

The Treasury

COVID-19: Financial Support Package for Television New Zealand Limited Information Release

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Office of the Minister of Finance

Office of the Minister of Broadcasting, Communications and Digital Media

Cabinet Economic Development Committee

COVID-19: Financial support package for Television New Zealand Limited

Proposal

1. This paper proposes that Cabinet agree to provide an uncalled capital facility of up to \$30 million to Television New Zealand (TVNZ), a Crown entity company, to provide it with shareholder support due to the financial impacts of COVID-19 on the company's operations.

Executive Summary

2. COVID-19 has had a material impact on TVNZ's advertising revenue; many advertisers have either cancelled or deferred advertising spend. This is not surprising, as businesses were unlikely to advertise when they were not trading, and businesses that were able to trade had much less need to advertise. Although New Zealand has now moved to COVID-19 Alert Level 1, many businesses will likely need to constrain future expenditure to preserve cash.
3. TVNZ forecast a revenue reduction of approximately [25] in the June quarter of 2019/20. TVNZ's forecast revenue reduction for 2020/21 is [25], which represents a [25] reduction compared to TVNZ's actual revenue during 2018/19.
4. In response to this fall in revenue, TVNZ has approved a cost reduction programme. In its 2020/21 budget, TVNZ has included total savings of [25], which includes operational savings of [25] and capital expenditure savings of [25]
5. Shareholding Ministers have indicated our preference that TVNZ preserves jobs and investment in news and local entertainment content, and avoids cost-cutting initiatives in response to COVID-19 that would jeopardise the core capabilities of the company which are likely to benefit future Public Media outcomes.
6. After discussions with shareholding Ministers and the Treasury, TVNZ has requested a \$30 million uncalled capital support package be made available, to ensure the company remains a going concern in 2020/21. This request is on the basis of material uncertainties to TVNZ's financial position and the downside risk of its forecasts.
7. [25,38]
- 8.

9. Shareholding Ministers recommend that Cabinet approve an uncalled capital facility to TVNZ of up to \$30 million in 2020/21, to be made available as is necessary. This would be drawn down only [25] indicated it would be required.
10. The uncalled capital facility would provide TVNZ's board and management with certainty around support from the company's shareholders, should downside scenarios eventuate, and allow TVNZ's board to sign off its year-end accounts. It would also allow TVNZ to continue to meet its financial obligations over the period its cash flows are weakened as a result of the economic impacts of COVID-19, and provide time for Ministers to consider next steps as part of the Strong Public Media programme.
11. The provision of the \$30 million in one, immediate tranche was considered. However, the approach of providing support over time, as it is required, would have the benefit of limiting fiscal and other risks to the Crown. If the post-COVID-19 environment proves to be more favourable than forecasted, TVNZ may not require the full \$30 million. In this instance, some or all of the uncalled capital would remain available for the Government to allocate to other priorities.
12. TVNZ is eligible to apply for initiatives included in the immediate media sector support package [CBC-20-MIN-0051 refers], [33] . However, these initiatives are not expected to provide sufficient support to address the revenue decline.
13. [33] . TVNZ has benefited from the first support package, in particular from the transmission fee relief initiative, and this has been factored into the recommended support. [33]
14. Shareholding Ministers would send an updated Letter of Expectations to the TVNZ board, outlining the conditions of drawdowns and new expectations in light of the support. For example, shareholding Ministers would expect to be consulted before TVNZ makes any further significant decisions on business restructuring (over and above those already approved by the TVNZ board under the company's cost reduction programme).

Background

TVNZ is facing the risk of a cash shortfall

15. COVID-19 has had a material impact on TVNZ's advertising revenue; many advertisers have either cancelled or deferred advertising spend. This is not surprising, as businesses were unlikely to advertise when they were not trading, and businesses that were able to trade had much less need to advertise.
16. Although New Zealand has now moved to COVID-19 Alert Level 1, many businesses would likely need to constrain future expenditure to preserve cash. Advertising, given its discretionary nature, is often one of the first items to be constrained. In addition, supply chains have been disrupted, with many firms having reduced stock and therefore unwilling to commit to advertising campaigns.
17. Prior to COVID-19, TVNZ's forecast revenue was \$311 million for 2019/20 and [25] for 2020/21. TVNZ forecast a revenue reduction of approximately [25] in the June

quarter of 2019/20. TVNZ's forecast revenue reduction for 2020/21 is [25]

18. TVNZ has no debt and, prior to COVID-19, had cash of approximately \$60 million, including historical working capital of [25]. The forecast revenue reduction for 2020/21, combined with the revenue reduction in the 2019/20 June quarter, will reduce TVNZ's cash reserves.

19. [25]

To satisfy the TVNZ board that the company is a going concern, it also needs to be mindful of other potential downside scenarios and the risks to the central scenario.

20. During the preparation of this support package, TVNZ's revenue forecasts have moved substantially due to the uncertainty of the overall impact of COVID-19 on the company. This highlights the uncertainty around future outcomes and the underlining risk of the business. Future movements could be equally substantial, but negative rather than positive.

21. [25]

- 22.

This support package is designed to provide funding for TVNZ during 2020/21, while Ministers consider next steps as part of the Strong Public Media programme.

23. TVNZ is continuing to provide high-quality television programming to viewers – including a focus on news and local content – as it is important in ensuring New Zealand audiences remain informed and entertained.
24. TVNZ has requested a \$30 million uncalled capital support package be made available, to ensure the company remains a going concern in 2020/21. This request is on the basis of material uncertainties to TVNZ's financial position and the downside risk to its forecasts.

TVNZ is implementing a cost reduction programme

25. In response to the negative financial implications as a result of COVID-19, TVNZ has approved a cost reduction programme. In its 2020/21 budget, TVNZ has included total savings of [25], which includes operational savings of [25] and capital expenditure savings of [25].
26. Shareholding Ministers have indicated our preference that TVNZ preserves jobs and investment in news and local entertainment content, and avoids cost-cutting initiatives in response to COVID-19 that would jeopardise the core capabilities of the company which are likely to benefit future Public Media outcomes.

27. The cost reduction initiatives include the cancellation or reduction of content production and system upgrades, innovation projects, marketing, executive remuneration, employee costs and international content rights.
28. Further to the [25] total savings, TVNZ has also received \$4.9 million from the Government's wage subsidy scheme, and will receive an estimated [25] as a result of the Government's immediate media sector support package [CBC-20-MIN-0051 refers].
29. Although TVNZ's cost reduction programme will ease some future cash flow pressures, the savings will take time to implement, and there is uncertainty with respect to what saving will actually eventuate. In any case, the savings are unlikely to be sufficient to offset the decline in revenue it is experiencing. The initiatives will, unfortunately, involve significant staff redundancies and require some reduction in New Zealand content.
30. There is a critical judgement required to avoid cost reductions that compromise TVNZ's ability to meet the Government's Public Media objectives and generate commercial revenue to support its ongoing operations.
31. The trade-off here is with the size of the Crown funding required to support TVNZ through to the end of 2020/21.
32. TVNZ will continue to seek guidance from its shareholders as to what trade-offs shareholding Ministers support TVNZ to make, if any, to ensure near-term actions to reduce costs are aligned with Ministers' longer-term intentions for TVNZ, and do not close off future options before Ministers are ready to take decisions.
33. [33]
34. TVNZ currently funds all of its broadcasted content through commercial revenue (although production of some of that content, mostly by third parties, is also supported by NZ On Air). In 2018/19, TVNZ spent approximately \$90 million on New Zealand content, being approximately twice the value of content produced through funding from NZ On Air that screened on TVNZ. This content is valued by New Zealanders, and the audience reach it generates for TVNZ will be critical for TVNZ's ability to meet the Government's public media objectives.

A targeted approach for TVNZ support is justified

35. The Treasury has developed principles for providing Crown support to large firms in the COVID-19 market environment. The principles advocate that Crown support should be provided first to firms that are economically significant, and that initial interventions for these large firms should focus on broad-based options that take advantage of existing resilience. Existing commercial solutions are preferred ahead of Crown support. Shareholders are expected to provide support before the government – in TVNZ's case, the Crown is its shareholder.
36. TVNZ faces challenges that cannot be readily addressed through the broad-based government response of fiscal and monetary policy or private sector credit channels and capital markets. This is due to the scale of the expected impact on revenue (which exceeds

the level of government wage subsidy and other available support, including the immediate media sector support package) and [25,38]

Immediate support is required

37. COVID-19 has had a material impact on TVNZ's advertising revenue, to a much quicker timeline than previously forecast; television advertising revenue has been declining by approximately 3.5% per annum across the media industry in recent years. There is a risk that, owing to its financial position, without shareholder support, TVNZ cannot be confirmed as a going concern for the next financial year.
38. Prior to COVID-19, officials from the Ministry for Culture and Heritage had commenced policy work on a longer-term solution for the viability of New Zealand's public media under the Strong Public Media programme. This work included developing a detailed business case to assess the viability of establishing a new public media entity, and ultimately disestablishing TVNZ and RNZ, transferring some of their capabilities to the new entity. Implementing this proposal would be a multi-year process and would require legislative change to establish the new entity. This programme has been paused due to the impact of COVID-19.
39. Work to strengthen public media should be progressed as soon as possible, taking into account the changed strategic context resulting from COVID-19, to help provide certainty on the future direction of New Zealand's public media. Officials will provide advice to Ministers on options to progress this work.

[33]

40. Under the Television New Zealand Act 2003 (the Act), TVNZ's functions are to be a successful national television and digital media company providing a range of content and services on a choice of delivery platforms and maintaining its commercial performance. In carrying out its functions, TVNZ must provide high-quality content that is relevant to, and enjoyed and valued by, New Zealand audiences; and encompasses both New Zealand and international content and reflects Māori perspectives. TVNZ's services must include the provision of channels that are free of charge and available to audiences.
41. The Act states that TVNZ is maintaining its commercial performance if it operates in a financially responsible manner so that it maintains its financial viability; its activities generate, on the basis of GAAP, an adequate rate of return on shareholders' funds; and it is operating as a successful going concern.

[25]

42.

43. [33]

[36]

46. The Government has already announced an immediate media sector support package, and is considering further sector support initiatives.

Options previously considered

47. [25,38]

48. A Crown loan, provided on commercial terms [25,38]
was identified as an alternative support option and previously considered by shareholding Ministers. This would incentivise TVNZ to only draw down what is necessary for business continuity (minimising the impact on core Crown cash flow), and encourage greater operational efficiency. [25,38,34]

A loan is also more complex and would take additional time to negotiate and implement.

[25,38,34]

An uncalled capital facility is the preferred mechanism for support

51. Consequently, an uncalled capital facility from the Crown, as owner of TVNZ, is a simple solution that is easy to implement immediately, subject to Cabinet approval and an appropriation being agreed. This would be an effective form of support to enable the company to continue to meet its financial obligations over the period its cash flows are weakened as result of the economic impacts of COVID-19, and provide time for Ministers to consider next steps as part of the Strong Public Media programme.
52. Therefore, we recommend that Cabinet approve a \$30 million uncalled capital support package for TVNZ, to ensure the company remains a going concern in 2020/21. Under a Share Subscription Agreement between shareholding Ministers, support would only be available if [25]
53. This support would provide confidence to TVNZ to make immediate decisions and give the TVNZ board confidence that it has the support of its shareholders. Expenditure and investment by TVNZ could play a part in supporting the post-COVID-19 economic recovery.
54. On the other hand, this could see TVNZ receiving more financial support than it requires, particularly at a time when there are numerous calls on government funding. [34]
55. This risk would be addressed by providing support in tranches. This should result in a lower cost for the Crown. It would also apply commercial discipline on the TVNZ board to reduce its costs (in appropriate ways) – particularly in terms of ensuring delivery of the cost reduction programme – and to manage its cash flows as best as it can over coming months.
56. If approved, Shareholding Ministers will provide an updated Letter of Expectations to the TVNZ board outlining their expectations regarding the provision of the uncalled capital facility. The Letter of Expectations would note:
 - the important contribution TVNZ is expected to make to the Strong Public Media programme;
 - the significant impact of COVID-19 on TVNZ's financial position;
 - the risks around TVNZ's financial position in the coming year; while also
 - confirming Ministers' expectations for consultation, on a "no surprises" basis, on the changes TVNZ needs to make to its organisation in response to this, to avoid any negative implications for the Strong Public Media programme.

Next steps

57. If Cabinet agrees, the uncalled capital facility would be provided to TVNZ through a share subscription agreement signed by the shareholding Ministers of TVNZ and the company.

Financial implications

58. The proposed uncalled capital facility for TVNZ will require the establishment of a non-departmental capital expenditure appropriation of up to \$30 million for 2020/21 in Vote Finance. This appropriation will be included in the 2020/21 Supplementary Estimates and, in the interim, the increase will be met from Imprest Supply.

59. The capital expenditure will be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020. It is proposed that shareholding Ministers be authorised to give effect to the provision of an uncalled capital facility of up to \$30 million in 2020/21, to be made available as is necessary, depending on [25]

Legislative implications

60. There are no legislative implications. TVNZ is a Crown entity company subject to the Crown Entities Act 2004, and section 79 of that Act allows shareholding Ministers to subscribe for shares in Crown entity companies.

Impact analysis

61. A regulatory impact analysis is not required.

Consultation

62. TVNZ was consulted in the development of this Cabinet paper. The Ministry for Culture and Heritage was also consulted, particularly regarding the Strong Public Media programme.

Communications

63. Shareholding Ministers plan to announce the funding for TVNZ as outlined in this paper, if approved by Cabinet.

Proactive release

64. This paper will be proactively released, with confidential information withheld, taking account of the release of other Cabinet papers relating to COVID-19.

Recommendations

We recommend that Cabinet:

- 1 **note** that, as a result of the impact of COVID-19, Television New Zealand Limited (TVNZ) has experienced, and is forecasting, an ongoing decline in its advertising revenues and therefore risks not being certified as a going concern in its year-end accounts;
- 2 **note** that, based on conservative modelling, the TVNZ board has requested a \$30 million uncalled capital facility from the Crown, as shareholder, to address potential liquidity and solvency issues;
- 3 **note** that an uncalled capital facility is the preferred mechanism for providing shareholder support, due to [25,38]
- 4 **note** that financial support of TVNZ in 2020/21 will allow Ministers the time to consider next steps for progressing the Strong Public Media programme, which would have direct implications for TVNZ's future;

5 **agree** to provide an uncalled capital facility to TVNZ of up to \$30 million in 2020/21, to be made available as is necessary, depending on [25]

6 **agree** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	COVID-19: Uncalled Capital Facility for Television New Zealand Limited	Non-Departmental Capital Expenditure	This appropriation is limited to the provision of an uncalled capital facility to Television New Zealand Limited, via subscription for new ordinary shares, in response to the impacts of COVID-19.

7 **approve** the following changes to appropriations to give effect to the decision in recommendation 5 above, with a corresponding impact on net core Crown debt:

	\$m – increase/(decrease)			
Vote Finance Minister of Finance	2020/21	2021/22	2022/23	2023/24 & Outyears
Non-Departmental Capital Expenditure COVID-19: Uncalled Capital Facility for Television New Zealand Limited	30.000	-	-	-

8 **agree** that the proposed change to appropriations for 2020/21 be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

9 **agree** that the capital expenditure incurred under recommendation 7 above be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;

10 **authorise** shareholding Ministers (the Minister of Finance and the Minister of Broadcasting, Communications and Digital Media) to give effect to the provision of an uncalled capital facility as is necessary, funded by the appropriation agreed in recommendation 7 above;

11 **note** that shareholding Ministers will send a revised Letter of Expectations to the TVNZ board, advising of the provision of an uncalled capital facility and updating their expectations for TVNZ.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Kris Faafoi
Minister of Broadcasting, Communications and Digital Media