does not include key infrastructure players such as Kordia, Chorus and other communications providers, who also play a critical role in ensuring consumers can access media content.

Figure 4: Stakeholder map of the New Zealand media sector



Source: Google Images; 2019 New Zealand Media Ownership Report

### 3.1.2. The role of Public Media

Public service media (or Public Media) is a critically important component of the media sector, through its contribution to a strong democratic society, building national identity and its role in educating, informing and entertaining citizens. Public service media can be defined as “Government funded media which is universally accessible, reflecting and enhancing our diverse culture and national identity and guaranteeing democratic accountability”.<sup>11</sup>

A core characteristic of a Public Media entity is that it is mandated by Government to serve the public good through production and dissemination of content that<sup>12</sup>:

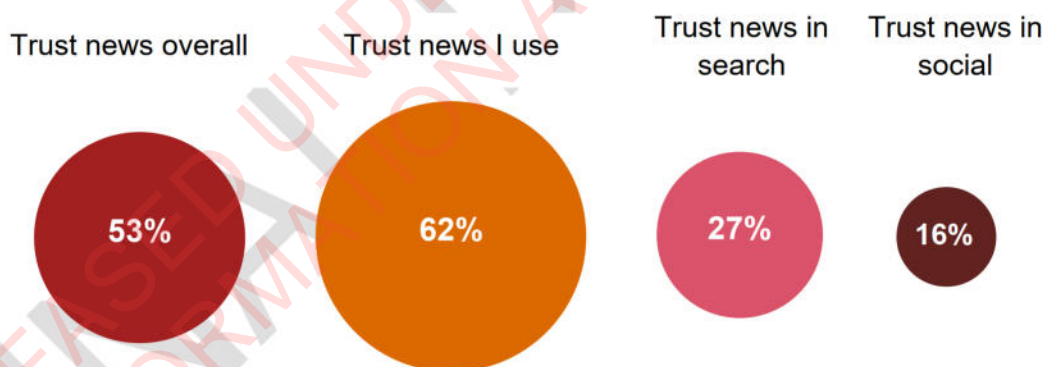
- contributes to living in a participative democracy and exercising democratic rights;
- acknowledges and enhances cultural and social values; and
- contributes to personal wellbeing by informing, educating and entertaining.

### 3.1.3. The importance of trust

Public Media in most OECD democracies typically forms the basis of trust, impartiality and a national voice, and they are generally recognised by the public for maintaining these values.<sup>13</sup> In New Zealand, research by AUT’s research centre for Journalism, Media and Democracy<sup>14</sup> found that trust in news is high relative to overseas countries with 53% of people agreeing they can trust ‘most of the news most of the time’. As with overseas countries<sup>15</sup>, trust in traditional news channels is rated much higher than that from search engines or social media.

Figure 5: Trust in news in New Zealand, March 2020

#### Proportion that trusts most news most of the time by source



Source: JMAD/Horizon Research

Of New Zealand’s traditional media brands, the state owned broadcasters RNZ and TVNZ featured highest for trust. This is consistent with countries where the public broadcaster has a long tradition, with similar findings in the UK, Australia and Nordic countries<sup>16</sup>.

<sup>11</sup> Bardoel, Jo & Lowe, Gregory. (2007). From public service broadcasting to public service media: The core challenge. *Investigative Ophthalmology & Visual Science*. Syvertsen, Trine (1999) 'The Many Uses of the Public Service Concept' . *Yordicorn Review* 20(1): 5-12 .

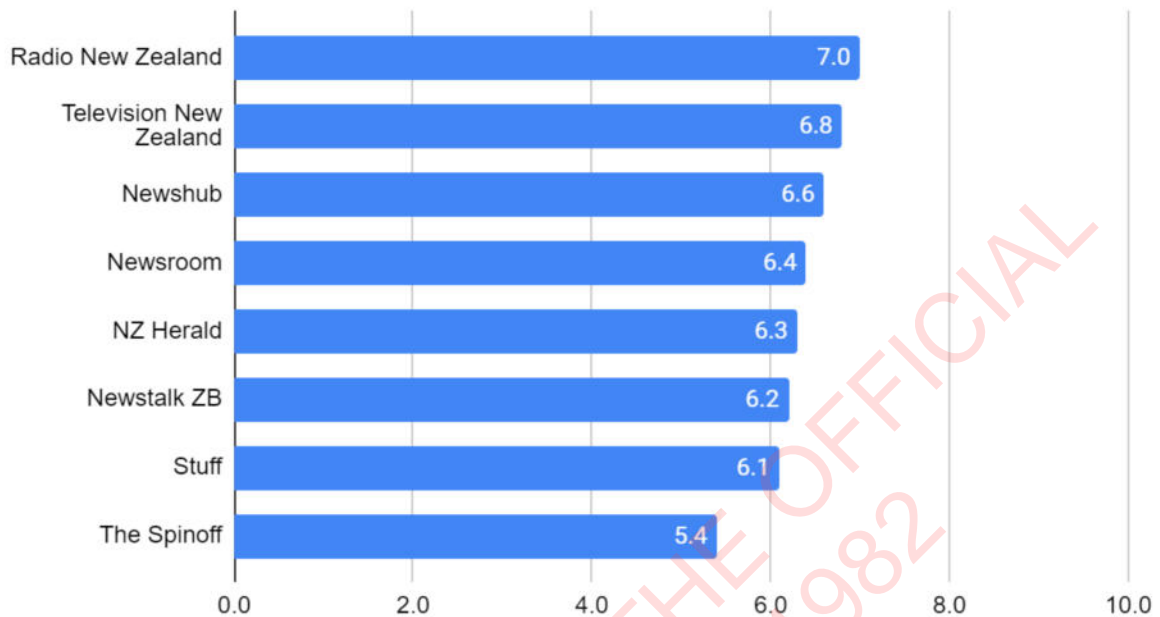
<sup>12</sup> CAB-20-MIN-0004, Strengthening Public Media

<sup>13</sup> R. Jolly (2017), *Communications Legislation Amendment (SBS Advertising Flexibility) Bill 2017*, Australia: Parliamentary Library, BILLS DIGEST NO. 98, 2016–17

<sup>14</sup> See: <https://www.aut.ac.nz/study/study-options/communication-studies/research/journalism,-media-and-democracy-research-centre/projects/trust-in-news-in-new-zealand>

<sup>15</sup> Reuters Digital News Report 2019. See <http://www.digitalnewsreport.org/publications/2020/journalism-media-and-technology-trends-and-predictions-2020/>

<sup>16</sup> Reuters Digital News Report 2019, p. 68-69

**Figure 6: Average brand trust scores in New Zealand****Brand trust scores (0-10)**

Source: JMAD/Horizon Research

Maintaining and/or growing audience trust is critical to the success of any Public Media entity, particularly in a world in which information and opinion is abundant and audiences are accessing content through multiple channels and devices.

As can be seen in the chart above, New Zealand also has a number of well trusted private media organisations. These organisations play a critical role in providing a strong media ecosystem, of which Public Media is just one part, and contribute to increased plurality in the sector.

#### **3.1.4. TVNZ and RNZ history and funding of Public Media in New Zealand**

Radio was introduced in New Zealand in 1925 and was provided by the Government through the Radio Broadcasting Company, which was succeeded by the New Zealand Broadcasting Board in 1931 and the National Broadcasting Service in 1936.<sup>17</sup> Television was introduced in New Zealand in 1960 as a state-run service<sup>18</sup>, funded dually by television licenses and advertising revenue<sup>19</sup>. The New Zealand Broadcasting Corporation (NZBC) was established in 1962 to manage the new television stations together with those radio stations previously managed by the National Broadcasting Service.

In 1975, after 13 years in operation, the NZBC was split into three parts – Television One, Television Two and Radio New Zealand.<sup>20</sup> The view at the time was that the different media needed their own expert focus. However, in 1980 the Broadcasting Corporation of New Zealand (BCNZ) was formed to merge these back together under a single corporation.

New Zealand underwent deregulation of Broadcasting in 1989. At this time, the BCNZ was disestablished to allow the formation of an autonomous commercial television company, TVNZ<sup>21</sup> and the establishment of a mixed Crown and non-Crown funded radio operator,

<sup>17</sup> RNZ, *About Radio New Zealand (RNZ)*, [www.rmz.co.nz/about](http://www.rmz.co.nz/about)

<sup>18</sup> Broadcasting Amendment Act 1960 (1960 No. 34), [www.nzlii.org](http://www.nzlii.org)

<sup>19</sup> TVNZ, *About TVNZ, The Early Years*, [www.tvnz.co.nz/content/823802](http://www.tvnz.co.nz/content/823802)

<sup>20</sup> Jennings, *Back in time as Government considers new state broadcaster*, newsroom, 2020

<sup>21</sup> About TVNZ, *The Competition Arrives*, TVNZ



Radio New Zealand. This change was supplemented by the establishment of contestable Government funding through the Broadcasting Commission, now New Zealand On Air, and Māori funding body, Te Māngai Pāho.

For its first ten years under this free-market approach, TVNZ enjoyed enormous commercial success, sustaining two-thirds of overall market share and returning more than \$250m to the Crown in dividends. However, TVNZ's perceived chase of ratings over wider cultural and democratic functions came under scrutiny and, in 2003, it was restructured as a Crown Entity. This introduced a dual remit to not only maintain its commercial focus, but also implement a public service Charter. In 2008, the Labour Government announced TVNZ would become "more public-service" like and two new commercial free channels were established, TVNZ 6 and 7. However, these were disestablished by the following National Government in 2011 and 2012 respectively and the National Government abolished the TVNZ Charter in 2011 due to its view that there was "no discernible difference in the amount of local content that's been played because of the Charter"<sup>22</sup> and concerns around TVNZ's reporting of how public funds were used<sup>23</sup>. Today, TVNZ receives little Government funding, with 94% of its 2019 income from advertising revenues<sup>24</sup>. Less than 2% of TVNZ's 2019 revenue came from the Crown<sup>25</sup>.

Following the breakup of the BCNZ, Radio New Zealand was a combined commercial and non-commercial radio operation. In 1995, the non-commercial operations, previously known as New Zealand Public Radio, were established as the current RNZ. The commercial radio stations were sold by the Government as The Radio Network in 1996. The current RNZ was formed with a clear Public Media Charter and receives the bulk of its funding today through NZ On Air.

NZ On Air is an independent New Zealand broadcast funding agency with its functions established by the Broadcasting Act 1989. It was, and still is, primarily responsible for the funding of public broadcasting across a number of media platforms, including television, radio and new media. Other investments include independent television production for free-to-air television and several access and community radio stations. NZ On Air originally received its revenue through a public broadcasting fee payable by each household. This fee was abolished in 1999 and NZ On Air now receives its funds directly via appropriation.

De-regulation of the New Zealand media industry has, over time, drawn significant criticism from public service media supporters. Dr Alan Cocker, in his evaluation of the New Zealand broadcasting sector, said that "de-regulation of broadcasting represents a low point in the policymakers' attitude to its role and value. Its treatment as just another business in a free market denigrates the social, political and cultural role broadcasting performs"<sup>26</sup>. The de-regulation legislation has made New Zealand's media landscape "one of the least regulated systems in the world."<sup>27</sup>

On a global basis, New Zealand's free market approach has resulted in comparatively low levels of Government investment in Public Media. In a 2016 study of 18 countries on government funding for public service broadcasting<sup>28</sup>, New Zealand ranked second lowest on a per capita basis at NZ \$18, an index 80% lower than the average of all the markets including in this study (at NZ \$94).

<sup>22</sup> Peter Thompson, *The Demise of the TVNZ Charter: The Arguments the Government Wants Us to Ignore*, 2009

<sup>23</sup> Peter Thompson, *TVNZ's Charter: expectations and accountability*, 2008

<sup>24</sup> TVNZ Annual Report, 2019.

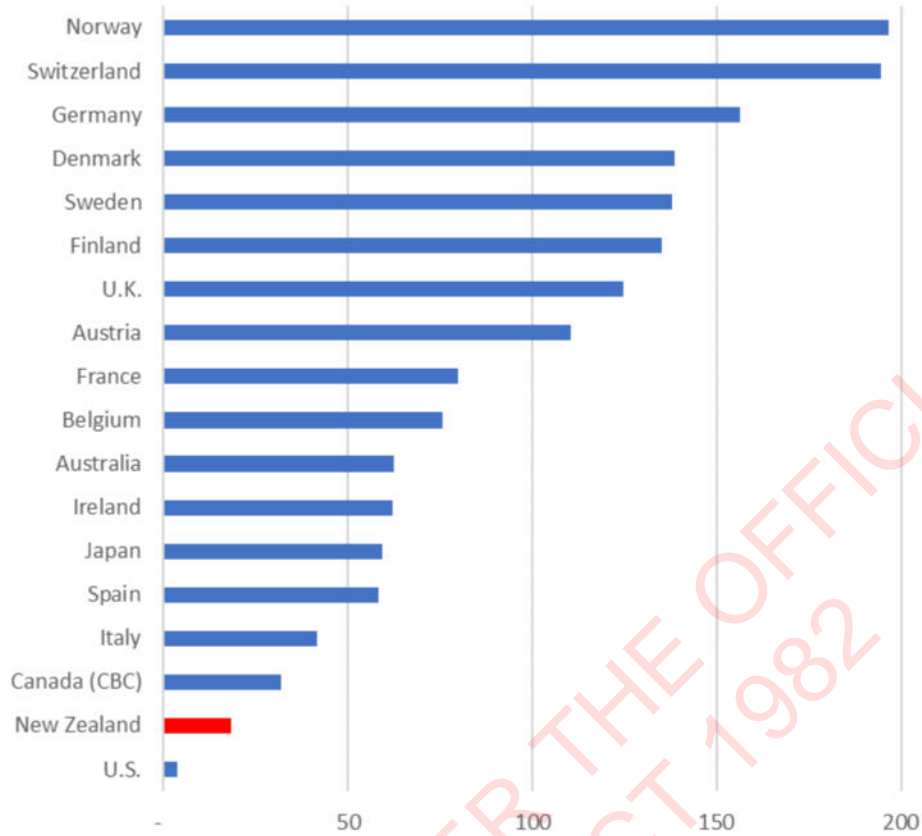
<sup>25</sup> Non advertising revenue includes programme funding, programme sales, NZ On Air funding and other trading revenue.

<sup>26</sup> Cocker, A. "Broadcasting as consumer product: Questioning the adequacy of New Zealand's deregulated broadcasting marketplace". *NZ Journal of Media Studies* 5(1): 13-19, 1998.

<sup>27</sup> Dunleavy, T. "Television New Zealand and the Charter: the uneasy Reconciliation of Public Service and Commercialism" bi-annual RIPE (Re-Visionary Interpretations of the Public Enterprise) conference, University of Westminster UK, 2010

<sup>28</sup> Nodicity – Analysis of Government Support for Public Broadcasting, 2016

**Figure 7: Per capita public funding for public broadcasters, 2014**

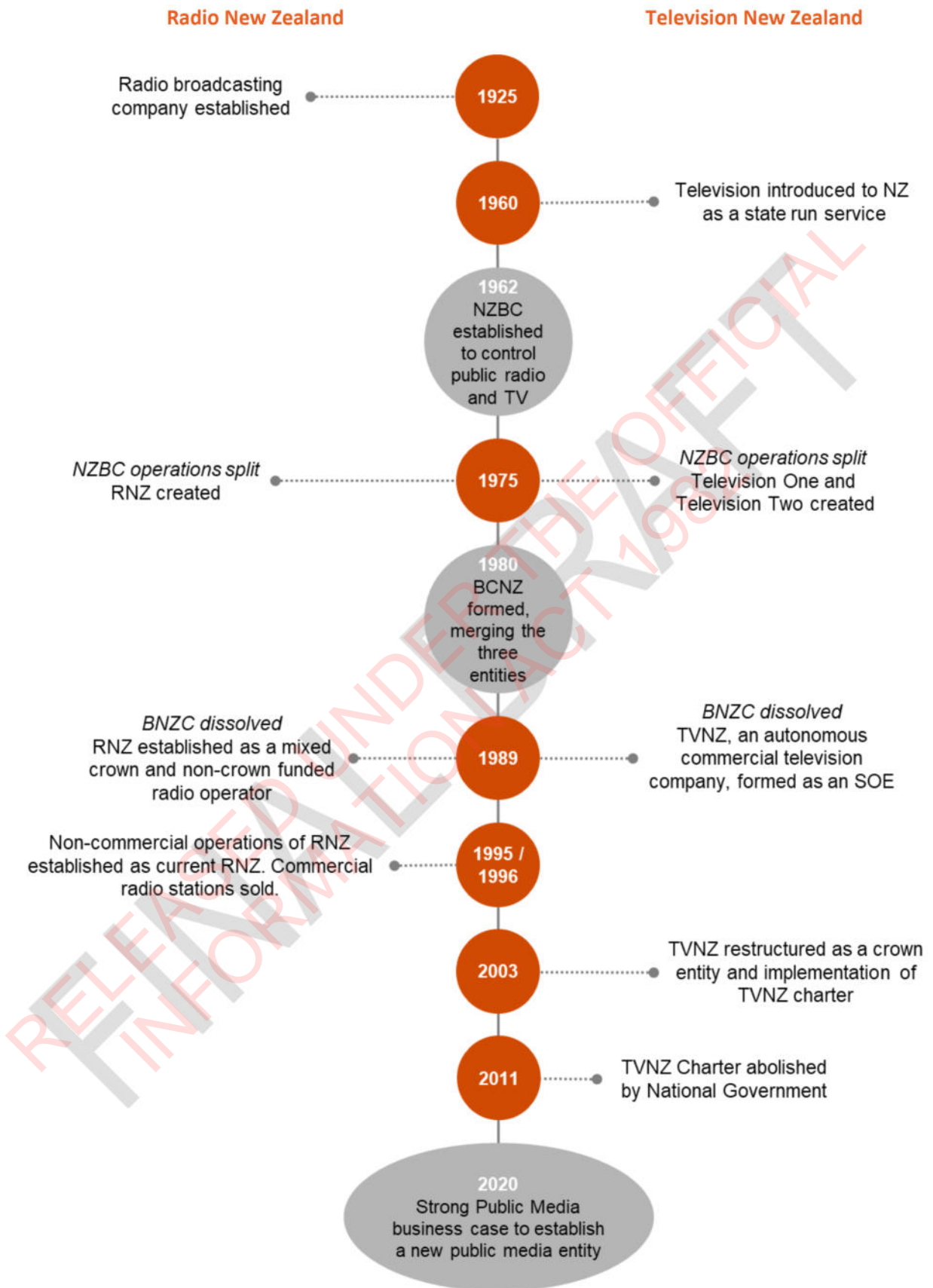


Source: Nordicity, Analysis of Government Support for Public Broadcasting, April 11, 2016

Note: this study assessed funding for public broadcasters only. These figures do not include Government funding directed to third parties, such as the NZ On Air contestable funding for content production (or similar government funding in other jurisdictions). Different countries have different mechanisms for funding local content, for example through the public broadcaster, through dedicated content funds, or a combination of mechanisms. These figures include only that funding which is provided directly to public broadcasters and therefore do not represent a comparison of total government spend on local media organisations and content.

Original Nordicity figures were shown in Canadian dollars. These have been converted to New Zealand dollars at the NZD/CAD rate used in the Nordicity report (0.9170).

**Figure 8: New Zealand's history of combining and separating the operations of TVNZ and RNZ**



### 3.1.5. New Zealand's Public Media organisations

For a small nation, New Zealand has many Public Media entities, each with its own mandate, objectives and funding arrangements. Many of these Public Media organisations have been established to meet the needs of the many communities and cultures in New Zealand, all of them making a tangible and positive difference to the communities they serve. However, this has created a fragmented landscape of Public Media in New Zealand, including multiple funding agencies and numerous Crown monitoring agencies for the sector.

Key Public Media entities and agencies within New Zealand are shown in the table below, with a summary profile of TVNZ, RNZ and NZ On Air contained in Appendix 2:

**Figure 9: Major Crown funded media companies in New Zealand**

Company	Funding	Monitoring body	Key owned distribution platforms
RNZ	NZ On Air Ministry for Culture and Heritage	Ministry for Culture and Heritage (RNZ Pacific) The Treasury	RNZ National RNZ.co.nz RNZ app RNZ Concert Parliament – live stream RNZ Pacific
TVNZ	Commercial (95% through advertising) NZ On Air	The Treasury	TVNZ1 TVNZ2 TVNZ1 +1, TVNZ2 +1 Duke TVNZ OnDemand ONENews.co.nz HeiHei
Māori Television Service	Vote Māori Development Te Māngai Pāho NZ On Air Advertising	Te Puni Kōkiri	Māori TV channel Te Reo Channel Maoritelevision.com (Livestream)
Te Whakaruruhau O Ngā Irirangi Māori   The Māori Radio Network (21 Iwi Radio Stations)	Te Māngai Pāho Iwi Advertising revenue	Te Puni Kōkiri	21 Iwi Radio stations Radio Waatea
National Pacific Radio Trust	NZ On Air Ministry for Culture and Heritage Ministry of Health (one-off arrangements)	NZ On Air <sup>29</sup>	Niu FM Radio 531pi

Source: New Zealand Media Ownership Report 2019 (AUT Journalism, Media and Democracy; Dr Myllylahti and Dr Baker), company and Ministry websites

<sup>29</sup> Advice on appointments provided by the Ministry for Culture and Heritage and the Ministry for Pacific Peoples.

At the time of writing, the Māori Media Sector Shift was also in development. Details of this policy review can be found at <https://www.tpk.govt.nz/en/a-matou-kaupapa/maori-media>. The Māori Media Sector Shift aims to position the Māori media sector to promote te reo Māori and tikanga Māori, and to tell Māori stories effectively in the modern media environment. The design principles for this work are to ensure that the Māori media sector is:

- Centred on audience needs;
- Enabling of the revitalisation of te reo Māori me ngā tikanga Māori;
- Collaborative;
- Agile;
- Nurturing of a creative and capable workforce;
- Able to protect taonga while enabling appropriate use;
- Well aligned with the broader public media sector; and
- Well-resourced and efficient.

While the Māori Media shift is being developed independently of the Strong Public Media Business Case, the two teams have met regularly to discuss and share progress and alignment of the development of each programme of work.

The Pacific Aotearoa Lalanga Fou is also currently in development. This work focuses on thriving Pacific languages, culture and identities and will lead a revitalised effort to improve the ability of Pacific languages and cultures to become an increased asset for both Pacific communities and Aotearoa as a whole. While this work has a much wider focus than just media, it is important to consider how Public Media can help enable the outcomes of this work. The Strong Public Media team have met regularly with officials from the Ministry for Pacific Peoples to discuss and share progress and test alignment of the development of each programme of work.

Further analysis of the alignment with Māori media sector and Pacific media sector strategies can be found in Section 5, Economic Case.

## 3.2 The process to date and the role of the business case

The process for reaching the recommendation to develop the Strong Public Media business case began with the establishment of a Ministerial Advisory Group on Public Media in February 2018. The key steps since this date are outlined in the diagram below and further detail on each of the key stages is provided in the sections below.

**Figure 10: Key steps**



### 3.2.1. February 2018 to August 2019

Concerns about the state of the media environment led Cabinet to establish a Ministerial Advisory Group on Public Media (the Ministerial Advisory Group) in February 2018. This group was tasked with providing independent advice that would contribute to the following<sup>30</sup>:

- support for, and enhancement of, the role of public media in national identity and an informed democracy;
- advice on the provision of sustainable, long-term funding for public media, to safeguard its independence from the government of the day, and protect it from the “benign neglect” of prolonged static funding;
- independent analysis and public awareness of the public media sector’s health, needs and opportunities;
- support for more New Zealand content; and
- support for plurality in the provision of comprehensive and in-depth news and current affairs, given the economic stresses on media businesses that may otherwise reduce plurality.

In accordance with its original terms of reference (March 2018), the Advisory Group provided advice to the Minister of Broadcasting, Communications and Digital Media on the allocation of funding set aside in Budget 2018 for RNZ and NZ On Air and on the scope and functions of a Public Media Funding Commission.<sup>31</sup>

The Ministerial Advisory Group’s Terms of Reference were updated in October 2018, tasking it with providing advice on the capacity for more effective sharing of resources and

<sup>30</sup> CAB-19-MIN-0398.02, Strengthening Public Media, Minute of Decision (August 2019) para 23 & 24

<sup>31</sup>

<https://mch.govt.nz/sites/default/files/Updated%20TOR%20for%20Ministerial%20Advisory%20Group%20on%20Public%20Media%20-%20October%202018.pdf>

collaboration between Public Media entities and, in particular, the long-term relationship between public broadcasters (TVNZ, RNZ and Māori Television Service).

Following research and consultation by this group, a set of public media goals and options to strengthen public media were developed with officials. The public media goals are:<sup>32</sup>

- supporting more quality New Zealand content in all genres across a variety of platforms;
- supporting an appropriate quantity of New Zealand content;
- better catering to Māori, Pacific and other under-served audiences;
- enhancing national identity;
- promoting an informed democracy;
- safeguarding the media's independence;
- supporting plurality in the provision of quality news and current affairs across New Zealand;
- supporting the sustainability of the media sector; and
- improving access to New Zealand content.

These goals and three options for further investigation to strengthen Public Media in New Zealand were presented to Cabinet in August 2019 (with four other options considered and dismissed by officials and joint Ministers summarised in an annex)<sup>33</sup>. The three options were:

- establishing a new Public Media organisation, combining TVNZ and RNZ;
- consolidating the news services of TVNZ and RNZ; or
- substantially increasing funding of NZ On Air.

Cabinet Agreed to adopt the public media goals to guide policy decisions and funding allocations for Public Media and that the Minister of Broadcasting, Communications and Digital Media lead a project to undertake detailed policy analysis of three options for strengthening Public Media<sup>34</sup>. The detailed policy analysis of the options was requested to include:

- development of three to four investment objectives from the public media goals, against which to benchmark and measure the potential benefits of each of the options;
- preparation of detailed option descriptions, including the core Organisational form, governance (where relevant) and funding models for each option;
- consideration of the sector impacts of each option, for example the impact on the current contestable funding model for content, the Māori media sector, and on private media organisations; and
- analysis of the three options against the investment objectives to determine the preferred option.

At the time, the Minister of Broadcasting, Communications and Digital Media advised Cabinet that "If there is a major change in the commercial market in the short term I may need to

<sup>32</sup> CAB-19-MIN-0398.02, Strengthening Public Media, Minute of Decision (August 2019) para 2

<sup>33</sup> The other four options were:

- 1) Creation of a 'one stop shop' for New Zealand content,
- 2) Publicly fund reporting on local democratic processes,
- 3) Evolving RNZ into a multi-platform, digital, public broadcaster,
- 4) Merging all publicly owned broadcasters (including Māori Television)

<sup>34</sup> CAB-19-MIN-0398.02, Strengthening Public Media, Minute of Decision (August 2019) para 6

reconsider the identified options, which have a public media focus<sup>35</sup>. Given recent events in relation to COVID-19 and the dramatic reduction in advertising revenue for the media sector, this work to reconsider the options should be undertaken. This work will also need to consider the subsequent impact on later decisions, particularly the January 2020 Cabinet decision.

### 3.2.2. August 2019 to January 2020

Following the August 2019 Cabinet decision, a Chief Executive's Advisory Group (the CE Advisory Group) was established to assist officials with advice on the three options for Strengthening Public Media. The Advisory Group comprised representatives from the Ministry for Culture and Heritage, the Treasury, State Services Commission, Te Puni Kōkiri, the Ministry for Pacific Peoples, the Department of the Prime Minister and Cabinet, TVNZ, RNZ and NZ On Air as well as an independent industry representative, Dr Gavin Ellis, to develop advice on the three options. The Chief Executive of the Ministry for Culture and Heritage chaired the group and retained responsibility for all subsequent advice.

The CE Advisory Group developed a problem statement and set of outcomes for assessment of the three options<sup>36</sup>. These are:

#### **Problem statement**

New Zealand media are increasingly unable to meet the needs and interests of New Zealand's dynamic and diverse population. The availability of digital content from International platforms has increased audience choice and changed when and how they access media content. This increased competition has significantly reduced the share of revenue (advertising, subscription and sponsorship) available to New Zealand media. In addition, public media funding has remained static, meaning that this funding is diminishing in real terms. Further, public funding for New Zealand content has not kept pace with the cost of production.

These factors are resulting in a fragile media environment, characterised by reduced resourcing, declining availability of New Zealand content relative to International content, and uncertainty about the longer-term viability of advertising-funded media outlets in New Zealand.

The current mandates, objectives and funding arrangements of NZ On Air, RNZ and TVNZ are not aligned and constrain their ability to respond collectively to digital disruption, and ultimately to inform, educate and entertain New Zealanders with a range of trusted and relevant, culturally-specific content.

#### **Outcomes**

- New Zealand audiences choose to access mainstream and targeted content and services that support:
  - their needs and interests as people living in Aotearoa, and which in particular reflect the language and experiences of Māori and Pacific peoples, and other under-served audiences;
  - their ability as New Zealanders to be informed and engaged members of our participative democracy and open civic society; and
  - their access to a range and diversity of content that they value and trust.
- Public media in New Zealand are:
  - operationally and editorially independent;

<sup>35</sup>

<https://mch.govt.nz/sites/default/files/projects/Strengthening%20Public%20Media%20August%202019%20Cabinet%20meeting.pdf>, para 58

<sup>36</sup> CAB-20-MIN-0004, Strengthening Public Media Report Back (January 2020) para 24 & 25



- securely and sustainably funded;
- able to respond effectively to an evolving operating environment and relevant to changing consumer preferences, in particular younger audiences; and
- complementary to and collaborative with private media.
- Public media play an integral role in contributing to New Zealand being:
  - a connected, informed, cohesive, and independent nation;
  - a healthy, participative democracy; and
  - confident in, and aware of our unique identity, cultures, and languages.

The findings and recommendations of this group were first presented to Cabinet in December 2019, with clarifications sought by Cabinet and a final paper provided in January 2020.

After assessment against the problem statement and set of outcomes the three options were narrowed to one preferred approach for assessment through this Detailed Business Case. In January 2020, Cabinet noted the CE Advisory Group's preferred option for further assessment was to:

- establish a new public media entity and ultimately disestablish RNZ and TVNZ; and
- confirm NZ On Air's continued role in providing contestable funding for public media content and services in a way that complements the new entity and supports the wider media sector<sup>37</sup>.

This approach was recommended as the optimal way of promoting and preserving the value Public Media provides for New Zealanders. The Cabinet paper noted this change will provide for stronger alignment between TVNZ, RNZ and NZ On Air, with further design and funding changes within this option to be assessed to achieve the Government's public media goals.

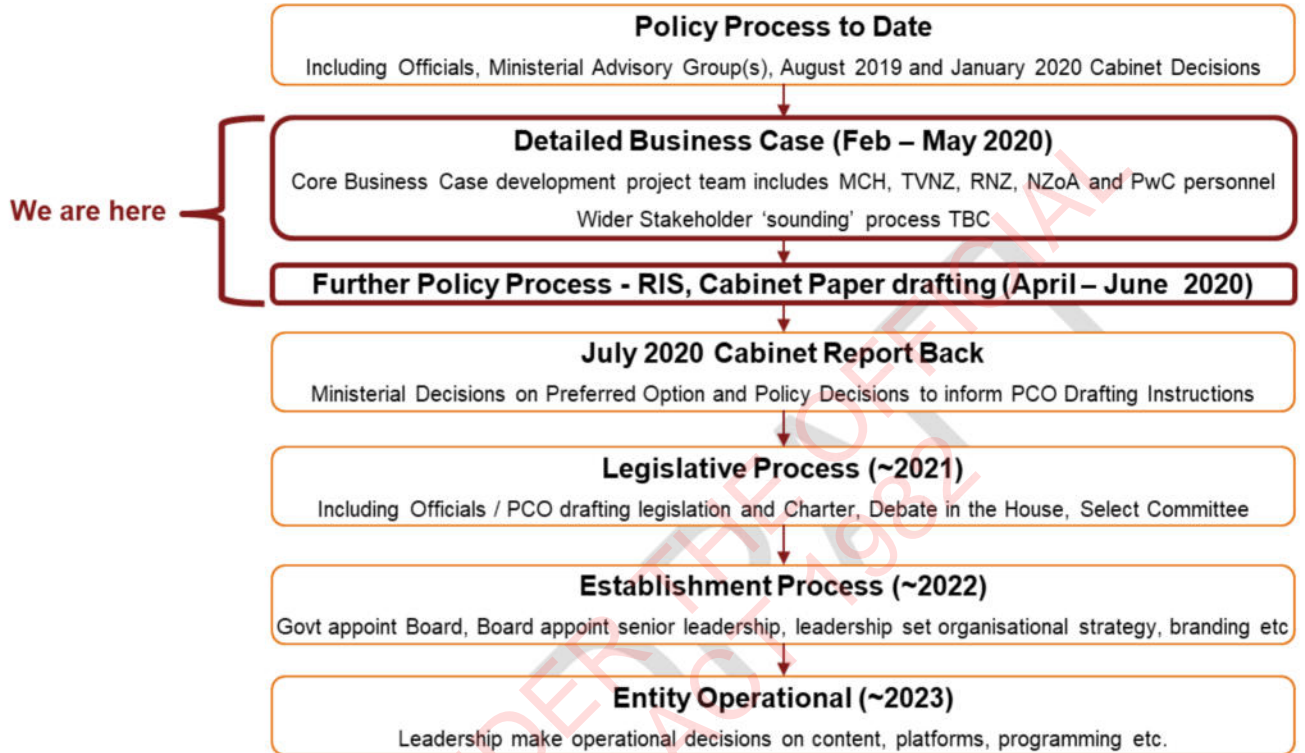
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<sup>37</sup> Cabinet was asked to "agree in principle, subject to a Detailed Business Case" but instead arrived at an alternative recommendation, deferring final decisions and inviting the Minister to report back on the preferred approach in July 2020, after the completion of a satisfactory Detailed Business Case.

### 3.2.3. How the business case will help inform the potential establishment of a new entity

The diagram below shows the envisaged timetable for establishment of the new Public Media entity, subject to business case assessment and Cabinet approval.

**Figure 11: Timetable**



If the business case supported the viability of the preferred approach, then the outputs of the economic, commercial, financial and management cases were planned to provide information to help inform:

- Drafting of legislation of the new entity;
- Characteristics of the new entity that should be captured in a charter or similar document;
- The proposed organisational form;
- The plan for establishment of the new entity; and
- The expected financial implications of establishment of the new entity, both one off and ongoing costs.

The drafting of legislation and key documents for the new organisation were expected to occur following the Cabinet decision in July 2020. Core organisational considerations, such as vision, strategy, asset choices, key appointments and other operational matters would be expected to be made as part of the establishment process for the new entity (including delegating such decisions to the Board and Chief Executive as appropriate) and not as part of the business case process.

Given this business case process has been placed on hold, this document's purpose is to provide a capture of work completed to date on the business case. This document is not sufficient to test the viability of the preferred approach or inform the above potential decisions.

## 4. Strategic Case – the case for change

### 4.1 Purpose of this section

This section summarises why the Government seeks to build a strong Public Media sector in New Zealand and the objectives of investment into a new Public Media entity established from the existing RNZ and TVNZ. This section:

- Describes how the Strong Public Media investment supports the Government’s Public Media and wider Wellbeing goals (section 4.2);
- Outlines the case for change (section 4.3); and
- States the investment objectives (section 4.4).

### 4.2 Desired outcomes from an investment in New Zealand’s Public Media system

Higher Living Standards for all New Zealanders is the goal of any Government investment and the basis for effective central funding and policy decisions. The Treasury’s Living Standards Framework<sup>38</sup> sets the foundation for how these can be considered in New Zealand.

Figure 12: The Treasury’s Living Standards Framework



<sup>38</sup> The Treasury’s Living Standards Framework [https://treasury.govt.nz/sites/default/files/styles/scale\\_width\\_full\\_column/public/2019-02/TSY348\\_LSF%20A3%20Poster-v4-newlogo.jpg?itok=WTx3qUne](https://treasury.govt.nz/sites/default/files/styles/scale_width_full_column/public/2019-02/TSY348_LSF%20A3%20Poster-v4-newlogo.jpg?itok=WTx3qUne)

New Zealand's Public Media organisations, and wider media organisations, already play a key role in contributing to New Zealand's wellbeing domains. Specifically, the domains of:

- civic engagement and governance;
- cultural identity;
- social connections;
- knowledge and skills; and
- subjective wellbeing.

The contribution of Public Media to these domains through the positive impact on living in a participative democracy and exercising democratic rights; acknowledging and enhancing cultural and social values; and contributing to personal wellbeing by informing, educating and entertaining is described in more detail earlier in Section 3.1.

Additionally, Public Media and the wider media sector in New Zealand make a strong contribution to the infrastructure that underpins an open, market-based economy supporting NZ businesses, whether they operate at local, regional or national level. This contribution includes:

- Providing channels for New Zealand and overseas businesses to engage with New Zealand audiences at local, regional and national level through advertising, sponsorship and other means (e.g. product placement). In 2018 television, newspaper and radio advertising, including digital formats, totaled \$1.3 billion<sup>39</sup>; and
- Providing a key avenue for the distribution of local content (both audio and video) to New Zealand audiences, supporting the local production and music industries. For example, the screen production industry alone employs more than 14,000<sup>40</sup> people and contributes significantly to New Zealand's international image and reputation.

Strengthening Public Media in New Zealand will not only ensure these contributions continue in the face of a rapidly changing environment, but also support growth in New Zealand's overall wellbeing.

The Government's public media goals and desired outcomes from the Strong Public Media programme are described in section 3.2.1 of this document.

### 4.3 The case for change<sup>41</sup>

In a rapidly changing environment, Public Media around the world is struggling to maintain engagement with audiences and, in many cases, maintain the financial viability of their operations. The pressures in New Zealand are no different, with a fragmented Public Media sector<sup>42</sup> and comparatively low levels of Government funding<sup>43</sup> constraining the sector's ability to react and transform with changing audience expectations. These pressures can be clearly seen in Figure 13 below demonstrating TVNZ's falling revenues and the subsequent concerns regarding future financial viability<sup>44</sup>.

<sup>39</sup> ASA Advertising Turnover Report, 2018. See <https://www.asa.co.nz/industry/asa-advertising-turnover-report/>

<sup>40</sup> <https://nzier.org.nz/publication/the-economic-contribution-of-the-screen-industry>

<sup>41</sup> see also Appendix 1 – Strong Public Media ILM

<sup>42</sup> See section 3.1.5

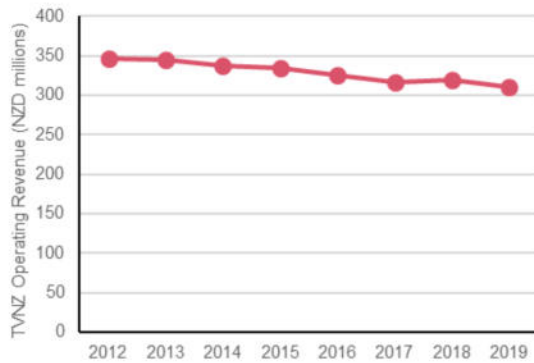
<sup>43</sup> See section 3.1.4

<sup>44</sup> See page 6 Financial Performance Measures – NPAT -

[http://images.tvnz.co.nz/tvnz\\_images/FY20%20Statement%20of%20Performance%20Expectations.pdf](http://images.tvnz.co.nz/tvnz_images/FY20%20Statement%20of%20Performance%20Expectations.pdf)

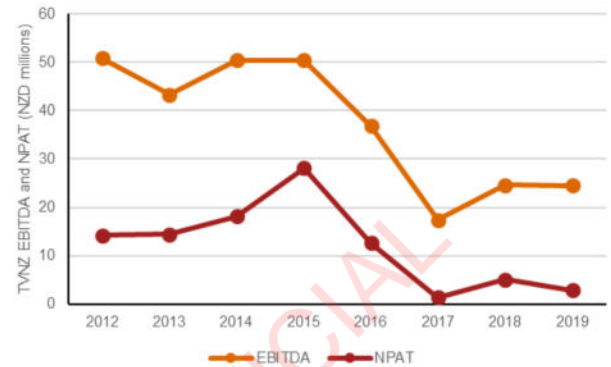
**Figure 13: Falling revenues and profits**

TVNZ Operating Revenue 2012-2019



Source: TVNZ Annual Reports 2012-2019

TVNZ EBITDA and NPAT 2012-2019

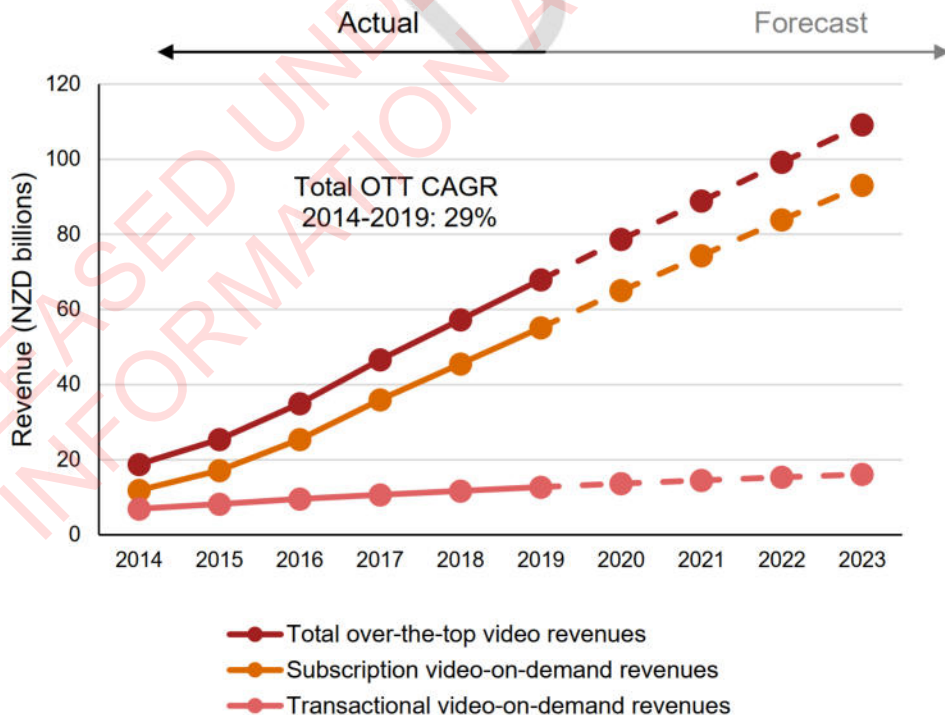


Source: TVNZ Annual Reports 2012-2019

**4.3.1. The FAANGS are biting and traditional media is hurting**

Facebook, Amazon, Apple, Netflix, Google and Spotify (FAANGS) have changed how, when and where audiences expect to view or listen to content. These, and other online platforms, have opened new ways of consuming video, audio and print content, taking audiences and advertising spend away from traditional players, i.e. linear television and print media. Audiences are drawn to these new platforms for their user experience, convenience and, for some platforms, high quality content. These new platforms have seen particularly rapid growth, with global OTT video revenues growing by more than 29% per annum since 2014.

**Figure 14: Global OTT video revenues by category (NZD billion)**



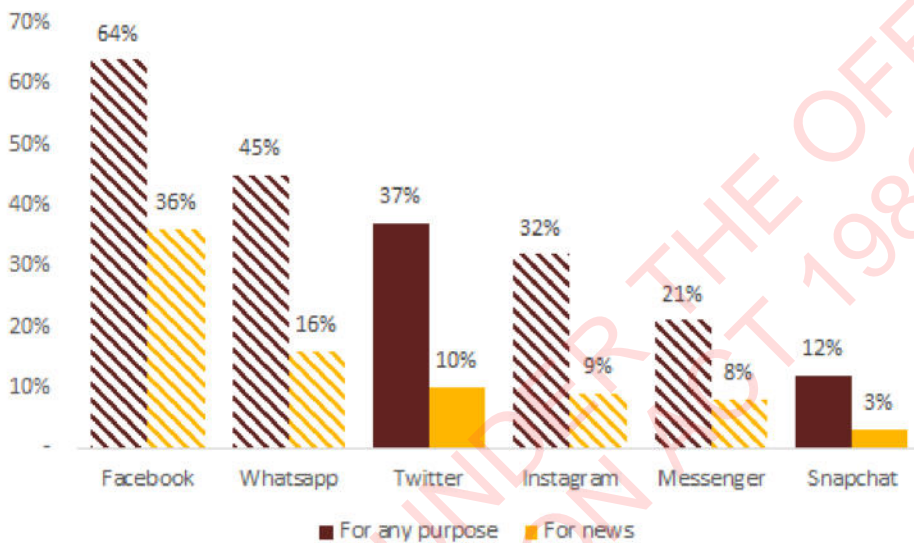
Source: PwC Global Entertainment & Media Outlook 2019 – 2023.  
CAGR: Compound Annual Growth Rate

Google and Facebook, have also taken on a role as primary distributors of news and current affairs content to many people across New Zealand and the world. Traditional news and current affairs delivery platforms (i.e. TV and radio) can no longer offer advertisers access to unique and engaged readers in the way that these platforms can. They have an unmatched ability to access audiences at scale and target advertising using the unique audience

analytics they have access to. In addition, media companies are being forced to share their content over social media platforms, such as Facebook, purely in order to reach audiences, in particular young audiences. In doing so, they lose the ability to collect advertising revenue from the content shared on social media platforms, which is collected instead by these large, multinational social media companies. There is both a transition of advertising by advertisers and content from its original online 'home' which previously earned advertising revenues for media companies to the FAANGS<sup>45</sup>.

Figure 15 shows the worldwide penetration of social media and messaging applications and the percentage of people who use those applications for news weekly. Note that the bars with the diagonal pattern represent applications owned by Facebook, further emphasizing its power when it comes to audience reach. Facebook is considered the most important social network for news globally.

**Figure 15: Social media and messaging (2019) - weekly use for news**



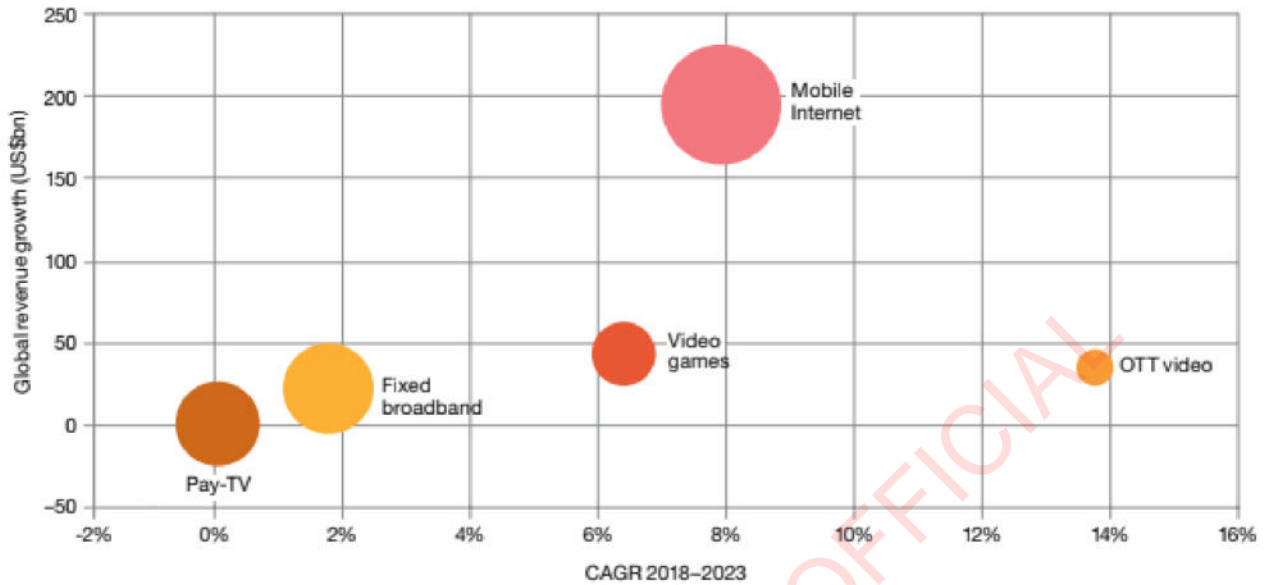
Source: Thomson Reuters Digital News Report 2019 (Note: Facebook owns Instagram, Messenger and Whatsapp) (Note: Data from US, UK, Germany, France, Italy, Spain, Ireland, Denmark, Finland, Australia, Brazil, Japan)

### Technology is changing audience engagement with media

Advancements in technology are enabling these new platforms and changing how audiences access media. Mobile internet has made it easier for consumers to access media wherever they are and at their own pace. It is now more convenient and cheaper to access media on phones and other mobile devices. The current roll out of 5G, the next generation communication standard, is likely to increase the use of mobile internet for media further with its improvement in functionality over 4G. 5G and 4G services are expected to account for more than 90% of mobile subscriptions in 32 countries in 2023<sup>46</sup>. The forecast global growth of mobile rather than fixed internet use can be shown in the diagram below.

<sup>45</sup> PwC Global Entertainment & Media Outlook 2019-2023

<sup>46</sup> PwC Global Entertainment & Media Outlook 2019-2023, [www.pwc.com/outlook](http://www.pwc.com/outlook)

**Figure 16: Forecast global growth of mobile internet**

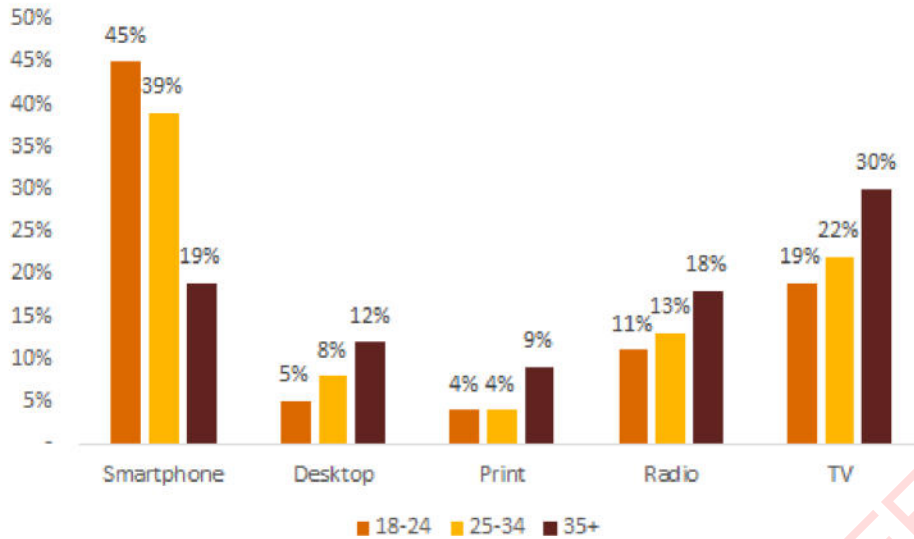
Source: PwC Global Entertainment & Media Outlook 2019-2023, [www.pwc.com/outlook](http://www.pwc.com/outlook)

The introduction of 5G could also provide further stimulus for new media forms, such as Virtual Reality (VR). To date, VR has failed to captivate consumers as a form of media consumption, against expectations. Despite the current lack of uptake, continual VR refinement and development has led to companies promising immersive experiences for users in the near term, particularly in video games and e-sports.

While technology developments seek to improve the consumer media experience, it presents a major challenge to traditional media companies and broadcasters. Moving to advanced digital platforms and products requires continuous improvement, driving greater ongoing costs, shifting traditional capital budgets and requiring flexible and adaptive teams. For many, this will represent a large culture shift, and national, domestic broadcasters can struggle to keep up with large global competitors in content production. Broadcasters that fail to keep pace with these changes and competitors will likely see their platforms becoming less relevant in the rapidly converging media landscape.

### **Consumers now have greater choice and control over how and where they access media**

How and where consumers access media is rapidly changing with the movement to increased mobile usage and the increased choice, control and audience experience provided by the global players. Younger audiences are leading the adoption of greater mobile access of content. Figure 17 below shows the results of a global Thomson Reuters study on media, here focused on first access for news in the morning. This shows smartphones being the preferred device for under 35 year olds. This same study showed over 66% of people use their smartphone to access news every week.

**Figure 17: First contact with news in the morning by age**

Source: Thomson Reuters Digital News Report 2019 (Note: Data from US, UK, France, Italy, Spain, Ireland, Norway, Finland, Netherlands, Japan)

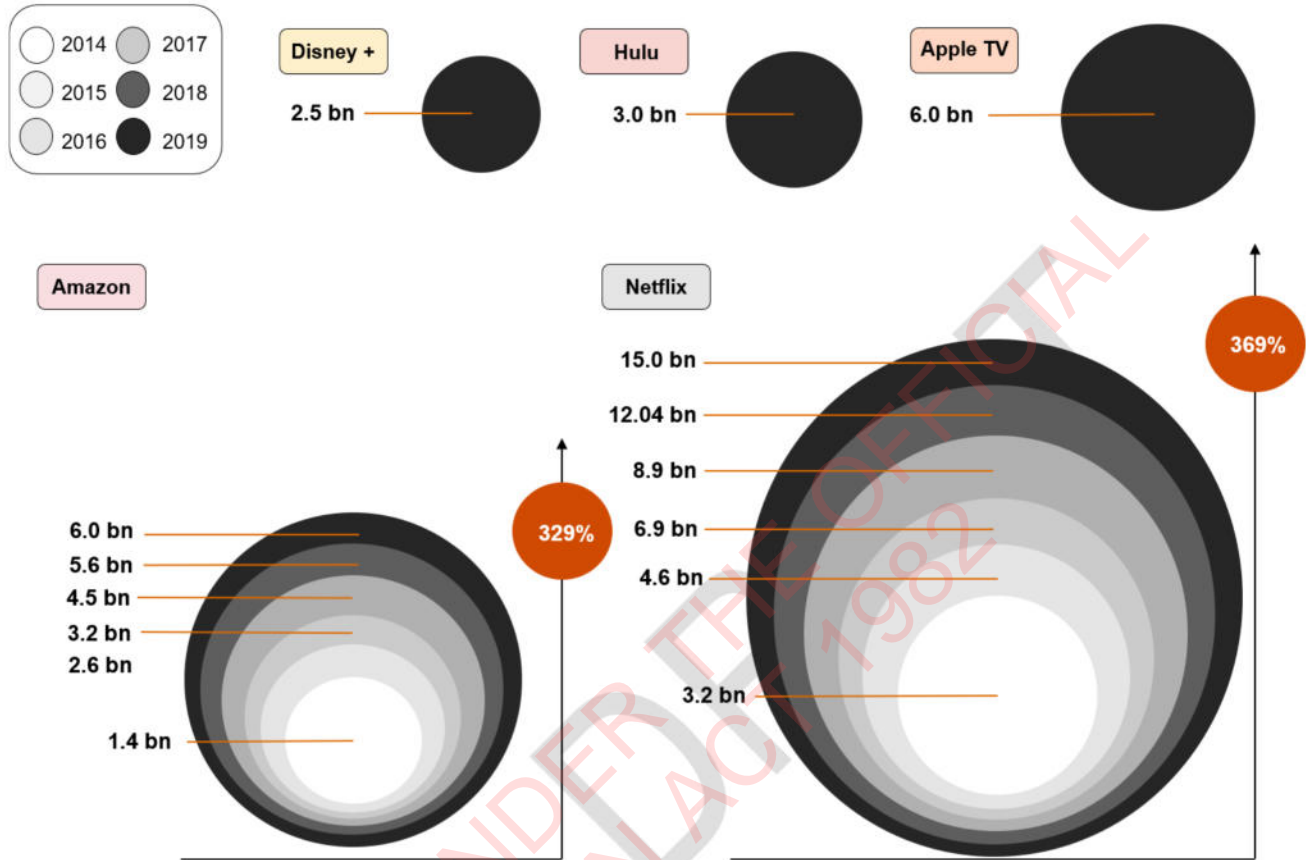
### Content is still critical in the new media world

Content remains a key driver for obtaining and retaining an audience. Companies like Amazon, Google and Netflix, which historically operated in technology and/or distribution are increasingly moving along the value chain into content generation while social media companies, such as Facebook, are increasingly moving into distribution. These shifts are creating an increasingly fragmented landscape for audiences to access content and these companies are changing audience expectations by providing personalised experiences across multiple devices. This is also setting a very high bar for others to compete with the depth and quality of content provided on these platforms.

Content analytics in the online world are also becoming increasingly sophisticated, providing tailored recommendations to hold audiences and using audience preference data to inform content production choices. As shown in Figure 18 below, international players are collectively spending tens of billions of dollars on content development and these new analytical tools are allowing them to focus this investment on areas that will continue to draw and retain audiences on their platforms.



**Figure 18: Global spending on streaming content by company (USD, growth percentage numbers for Amazon and Netflix show additional spend on content above 2014 levels)**



Source: PwC Global Entertainment & Media Outlook 2019 - 2023

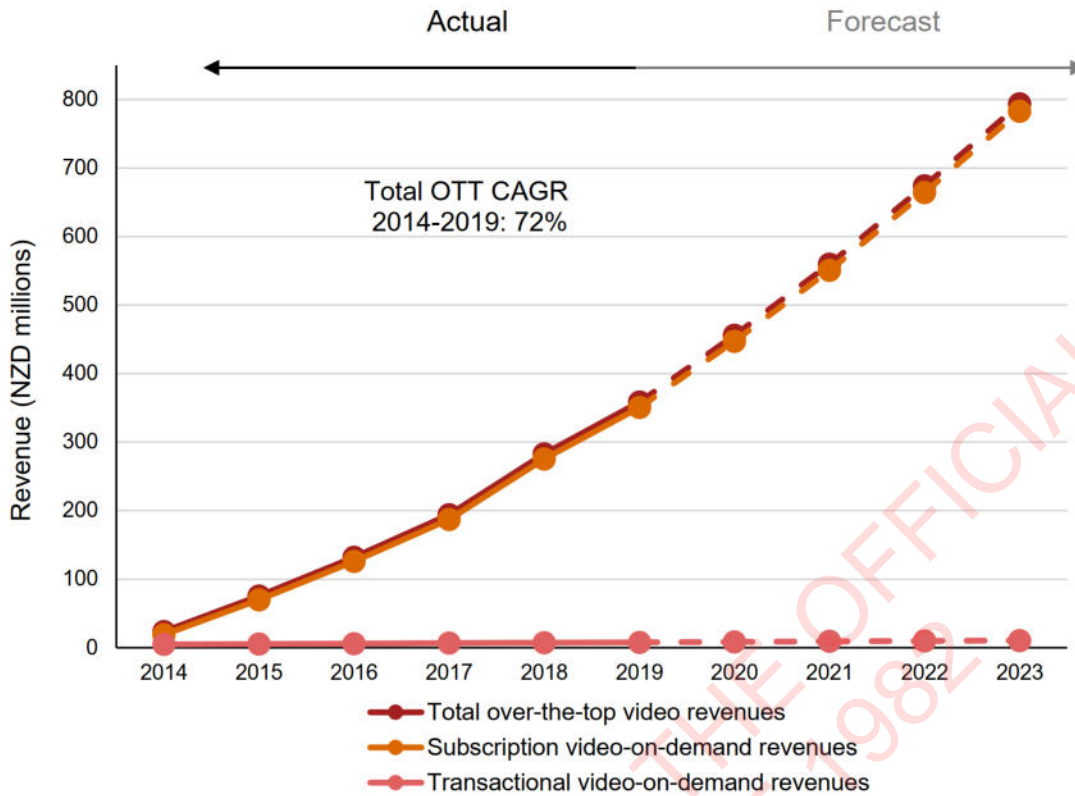
### New Zealand's rapid transition to online content

The transition to online platforms has been, and continues to be, rapid in New Zealand. Netflix was launched in 2015 and now 2.42 million New Zealanders have access to Netflix in their household<sup>47</sup>. Lightbox launched in 2014 by Spark is the second most popular service<sup>48</sup> and with its acquisition by Sky is expected to be consolidated with Sky's Neon service (which launched in 2015). New players continue to enter the market, Amazon (Prime) launched in New Zealand in 2016, and Disney+ and Apple+ both launched in New Zealand in November 2019. These developments have seen OTT revenues in New Zealand rise from less than \$20m in 2014 to \$350m in 2019. This growth is forecast to continue strongly over the next five years.

<sup>47</sup> <http://www.roymorgan.com/findings/8357-new-zealand-pay-tv-services-december-2019-202004060257>

<sup>48</sup> PwC Global Entertainment & Media Outlook 2019-2023

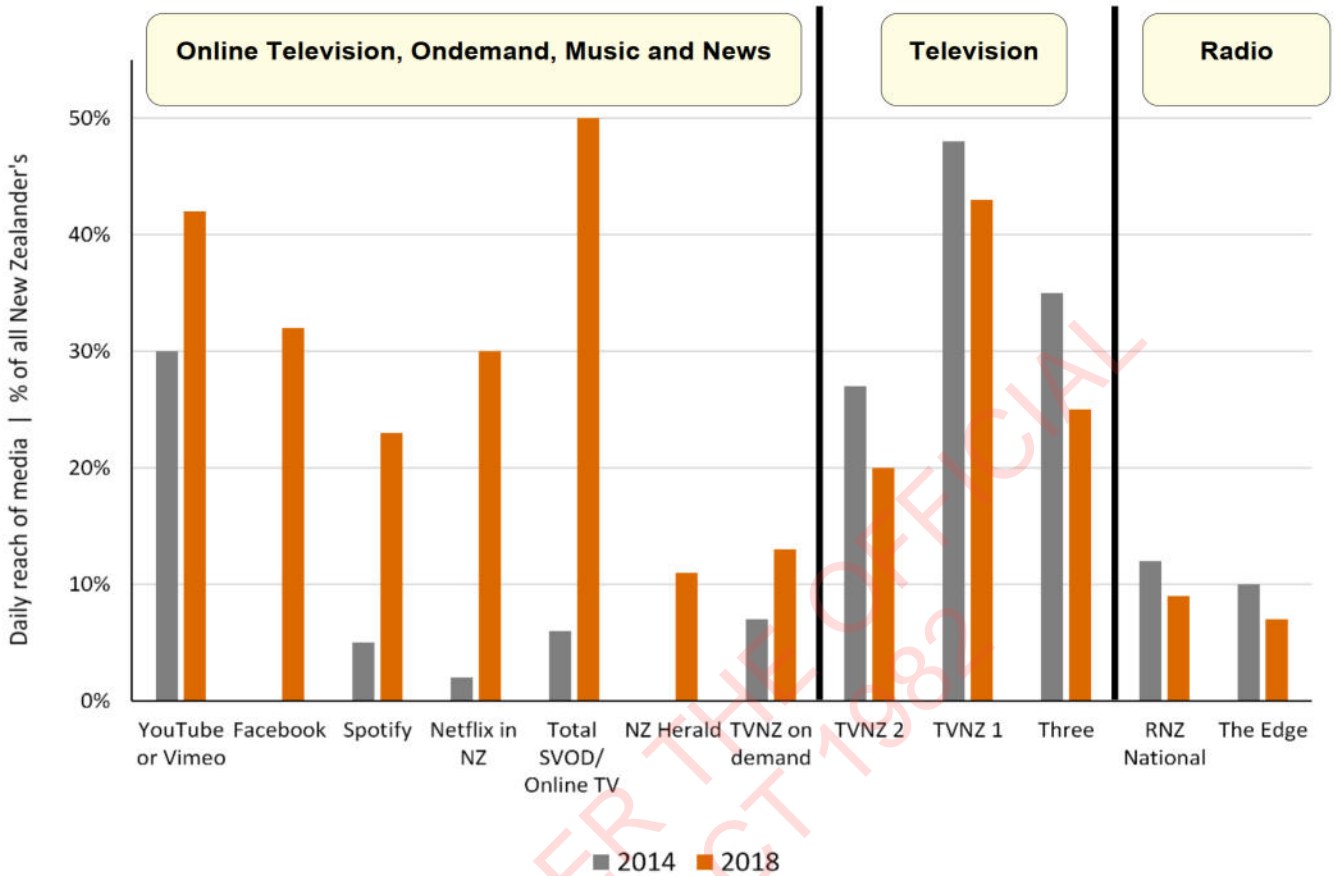
**Figure 19: New Zealand OTT video revenues by category (NZD million)**



Source: PwC Global Entertainment & Media Outlook 2019 – 2023

This growth in Subscription Video On Demand (SVOD) has seen a large change in viewership patterns over recent years. SVOD was viewed daily by 50% of New Zealanders in 2018, up from less than 6% in 2014. Over the same period, viewership of traditional TV and radio has fallen, as large portions of New Zealand audiences transition to online delivery of content. This changing environment is challenging all Public Media entities in New Zealand. This can be seen in Figure 20 below, with TVNZ consumption falling and not being offset through online sources (i.e. TVNZ On Demand). Given the level of content investment of the new online players, local media is struggling to compete directly with them for the international content quality and choice. Local players are having to find a new niche to attract and retain their audiences that are shifting online.

**Figure 20: Daily media consumption by channel, station and site (2014 vs 2018)**

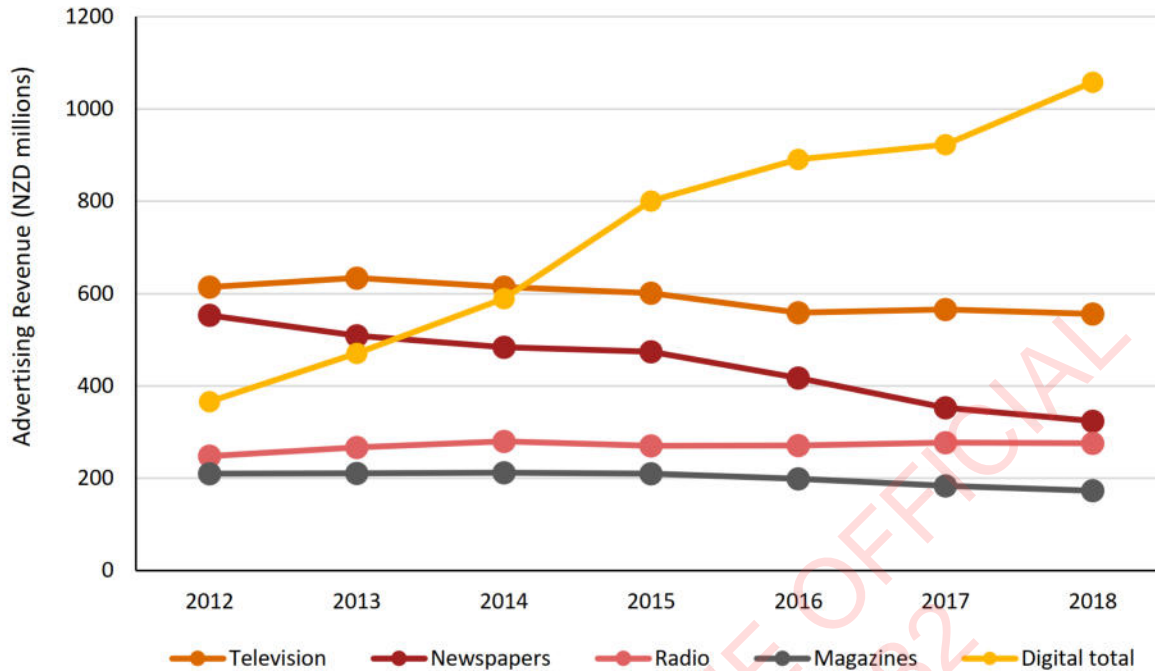


Source: NZ on Air "Where are the Audiences" (2014 and 2018)

As audiences have shifted online, so has advertising revenue, threatening the viability of most traditional media models. This has been particularly pronounced in print media, with newspaper advertising spend falling dramatically since the turn of the century and a steep reduction in newspaper circulation in the last 10 years<sup>49</sup>. Traditional media companies have also struggled to offset audience and revenue losses in the online space, due to the abundance of free content, and high audience expectations set for pay services by the likes of Netflix. Advertising during online content is also constrained by audience expectations of lower ad loads, largely set by the global players. This can be seen in TVNZ's online services, with significantly lower advertising levels than in the linear broadcast format.

Figure 21 below shows the strong recent growth in digital advertising in New Zealand, growing from \$366m per annum in 2012 to more than a \$1 billion in 2018. Over this same period, newspaper advertising has fallen from \$553m per annum to \$324m. While other advertising forms have not fallen as dramatically, it should be noted that these have lost significant market share over this period as advertising in total has grown. Television advertising has fallen from 28% to 21% of New Zealand's advertising revenue from 2012 to 2018.

<sup>49</sup> NZ On Air, Discussion Paper: Options To Improve The Environment For New Zealand Journalism, October 2019

**Figure 21: New Zealand advertising revenue 2012 – 2018**

Source: ASA Advertising Turnover Report, 2018, 2017, 2016, 2015 and 2014 (Note: Digital Total includes TV Digital, Newspaper Digital, Radio Digital and Magazine Digital Advertising)

Traditional broadcasters, such as New Zealand's media entities, are finding themselves caught in the middle. The investment required to compete both with the sophistication of platforms and the spend on entertainment content of these large players is not tenable for most Public Media organisations. Public Media is critical for New Zealand and traditional platforms are still critical for serving the entertainment needs of a large proportion of New Zealand audiences, but how these organisations transform themselves, adapt to reach audiences and maintain financial viability with changing audience behaviour and expectations is challenging. However, without investment or change, it is expected that there will continue to be a deterioration in Public Media outputs and outcomes and a resultant reduction in national identity and democracy.

Overseas Public Media organisations are facing the same pressures and looking to transform how they operate and re-establish their important position in the media landscape in a growing online world. For example, the BBC recognises that the media landscape has and will continue to change significantly over the next decade. This presents a new challenge, as the BBC must continue to serve the growing audiences who have transitioned to digital and online platforms, while also making sure audiences who prefer to consume media via traditional channels are still adequately served. To enable this change new Public Purposes and performance measures have been developed for the BBC to allow it to be ready for an internet-only world, without rushing or pressuring audiences to transition before they are ready to do so. These Public Purposes are:

1. To provide impartial news and information to help people understand and engage with the world around them,
2. To support learning for people of all ages,
3. To show the most creative, highest quality and distinctive output and services;
4. To reflect, represent and serve the diverse communities of all of the United Kingdom's nations and regions and, in doing so, support the creative economy across the United Kingdom; and
5. To reflect the United Kingdom, its culture and values to the world.<sup>50</sup>

<sup>50</sup> <https://www.bbc.com/aboutthebbc/governance/mission>

The extent of change is also having a significant impact on the wider media sector in New Zealand, particularly the traditional players in the sector. At best, the New Zealand media sector can be seen as fragile and the current COVID-19 crisis has only accelerated the potential exit of a number of major players. The owners of Mediaworks have been attempting to sell its TV business (Three, ThreeLife, Bravo and Newshub) since October 2019 without success<sup>51</sup> and consolidation has been attempted where possible to help with financial viability, but declined by the Commerce Commission in a couple of notable cases (Sky/Vodafone and Stuff/NZME). Sky TV's share price has fallen more than 95% in the last five years<sup>52</sup>, while Bauer Media (magazines) has recently exited the market.

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<sup>51</sup> Newshub, 'MediaWorks puts Three up for sale', *Newshub*, 18 October 2019, <https://www.newshub.co.nz/home/new-zealand/2019/10/mediaworks-puts-three-up-for-sale.html>

<sup>52</sup> Source: NZX

### 4.3.2. How the status quo is failing to deliver on the Government’s public media goals

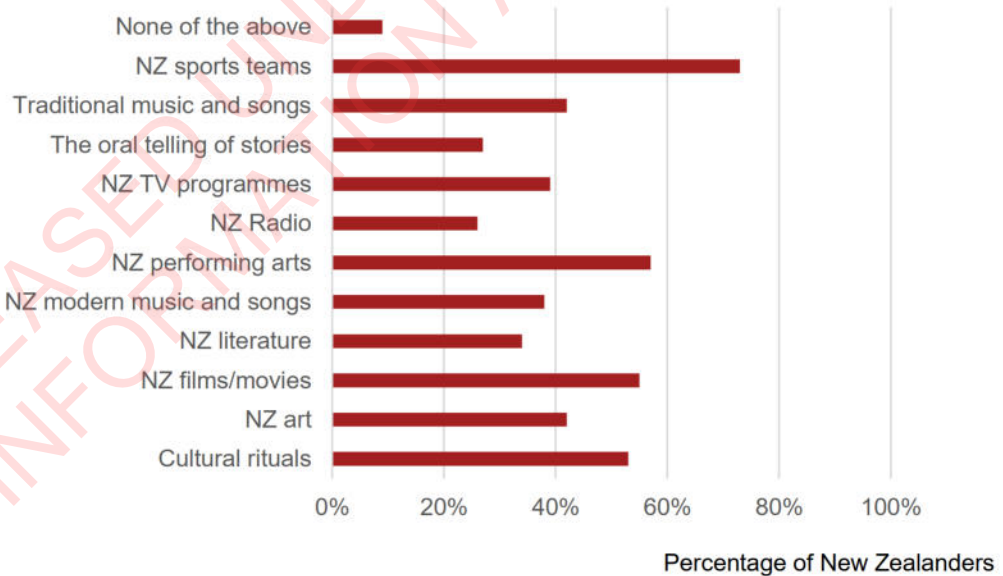
Without change and investment, it is clear New Zealand’s Public Media entities will not be able to meet the Government’s public media goals. Public Media will increasingly struggle to maintain audience engagement and promotion of New Zealand stories in the face of this significant global media shift. Evidence of this is being seen today with:

- Dilution of New Zealand content and stories;
- Public Media underserving core areas of New Zealand society;
- Reduction in the quality of New Zealand news and current affairs; and
- Traditional media struggling to respond in an agile manner.

#### Dilution of New Zealand stories

New Zealand media plays an important role in shaping and reflecting the identity of New Zealanders. This is not only in the creation and distribution of New Zealand content, but also in the distribution of information relevant to New Zealanders that they see as important to their national identity, e.g. New Zealand international and domestic sport. One-in-every four New Zealanders watch New Zealand (television and online) content because it shapes, reflects and informs their view of our national identity, while others do so because of its entertainment and information<sup>53</sup>. Figure 22 below identifies a number of areas that a significant number of New Zealanders believe contribute to the sense of identity as a nation. It is unlikely that global content providers will deliver this valued content on the basis of its limited localised appeal.

**Figure 22: Q 15: Which of the following shape and reflect our identity as New Zealanders**

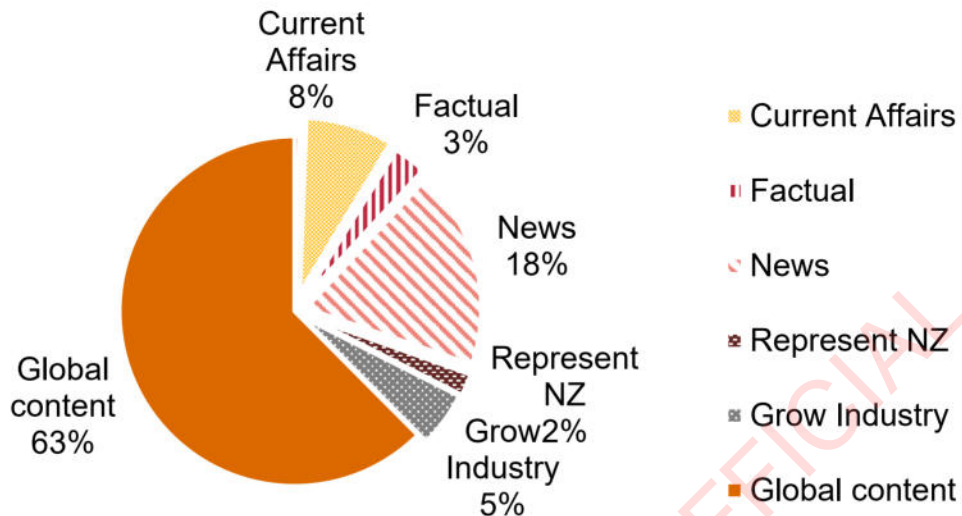


Source: NZ On Air *New Zealand’s Identity, Culture and the Media: What’s changed in 30 years (October 2019)*

However, in an increasingly global and online world, New Zealand’s stories and identity are being diluted and while local media is important for national identity, audiences are choosing to view global content. Section 4.3 discussed the large impact on New Zealand from global players and, as shown in Figure 23 below for TVNZ, global content makes up 63% of broadcast content consumed by New Zealanders on its channels.

<sup>53</sup> NZ On Air “New Zealand’s Identity, Culture and the Media: What’s changed in 30 years”, October 2019, page 42.

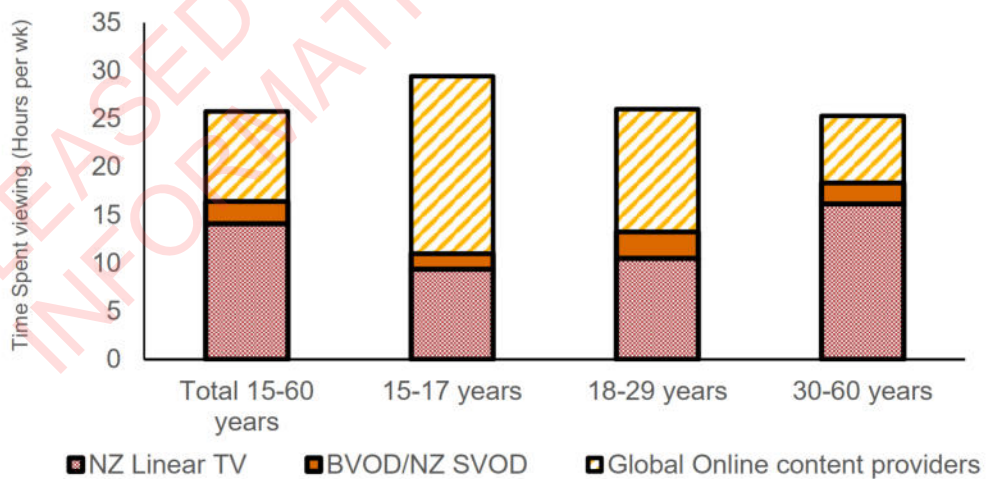
**Figure 23: Share of broadcast viewing on TVNZ - All People 5+**



Source: Nielsen TAM ratings, TVNZ Broadcast content, 2019

Assessing global vs. local content by age group, it is observed that younger audiences are consuming relatively more global content than older audiences. As shown in the graph below, younger audiences are not underserved by media, in fact they consume higher levels of broadcast content on average than older age groups. However, they are choosing to access global over local content. Some of this may be attributed to age, with a primarily individualistic rather than societal need for media<sup>54</sup>, but a large part is also expected to be driven by the enhanced experience they are becoming accustomed to from global content providers.

**Figure 24: Time spent per week consuming New Zealand vs Global Broadcast content**



Source: Kantar Media Market Tracker, July 2019-Jan 2020

As financial pressures continue to increase on the sector, dilution of New Zealand content is expected to increase. Although New Zealand is globally cost-effective for production, the lack of scale for distribution of this content means it is typically much more expensive per hour for New Zealand media providers to screen than the purchase of international content. Even with funding from NZ On Air, local content struggles to compete with international content

<sup>54</sup> See <https://reutersinstitute.politics.ox.ac.uk/sites/default/files/2019-08/FlamingoxREUTERS-Report-Full-KG-V28.pdf>

and financial pressures on media organisations are expected to result in New Zealanders seeing less local content on their screens.

As a small nation, the high level of global content is not surprising. The scale of New Zealand's production sector relative to global production, the abundance of global content available and the value of being able to access global perspectives mean this will always be a large part of New Zealand's media landscape. However, increasing levels of global content will dilute New Zealand stories and identity on our screens and could lead to society being less informed about local issues. This will lead to impacts on civil society, as segments of the community increasingly do not relate to New Zealand culture and to a reduction in wellbeing for the nation as cultural identity is diluted.

As shown in Figure 24, this is particularly concerning for younger audiences, who are increasingly sourcing their media from international sources. As these viewing patterns are established early in life and as the presence of international content providers continues to grow, this has led to, and will continue to lead to, a continued lower proportion of New Zealanders viewing of New Zealand content.

### **Underserving core areas of society**

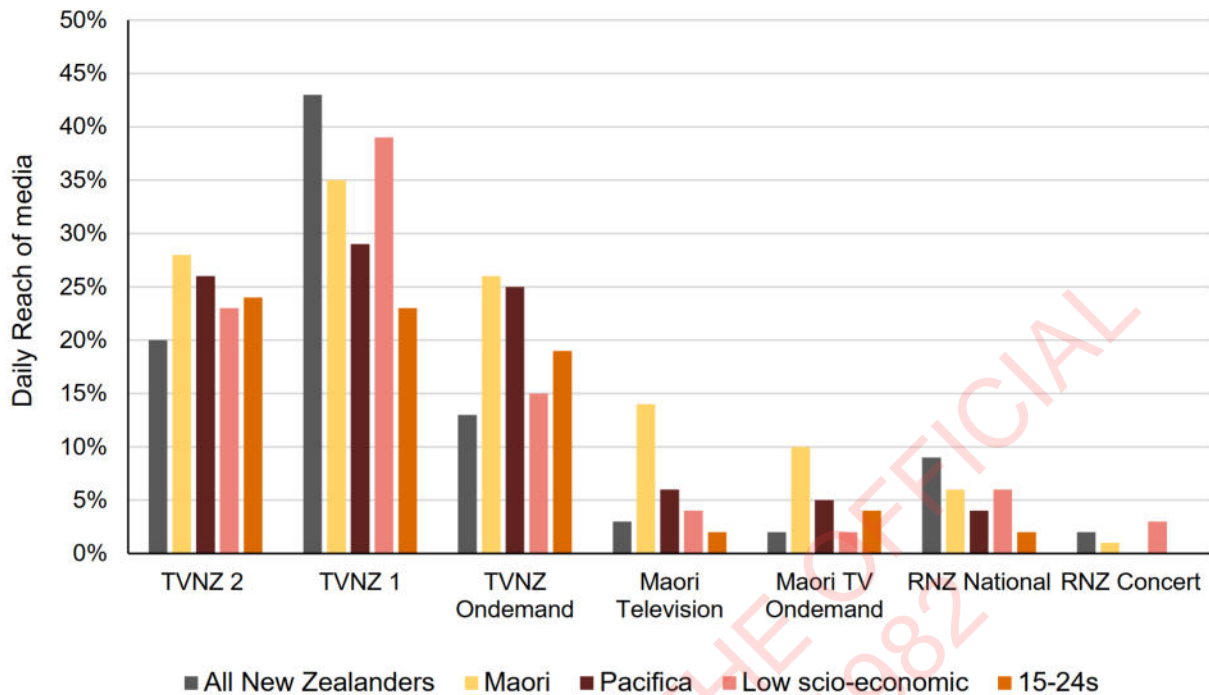
Public Media provides an important platform for all New Zealanders to freely access content that informs, educates and entertains. To truly have impact, this content should also engage with audiences, both through the manner it is delivered and the relevance of the content itself.

As audience preferences change and the content ecosystem becomes increasingly fragmented, engagement with audiences becomes increasingly difficult. In effect, it is a fight for relevance in the audience's lives, relative to other sources of media. In New Zealand, it can be seen that Public Media is not engaging uniformly with the population, particularly as younger audiences have trended away from traditional television and radio broadcast. Data from NZ On Air's latest *Where are the audiences* surveys show the variance in audience engagement across the key public media channels or platforms.

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**Figure 25: Daily reach of state-owned media as a % of all New Zealanders and other groups (2018)<sup>55</sup>**



Source: NZ On Air "Where are the Audiences" (2018) (Lower socio-economic groups) (Māori) (Pacifica) (15-24s)

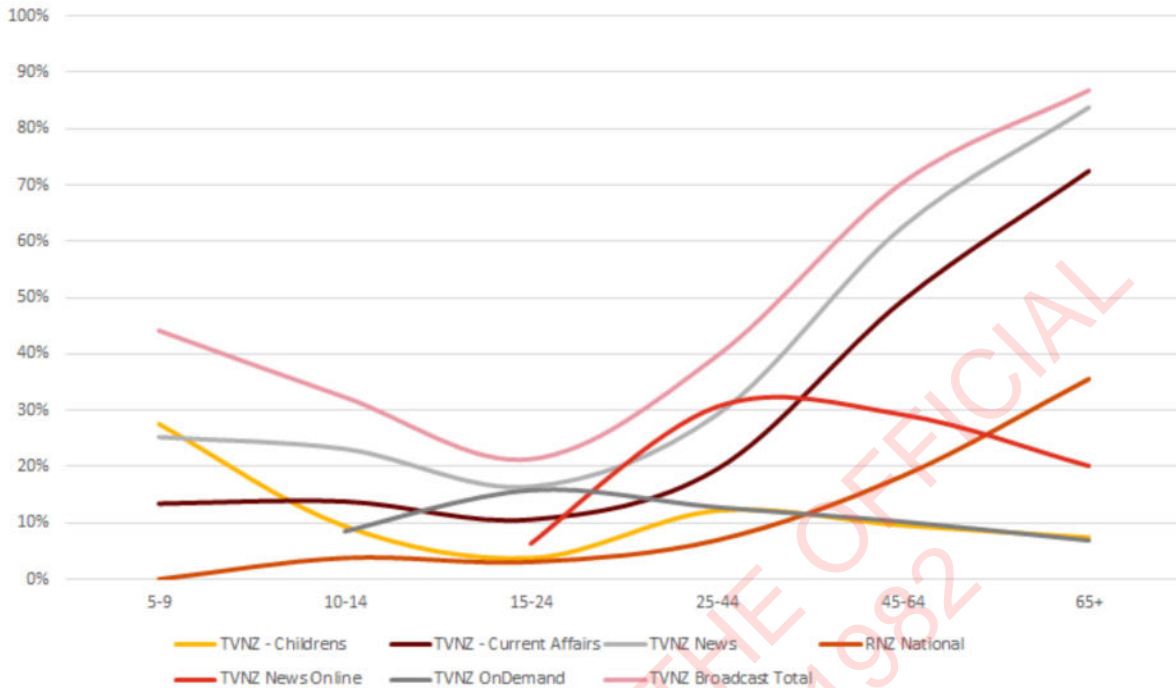
Variance across channels or platforms on its own is not of concern, as audience preference will align to different content and platforms. However, gaps in engagement overall, or gaps in engagement with public media content for parts of the population are of concern. As shown in Figure 24 above, it can be seen that youth audiences are engaging less with New Zealand content than other groups of the population.

Assessing data on reach of public media content across New Zealand is difficult, given the multiple platforms and providers that showcase this data. Assessing this data for both TVNZ and RNZ<sup>56</sup> broadcast services only shows underserved audience gaps for public media content on these channels. Figure 26 below shows public media content on TVNZ and RNZ broadcast channels has very high engagement with older audiences (those over 65 years) with 87% and 36% weekly reach respectively. However, this falls away dramatically with audience age, with only 21% weekly engagement for younger audiences (15-24 years) for TVNZ and 3% for RNZ. Online data for TVNZ (TVNZ OnDemand and TVNZ News Online) in figure 22 shows some of these gaps are offset by online delivery as youth audiences are higher proportional users of these channels. However, these levels are not sufficient to offset the broadcast gap for TVNZ, particularly for youth (15-24) age groups. Note: Data for online and broadcast data sets is not directly comparable for audience definitions and analysis of public media content consumption. For this reason, collective public media content to audiences across broadcast and online channels cannot be shown.

<sup>55</sup> Note: RNZ figures in this analysis are for its broadcast services only and significantly under-represent the overall reach of RNZ through its online and collaborative partnership distribution of content. For the 2018/19 year 75% of New Zealanders are estimated to have consumed RNZ content (source: RNZ 2018/2019 Annual Report).

<sup>56</sup> <sup>56</sup> Public media content has been defined to include: News, Childrens, Factual, Current Affairs, Sports, Religion, NZ Drama and NZ comedy content.

**Figure 26: Average weekly reach of TVNZ and RNZ public media content as a % of all New Zealanders by age group (2019)**



Source: Nielsen TAM 2019, GFK Radio measurement 2019, Google Analytics, 2019, TVNZ and RNZ Research

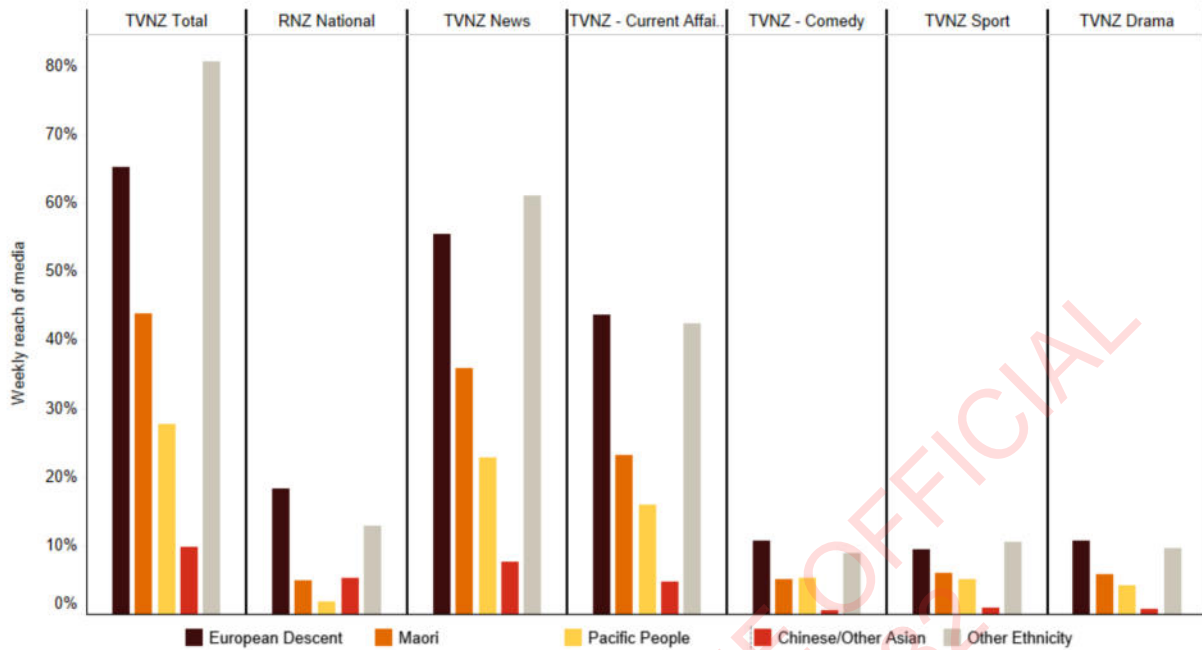
Note: 1 News Online is count of UB's not people, with google profile information applied. 1 News Online and TVNZ OnDemand, 15-24 demo replaced by 18-24 due to restrictions on google reporting. 10-14 not reported for 1 News Online, and replaced with 13-17 for TVNZ OnDemand.

These findings are similar to challenges faced by Public Service Media (PSM) organisations worldwide. Recent research by Reuters<sup>57</sup> on eight European PSMs showed connecting with young people and those with more limited formal education to be a particular challenge for these European organisations.

Looking closer at TVNZ and RNZ statistics on broadcast reach by ethnicity shows a similar trend to the *Where are the audiences* data for TVNZ 1 and RNZ. TVNZ holds more than a 65% reach to New Zealanders with European descent, but this falls dramatically to 44% for Māori, 28% for Pacific and 10% for Chinese/other Asian. Unfortunately, ethnicity data is not available for online channels, so the overall reach of TVNZ and RNZ is not possible to show by ethnicity.

<sup>57</sup> Old, Educated, and Politically Diverse: The Audience of Public Service News, Reuters, 2019

**Figure 27: Average weekly reach of TVNZ and RNZ broadcast media as a % of all New Zealanders by ethnicity (2019)**



Source: Nielsen TAM 2019, GfK Radio measurement 2019, TVNZ and RNZ Research

As audiences migrate online and engage with content in multiple different ways through multiple platforms, defining levels of overall service and engagement is becoming increasingly difficult. NZ On Air survey data helps point to overall content trends and audience engagement gaps, and broadcast data shows patterns of lower engagement with public media content for different parts of the population. However, neither of these is an overall picture of engagement with public media content and so caution is needed around using these data sets on their own in looking at audience engagement with public media content. This may be an area that would benefit from future data and analysis to help direct Crown investment where needed.

While difficult to show accurate positions of engagement, indications of underserved audiences from available data are of concern. Māori, Pacific and Chinese/Asian audiences are growing components of New Zealand society, so it is critically important that New Zealand's core Public Media organisations are set up to serve them well. While Māori Television, Iwi radio, National Pacific Radio Trust and other local stations do help with engagement with these audiences, it is also important that audiences are seeing content on TVNZ and RNZ, or the new entity, that reflects their language and culture.

Youth audiences also provide a key indicator as to whether organisations are “keeping up with the times”. These trends may signal a need for investment in new engagement approaches or channels for Public Media. As previously shown in Figure 24, youth audiences are not underserved by media overall, but they are choosing to consume less local content. This could be due to platform and/or content preferences, raising questions of both how the new entity could better serve these audiences and whether distributing public media content on other platforms may help.

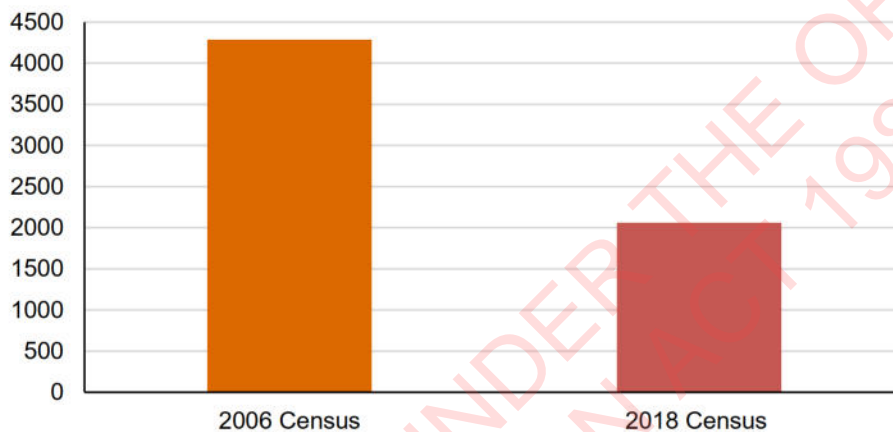
### **Reduction in the quality of New Zealand news and current affairs**

Declining revenues, particularly in print media, have placed the production and distribution of public interest news from the private sector under strain. In recent years, many of New Zealand's regional titles have closed, and newsrooms are facing staff reductions and diminishing capacity to provide comprehensive news coverage.

In 2019, NZ On Air commissioned Patrick Smellie to produce a short options paper (the Smellie Report) to clearly identify and discuss regulatory options for policymakers to consider regarding improving the environment for New Zealand journalism<sup>58</sup>. The report was commissioned in response to the concerns raised by the media industry at a roundtable session earlier in 2019. This report highlighted the stark change in New Zealand's news landscape over the past 15 years, as the transition to online media and the dominance of search (e.g. Google) and social media (e.g. Facebook) in this space.

The pressures of the changing media environment have seen a large loss of journalistic talent (and investment) in New Zealand. There has been a more than 50% fall in journalists in New Zealand between 2006 and 2018 and a large reduction in community focus media, particularly print media, as these publications struggle to remain financially viable with lower scale of audience. With this reduction in talent, it is not surprising there has been a rise in concerns regarding the quality of available news, growing concerns regarding “fake news” and that news content is too “click-bait” focused.

**Figure 28: Number of Journalists in New Zealand**



*Source: 2006 and 2018 Census Note: the descriptors changed between the 2006 and the 2018 census. In the 2006 census 'journalists' included reporters, editors and sub-editors. In the 2018 census, 'journalists' included print, radio TV journalists or 'other writers'.*

The Smellie Report also leveraged off the findings of two other recent similar reviews in Australia and the UK, the 'ACCC'<sup>59</sup> and 'Cairncross'<sup>60</sup> reports respectively. Both of these reports reached similar conclusions to the Smellie Report regarding the negative impact the dominant search and social media platforms are having on local news and journalism.

The Smellie Report recommended 10 options for improvement. While only some of these are directly relevant for the business case consideration, they point to the wider set of complex issues that need to be addressed within (and outside) this business case to build a Strong Media and Public Media sector in New Zealand. The ten recommended options are:

- Option 1: Revised regulatory framework
- Option 2: Code of conduct
- Option 3: Market study
- Option 4: Impose a 'News Quality obligation' on platforms
- Option 5: Media literacy initiatives

<sup>58</sup> <https://www.nzonair.govt.nz/research/options-improve-environment-new-zealand-journalism/>

<sup>59</sup> <https://www.accc.gov.au/publications/digital-platforms-inquiry-final-report>

<sup>60</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/779882/021919\\_DCMS\\_Cairncross\\_Review\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/779882/021919_DCMS_Cairncross_Review_.pdf)

- Option 6: Targeted government funding for public interest journalism
- Option 7: Google and Facebook could be encouraged to extend funded digital journalism initiatives to the NZ market, perhaps using the threat of regulation
- Option 8: Tax relief
- Option 9: Stable and adequate funding for public broadcasters
- Option 10: Stay in step with international developments.

Quality local news is critically important to ensure New Zealanders are well informed about local issues and are active participants in an informed democracy. However, without investment into local news and journalism and consideration of wider public policy interventions, it is unlikely that change will occur to arrest the continued decline in engagement. New Zealand benefits from a successful liberal democracy, but without a healthy local media sector, this could increasingly come under threat.

### **Traditional media struggling to respond in an agile manner**

Around the world, traditional media organisations are struggling to adapt to changing audience expectations and the movement to online distribution of content. This has been well discussed earlier in this report and New Zealand's Public Media entities are all facing this challenge and having to make trade-offs and decisions which balance funding constraints with changing audience demands.

This challenge is exaggerated in an environment of constrained funding. Over the past 10 years, there has been little or no real funding growth for RNZ and NZ On Air<sup>61</sup>, while costs of production have continued to rise. Declining advertising revenue is also threatening TVNZ's current model, providing less and less room for investment in new delivery models. While Public Media organisations have been adapting as best as possible to the changing environment, there has been little financial support for adapting to the changing environment and maintaining levels of New Zealand content that reach New Zealanders.

This challenge is further exaggerated due to the current mandates, objectives and funding arrangements of New Zealand's Public Media entities not being aligned, particularly for RNZ, TVNZ and NZ On Air. While this does not constrain their individual ability to act in response to disruption, it does constrain their ability to do this collectively.

As part of their earlier work, the Ministerial Advisory Group commissioned a report on Public Media Collaboration which was delivered in December 2018<sup>62</sup>. Overall the research found that *"the rigid and separate structures that make up the public broadcasting system in New Zealand have... served to restrict the sort of evolutionary change that overseas public broadcasters have used to better position themselves for a converged future"*. The report also found that *"imposing collaboration on fragmented and misaligned organisations was a poor alternative to addressing the fundamental issue of inappropriate structures and mandates"*.

The misalignment of mandates with regard to this business case largely reflects the difference in legislated purpose and obligations of TVNZ<sup>63</sup> and RNZ<sup>64</sup>. The RNZ Charter is closely aligned to the Government's public media goals, while the TVNZ Act has a much stronger commercial focus, with only some aspects of its legislated function aligning to the government's public media goals. While Government ownership should provide aligned

<sup>61</sup> RNZ and NZ On Air received time-limited funding increases in Budgets 2018 and 2019, and RNZ received a small baseline increase in Budget 2017. Before these increases, both entities had static funding for close to a decade that constrained their ability to respond to changes in their operating environments.

<sup>62</sup> *Public Media Collaboration: Strengthening Public Media to Meet the Government's Public Media Objectives*, Shaun Brown and Guy Beatson, December 2018.

<sup>63</sup> See Television New Zealand Act 2003 and Television New Zealand Statement of Intent 2018

<sup>64</sup> See Radio New Zealand Charter: <https://www.rnz.co.nz/about/charter>

direction for both entities, clear and aligned public media purpose and objectives will also help ensure consistent alignment toward common goals. Note that both the TVNZ and RNZ legislation already provide for clear editorial independence which, as mentioned in section 3.1, is a critical element for all media organisations in New Zealand.

What is clear in this changing environment is that scale and content quality help and this is unlikely to be achieved with each of the Crown's owned media organisations working on its own. It is unlikely that even together New Zealand's Public Media organisations will be able to take on the likes of Netflix and Amazon, but by working together, they will be able to better consider opportunities to leverage each other's resources, talents and strengths to ensure Public Media in New Zealand remains a key part of the media landscape and delivers quality New Zealand content to New Zealand audiences. However, what can also not be forgotten is the need for investment to maintain or grow Public Media outcomes in New Zealand. Structure alone will not solve the challenges faced by New Zealand's Public Media entities.

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## 4.4 Investment objectives

### 4.4.1. Outcomes and benefits

In January 2020, Cabinet agreed a set of outcomes for the Strong Public Media work. These are:

- New Zealand audiences choose to access mainstream and targeted content and services that support:
  - their needs and interests as people living in Aotearoa, and which in particular reflect the language and experiences of Māori and Pacific peoples, and other under-served audiences;
  - their ability as New Zealanders to be informed and engaged members of our participative democracy and open civic society; and
  - their access to a range and diversity of content that they value and trust.
- Public Media in New Zealand are:
  - operationally and editorially independent;
  - securely and sustainably funded;
  - able to respond effectively to an evolving operating environment and relevant to changing consumer preferences, in particular younger audiences; and
  - complementary to and collaborative with private media.
- Public Media play an integral role in contributing to New Zealand being:
  - a connected, informed, cohesive, and independent nation;
  - a healthy, participative democracy; and
  - confident in, and aware of our unique identity, cultures, and languages.

Additionally, the Strong Public Media Investment Logic Map (see Appendix 1) defined the expected benefits from the Strong Public Media work to be:

- An increased sense of national identity and culture;
- More engaged and better-informed citizens; and
- Content is delivered effectively and efficiently to New Zealand and beyond.

The above outcomes and benefits have been adopted in the key assessment criteria in the Economic Case.

### 4.4.2. Investment objectives

Reflecting on the Crown's public media goals, the above outcomes and benefits, and the output from workshops with key stakeholders, the following investment objectives for the establishment of a new Public Media entity are recommended for further development with the business case. These investment objectives have been targeted as a combined set to capture the wider contribution to society of TVNZ and RNZ, or the new entity. Independently each of these measures only show part of a picture, but collectively allow assessment of the contribution towards the Strong Public Media outcomes.

These investment objectives are planned to be developed in two phases, with the first five areas where data is available today, and the final two sets of measures to be developed as survey tools, data and analysis are created and collated to provide a baseline for measurement.

Some of the detail behind below investment objectives was still being developed at the point of pausing the business case work and will require further data to finalise. As work is

completed on the Financial and Management cases the further required detail should be provided in spaces marked with square brackets or marked with X or Y. It is recommended further discussions be held with key stakeholders to define measurements, refine and confirm these objectives once the business case is restarted. The current draft investment objectives are:

s9(2)(f)(iv)

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s9(2)(f)(iv)

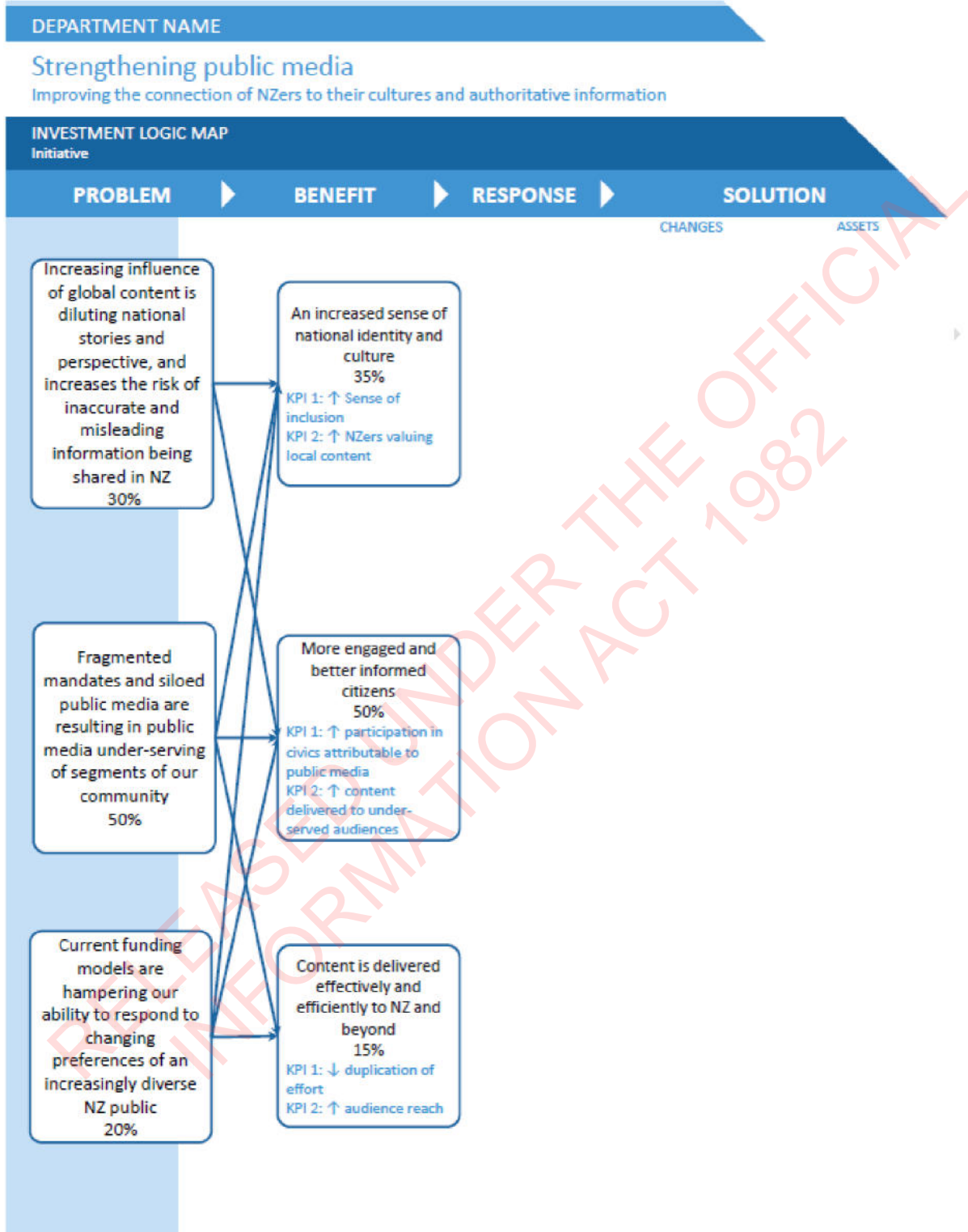
#### 4.4.3. Consequences of not addressing the problems

The case for change has been documented in section 4 of this document. If the status quo were to remain, it can be expected that the current funding challenges (and consequential service constraints) continue to become increasingly acute. In particular, the impact of COVID-19 is anticipated to accelerate the shift of advertising revenues from traditional media to online platforms. If this trend cannot be reversed (an outcome considered unlikely by many in the sector), the level of service delivered can only reasonably be expected to decline. If that occurs, potential outcomes or risks include:

- Increasing disenfranchisement within sectors of New Zealand society who are primarily being provided incorrect or non-relevant information for the New Zealand context or cultural information from a different context;
- Impacts on civil society as segments of the community increasingly do not relate to New Zealand culture or do not trust authoritative information;
- Public Media becomes increasingly irrelevant to a growing segment of New Zealand society as it continues to focus on the easier-to-reach aging sectors of New Zealand;
- New Zealand media's news focus will increasingly be on fast turn-around news at the expense of investigative journalism and regional journalism;
- Public Media's content focus will continue to focus and serve the main interests of New Zealanders rather than the more diverse interests of an evolving culture; and
- Service cuts, reduced delivery of New Zealand content or reduced quality of content delivered.

<sup>69</sup> This measure will require further analysis as currently online measurement is not available for ethnicities. As per figure 24 & 25 of this report, public media content has been defined to include: News, Childrens, Factual, Current Affairs, Sports, Religion, NZ Drama and NZ Comedy.

# Appendix 1 – Investment Logic Map for Strong Public Media



Investor: Anna Butler  
Facilitator: Sue Powell  
Accredited Facilitator: Yes

Version no: 0.7  
Initial Workshop: 3/03/2020  
Last modified by: Sue Powell 11/03/2020  
Template version: 6.0

## Appendix 2 – TVNZ, RNZ and NZ On Air brief profiles

### Television New Zealand

TVNZ is the largest publicly owned media entity in New Zealand, by scale and reach. Its engagement with and impact on New Zealand audiences remains substantial despite growing competition and disruption of audience behaviour.

TVNZ's operations are governed by the Television New Zealand Act 2003 and the Broadcasting Act 1989. In carrying out its functions, TVNZ must produce high quality content that:

- a) Is relevant to, and enjoyed and valued by, New Zealand audiences; and
- b) Encompasses both New Zealand and international content and reflects Māori perspectives.

Despite being a state-owned television network, TVNZ is almost fully commercially funded with 94% of 2019 revenue coming from advertising. TVNZ spent \$93 million on New Zealand content in 2019, largely funded through this commercial revenue.

TVNZ 1 and TVNZ 2 and TVNZ duke comprise TVNZ's linear TV operations. TVNZ 1 enjoys 43% daily reach and TVNZ 2 20%. This compares with its commercial competitors, Three at 25% and Prime at 12%. TVNZ also had an average weekly audience reach for its TVNZ on Demand online platform of 340,000 for the 12 months to June 2019.

TVNZ's functions are subject to lifeline utility requirements under NZ civil defence legislation. Effectively, this status requires TVNZ to function (even if at a reduced level) after an emergency, and to provide advice to civil defence authorities, if and when requested.

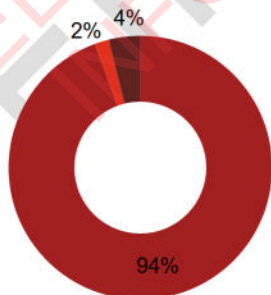
#### TVNZ Board

- Andy Coupe
- Trish Carter
- Abby Foote
- Toko Kapea
- Kevin Malloy
- Julia Raue

#### TVNZ Management

- Chief Executive Officer - Kevin Kenrick
- Chief Financial Officer - Ciara McGuigan
- Director of Content - Cate Slater
- Chief Product & Information Officer - Kym Niblock
- Head of News and Current Affairs - John Gillespie
- Commercial Director - Jodi O'Donnell
- Business Strategy Director - Paul Maher
- General Counsel & Corporate Affairs Director - Brent McAnulty
- Director of People and Talent - Anna Lissaman

#### TVNZ revenue sources



- Advertising revenue
- Programme funding
- Other trading revenue

## Radio New Zealand

Radio New Zealand (RNZ) is a New Zealand public service radio broadcaster. It is a Crown Entity and was established under the Radio New Zealand Act 1995.

The broadcaster is bound by the RNZ Charter and Operating Principles included in the Radio New Zealand Act.

RNZ's Charter is closely aligned to the Government's public media objectives. The objectives relating to national identity, an informed democracy, media independence, plurality of news and current affairs services as well as catering for Māori and Pacific audiences find clear expression in the purpose and delivery of the RNZ charter.

RNZ broadcasts over three nationwide networks; RNZ National, RNZ Concert and the AM network which relays Parliamentary proceedings. RNZ Pacific (formerly Radio New Zealand International or RNZI) is RNZ's overseas shortwave service, broadcasting to the South Pacific and beyond, while Radio New Zealand News provides comprehensive, up-to-the-minute news and current affairs information.

RNZ National and Concert are funded by New Zealand On Air and RNZ Pacific is funded by the Ministry for Culture and Heritage. New Zealand Parliament fully funds RNZ's AM network.

RNZ's functions are subject to lifeline utility requirements under NZ civil defence legislation. Effectively, this status requires RNZ to function (even if at a reduced level) after an emergency, and to provide advice to civil defence authorities, if and when requested.

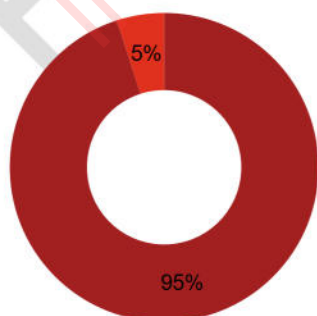
### RNZ Board

- Chair - Dr Jim Mather
- Bill Francis ONZM
- Melissa Clark-Reynolds ONZM
- Mike O'Donnell
- Peter Parussini
- Caren Rangi ONZM, FCA
- Irene Gardiner

### RNZ Management

- Chief Executive and Editor in Chief - Paul Thompson.
- Head of News and Digital – Megan Whelan
- Head of Business Transformation and Strategy - Alan Withrington
- Head of Audience Strategy - Stephen Smith
- Head of Radio and Music – David Allan
- Chief Technology and Operations Officer – Alma Hong
- Acting People and Development Manager – Susannah McKinstry

### RNZ revenue sources



■ Government funding and fees ■ Other revenue

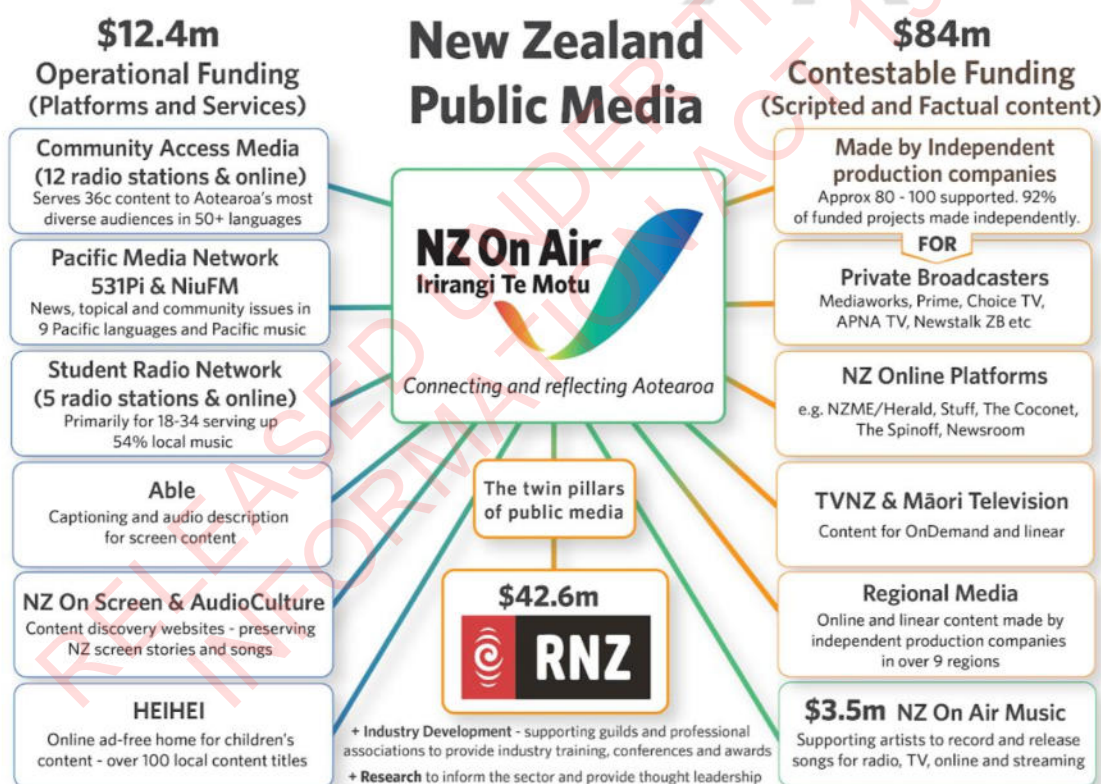
## New Zealand On Air

Established in 1989 as the Broadcasting Commission, New Zealand on Air's role as a funder of public media content, platforms and services is significantly aligned with the Government's overall public media objectives.

Its legislated functions require it to promote programmes that reflect and develop New Zealand identity and culture. It has a specific additional responsibility to promote Māori language and Māori culture and to support content for women, youth, children, persons with disabilities and minority groups in the community.

NZ On Air currently delivers against these obligations by investing in content, platforms and services that provide a broad representation of New Zealand cultural identity which, in turn, helps build social cohesion, inclusion and connection. While it is limited to a funding role, it is able to invest in a wide range of content, both broad appeal and special interest, across multiple platforms. It is not constrained by role specificity.

NZ On Air provides funding for public service content on TVNZ and Māori Television (and privately-owned broadcasters) and it directly funds the National Pacific Radio Trust. NZ On Air also administers the Crown appropriated funding for RNZ. By definition, its function is already one of active collaboration with public broadcasters and content producers. Pictured below is a breakdown of NZ On Air's funding allocation.



### NZOA Board

- Dr Ruth Harley CMNZ, OBE
- Sarona Aiona-Iosefa
- Helen Grattan
- John McCay
- Linda Clark
- Philip Broughton

### NZOA Management

- Chief Executive – Cameron Harland
- Head of Corporate Services – Clare Helm
- Head of Communications - Allannah Kalafatelis
- Head of Music - David Ridler
- Acting Head Of Funding - Anna Currie
- Head of Funding - Amie Mills

## Appendix 3 – Market sounding discussions

As part of the planned development of the business case, discussions were held with a number of different industry parties. Due to the impact of COVID-19 only some of these meetings were able to be held face to face, with many held over video or phone conference. The following is a list of parties, outside of MCH, TVNZ, RNZ and NZ On Air and other Government officials, who discussions were held with during March and April 2020:

- Association of New Zealand Advertisers
- Better Public Media Trust
- Corporate Communications Council
- Newspaper Publishers Association
- Newsroom
- Māori Television
- Mediaworks
- Ministry for Pacific Peoples
- NZME
- Radio Broadcasters Association
- Sky TV
- Spark
- Spinoff
- Stuff
- Te Puni Kōkiri

Topics discussed with these parties included:

- Views on the January 2020 Cabinet decision and the merits of establishing a new Public Media Entity.
- Opportunities that may arise from this the preferred approach and how these may best be enabled.
- Potential impacts of implications on the wider media industry or the individual organisation from the preferred approach.
- Alignment with Māori Media strategy and direction, including potential opportunities and implications of the preferred approach.
- Alignment with Pacific Media strategy and direction, including potential opportunities and implications of the preferred approach.

The time and insight provided by people from the above organisations has contributed significantly to this business case development. It is acknowledged that people provided much of this contribution to this project while COVID-19 was placing significant stress on their organisations. Given the impact of COVID-19 and the pausing of the business case work it has not been possible to engage with all stakeholders and it is recommended that this be looked at when work is recommenced.