# Regulation and ABA's investigation into Australian content on pay TV

**by Tim O'Keefe, ABA Member**

Pay TV will increasingly provide opportunities for the Australian production industry as more channels are launched and more Australians subscribe to cable and satellite services.

The majority of pay TV broadcasters and channel providers spent money as required on new Australian drama in the period ending 30 June 1996.

The ABA is currently investigating local content rules for pay TV, starting with an evaluation of the effectiveness of the current requirement that 10 per cent of annual program expenditure for channels devoted predominantly to drama must be spent on new Australian drama programs.

Submissions to the ABA investigation indicate a high level of support by the pay TV industry for the continuation of an expenditure requirement along the lines of the voluntary scheme devised by the ABA.

While the pay TV industry's response has been generally good, the current rule needs improvement. A requirement to spend money on Australian programs needs to be enforcable and and should enable public accountability by standardising reporting requirements.

The pay TV industry is in a very early stage of development. We have to be extremely cautious about moving the goal posts at such a time. However, I believe there is a need to have the rule book cover the providers of drama channels, not just the pay TV operators.

## Pay TV investigation

On 17 September 1996, the Minister for Communications and the Arts, Senator the Hon. Richard Alston directed the ABA under s.171 of the *Broadcasting Act 1992* to conduct an investigation into certain matters relating to Australian content on pay TV.

The investigation will provide information to the Minister on matters relevant to the review required under s.215(2) of the Act. This section requires the Minister to conduct a review of Australian content on pay TV before July 1 1997. The review must include the feasibility of increasing the level of annual expenditure on new Australian drama programs to 20 per cent of program expenditure for channels devoted predominantly to drama.

The ABA conducted a series of consultations in Sydney and Melbourne late last year with representatives from industry groups, government agencies, free-to-air broadcasters and other interested parties.

The ABA is currently considering written submissions to the investigation. To date, the ABA has received 49 submissions. Submitters include pay TV broadcasters and channel providers, the film and television production industry, Commonwealth film agencies, the Department of Foreign Affairs and Trade, the New Zealand High Commission, children's television organisations and free-to-air broadcasters.

Matters being examined by the ABA include the nature of Australian programming currently on pay TV, the operation of s.102 of the Act, the implications of increasing to 20 per cent the requirements under s.102 and alternative mechanisms such as transmission quotas.

Further submissions will be invited on a working paper to be released soon. A final report will be submitted to the Minister on 30 April 1997.

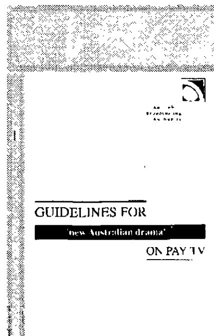
## Current requirements

Section 102 of the Act provides:

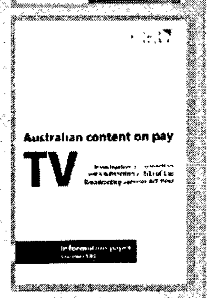
> Each subscription television broadcasting licence is subject to the condition that, if the licensee provides a service devoted predominantly to drama programs, the licensee will, for each year of operation, ensure that at least 10 per cent of the licensee's program expenditure for that year in relation to that service is spent on new Australian drama programs.

Each pay TV licensee is therefore subject to a licence condition that 10 per cent of its annual program expenditure on its 'predominantly drama' channels must be on new Australian drama programs. However, in the course of consulting with interested parties on the implementation of this licence condition, the ABA concluded that few, if any, pay TV licensees will themselves spend money directly on programming.

The ABA therefore developed guidelines [*Guidelines for 'new Australian drama' on pay TV* (June 1996)] which encourage voluntary expenditure on new Australian drama by those corporate entities in the industry which do purchase programming. The aim of the s.102 guidelines is that pay TV broadcasters and pay TV channel providers act in a way which honours the spirit of the licence condition and leads to new opportunities for the Australian drama production industry.








**Publications mentioned in the speeches include: *Digital terrestrial television broadcasting in Australia*, price $10; *Australian content on pay TV - information paper*, available free. Both publications are available at the ABA Web site http://www.dca.gov.au/aba/hpcov.htm or hard copies can be obtained from the ABA by calling freecall 1 800 226 667. Also mentioned is *Guidelines for 'new Australian drama' on pay TV*, available free.**

# Commercial television

## Continued growth in broadcasting profit

The commercial television industry has reported an 8.3% increase in broadcasting profit to $439.5m in 1995-96, despite a 52% increase in intra-group management fees which rose to $65.7m. The Ten network increased intra-group management fees by $20.0m in 1995-96. The 44 commercial television licensees increased revenue by 4.4% to $2459.0m while expenses increased by 3.6% to $2019.5m.

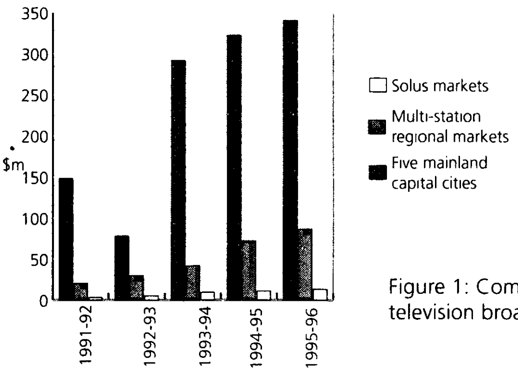


Figure 1: Commercial television broadcasting profit

The three network services in the five mainland capital cities earned $1936.7m (up 4.9%) in 1995-96, representing 78.8% of industry revenue. This revenue generated a broadcasting profit of $340.3m. Services in Perth enjoyed an 8% growth in revenue, Melbourne and Brisbane each 7%, Adelaide 3% and Sydney 2%. Of the $2459.0m industry revenue, services in Sydney earn 28%, Melbourne 24%, Brisbane 12%, Perth 8% and Adelaide 7%.

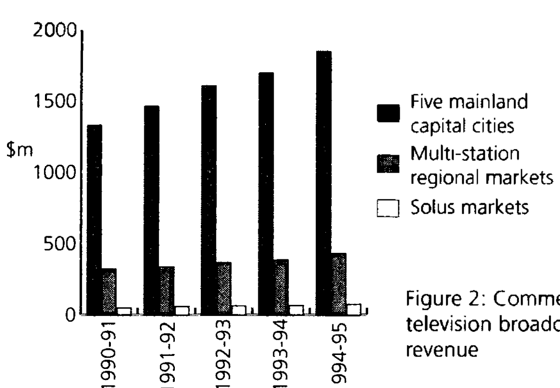


Figure 2: Commercial television broadcasting revenue

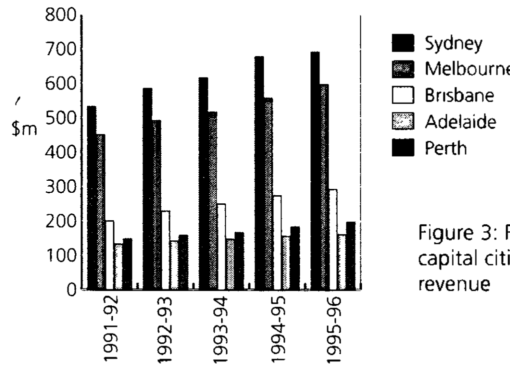


Figure 3: Five mainland capital cities' broadcasting revenue

Total expenditure for the 15 mainland capital city services was $1596.4m in 1995-96, an increase of 4.7% on the previous year. Expenditure on programs and salaries and wages together represent almost half of total expenditure of these 15 services. Expenditure on Australian programs increased by 5.6% during 1995-96 to $489.7m while expenditure on foreign programming decreased by 2.1% to $192.6m. Salaries and wages, including the salary component of local programming, increased by 6.4% to $233.6m. Intra-group management fees increased by 123.5% to $45.7m — most of this increase, $20.0m, is accounted for by the Ten network.

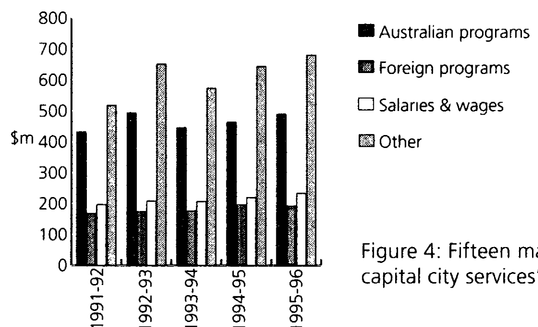


Figure 4: Fifteen mainland capital city services' expenditure

The broadcasting profit of commercial television services in Melbourne in 1995-96 was $142.8m (up 42% compared with the previous year), Sydney $100.7m (down 15%), Brisbane $63.8m (up 3%), Adelaide $6.8m (down 43%), Perth $26.2m (down 12%). All 15 mainland capital city services reported broadcasting profits in 1995-96.

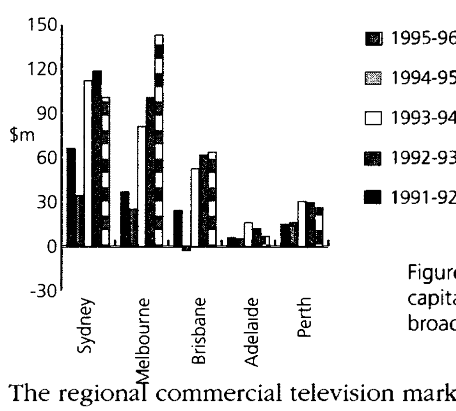


Figure 5: Fifteen mainland capital city services' broadcasting profit

The regional commercial television markets are reported in two groups — multi station regional and solus station regional. There are five multi station regional markets served by 15 licensees in the Approved Markets A (Regional Queensland), B (Northern NSW), C (Southern NSW) and D (Regional Victoria) and Tasmania. The remaining parts of Australia are served by 14 solus commercial television services.

The 15 licensees in multi station regional markets increased revenue by 2.3% to $442.3m, representing 18% of total industry revenue. Expenses decreased by 1.1% to $356.1m. Affiliation fees paid to the Seven, Nine and Ten networks increased by 12.9% in 1995-96 to $66.2m, which is equal to the other largest expense item, salaries and wages (down 4.6%). Profits for these 15 multi station regional licensees increased by 19.3% to $86.2m in 1995-96.

The Seven, Nine and Ten network services in the capital cities and their affiliates in the multi station regional markets earned 97% of total commercial television revenue in 1995-96. Although one of the two Tasmanian services is unaffiliated and purchases programming from both the Seven and Ten networks, for the purpose of this exercise this service has been grouped with the Seven affiliates. Of the total revenue generated in capital cities and multi station markets, the Nine network and its affiliates earned 43% (up 6% to $1013m), the Seven network and its affiliates earned 32% (up 6% to $769m) while the Ten network and its affiliates, without an affiliate in Tasmania, earned 25% ($597m, equal to last year).

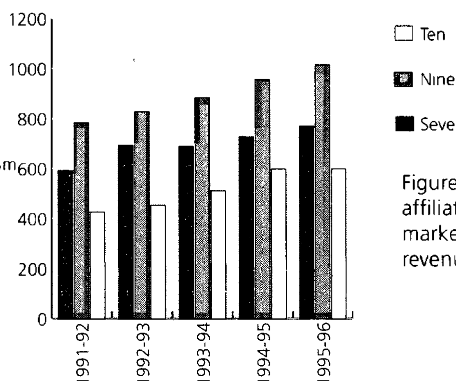



Figure 6. Networks and affiliates in multi-station markets' broadcasting revenue

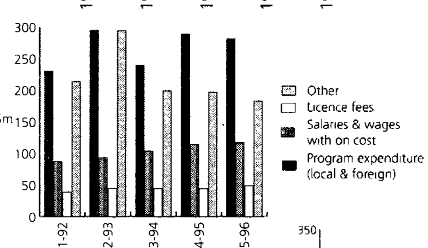



Figure 7A : Seven network and affiliates expenditure

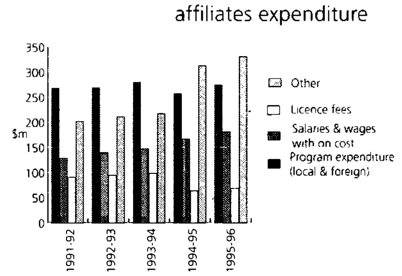



Figure 7B : Nine network and affiliates expenditure

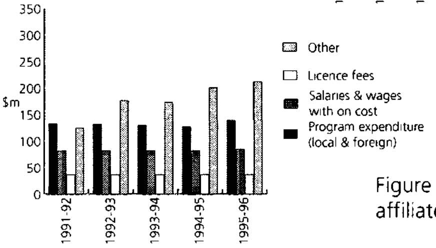



Figure 7C : Ten network and affiliates expenditure

The expenditure across the three networks was consistent with the revenue earned. The Seven network and its affiliates spent a greater proportion of total expenditure on programming and salaries costs (63%) than the Nine network and its affiliates (53%) and the Ten network and affiliates (47%).

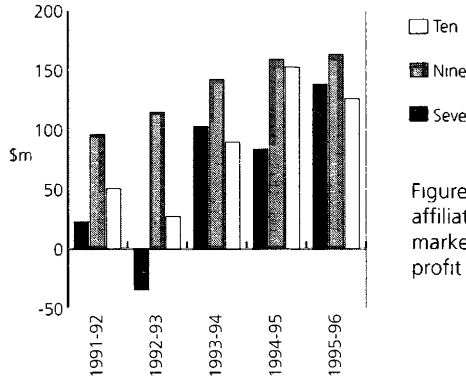



Figure 8: Networks and affiliates in multi-station markets' broadcasting profit

The remaining 14 solus television licensees serve Griffith and Broken Hill in NSW, Mildura in Victoria, Mt Isa and remote areas in Queensland, regional South Australia (three services), regional and remote Western Australia (four services), Darwin and remote Central Australia. The total broadcasting revenue for these 14 services was $79.9m in 1995-96, an increase of 4.8% on the previous year. Expenditure increased by 2.5% to $66.9m, with salaries and wages being the largest expense item ($13.6m).

Eleven of the 14 services were profitable with total broadcasting profits of 15.4m, an increase of 4.7%. Three services incurred losses amounting to $2.4m (down 36.4% .

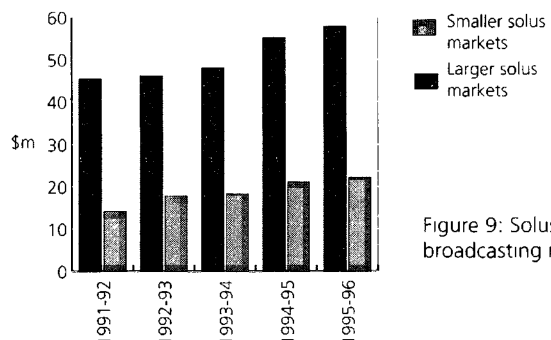



Figure 9: Solus markets broadcasting revenue

Expenditure by the television industry as a whole on Australian programming increased 5.6% to $504.0m. This was equal to 72% of all program expenditure, and the remaining 28% was spent on overseas programs. News and Current Affairs represented 28% of local program expenditure, Sport 26%, Light Entertainment 20%, Australian Drama 15%, Documentaries 5% and Australian drama and children's programming 18%. These figures do not include program salaries and wages, affiliation fees or program rights written off.

Expenditure in overseas programming decreased by 2% to $196.5m, of which 88.7% was spent on overseas drama, including movies and series.

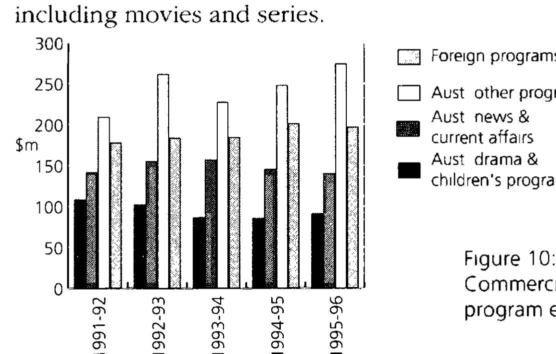



Figure 10: Commercial television program expenditure

# Commercial radio

## Strong profit growth continues

The commercial radio industry increased broadcasting profit by 25% to $70.5m in 1995-96, compared with the 48% increase in 1994-95, even after intra-group management fees increased by 65.5% to $28.4m. The 167 commercial radio licensees increased revenue by 5.8% to $554.6m while expenses increased by 3.4% to $484.0m. Interest charges increased by 20% to $33.7m and salaries and wages increased by $7.2m. Austereo and Australian Radio Network increased intra-group management fees by $7.7m and $3.6m respectively in 1995-96 compared with the previous year.

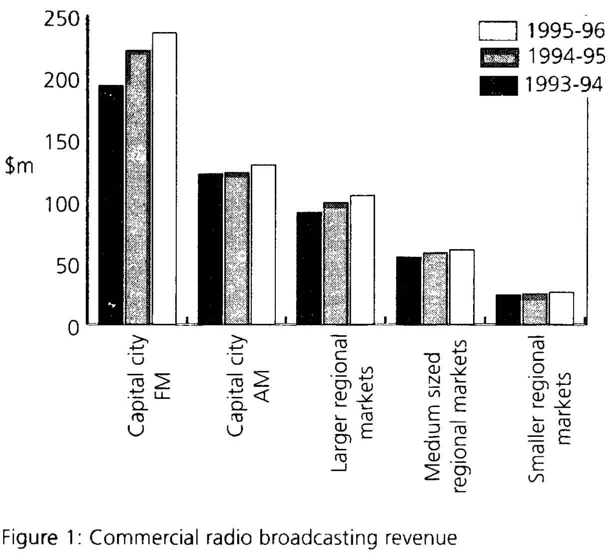



Figure 1: Commercial radio broadcasting revenue

The 38 metropolitan services in the seven capital cities earned 65.7% of industry revenue, amounting to $364.5m (up 6%) in 1995-96. This revenue generated a broadcasting profit of $42.6m (up 27.8%) for the capital city services in 1995-96 although intra-group management fees increased by 140% to $19.4m.

In the capital city markets, the 19 FM radio services reported revenues of $235.7m (up 6.5%), while the 19 AM radio services reported revenues of $128.8m (up 5.2%). The 19 FM radio services spent $190.5m (up 2.7%) to earn a broadcasting profit of $45.2m (up 26.1%), while the 19 AM radio services spent $131.4m resulting in a loss of $2.6m (compared with the $2.5m loss in the previous year). Thirteen of the 19 FM services were profitable and earned $53.2m in profits, while seven of the 19 AM services were in profit, earning $10.0m. Capital city services were charged $28.9m in interest and $19.4m (up 140%) intra-group management fees in 1995-96.

The nine Sydney services reported revenues of $143.6m (up 7.7%) to return a broadcasting profit of $13.3m (up 17.9%). Four of the nine profitable services were profitable and returned $17.3m in profits. Sydney services were charged $13.9m interest and $7.5m intra-group management fees during the year.

The nine Melbourne services reported revenues of $99.2m (up 6.5%) to return a broadcasting profit of $15.6m (up 13.5%). Five of the nine services were profitable and returned $19.3m in profits. Melbourne services were charged $7.6m (up 169.5%) in interest and $5.3m (up 163.7%) in intra-group management fees during the year.

The six Brisbane services reported revenues of $49.7m (up 9.9%) resulting in an overall profit of $3.5m compared with the loss of $400 000 in the previous year. Two of the six services were profitable and returned $10.7m in profits. The five Adelaide services reported revenues of $34.0m and generated profits totalling $2.6m. The five Perth commercial services generated revenues of $29.7m and broadcasting profits of $7.2m (up 24.6%). The four services in Hobart and Darwin earned revenues of $8.3m which resulted in a total profit of $500 000.

Of the $554.6m commercial radio industry revenue, services in Sydney earned 26%, Melbourne 18%, Brisbane 9%, Adelaide 6%, Perth 5% and Hobart/Darwin 1%.

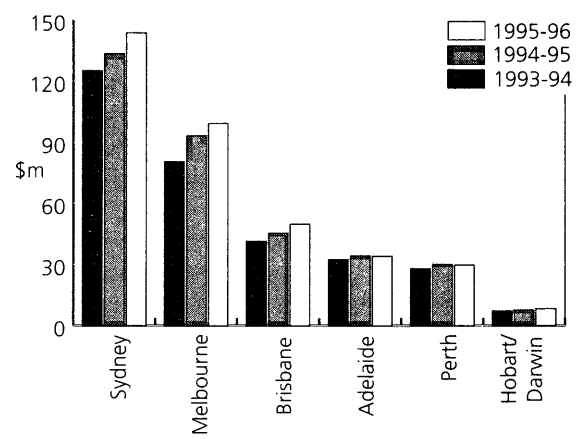



Figure 2: Commercial radio revenues - 7 capital cities

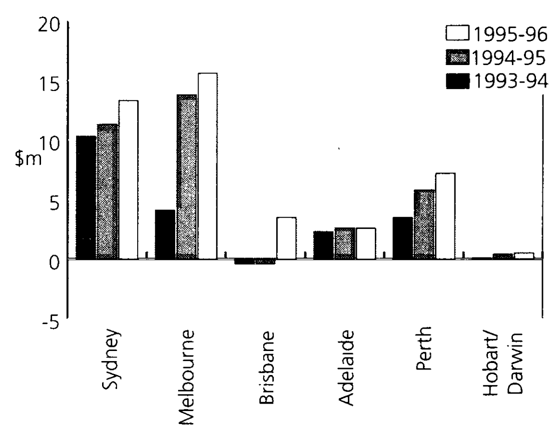



Figure 3: Commercial radio profits - 7 capital cities

In 1995-96 the 129 commercial radio services in regional markets increased revenue by 5.3% to $190.1m, representing 34.3% of total industry revenue. Expenses increased by 2.9% to $162.6m. The largest expense for regional radio is salaries and wages, which were up 2% to $54.7m. Profits for these 129 regional licensees improved by 21.4% to $27.9m in 1995-96.

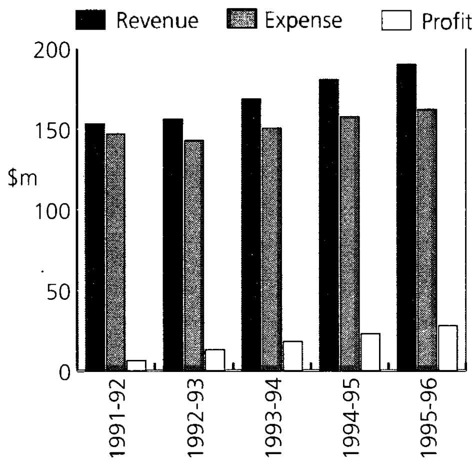



Figure 4: Regional commercial radio revenue, expense & profit

Regional radio services are categorised into three groups based on population of the market they serve. There are 44 licences serving the 25 larger regional markets of more than 100 000 population, 47 licences serving the 37 medium size regional markets of between 40 000 and 100 000 population, and 38 licences serving the 34 smaller regional markets of fewer than 40 000 population.

In the larger regional markets, which include Canberra, Newcastle, Gosford, Geelong, Toowoomba and the Gold Coast, the commercial radio services increased total revenue by 5.9% to $104.1m in 1995-96. Expenditure for these 44 services increased by 2% to $87.7m, resulting in a profit of $16.4m, up from $12.3m in the previous year. Thirty-one of the 44 services were in profit.

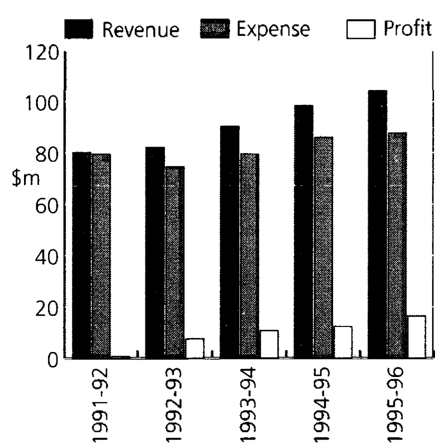



Figure 5: Larger regional radio markets revenue, expense, profit

The medium size markets, which include markets such as Kempsey, Dubbo, Tamworth, Wangaratta, Mackay and Bunbury, increased revenue by 4.1% to $60.1m. Expenses increased by 3.9% to $51.2m, and these 47 services earned a broadcasting profit of $8.9m (up 5.4%). Thirty-eight of the 47 services were in profit.

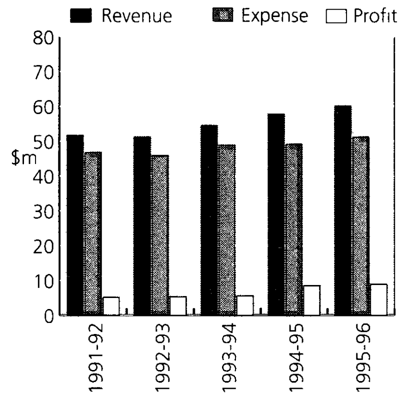



Figure 6: Medium size regional radio markets revenue, expense, profit

The licensees in the 34 smaller markets, which include markets such as Armidale, Cooma, Mount Isa, Renmark and Geraldton, increased revenue 5.2% to $25.9m. Expenses increased by 3.9% to $23.3m resulting in a profit for this group of $2.6m. (up 16.6%). Thirty of the 38 licensees in this group of markets reported a profit.

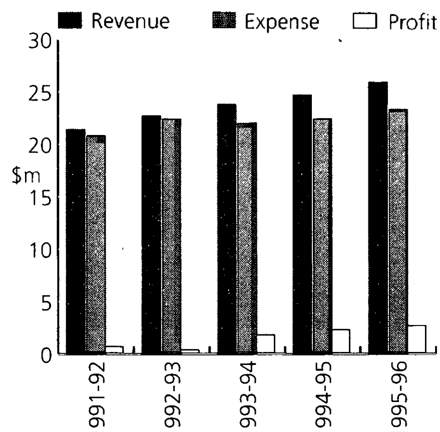



Figure 7: Smaller regional radio markets revenue, expense, profit

Regional NSW, which includes 51 licences, increased revenue by 2.4% to $87.0m resulting in a broadcasting profit of $9.8m. Regional Victoria (18 licences) increased revenue by 10.9% to $28.5m resulting in a broadcasting profit of $4.9m (up 18%). Regional Queensland (30 licences) increased revenue by 6.8% to $50.3m resulting in a broadcasting profit of $10.9m (up 10.5%). Regional South Australia (six licences) earned revenues of $5.9m (up 8.3%) resulting in a broadcasting profit of $300 000 (up 54.9%). Regional Western Australia (16 licences) increased revenue by 8.5% to $11.5m resulting in a broadcasting profit of $1.5m (up 43.1%).

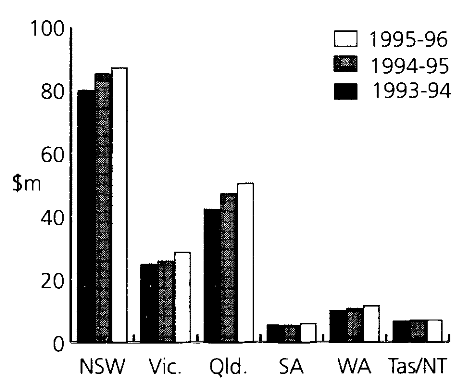



Figure 8 : Regional commercial radio revenue by State