
TVNZArchive

Review of revenue, costs, assets and liabilities

Ministry for

Culture and

Heritage March

2014

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Mr Greg Harford
Manager, Media Policy
Ministry for Culture and Heritage
Box 5364
WELLINGTON

20 March 2014

Financial Due Diligence of the TVNZ Archive

Dear Greg

We refer to our contract dated 16 January 2014 ("the Contract") in relation to the financial due diligence of Television New Zealand Limited's ("TVNZ") archiving operation ("the Archive"). This report summarises the results of our due diligence investigation.

We trust that the analysis above is of assistance to you in determining the costs of providing the TVNZ Archive at the current level of service. We welcome the opportunity to discuss this with you further.

Please also read the Important Notice Appendix A, which contains specific matters relevant to the Ministry.

Should you have any queries in relation to the above, please do not hesitate to contact us.

Yours sincerely
PricewaterhouseCoopers

Bruce Wattie

Bruce Wattie
Partner

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1. *Background and scope*

Overview of the Archive

The Archive is New Zealand's largest audio-visual production library. TVNZ holds and manages the archive of television related materials dating from the start of television broadcasting in New Zealand. The materials are relevant to the historical and cultural heritage of New Zealand and to New Zealand's sense of national identity. They are used frequently in TVNZ's day to day business, particularly for production of news and current affairs programmes.

The Archive is housed in a purpose built, modern building in Avalon, Wellington. The building is located adjacent to and shares certain services with the Avalon studios. The Archive includes equipment used to play and transfer the archive materials and other equipment used in the day to day support of the business.

The Archive materials include audio, visual and audio-visual material broadcast by TVNZ (and its predecessors). These materials are stored in a temperature controlled vault at the archive facility.

TVNZ has developed a database of most, but not all, of the material in the Archive ("the Database"). The Database is a record of each item in the Archive and includes a reasonably detailed description of the contents of the items.

The Database in its simplest form is a cataloguing system for archive material. However, it also facilitates the efficient extraction of individual images or audio content from material, which from TVNZ's perspective is valuable given that on a day to day basis one of its primary uses of the Archive is to extract historical footage, images and audio content to add to news articles and the like.

There are 13 staff members employed by TVNZ to operate the Archive. "Operation" of the Archive includes retrieving material for TVNZ and others, updating and maintaining the Database and digitising analogue material.

Transfer of the Archive

TVNZ intends to dispose of the Archive's tangible assets, comprising land, buildings and equipment. It also intends to dispose of the Archive materials, in accordance with the Public Records Act 2005. TVNZ is establishing a digital production library that will, over time, reduce its need to access the Archive.

TVNZ is a Crown Entity as defined in Section 7(1) of the Crown Entities Act 2004 and as such is a "public office" for the purpose the Public Records Act 2005. A public office is obligated under the Public Records Act to maintain full and accurate records of its affairs.

We understand that the Archive is a public record for the purpose of the Public Records Act. Under Section 20(1) of the Act, a public record cannot be disposed of without authorisation from the Chief Archivist from Archives New Zealand. Disposals are defined under Section 20(1) to include:

- (a) Transferring control of the public record to another public office; or
- (b) Transferring control of the public record to the Chief Archivist; or
- (c) Altering or destroying the public record; or
- (d) Selling the public record; or
- (e) Discharging the public record.

The Ministry for Culture and Heritage ("the Ministry") is looking to secure the Archive to increase its accessibility to the public and to preserve its content given its importance in terms of New Zealand's audiovisual heritage. The Ministry intends to appoint an Archive Manager to run the Archive. The proposed Archive Manager at this time is the New Zealand Film Archive.

The transfer of the Archive is likely to involve TVNZ:

- Transferring the Archive land, buildings and related plant, situated at 181A Taita Drive, Avalon to the Department of Internal Affairs ("DIA"). We understand that DIA will fund the depreciation of the facility but any operating expenses associated with the land and buildings will be passed on to the New Zealand Film Archive as incurred.

- Transferring all non-building equipment and assets and, importantly, the archived material to the Ministry.
- Retaining the Database. The Crown will have the right to extract information from the Database. TVNZ will continue to maintain the Database for its own use. This will include updating the Database for new material lodged in the Archive after the transfer. The intention is that the Archive staff currently involved in managing and maintaining the Database will continue to do so after the transfer.
- Leaving TVNZ hardware and systems in place at the Archive until the TVNZ digital library is operational.
- Not transferring any overhead support services with the Archive. The New Zealand Film Archive will need to provide human resource management services, finance support etc.

We understand that as the manager of the Archive, New Zealand Film Archive will receive any third party revenue from operation of the Archive and incur (and pay) all costs of operating the Archive apart from asset-related costs. We understand that the parties are considering how responsibility for asset related costs will be dealt with.

The majority of the personnel currently employed by TVNZ to operate the Archive will be offered employment by the New Zealand Film Archive in some form. TVNZ intends to continue to employ the current Archive Manager and Database Administrator to assist in the development of its digital database. The New Zealand Film Archive will need to assess the requirement to replace these positions, which may have cost implications.

Challenges in assessing the revenues and costs of the Archive

TVNZ has not operated the Archive as a separate, stand-alone business unit. Therefore, it does not have a stand-alone profit and loss statement or balance sheet.

TVNZ has prepared a pro forma operating statement to indicate the revenue and costs of operating the Archive. The revenue and cost lines are either items that are directly attributable to the Archive (e.g. direct personnel costs) or an allocation of TVNZ corporate or overhead items.

We have reviewed the available supporting documentation for the direct revenue and cost items. In some instances there are no contracts or other documentation to provide comfort on the accuracy of cost items allocated by TVNZ.

Contracts with Avalon Studios Limited

Prior to 2013, TVNZ owned and operated all of the land, buildings and facilities on the wider Avalon site. On 31 March 2013, TVNZ sold the Avalon studios to Avalon Studios Limited, a private New Zealand limited liability company. Avalon Studios Limited is a subsidiary of Avalon Studio Properties Limited, which is owned by the following four shareholder groups: □ Allocation 1: 40 shares (40.00%)

- Denis Maxwell Kirkcaldie
- Vivian Jane Kirkcaldie
- Peter Wall Martin
- Allocation 2: 40 shares (40.00%) – Feast Group Limited
- Allocation 3: 10 shares (10.00%)
 - Gary Malcolm Watkins
 - Charlotte Mary Ann Watkins
 - Macalister Mazengarb Trust Company Limited □ Allocation 4: 10 shares (10.00%)
 - Paul Julian Mainwaring
 - Robyn Bernadette Mainwaring
 - Macalister Mazengarb Trust Company Limited.

Although the Archive is in a standalone building, it shares certain building services with the Avalon studios building. Also, technical support services for the Archive's specialist and other equipment is provided by Avalon Studios Limited.

Recognising the dependency of the Archive on Avalon Studios Limited, TVNZ entered into two agreements with Avalon Studios Limited on 3 April 2013, following the sale of the Avalon facility to Avalon Studios Limited:

- **Shared Facilities Scheme Services Contract Agreement:** This agreement provides for the provision of building services by Avalon Studios Limited to the Archive. The agreement had an initial term of 12 months and a right of renewal for a further 12 months.
- **Technical Support Services Contract Agreement:** This agreement is for the provision of maintenance and support for the Archive's technical equipment.

Summaries of the two agreements are contained in Appendix B and Appendix C.

Scope

The Ministry for Culture and Heritage has engaged us to conduct an investigation into the current costs of the Archive at the current level of service. This report summarises the results of the review of the costs of transferring the archive from TVNZ and the ongoing operating costs, assuming current levels of access are maintained.

Our advice is provided only for the purpose of assisting you in your deliberations in this matter and for no other purpose. It is provided subject to the terms of the Contract and the Important Notice included in Appendix A.

Other

Unless otherwise stated, all monetary amounts in this report are in New Zealand dollars. Figures are expressed exclusive of Goods and Services Tax. Figures in tables have, where appropriate, been rounded. Therefore, the totals in a table may not agree exactly to the sum of the numbers presented in the table.

2. Summary of findings

Introduction

We present in this section two key outcomes from our review:

- A list of issues that we consider important to bring to your attention. The issues in part reflect that the structure of the transfer of the TVNZ Archive has not been finalised and so there are some outstanding matters that may impact the ongoing revenues and costs of the Archive business.
- A compilation of projected revenues and costs for ongoing operation of the Archive. This includes an estimate of possible recovery of costs from TVNZ.

Issues for consideration

- TVNZ will retain the Database. The New Zealand Film Archive will have to build a database or incorporate it into its existing databases. We understand that this may not be a major issue for the New Zealand Film Archive.
- The level of finance and human resources support costs and other overheads needed for the Archive is dependent on the how the New Zealand Film Archive will manage and operate the Archive within its existing structure. It is questionable whether the allocation of overhead suggested by TVNZ in its pro forma revenue and costs schedule is adequate.
- TVNZ intends to continue to employ the current Archive Manager and Database Administrator to assist in the development of its digital database. The New Zealand Film Archive is likely to employ a replacement Archive Manager.

The retention of these personnel by TVNZ and their continued location at the Archive will require careful management. The financial arrangements in relation to facilities provided for these two personnel in the Archive building and any services they might provide to the Archive require consideration.

- Currently the Archive undertakes cataloguing services for TVNZ. Archive staff will continue to perform this service while TVNZ develops its digital database. The latest draft agreement captures an intention that TVNZ will pay for production library services (direct cost of labour and consumables only with no access or overhead charges). We comment further on this later in this section.
- We understand that the Archive assets will be transferred to DIA (land and buildings) and the Ministry (all other assets including the Archive material). TVNZ has fully depreciated the assets. Nevertheless, some or all of the assets have a remaining life and may need to be revalued on “acquisition”. This could result in a depreciation charge in the future. This will be most relevant in relation to the building, plant and equipment and the archive shelving (which may be part of the building).
- It has not been determined whether a rental will be charged to the New Zealand Film Archive as the Archive Manager for the building and any other assets.
- The shared services with Avalon Studios Limited include a Covenant and Easements which are effectively secured (subject to serving valid notices of extension) for a term of 24 months following the date of registration. The documents have been submitted to LINZ for registration.

The Covenant contains a positive obligation on the owner of the Archive Building to undertake necessary works to separate the Shared Facilities prior to expiry of the term of the Covenant. Subject to this requirement, in the event that the owner of Avalon Studios Limited wishes to relocate or remove the Covenant or Easements prior to expiry of the 24 month term it may do so only if it has obtained the prior consent of the owner of the Archive building and the owner of Avalon Studios Limited will be responsible for all costs.

It has been the intention of TVNZ to separate the Shared Facilities for the Archive building during the 24 month easement period. In doing so the owner of the Archive building will limit the risk that Avalon Studios Limited will no longer be in a position to provide the building services. It is our understanding that the decision to develop a separate services facility has not yet been made. TVNZ considers that the development of such a facility would cost approximately \$1.1 million.

There is an alternative option of contracting third parties to supply the necessary services. The New Zealand Film Archive considers that this may be more cost effective than building a separate facility. This will need to be investigated further.

- A large amount of the Archive material is stored on obsolete or old technology tape formats. The equipment needed to access the tape content is similarly old technology that requires some specialist knowledge to operate and maintain (maintenance services are currently provided by Avalon Studios Limited). Spare parts are typically obtained from machines acquired specifically to provide a source of parts.

The Archive content will be worthless if it cannot be accessed. Therefore its “worth” is dependent on the ability to keep the machines and equipment operating. This is both a technical operational issue and a financial issue (with a risk that the cost of keeping the machines operational could increase significantly over time for a range of reasons).

- We have quantified in this report the personnel liabilities that the New Zealand Film Archive will assume. TVNZ intends to provide partial (not full) cash compensation for the sick leave liabilities and partially (50%) contribute to any redundancy liabilities that might arise within a defined period after the transfer.

The New Zealand Film Archive has indicated that it is possible that not all of the existing staff complement will be required beyond the short to medium term. Its preference is for TVNZ to pay out the redundancy obligation (in full) prior to the transfer and the staff would then be employed on fixed term contracts. We are unaware if TVNZ would accept such a proposal. If not then there is a likelihood that there will be redundancy costs that will need to be funded after the transfer.

- TVNZ has provided a recent valuation of the Archive building and fixtures. This was undertaken for financial reporting purposes using the depreciated replacement cost methodology. This value will not necessarily reflect the price that could be obtained for the building if it was sold on the open market for the highest and best alternative use.
- The New Zealand Film Archive and TVNZ have not fully resolved how the IT requirements of the Archive will be fulfilled post-transfer. The New Zealand Film Archive has proposed that the TVNZ IT systems and equipment currently used at the Archive remain in place.

Projections

We have been asked to compile projected revenues and costs of the Archive after the transfer to the New Zealand Film Archive and to consider the level of cost recovery that might be charged to TVNZ for maintaining the Database.

The latest draft transfer agreement we have seen suggests that TVNZ will pay the direct costs of the production library services it uses (direct cost of labour and consumables only with no access or overhead charges). As this treatment is still to be agreed between the New Zealand Film Archive and TVNZ, the amount that TVNZ will pay for services to be provided by the Archive is uncertain.

We have quantified three possible cost recovery options based on marginal cost (direct cost of labour and consumables only with no access or overhead charges), standalone cost and an allocation of total costs based on relative FTE resources servicing TVNZ's requirements.

The following table summarises the projections and shows the possible net deficit if cost recovery from TVNZ is based on a pro rata allocation of direct costs (the third method).

The first part of the following table shows:

- The number of FTEs expected to be dedicated to TVNZ requirements as a percentage of total FTEs.
- Direct labour and consumables and total costs.
- The estimated cost recovery amount using the three methods.

The second part of the table shows the possible net deficit if cost recovery from TVNZ is based on cost allocation (i.e. the third method). The significant change between Year 1 and 2 reflects TVNZ's expectation that the services it will require from the Archive will decrease rapidly.

Table 1 Notional projections

NZD \$000	Year1	Year2	Year3
Notional cost recovery from TVNZ			
<i>Assumptions</i>			
Total FTE transferring			
	10.2	10.2	10.2
Average FTEs undertaking TVNZ activity	7.5	1.5	1.5
Proportion of time spent on TVNZ	73.7%	14.7%	14.7%
Direct labour and consumables costs	568.5	579.9	591.5
Full cost	1,277.7	1,303.3	1,329.3
<i>TVNZ charge estimates</i>			
Direct labour and consumable recovery	419.1	85.5	87.2
Costs less external revenues	1,173.9		
Cost allocation	941.8	192.1	196.0
Notional deficit if TVNZ charged on cost allocation method			
TVNZ charge based on cost allocation	941.8	192.1	196.0
<u>External revenue</u>	<u>103.8</u>	<u>103.8</u>	<u>103.8</u>
Total Revenue	1,045.6	295.9	299.8
Total Expenses	1,277.7	1,303.3	1,329.3

Net Surplus / (Deficit)	(232.1)	(1,007.3)	(1,029.6)
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There are a number of risks and uncertainties that need to be taken into account when considering the projections:

- The three TVNZ cost recovery calculations produce quite different results. A change in the cost recovery will have a significant impact on the net deficit.
- The deficit in Year 2 and 3 could be quite different to the numbers in the table particularly if the New Zealand Film Archive does not need all of the personnel that will be servicing TVNZ in year 1. TVNZ estimates that the resources needed to service its requirements will reduce from 7.5 FTEs in year 1 to 1.5 FTEs from year 2. A reduction in 6 FTEs equates to a possible direct personnel cost saving of almost \$310,000 in years 2 and 3.
- If there is a reduction in head count there then may be some reduction in non-personnel costs. However, a large component of the Archive costs are fixed and will not change (decrease) if there is a reduction in the head count.
- If TVNZ does not accept the New Zealand Film Archive's position that the redundancy liability should be paid out in full prior to the transfer then there will be redundancy costs if the staff complement is reduced post-transfer (other than by natural attrition). A number of factors will impact on any redundancy to be paid by the Archive, not least that redundancy is specific to each staff member. However, as a guide, six redundancies could be in the order of \$120,000. Under the TVNZ proposal if this cost was incurred in the first year post-transfer it would pay half of the cost.
- The projections do not include any building-related rental or any fixed-asset depreciation (TVNZ has almost fully depreciated the Archive assets). We have estimated a possible depreciation charge of approximately \$30,000 if the Ministry and or DIA are required to revalue the assets post-transfer and depreciate the assets. This mostly relates to the building-related assets and shelving and does not include an estimate for the building itself.
- The projections assume that the New Zealand Film Archive proposal regarding retaining the TVNZ IT hardware and software is accepted. This is an interim solution only. A permanent solution probably involving migration to the New Zealand Film Archive's systems will be required. The projections do not include any potential costs for the migration process.
- A number of the matters presented in the earlier risks discussion will impact on the actual costs post-transfer.

3. TVNZ pro forma statement of revenues and costs

The pro forma statement of the Archive's revenue and costs prepared by TVNZ is presented in Table 2 ("the pro forma statement"). The pro forma statement is a basis for determining the revenues that will accrue to the Archive and the costs that will be incurred in its ongoing operation. Revenue and costs that are specific to TVNZ will not transfer with the Archive and are not included (refer to Section 4).

The table needs to be viewed with some caution. There are a number of decisions to be made about how the Archive will be operated by its new "owner" that will have an impact on the costs in particular. For example:

- There is a nominal allocation of costs for finance and human resources support. What these and other overhead allocations will be is dependent on the how the New Zealand Film Archive will manage and operate the Archive within its existing structure.
- A similar issue is how the Archive will be integrated into the New Zealand Film Archive's IT infrastructure and platforms over time.
- Currently the Archive undertakes cataloguing services for TVNZ as new material becomes available. We understand that the Archive staff will continue to perform this service while the digital database is being developed. TVNZ will compensate the New Zealand Film Archive for this

2G. TVNZ

2H. TVNZ

2E. Services Agreement with Avalon Studios Ltd

2E. Services Agreement with Avalon Studios Ltd

2I. Technical Support Services Agreement with Avalon Studios Limited

2J. TVNZ; Desk based research

2K. TVNZ; Desk based research 2L. TVNZ

Source: TVNZ, Contracts and PwC Analysis

Revenue

Ref	Description
1A	<p>Tape tech revenue represents an internal recharge for Archive labour and consumables. The charge is made by the Archive against TVNZ commissioned programme budgets and is for time spent retrieving content and dubbing it to digital betacam tape for producers to use.</p> <p>Currently the Archive undertakes cataloguing services for TVNZ as new material becomes available. We understand that the Archive staff will continue to perform this service while TVNZ develops its digital database. The latest draft agreement we have seen captures an intention that TVNZ will pay for production library services (direct cost of labour and consumables only, with no access or overhead charges). This service is not currently charged for and is therefore not included in the pro forma operating statement.</p>
1B	<p>Table 3 outlines the actual revenue earned for the period FY10 to FY12 and the TVNZ estimate in the pro forma.</p>
Ref	Description

Table 3 Historical Revenue Analysis

NZD \$	FY10	FY11	FY12	TVNZ pro forma est.
Members of the public	63,964	81,703	63,722	80,000
Educational/libraries	3,346	20,745	46,110	40,000
MTS (in house productions)	18,216	11,770	26,423	20,000
Total	85,526	114,218	136,255	140,000

Source: TVNZ, PwC Analysis

FY12 “members of the public” revenue dropped to \$63,722 from \$81,703 in FY11. The amount included in the pro forma statement of \$80,000 is therefore higher than the FY12 revenue and the average of the three year period. TVNZ has informed us that the members of the public service were transferred from TVNZ Licensing in Auckland to the Archive in June 2013. TVNZ expected that this would enhance the service with an offering directly from the Archive and therefore the higher sales figure was used in the pro forma statement.

Educational/libraries revenue increased significantly from FY10 to FY12. The \$40,000 estimate in the pro forma statement is lower than the FY12 results and therefore goes against the trend in this revenue stream.

The Maori Television Service (MTS) in-house production revenue has been variable. The average of the three year period is slightly lower than the TVNZ pro forma estimate.

1C	The contract with MTS includes a monthly administration fee for maintaining the collection of \$1,400 (excluding GST), equating to \$16,800 per annum.
1D	The contract with Cloud Nine includes a standard monthly fee of \$550 (excluding GST), equating to \$6,600 per annum.
1E	The contract with Kordia includes a standard monthly fee of \$435 (excluding GST), equating to \$5,220 per annum.
1F	TVNZ has confirmed that based on the last six month period of invoicing, the annual storage revenue from Palm Tree Production is approximately \$2,250.
1G	“Other revenue” relates to other archiving services including film and tape transfers to third parties which are not part of a TVNZ commercial footage (licensing) sales.

Operating costs

Ref	Description
2A	There are currently 13 people employed by TVNZ to operate the Archive. TVNZ intends offer to transfer 11 of these employees and retain two, the Archive Manager and Database Administrator. The 11 transferring employees equate to 10.2 full time equivalents. The direct salary and wage cost for these employees is currently \$528,540 per annum. With the inclusion of superannuation and ACC costs, the total personnel cost of the transferring staff is currently \$545,375 per annum.

Ref	Description																																																																														
	<p>Table 4 FY14 Personal Costs</p> <table border="1"> <thead> <tr> <th>NZD \$</th> <th>FTE</th> <th>Remuneration</th> <th>Superannuation</th> <th>ACC</th> <th>Total Annual Cost</th> </tr> </thead> <tbody> <tr> <td>Employee 1</td> <td>1.0</td> <td>53,504</td> <td>-</td> <td>268</td> <td>53,772</td> </tr> <tr> <td>Employee 2</td> <td>0.5</td> <td>30,005</td> <td>1,500</td> <td>150</td> <td>31,655</td> </tr> <tr> <td>Employee 3</td> <td>1.0</td> <td>54,631</td> <td>-</td> <td>273</td> <td>54,904</td> </tr> <tr> <td>Employee 4</td> <td>1.0</td> <td>55,451</td> <td>2,218</td> <td>277</td> <td>57,946</td> </tr> <tr> <td>Employee 5</td> <td>0.8</td> <td>37,437</td> <td>1,872</td> <td>187</td> <td>39,496</td> </tr> <tr> <td>Employee 6</td> <td>1.0</td> <td>41,212</td> <td>824</td> <td>206</td> <td>42,242</td> </tr> <tr> <td>Employee 7</td> <td>1.0</td> <td>53,216</td> <td>-</td> <td>266</td> <td>53,482</td> </tr> <tr> <td>Employee 8</td> <td>1.0</td> <td>61,985</td> <td>3,099</td> <td>310</td> <td>66,395</td> </tr> <tr> <td>Employee 9</td> <td>1.0</td> <td>63,482</td> <td>3,174</td> <td>317</td> <td>66,973</td> </tr> <tr> <td>Employee 10</td> <td>0.9</td> <td>37,616</td> <td>1,505</td> <td>188</td> <td>39,309</td> </tr> <tr> <td>Employee 11</td> <td>1.0</td> <td>40,000</td> <td>-</td> <td>200</td> <td>40,200</td> </tr> <tr> <td>Total</td> <td>10.2</td> <td>528,540</td> <td>14,192</td> <td>2,643</td> <td>546,375</td> </tr> </tbody> </table> <p>Source: TVNZ, PwC Analysis</p> <p>If the New Zealand Film Archive was to replace the Archive Manager and the Database Administrator with people at similar levels and with similar remuneration packages, the annual cost, including remuneration and associated superannuation and ACC for each person could be in the range of approximately \$85,000 to \$105,000. Both the existing Archive Manager and the Database Administrator are long serving employees.</p>	NZD \$	FTE	Remuneration	Superannuation	ACC	Total Annual Cost	Employee 1	1.0	53,504	-	268	53,772	Employee 2	0.5	30,005	1,500	150	31,655	Employee 3	1.0	54,631	-	273	54,904	Employee 4	1.0	55,451	2,218	277	57,946	Employee 5	0.8	37,437	1,872	187	39,496	Employee 6	1.0	41,212	824	206	42,242	Employee 7	1.0	53,216	-	266	53,482	Employee 8	1.0	61,985	3,099	310	66,395	Employee 9	1.0	63,482	3,174	317	66,973	Employee 10	0.9	37,616	1,505	188	39,309	Employee 11	1.0	40,000	-	200	40,200	Total	10.2	528,540	14,192	2,643	546,375
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Total	10.2	528,540	14,192	2,643	546,375																																																																										
2B	<p>We have agreed the council rates amount to a rates invoice from the Hutt City Council and the Greater Wellington Regional Council. The combined total annual rates are \$31,800 per annum.</p> <p>The Hutt City Council has not yet published the rates for the 2014/15 year. The Hutt City Council property information sheet from the property enquiry system states that the capital value of the Archive land and buildings will decrease from \$2,800,000 to \$2,100,000 and the land value will decrease from \$1,250,000 to \$1,190,000 effective 1 July 2014. This is unlikely to translate into a rates reduction.</p>																																																																														
2C	<p>Utility expenditure is governed by the Shared Facilities Scheme Contract. The following table summarises the basis of charging for all shared services under the Shared Facilities Scheme Contract:</p> <p>Table 5 Shared Facilities Scheme Contract Monthly Rates (GST exclusive)</p> <table border="1"> <thead> <tr> <th>Service</th> <th>Fixed \$ / Month</th> <th>Variable \$ / Month</th> <th>Total \$ / Year</th> </tr> </thead> <tbody> <tr> <td>Electricity</td> <td>1,200</td> <td>Metered</td> <td>14,400</td> </tr> <tr> <td>Domestic water</td> <td></td> <td>Metered</td> <td></td> </tr> <tr> <td>Hot and chilled water</td> <td></td> <td>Metered</td> <td></td> </tr> <tr> <td>Gas</td> <td></td> <td>Metered</td> <td></td> </tr> <tr> <td>Fire protection</td> <td>1,050</td> <td></td> <td>12,600</td> </tr> <tr> <td>Mechanical services</td> <td>3,200</td> <td></td> <td>38,400</td> </tr> <tr> <td>Site and building security</td> <td>1,550</td> <td></td> <td>18,600</td> </tr> <tr> <td>Building cleaning</td> <td>1,000</td> <td></td> <td>12,000</td> </tr> </tbody> </table>	Service	Fixed \$ / Month	Variable \$ / Month	Total \$ / Year	Electricity	1,200	Metered	14,400	Domestic water		Metered		Hot and chilled water		Metered		Gas		Metered		Fire protection	1,050		12,600	Mechanical services	3,200		38,400	Site and building security	1,550		18,600	Building cleaning	1,000		12,000																																										
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	Site grounds	650	7,800
	General building	Charged as incurred maintenance	
	Property mgmt	1,500	18,000

Ref	Description
	<p><i>Source: Shared Facilities Scheme Contract</i></p> <p>Utility expenditure covers electricity, domestic water, hot and chilled water and gas. These utility expenses are mostly variable and are calculated based on meter readings. However, electricity costs also contain a fixed component. As per the pro forma operating statement, these costs are approximately \$202,000 per annum. More details on how these costs are charged are outlined below:</p> <ul style="list-style-type: none"> • Electricity is metered and charged at the purchase rate from the utility supplier. As per Table 5, there is an additional fixed fee of \$1,200 per month for the provision for Emergency Backup and Uninterrupted Power Supply. The total fixed and metered costs for the period April 2013 to December 2013 totalled \$60,753 excluding GST. • Domestic water is metered and is charged at Council volume rating rates. The total metered costs for the period April 2013 to December 2013 totalled \$2,300 excluding GST. • Hot and chilled water is metered based on volume. These costs cover the costs to produce and supply hot water via the Avalon boiler, and the costs to provide chilled water via the Avalon chilled water system. The total metered costs for the period April 2013 to December 2013 totalled \$67,600 excluding GST. • Gas is metered and is charged at the purchase rate from the utility supplier. The total metered costs for the period April 2013 to December 2013 totalled \$31,348 excluding GST. <p>For the nine month period from April 2013 to December 2013, utility expenditure totalled \$162,001 excluding GST.</p>

2D	The estimated insurance cost of \$45,000 per annum is based on the TVNZ internal apportionment of the total TVNZ insurance policy. The apportionment is based on an historical percentage applied to the latest renewal.
2E	The Shared Facilities Scheme Contract covers fire protection systems, security, mechanical services, building cleaning, site ground costs, general building maintenance, property management services and insurance. The costs under the contract are included in Table 5.
2F	Telecommunications and data costs are included in the pro forma statement as \$12,000 per year. TVNZ has informed us that there is no accurate split of these costs as TVNZ does not allocate these down to the Archive level and that the \$12,000 is based on \$1,000 per staff member.
2G	<p>Building and building maintenance costs are included in the pro forma statement as \$40,000 per annum. TVNZ has indicated that there is no deferred maintenance and that the \$40,000 estimate should be sufficient to cover ongoing building and building maintenance costs.</p> <p>The monthly statements from Avalon Studios Limited for the period April 2013 to December 2013 state building and building maintenance costs totalled \$7,694 excluding GST and additional works under \$300 and works separately approved totalled \$4,503 excluding GST. There is also a specific 'in building plant' service contract with Haden Mechanical for \$938.67 per month excluding GST, equating to \$11,264 per annum. These costs total \$23,461 for the nine month period.</p> <p>Avalon Studio Limited has confirmed that they are not aware of any pending issues or work required other than some loose tiles at the front entrance of the building.</p>
2H	General Stationary is included in the pro forma statement at \$12,000 per year. TVNZ has informed us that there is no accurate split of these costs as TVNZ does not allocate these down to the Archive level and that the \$12,000 is based on \$1,000 per staff member.
2I	The service rate under the Technical Support Services Contract Agreement with Avalon Studios Limited relating to the maintenance and support of the technical equipment is \$36,000

Ref	Description
	(excluding GST) per annum. Maintenance work outside of allotted or banked hours, as specified in the contract, is charged at \$90 per hour plus GST.

2J	<p>TVNZ has estimated leased IT hardware/software and licensing (including PCs) cost at approximately \$43,300 per annum based on its agreements with HP. It is our understanding that these costs include software, photocopier rentals, server lease costs or server amortisation costs, as well as hardware for each staff member in the form of computers, monitors, keyboards and mouse.</p> <p>Our desktop research based on the requirements for 11 staff suggests the following costs. Note that the costs do not include costs associated with specialist software packages.</p> <ul style="list-style-type: none"> • Server purchase price – Approximately \$5,500 excluding GST. If this cost is amortised over three years the per annum, the annual cost is \$1,833; • Photocopier rental – Approximately \$7,200 per annum per photocopier excluding GST. Additional costs per page of printing at 2c for black and white and 20c per colour page; • PC Desktop HP Pro 3000MT – The package includes desktop tower, 19" monitor, keyboard, mouse, 2m power cable and dual VGA adaptor. Approximately \$295 per month. This equates to \$38,940 per annum for 11 machines; and • Microsoft professional 2013 – \$747 per licence. This equates to \$8,217 for 11 licences. <p>TVNZ may leave the current hardware and systems in place at the Archive until the TVNZ digital library is operational.</p>
2K	<p>TVNZ has estimated the annual finance and human resource overhead costs at \$25,000 per annum. As a guide to the reasonableness of this estimate we note the following:</p> <ul style="list-style-type: none"> • The Treasury Administration & Support Services Benchmarking Report for the financial year 2011/2012 estimates annual human resource costs per FTE at \$2,066. Based on the 10.2 FTEs expected to transfer, this equates to a total human resource overhead cost of approximately \$21,073 per annum; and • Our research indicates that payroll costs are approximately \$200 per FTE¹. Based on the 10.2 FTEs expected to transfer, this equates to approximately \$2,400 per annum. <p>In addition to these costs, there will be finance support costs to support the accounting processes undertaken by Archive staff (e.g. debtor collection and creditor payments), staff training and other general overheads. \$25,000 per annum is unlikely to be sufficient to cover all overhead allocations. We understand the New Zealand Film Archive employs approximately 60 staff. Adding additional staff will require some additional overhead resources.</p>
2L	<p>Other expenditure is largely comprised of marketing, freight and travel costs. TVNZ has not been able to provide us with historical other expenditure figures.</p>

4. TVNZ Archive revenue and costs excluded from the pro forma statement

Certain line items in the original pro forma prepared by TVNZ have been excluded from the pro forma in Section 3 as they are revenue and costs that will not “transfer” with the Archive.

Table 6 summarises the excluded items. The reference for each line item in Table 6 is used in the discussion following the table.

¹ Ioma - Payroll Benchmarks and Analysis Report 2011

Table 6 Excluded Line Items from the TVNZ Archive Pro Forma Statement

estimate Source	TVNZ NZD\$000	
1. Revenue		
Commercial Lic	540.0	1A. TVNZ
Archives NZ	8.2	1B. TVNZ
Total Revenue	548.2	
2. Operating costs		
Archive based staff	189.9	2A. Individual staff contracts; latest remuneration review letters
TVC based staff (Licensing)	116.8	2B. TVNZ
Avalon labour recharges for records, editing and line feeds	134.5	2C. TVNZ
Recharges from News library for footage sales	30.0	2D. TVNZ
Tapestock	50.0	2E. TVNZ
Annual support for Basis database	17.5	2F. TVNZ
Total Expenses	538.7	
Net Surplus / (Deficit)	9.5	

Source: TVNZ - Archive Proforma PL for MCH - 13 June 2013.xlsx, Contracts, PwC Analysis

Revenue

Ref	Description
1A	TVNZ has informed us that it will retain the commercial footage sales.
1B	Archives New Zealand has now removed their content from the Archive. Therefore, this revenue stream will not continue.

Operating Costs

Ref	Description
2A	The Archive Manager and Database Administrator equate to 2.0 full time equivalents. The direct salary and wage cost for these employees is approximately \$180,000 per annum. With the inclusion of superannuation and ACC costs, the total personnel cost of the two staff members is approximately \$190,000 per annum.
2B	TVNZ has informed us that no TVC-based staff will transfer with the Archive. The TVC personnel perform the commercial footage sales operation, which TVNZ is retaining. TVNZ also notes that there is currently only one staff member employed for the service due to a recent restructuring.
2C	TVNZ has informed us that Avalon labour recharges for records, editing and line feeds will be paid directly by TVNZ post-transfer as they relate to TVNZ's on-going Public Records Act 2005 obligations to store, preserve and make local content produced accessible or they are part of

Ref	Description
	TVNZ's production library operations. Avalon studios record ex-air bulletins and provide some labour for film to tape transfers and to electronically feed audio visual material up to Auckland.
2D	Recharges from News library for footage sales are the charges from TVNZ News to Licensing (commercial footage sales) for audio visual material not stored at the Archive. TVNZ has informed us that they will retain costs and charges relating to the service.

2E	Tapestock costs relate to the cost of the video-tape that TVNZ uses to either store the local content recorded at the Archive, copy of old format film, tape onto a modern digital tape for preservation or for the physical transfer of material required by TVNZ commissioned producers and programme makers. TVNZ has informed us that post transfer these costs will remain with TVNZ and will cease or significantly reduce through the digitisation process.
2F	TVNZ will continue to fund the annual support costs for the Basis database as TVNZ will retain the Database post transfer.

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5. TVNZ Archive revenue and costs projections

We have been asked by the Ministry to consider possible projected revenue and costs for the Archive under New Zealand Film Archive management. The projections are to exclude any costs (and revenue) that the Archive might incur in digitising the archive material.

The compilation of the presented costs and revenue has been based on discussions with TVNZ, the Ministry and the New Zealand Film Archive. The projections have been produced for the first three years post settlement.

The projections are presented in Table 7. We have added a reference for each line item in Table 7. The references are used in the discussion following the table.

Table 7 TVNZ Archive Pro Forma Statement Projections

Source	TVNZ NZD\$000	estimate	Year1	Year2	Year3
1. Revenue					
TVNZ charges	72.0	419.1	85.5	87.2	1A. TVNZ
Public sales	80.0	-	-	-	1B. New Zealand Film Archive
Educational/libraries	40.0	40.0	40.0	40.0	1C. New Zealand Film Archive
MTS	36.8	36.8	36.8	36.8	1D. New Zealand Film Archive
Other	19.5	27.0	27.0	27.0	1E. New Zealand Film Archive
Total Revenue	248.3	922.9	189.3	191.0	
2. Operating costs					
Archive based staff	545.4	556.3	567.4	578.8	2A. Individual staff contracts; latest remuneration review letters
Archive manager	-	96.9	98.8	100.8	2B. Based on identified staff cost range
Consumables	12.0	12.2	12.5	12.7	2C. TVNZ
Avalon, TVNZ Charges	162.6	166.9	169.2	172.6	2D. Services Agreements with Avalon Studios Ltd
Land and Building costs	274.6	280.1	285.7	291.4	2E. Rates notice/TVNZ/Avalon Studios Utility & R&M charges statement
IT and Software	43.3	45.0	45.9	46.8	2F. TVNZ/Desk based research
Finance, HR	25.0	25.5	26.0	26.5	2G. TVNZ/Desk based research
Overheads	57.0	58.1	59.3	60.5	2H. TVNZ
Other	37.0	37.7	38.5	39.3	2I. TVNZ
Total Expenses	1,156.9	1,277.7	1,303.3	1,329.3	
Net Surplus / (Deficit)	(908.6)	(754.9)	(1,114.0)	(1,138.3)	

Source: TVNZ, Contracts, New Zealand Film Archive and PwC Analysis

There are risks that need to be considered in relation to the projected revenue and costs:

- The latest draft transfer agreement we have seen reflects an intention that TVNZ will pay for production library services (direct cost of labour and consumables only with no access or overhead charges). However, the basis for calculating the TVNZ charges is still to be agreed between the New Zealand Film Archive and TVNZ and so the amount that TVNZ will pay for services to be provided by the Archive is uncertain. We have considered possible alternative pricing scenarios for these services. These are presented at the end of this section.
- The New Zealand Film Archive has indicated that it is unlikely that the existing staff complement will be required in its entirety beyond the next two to three years when the Archive is servicing TVNZ's requirements. There may be a reduction in resource requirements as TVNZ's demand for services ramps down over that period. This will result in a reduction in personnel costs.
- We have noted elsewhere in this report that TVNZ has indicated its willingness to pay half of any redundancy costs incurred in the first year after the transfer of the business to the New Zealand Film Archive. The New Zealand Film Archive's preference is for TVNZ to pay out all of the redundancy prior to the business being transferred and for the staff being re-employed on fixed

term contracts. The New Zealand Film Archive would not incur redundancy under this approach (the redundancy would be paid by TVNZ prior to transfer).

The projections presented above do not include specific allowance for redundancy costs. However, it is by no means certain that TVNZ will accept the New Zealand Film Archive's position on the redundancies. If it will not then any redundancies to be paid by the New Zealand Film Archive will be in addition to the costs in the projections. The amount of the cost and when it will be incurred will depend on when the New Zealand Film Archive makes staff redundant, in particular if it occurs during or after the first year after the transfer, how many staff are retained, how many are transferred to fixed term contracts and how many are not required at all.

- Building services currently provided by Avalon Studios Limited are a source of uncertainty in the projections. There are three options available to the New Zealand Film Archive for the provision of the services in the future:
 - Negotiate continued provision of the services by Avalon Studios Ltd
 - Outsource the provision of the services to third party energy and other providers
 - Install a dedicated plant.

The building related operating (services) costs are included in the projections assuming a continuation of the status quo (i.e. the first option above). The New Zealand Film Archive has suggested that the second option could result in a net saving to the Archive, although this has not been quantified. Building/installing dedicated plant for the archive would involve capital expenditure of approximately \$1.1 million (TVNZ estimates).

Assuming building costs based on the status quo is not unreasonable. However, as noted elsewhere, it is not certain that Avalon Studios will be in a position to continue to provide services in the medium term. Also, continued provision of the services is contingent on being able to negotiate a satisfactory contract extension with Avalon Studios Ltd.

- The insurance costs include allowance for a premium for "interruption" type costs if the archive material is damaged in some way. Replacement insurance is irrelevant (the archive material is irreplaceable). The New Zealand Film Archive will need to undertake further work to establish the insurance costs.

Revenue

Ref	Description
1A	<p>Tape tech revenue represents an internal recharge for Archive labour and consumables. The charge is made by the Archive against TVNZ commissioned programme budgets and is for time spent retrieving content and dubbing it to digital betacam tape for producers to use.</p> <p>Currently the Archive undertakes cataloguing services for TVNZ as new material becomes available. We understand that the Archive staff will continue to perform this service while TVNZ develops its digital database. The latest draft agreement captures the parties' intention that TVNZ will pay for production library services (direct cost of labour and consumables only with no access or overhead charges).</p> <p>The New Zealand Film Archive believes that the Archive business will spend the vast majority of its time servicing the needs of TVNZ in the first year after the transfer. From the second year, this time commitment is expected to decrease allowing for additional archival activities as well as the time spent on the New Zealand Film Archive digitisation programme of work.</p> <p>Potential charges to TVNZ are discussed later in this section.</p>
1B	<p>As the New Zealand Film Archive does not currently charge the public for access to content, the expectation is that after the transfer the public will no longer be charged for TVNZ content access resulting in removal of the revenue stream.</p>

1C	<p>Educational/libraries revenue increased significantly from FY10 to FY12. The \$40,000 estimate in the pro forma statement is less than the FY12 results and therefore goes against the trend in this revenue stream.</p> <p>The New Zealand Film Archive has also used the \$40,000 per annum estimate with no associated inflation in their forecast analysis.</p>
1D	<p>The Maori Television Service (MTS) in house production revenue has been variable. The</p>
Ref	Description
	<p>average of the three year period is slightly lower than the TVNZ pro forma estimate.</p> <p>The contract with MTS includes a monthly administration fee for maintaining the collection of \$1,400 (excluding GST), equating to \$16,800 per annum.</p> <p>The New Zealand Film Archive has used a \$36,000 per annum estimate in their forecast analysis with no associated inflation which is slightly lower than the TVNZ estimate. Our projections are based on the TVNZ estimate and do not include an inflation based increase over the period.</p>
1E	<p>Other revenue includes the following:</p> <ul style="list-style-type: none"> • The contract with Cloud Nine includes a standard monthly fee of \$550 (excluding GST), equating to \$6,600 per annum; • The contract with Kordia includes a standard monthly fee of \$435 (excluding GST), equating to \$5,220 per annum; • TVNZ has confirmed that based on the last six month period of invoicing, the annual storage revenue from Palm Tree Production is approximately \$2,250; and • Any other revenue relating to other archiving services including film and tape transfers to third parties which are not part of a TVNZ commercial footage (licensing) sales. <p>TVNZ has estimated the combined cost to be \$19,500 per annum and the New Zealand Film Archive has used a \$27,000 per annum estimate in their forecast analysis. Our projections are based on the New Zealand Film Archive estimate and do not include an inflation based increase over the period.</p>

Operating Costs

Ref	Description
2A	<p>There are currently 13 people employed by TVNZ to operate the Archive. TVNZ intends to offer to transfer 11 of these employees and retain two, the Archive Manager and Database Administrator. The 11 transferring employees equate to 10.2 full time equivalents. The direct salary and wage cost for these employees is currently \$528,540 per annum. With the inclusion of superannuation and ACC costs, the total personnel cost of the transferring staff is currently \$545,375 per annum.</p> <p>We have based our projections on the TVNZ estimate and have included a staff inflation of two percent per annum from Year 1.</p> <p>It is not clear whether the New Zealand Film Archive will require all 11 of the existing employees for the entire three year period after the settlement. If the New Zealand Film Archive chooses to reduce the staffing requirements there will be associated redundancy and leave liability payments as well as a reduction in the ongoing staff costs.</p> <p>It is our understanding that TVNZ intends to pay half of any redundancy entitlement for the first 12 months, as well as annual leave liabilities and up to 10 days of sick leave at the time of settlement. The New Zealand Film Archive has a preference for the staff to be paid their entitlements by TVNZ at the time of settlement and re-employed on fixed term contracts.</p>

2B	The New Zealand Film Archive has identified the need to replace the Archive Manager. Based on the current Archive Manager and Database Administrator remuneration packages, the annual cost, including remuneration and associated superannuation and ACC for each person could be in the range of approximately \$85,000 to \$105,000 per annum. The projections have used the average of this range and include a staff inflation of two percent per annum from Year 1.
2C	General stationary is included on the pro forma statement at \$12,000 per year. TVNZ have informed us that there is no accurate split of these costs as TVNZ does not allocate these down to the Archive level and that the \$12,000 is cost based on \$1,000 per staff member.

Ref	Description
	If the number of staff was to be reduced we would expect the consumables costs to decline.
2D	<p>The Shared Facilities Scheme Contract covers fire protection systems, security, mechanical services, building cleaning, site ground costs, general building maintenance, property management services and insurance.</p> <p>The service rate under the Technical Support Services Contract Agreement with Avalon Studios Limited relating to the maintenance and support of the technical equipment is \$36,000 (excluding GST) per annum. Maintenance work outside of allotted or banked hours, as specified in the contract, is charged at \$90 per hour plus GST.</p> <p>TVNZ have estimated the combined cost to be \$162,600 per annum and the New Zealand Film Archive has used a \$165,000 per annum estimate in their forecast analysis. Our projections are based on the TVNZ estimate including an inflation estimate of two percent per annum from Year 1.</p>
2E	<p>Land and building costs include rates, utilities and building and building maintenance costs. We have agreed the council rates amount to a rates invoice from the Hutt City Council and the Greater Wellington Regional Council. The combined total annual rates are \$31,800 per annum.</p> <p>Utility expenditure covers electricity, domestic water, hot and chilled water and gas. These utility expenses are mostly variable and are calculated based on meter readings. However, electricity costs also contain a fixed component. As per the TVNZ pro forma operating statement, these costs are approximately \$202,000 per annum.</p> <p>Building and building maintenance costs are included in the pro forma statement as \$40,000 per annum. TVNZ have indicated that there is no deferred maintenance and that the \$40,000 estimate should be sufficient to cover ongoing building and building maintenance costs.</p> <p>TVNZ have estimated the combined cost to be \$274,600 per annum and the New Zealand Film Archive has used a \$275,000 per annum estimate in their forecast analysis. Our projections are based on the TVNZ estimate including an inflation estimate of two percent per annum from Year 1.</p>
2F	<p>TVNZ has estimated leased IT hardware/software and licensing (including PCs) cost at approximately \$43,300 per annum based on its agreements with HP. It is our understanding that these costs include software, photocopier rentals, server lease costs or server amortisation costs, as well as hardware for each staff member in the form of computers, monitors, keyboards and mouse.</p> <p>For business continuity TVNZ will leave the current hardware and systems in place at the Archive until the TVNZ digital library is operational.</p>

2G	<p>TVNZ has estimated the annual finance and human resource overhead costs at \$25,000 per annum. The \$25,000 per annum estimate may not be sufficient to cover all overhead allocations. We understand the New Zealand Film Archive employs approximately 60 staff. Adding additional staff will require some additional overhead resources.</p> <p>The New Zealand Film Archive has also used a \$25,000 estimate in their forecast analysis. The projections are based on the \$25,000 per annum estimate and include an inflation estimate of two percent per annum from Year 1.</p>
2H	<p>TVNZ's estimated insurance cost of \$45,000 per annum is based on the TVNZ internal apportionment of the total TVNZ insurance policy. The apportionment is based on an historical percentage applied to the latest renewal. The New Zealand Film Archive has informed us that the transfer of the Sound Archive resulted in a modest increase in their insurance premiums and that the \$45,000 per annum estimate may be overstated.</p> <p>Telecommunications and data costs are included in the pro forma statement as \$12,000 per year. TVNZ has informed us that there is no accurate split of these costs as TVNZ does not allocate these down to the Archive level and that the \$12,000 is based on \$1,000 per staff</p>
Ref	Description
	<p>member.</p> <p>If the number of staff were to be reduced going forward we would expect the telecommunications and data costs to decline.</p> <p>TVNZ have estimated the combined cost to be \$57,000 per annum and the New Zealand Film Archive has used a \$83,000 per annum estimate in their forecast analysis. Based on the New Zealand Film Archive comments in relation to the insurance costs, our projections are based on the TVNZ estimate including an inflation estimate of two percent per annum from Year 1.</p>
2I	<p>Other expenses largely comprise marketing, freight and travel costs. TVNZ has not been able to provide us with the historical "other expenses".</p> <p>TVNZ have estimated the combined cost to be \$37,000 per annum and the New Zealand Film Archive has used a \$40,000 estimate in their forecast analysis. Our projections are based on the TVNZ estimate including an inflation estimate of two percent per annum from Year 1.</p>

TVNZ Charges

We have been requested to provide a view on the possible level of charges to TVNZ for services being provided by the Archive to facilitate TVNZ's development of its digital database.

The latest draft agreement for the transfer of the Archive assumes that TVNZ will pay for production library services (direct cost of labour and consumables only with no access or overhead charges). This treatment is still to be agreed between the New Zealand Film Archive and TVNZ and the amount that TVNZ will pay for services to be provided by the Archive is not yet certain.

TVNZ has estimated that approximately 7.5 FTEs will be required in the first year after the transfer to provide cataloguing services and retrieve content and dub it to digital betacam tape for producers to use. TVNZ has assumed the FTE requirement will reduce significantly from the second year to 1.5 FTEs. The cataloguing services will no longer be required once the TVNZ digital database is operational.

There are two high level theoretical approaches to determining a cost recovery amount to be charged to TVNZ:

- Marginal cost – the incremental or additional costs that would be incurred to provide TVNZ with the services it requires. This approach assumes that activities other than TVNZ servicing are the primary users of the Archive resources and that TVNZ is a marginal user. This is, in effect, the basis on which TVNZ considers it should be charged.
- Standalone cost – the total costs that would be required to service TVNZ assuming there are no other users of the Archive resources.

These two approaches will result in quite different cost recovery amounts. Unfortunately economic theory does not provide a definitive guide as to which approach is most appropriate and if there is a point between the two extremes that might be more appropriate.

We have calculated the following amounts to present a cost recovery range:

- Direct costs of TVNZ FTE requirements (7.5 in year 1 and 1.5 thereafter) plus a share of consumables apportioned based on relative FTEs. This is essentially a marginal cost approach.
- Total costs less third party (non-TVNZ) revenue. This is a representation of standalone costs. This approach may have some relevance in Year 1 when TVNZ is, in effect the primary user of the Archive resources. It would be inappropriate in after Year 1 when the TVNZ requirements reduce significantly.
- Allocation of total costs based on FTE utilisation. This provides a position between the two previous estimates.

The first part of the following table shows:

- The number of FTEs expected to be dedicated to TVNZ requirements as a percentage of total FTEs.
- Direct labour and consumables and total costs from Table 7.
- The estimated cost recovery amount (“TVNZ charge estimates”) using the three methods. “Direct labour and consumable recovery” is a representation of marginal cost, “costs less external revenues” is a representation of standalone costs” and “cost allocation” is an allocation of all costs based on FTE utilisation. As discussed earlier, we do not consider the standalone cost approach is relevant after Year 1.

The second part of the table shows the possible net deficit if cost recovery from TVNZ is based on cost allocation (i.e. the third method). This is a guide only. The deficit in Year 2 and 3 could be quite different to the numbers in the table particularly if the New Zealand Film Archive does not need the personnel that will be servicing TVNZ in Year 1. A reduction in 6 staff (7.5 FTEs down to 1.5 FTEs) could result in a reduction in the deficit by at least \$310,000 in both years before any allowance for redundancy costs (this amount is the impact of reduced staff costs only).

Table 8. TVNZ Charges Estimates

NZD \$000	Year1	Year2	Year3
Notional cost recovery from TVNZ			
<i>Assumptions</i>			
Total FTE transferring			
	10.2	10.2	10.2
Average FTEs undertaking TVNZ activity	7.5	1.5	1.5
Proportion of time spent on TVNZ	73.7%	14.7%	14.7%
Direct labour and consumables costs	568.5	579.9	591.5
Full cost	1,277.7	1,303.3	1,329.3
<i>TVNZ charge estimates</i>			
Direct labour and consumable recovery	419.1	85.5	87.2
Costs less external revenues	1,173.9		
Cost allocation	941.8	192.1	196.0
Notional deficit if TVNZ charged on cost allocation method			
TVNZ charge based on cost allocation	941.8	192.1	196.0
External revenue	103.8	103.8	103.8
Total Revenue	1,045.6	295.9	299.8
Total Expenses	1,277.7	1,303.3	1,329.3
Net Surplus / (Deficit)	(232.1)	(1,007.3)	(1,029.6)

Source: TVNZ, New Zealand Film Archive and PwC Analysis

6. Assets and liabilities

Property, plant and equipment

A summary of the Archive's fixed asset register at 30 June 2013, provided by TVNZ, is summarised in Table 9.

These assets are expected to depreciate by \$1,965 during FY14 and a further \$1,503 in FY15. There may be additional depreciation on assets purchased after 30 June 2013. TVNZ has indicated that under its ownership the capital expenditure in FY14 and FY15 would have been minimal.

The asset register includes assets with a cost value of \$2.29 million and a net book value of \$9,644. Given the unique nature of assets used in the archiving process, a number of the fully depreciated assets still serve a purpose. Furthermore, the assets associated with the purpose built facility at Avalon are also now fully depreciated but are in a reasonable condition.

TVNZ will transfer all non-building equipment and assets and, importantly, the archived material to the Ministry. Consequently, depreciation has not been included in the pro forma statements of revenue and costs presented earlier in this report.

Table 9 Asset Register as at 30 June 2014

NZD\$	Cost	Accumulated depreciation	Existing asset book value	Existing asset FY14 depreciation	Existing asset FY15 depreciation	Net
Carpets	34,237	(34,237)	-	-	-	-
Chairs	32,512	(32,512)	-	-	-	-
Control Eqp	1,345	(165)	1,311	-	131	118
Desks	5,100	(5,100)	-	-	-	-
Editing Eqp	21,100	(21,100)	-	-	-	-
Fix&Fittings	16,238	(16,238)	-	-	-	-
Floor Tiles	37,570	(37,570)	-	-	-	-
General	235,491	(235,129)	603	-	241	145
Kitchen Eqp	2,076	(2,076)	-	-	-	-
Monitors	25,796	(25,151)	962	-	318	213
Printers	2,111	(1,368)	929	-	186	149
Scanners	6,292	(6,292)	-	-	-	-
Servers	105,078	(105,078)	-	-	-	-
Shelves	994,718	(994,718)	-	-	-	-
Sofas	19,640	(18,934)	785	-	78	71
Studio Eqp	445,554	(445,554)	-	-	-	-
Tape Plant	284,490	(284,490)	-	-	-	-
Televisions	3,979	(3,979)	-	-	-	-
Tools	329	(329)	-	-	-	-
Video Equip	4,800	(4,800)	-	-	-	-
Video/Dvd	5,274	(5,274)	-	-	-	-
Visual Eqp	8,980	(4,937)	5,054	-	1,011	809
Total	2,292,709	(2,285,029)	9,644	1,965	1,503	

Source: TVNZ, PwC Analysis

The age of some of the archive material (tapes) means that the technology needed to run the tapes (i.e. the tape players) is commensurately old. The machines are generally no longer produced or supported by their original manufacturers. Replacement parts are obtained by buying and dismantling similar, old machines.

Moreover, the age of machines means that there are limited technicians with the experience to maintain the machines. At present services are provided to the Archive by Avalon Studios Limited.

The machines are operated by Archive staff. Operating the machines is somewhat specialised because of their age and idiosyncrasies.

These issues mean there are obvious risks with the machinery:

- That the machines cannot be repaired because parts are not available.
- That the machines cannot be repaired because there is nobody with the knowledge and experience to do so.
- That the machines cannot be operated because there is nobody with the knowledge and experience to do so.

The major risk is the “physical” one. That is, the machines cannot be repaired because the required parts are not available or if they are beyond repair. The “people risk” is important but may be able to be mitigated through appropriate management of skills transfer.

The issue underlying these risks is that the archive content is worthless if it cannot be accessed.

Building

TVNZ engaged Aurecon to undertake a seismic assessment of the Archive building. This will need to be reviewed by an engineering consultant. Our non-expert understanding of the results of the assessment is that the building is at 95% of the new building standard and is not earthquake prone and is not an earthquake risk.

TVNZ engaged Darroch Limited (building) and Forbes Valuation Limited (plant and machinery) to value the land, building the associated services and fitout.

The valuation standard used was fair value for financial reporting standards, specifically NZ IAS 16. The date of the valuation was 11 November 2013.

NZ IAS 16 defines fair value as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. Darroch categorised the building as being specialised and so applied an optimised depreciated replacement cost (“ODRC”) approach to determine the value, assuming the building will continue to be used as an archive.

ODRC will not necessarily be the same as the alternative use value for the building i.e. the value of the building if used for a purpose other than as an archive. In this respect the value determined by Darroch may not equate to the price that could be achieved if the building was sold on the open market.

Observations from the valuation report include:

- The property is held by way of freehold title.
- The title is subject to Section 27B of the State Owned Enterprises Act 1986 (resumption of land on the recommendation of the Waitangi Tribunal) and Part 4a of the Conservation Act 1987 and Sections 10 and 11 of the Crown Minerals Act 1991. Darroch have stated that these are standard memorials for a State Owned Enterprise (note that TVNZ was removed from the State Owned Enterprises Act in 2003).
- The land is zoned Avalon Business Activity Area.
- The building was constructed in 2002.
- The building is in good condition for its age.

The valuation is summarised in the following table. This includes Darroch’s/Forbes’ assessment of remaining useful lives:

Table 10 Land and buildings valuation

Asset	Fair value \$000	Remaining useful life
Building	5,755	49
Fitout	383	14
Services	1,036	9 to 24
Shelving	1,001	47

Site improvements	200	9
Land	945	-
Total	9,320	

Source: Darroch Valuation Report November 2013

Darroch notes that the current rating valuation for the land and building is \$2.8 million.

Working capital

Table 11 contains an estimate of the Archive's working capital. The transferring working capital is limited to accounts receivable, video tape stock and accounts payable. Although the source data was received for different dates, the balances of the items are modest. It is currently intended that the working capital items will transfer with the other assets to the New Zealand Film Archive.

Table 11 TVNZ Archive Working Capital

NZD \$	
<hr/>	
Assets	
Accounts receivable	9,014 As at 21 January 2014
Video tape stock	12,931 As at 21 January 2014
	21,945
Liabilities	
	<i>As at 31 December 2013</i>
Accounts payable	368
Working capital	21,575

Source: TVNZ, PwC

Analysis

Staff entitlements

The following table summarises staff leave and other entitlements. The information has been sourced from the current employment contracts: **Table 12 Staff entitlements**

Entitlement Type	Entitlement granted	Exceptions
Overtime	None except public holidays when instructed to work	One long-serving employee is entitled to night, overtime and penal rates within a limit
Remuneration review	Annual reviews	
Termination notice	Terminated by either party by giving four weeks' notice in writing	
Entitlement Type	Entitlement granted	Exceptions
Annual leave	20 days for 6 years of service. 25 days thereafter	
Sick leave	10 days per annum with no maximum accumulation. Sick leave is not paid out	

Parental leave	Two weeks additional at time of birth / adoption. If employee returns to work and completes six months continuous service, then leave taken is credited back to the employee	One long serving employee does not have the parental leave entitlement in their contract.
Long service leave	10 day grant after 10 years and 5 days after each 5 year period thereafter	One long serving employee is entitled to a 20 day grant after 20 years service
Retiring leave	None	One long serving employee is entitled to retiring leave after 40 years service or is over 60 years old with minimum of 10 years continuous service. The amount of leave is dependent on years of service and is between 31 days for 10 years service and 183 days for 40 years service
Service recognition leave	None	One long serving employee is entitled to service recognition leave after a minimum of 20 years of continuous service. Service recognition leave is an alternative to retiring leave and requires CE approval. The amount of leave is dependent on years of service and is between 32 days for 20 years service and 60 days for 39.5 years service
Redundancy	Six weeks salary for first year plus two weeks of each additional year. Maximum of 44 weeks	

Source: Current employment contracts

We understand that the New Zealand Film Archive will assume all outstanding obligations for annual leave, sick leave and redundancy for all staff transferring with the Archive. As consideration for transferring these staff entitlements, TVNZ is expected to:

- Make a cash payment to the New Zealand Film Archive equivalent to the liability for accrued leave and long service leave entitlements for the transferring employees as at the transfer date. As at 15 January 2014, total accrued annual and long service leave was \$31,765.
- Make a cash payment to the New Zealand Film Archive equivalent to a maximum of 10 days sick leave for each transferring employee. As at 15 January 2014, this would have equated to a payment of \$18,183. Employees are entitled to accrue sick leave with no cap. The actual total sick leave liability for transferring staff at 15 January 2014 was \$94,575.
- Compensate the New Zealand Film Archive for redundancy costs incurred during the first year after the transfer. We understand that this compensation will be limited to half of the value of redundancy entitlements for the transferred employees. However, the New Zealand Film Archives' preference is for TVNZ to pay out all of the redundancy prior to the business being transferred and the staff being re-employed on fixed-term contracts.

The following table summarises the calculation of the staff entitlements.

Table 13 Accrued Leave and Redundancy Entitlements as at 15 January 2014

NZD \$	Accrued annual and long service leave	Accrued Redundancy sick leave entitlement	
Employee 1	1,179	9,876	16,767

Employee 2	1,137	4,519	15,325
Employee 3	3,262	2,618	11,966
Employee 4	1,198	259	12,449
Employee 5	(560)	5,363	31,593
Employee 6	280	1,371	9,088
Employee 7	3,847	3,933	9,617
Employee 8	5,714	5,318	11,939
Employee 9	11,677	55,856	68,517
Employee 10	3,445	4,899	20,560
<u>Employee 11</u>	<u>585</u>	<u>561</u>	<u>4,603</u>
Total owing	31,765	94,575	212,423
Total funding proposed from TVNZ	31,765	18,183	NA
Difference	-	76,392	NA

Source: TVNZ, PwC Analysis

The two existing Archive staff that will not transfer to the New Zealand Film Archive will continue to be employed by TVNZ and located in the Archive building. These two employees will be actively involved in maintaining the Database for TVNZ and in the TVNZ digitisation process.

There are a number of issues to consider with this arrangement:

- The New Zealand Film Archive will need to employ a new manager for the Archive or relocate one of its existing staff.
- The transferring staff have been reporting to and working with the two staff members not transferring. Post transfer, the transferring staff will be reporting to a new manager but the nontransferring staff will still be present on site. This situation may require careful management to ensure appropriate alignment of reporting, responsibilities and loyalties.
- Consideration will need to be given to charges, if any, to TVNZ for office accommodation and other services provided to the two staff by the Archive. Conversely, consideration will need to be given to charges, if any, to the Archive for services provided to the Archive by the two TVNZ retained employees.

7. Costs of transferring the Archive

The transfer of the Archive will result in associated transfer costs. These costs will include legal fees and IT related costs. Legal costs will be incurred as a legal review of the transfer contracts and associated documentation will be required.

IT costs are currently incurred as an extension of TVNZ's existing IT facilities. TVNZ may leave the current hardware and systems in place at the Archive until the TVNZ digital library is operational. After the TVNZ digital library is operational, IT asset costs and related operating costs will be incurred by the New Zealand Film Archive. At a minimum, the set-up of computer servers and staff workstations will be required. The servers will need to be able to provide back-up for the Archive database. Desktop research has been undertaken and server costs could be expected to be approximately \$6,000 - \$7,000 (including GST). There will also be costs incurred related to separating out the TVNZ data from the transferring systems.

Initially, a lot of the day to day activity of the Archive will be focussed on servicing TVNZ's requirements. This includes retrieving and providing archive material and maintaining the database. The servicing of TVNZ will decrease over the medium term as TVNZ completes its digitisation process and becomes less reliant on the Archive.

There will also be time requirements for each of the contracting parties relating to the application for disposal and other administration and facilitation activity as part of the transfer.

We have noted the requirements for separation of the Archive facility from Avalon Studios Limited. Achieving this separation will be expensive (estimated by TVNZ to be approximately \$1.1 million).

There may be a good case to negotiate an extension of the Shared Facilities Agreement with Avalon Studio Limited. The cost of ongoing provision of services by Avalon Studios Limited will be an important consideration but it might allow the separation cost to be deferred for a period.

Reliance on Avalon Studios Limited is unlikely to be a viable long term option. Indeed, it has risks in the short term. Nevertheless, it is worth considering the merits of seeking a contract extension.

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Appendix A Important Notice

This Report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

This Report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

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We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Company. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this Report are based on information available as at the date of the Report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in the Contract.

In addition the following should be noted:

- Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
- Unless otherwise stated all amounts are stated in New Zealand dollars.

Appendix B Shared Facilities Scheme contract agreement with Avalon Studios Limited

Shared Facilities Scheme Contract Details

Signed	3 April 2013
Duration	12 Months
Extension	Right to extend for further 12 month periods. Six month notice of renewal is required
Rate changes	Upon renewal, rates charged may not exceed the CPI of the previous period
Scope changes	The scope of the contract may change with consultation between the parties. Rates may be adjusted to reflect changes in the scope of the contract
Termination	Six months notice is required for termination
Material and labour	Avalon Studios Limited must supply all labour and materials associated with the maintenance services outlined in the contract

Other

Replacement of specified items relating to the Archive facility must be replaced by TVNZ. In line with the relevant service provision, Avalon Studios make aware which items need to be replaced

Source: Shared Facilities Scheme Contract

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Appendix C Technical Support Services contract agreement with Avalon Studios Limited

Shared Facilities Scheme Contract Details

Signed	3 April 2013
Duration	1 year for 50 weeks (excludes 2 weeks over Christmas / New Year)
Extension	May be renewed for a further period
Rate changes	Upon renewal, Avalon Studios Limited may review the rates charged
Scope changes	The scope of the contract may change with consultation between the parties. Rates may be adjusted to reflect changes in the scope of the contract
Termination	3 months notice is required for termination
Support hours	Technical support is 8 hours per week which can be split between the Archive and Avalon Studios Limited as necessary. Unused time can be banked for following weeks. Unscheduled maintenance or maintenance above allotments is charged in addition to the fixed contract rate
Material and labour	Avalon Studios Limited must supply all labour and materials associated with the services outlined in the contract
Other	Non-scheduled or conditional replacement of materials and parts are charged to a TVNZ budget. Associated labour costs are charged at nominated rates

Source: Technical Support Services Contract

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