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Children's Television Production Project

Research report prepared for ACMA by Kate Aisbett of
Entertainment Insights

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Contents

EXECUTIVE SUMMARY.....	1
About the research	1
Summary of research findings	1
1.0 INTRODUCTION	6
1.1 Research objectives.....	6
2.0 METHODOLOGY	7
2.1 Desk research.....	7
2.2 Qualitative interviews with key informants.....	7
3.0 FUNDING CHILDREN’S TELEVISION PRODUCTION	8
3.1 Overview of the sector	8
3.2 Sources of finance for C drama	9
3.3 C non-drama financing	19
3.4 P pProgramming	20
4.0 TRENDS AND ISSUES IN THE AUSTRALIAN AND OVERSEAS CHILDREN’S TELEVISION PRODUCTION INDUSTRY	21
4.1 Trends in average licence fees for different genres of children’s programs, including Australian C drama.....	21
4.2 International market trends	22
4.3 Production cost trends.....	24
4.4 Audience trends	25
4.5 Implications for the Children’s Television Standards	27
5.0 INDUSTRY STAKEHOLDERS’ VIEWS ON THE RELATIONSHIP BETWEEN THE CTS AND THE PRODUCTION OF CHILDREN’S TELEVISION	28
5.1 Views on the impact of quotas.....	28
5.2 Views on the implications of varying degrees of restriction on advertising during children’s programming.....	29
5.3 Views on the implications of CTS criteria for C or P programs.....	31
5.4 How the classification process for C and P programs interacts with timing, quality and funding of production.....	33
6.0 DEVELOPMENTS IN CHILDREN’S PRODUCTION ACROSS MEDIA PLATFORMS THAT MIGHT BE RELEVANT TO THE CTS	34
APPENDIX 1 INDUSTRY PARTICIPANTS	36
Production interviews	36
Network interviews.....	36
Funding body interviews	36
APPENDIX 2 FINANCIAL SOURCES FOR AUSTRALIAN AND CO-PRODUCTION CHILDREN’S DRAMA 2001–02 TO 2005–06	37
Contributions to Australian and co-production range of TV drama programs for children	37
Contributions to the Australian slate of TV drama programs for children	37

Executive summary

The Children's Television Production project examines the production and financing of Australian children's television and considers the implications of this for the Children's Television Standards (CTS).

This research was conducted by independent researchers and the conclusions do not necessarily reflect the views of ACMA.

ABOUT THE RESEARCH

The research was conducted by Kate Aisbett and Jane Gould, from Entertainment Insights, with the report prepared by Kate Aisbett. The research consisted of two broad components, desk research and interviews with key industry stakeholders. The desk research included an analysis of available data on the level of production and financial sources for production. The statistical information was supplemented with newspaper and trade magazine reports on the sector.

The stakeholders interviewed included independent producers, commercial television network executives with involvement in children's television programming, an Australian Broadcasting Corporation (ABC) children's television executive, a digital media expert and representatives from government funding bodies. The stakeholder interviews are a small sample of the views and issues perceived by some people working in the local children's television industry. Their views are not necessarily representative of the industry as a whole, but nevertheless provide an environmental scan of issues currently facing the industry as well as current perceptions about the CTS.

SUMMARY OF RESEARCH FINDINGS

Financing children's television is becoming increasingly difficult. Internationally, licence fees are dropping and Australian producers are finding it increasingly difficult to raise the required international finance. The market is becoming increasingly competitive and fragmented, requiring more pre-sales to various territories to finance production. This leaves few revenue streams for equity investors to recoup their investment. Producers reported that Australian television networks are demanding from them increasingly unfavourable terms of trade, which limit producers' ability to meet their contractual obligations with third parties. This threatens the long-term viability of those production companies focused on children's programming.

The research confirmed the centrality of the CTS to the production of children's television in Australia. In an environment in which Australian adult drama production has been declining, and financing children's television has been becoming more difficult, the CTS quotas mean the production of children's television plays a significant role in the overall health of Australia's production industry.

Both network executives and producers raised concerns about interpretations of the CTS classification criteria and their influence on international finance opportunities. The research found that Australian television producers and commercial networks remain focused on TV production at a time when children as well as financiers are seeking more integrated cross-platform productions that exploit opportunities for interactivity and audience participation.

The research has clearly raised issues requiring further discussion in the context of the CTS review.

The findings of this report are summarised into:

1. Key trends in the production and financing of children's television and
2. Industry views on the CTS and its implications for the production of children's television.

1. Key trends in the production and financing of children's television

Children's television production plays a significant role in the overall health of the Australian production industry

- An estimated 1,100 hours of first release commercial broadcast hours¹ of children's programming² is produced annually, including 120 hours of children's drama³.
- In last five years, 199 hours of animation and 320 hours of live action children's drama have been classified.
- Children's drama production forms a substantial proportion of all drama production in Australia, ranging from 21 per cent in 2001–02 to 42 per cent in 2005–06.

Financing for C drama is shared fairly equally between the Australian Government, Australian industry and foreign investors.

- Financial sources for C drama based on the five-year average of total value of C drama 2001–02 to 2005–06 is comprised of:
 - Australian Government finance—26 per cent
 - Australian industry—33 per cent
 - Foreign investment—37 per cent
 - Australian private sector—five per cent.

Networks' backing is low compared to Australian adult drama

- The Australian TV industry provides much less backing for children's drama (33 per cent of support) than it does for adult drama (67 per cent).
- Production of children's drama is more reliant on both government sources and foreign investment than Australian adult drama.
- Some producers stated that producers in other nations, such as Canada, were at a competitive advantage because their local broadcasters helped them put together the project financing deals, while in Australia, broadcasters sought terms of trade that undermine the project's viability.
- Ways of improving the networks' commitment to C and P programming is an issue for further consideration.

¹ The term 'first release commercial broadcast hours' is taken from the *ABS Television, Film and Video Production Survey 2002–03* and is defined as the airtime the program would take up excluding time for commercials, advertisements and program promotions. The term refers to hours of children's television produced according to this definition and does not necessarily translate into hours broadcast.

² Australian Bureau of Statistics (ABS), *Television, Film and Video Production Survey 2002–03*

³ Australian Film Commission (AFC), *National Survey of Feature Film and TV Drama Production 2005–06*, five year average

Proportion of financing for individual productions from the Film Finance Corporation is declining

- Between 2001–02 and 2005–06, Film Finance Corporation (FFC) investment averaged \$15.5 million per annum in children's drama.
- The FFC contribution represents around 39 per cent of total finance for these projects.
- The FFC policy to spread its appropriation from government across more projects has resulted in a substantially lower stake in the FFC-backed children's drama projects.
- The FFC has increased the licence fee requirement for C drama from \$55,000 per half hour in 2000 to \$95,000 per hour in 2006 to gear up stronger financial support from the local broadcasting industry.

A two-tiered licence fee system is developing in the local market

- The licence fee paid by most free-to-air broadcasters for children's drama is \$95,000 per half hour, in line with FFC investment guidelines. For programs that do not have FFC participation, significantly lower licence fees have been paid by some free-to-air broadcasters. The disparity between licence fees paid for programs with FFC backing and those without FFC participation is creating a two-tiered system.
- Producers report pressure from some networks not to seek FFC backing because of the set licence fee requirement.

State government investment increasing

- The role of state government agencies responsible for support of the local production sector has gained greater significance in raising production finance.
- Level of financing from state bodies nevertheless remains a small percentage.

Sourcing foreign investment is becoming more difficult

- The complexity of the production process has increased because more partners and international pre-sales are needed and each partner has to satisfy conditions for their market. As a result, producers are requiring increasingly complex foreign investment deals to access adequate investment.
- Demand for better quality programs internationally is placing further pressure on raising larger budgets.
- International licence fees are at the same time dropping and regulatory changes have reduced the demand for foreign content in other markets.
- Co-productions increase the cost of production because of official co-production costs.
- The benefits of co-productions outweigh the costs. Producers called for the establishment of more official co-production treaties with other countries, for example, with the US and Asian countries, some of which the Australian Film Commission (AFC) is currently pursuing.

Balancing global market trends in children's programming with the CTS

- To raise finance for C drama, Australian producers need to be making programs not just for Australian children but for the global children's television market.
- Trends in the content and style of programs in the international market are perceived to run contrary to the program content and style that are required to satisfy the CTS. This makes it more difficult for producers to raise the necessary foreign finance.

- A global trend to animation productions will see the local animation companies benefit. This may pose a threat to the goal of the CTS to offer a diversity of programs.

Free-to-air child audience is diminishing

The child audience is diminishing on free-to-air television and, in particular, on commercial channels.

- Between 2001 and 2006, the proportion of 0–14 year olds as a percentage of total viewers on commercial channels has dropped from 14.2 per cent to 11 per cent⁴.
- This decrease has been greatest for weekday viewing of 5–12 year-olds, which is down from 8.2 per cent to 5.9 per cent.
- For weekday audiences between 4.00–5.00 pm, when children's C-classified programs (C programs) are usually broadcast, the proportion of 5–12 year olds has dropped from 8.1 per cent of total audience to 3.9 per cent.
- The implication for CTS goals of declining numbers of children in the commercial television audience is an issue for further consideration.

Promotion and scheduling of C programs is seen as a problem for reaching the child audience

- Network executives feel the set time bands for C programs makes it easy for children to know what is on and when.
- The weekday afternoon C-program band suffers in terms of its placement in the general viewing environment.
- Poor promotion of children's programming was reported by producers as a factor contributing to low audience numbers.

2. Industry stakeholder views on the CTS and its implications for the production of children's television

Quotas are seen as being essential for children's TV production locally

- Producers generally are adamant that CTS quotas underpin their business. Drama producers believe that without a quota system there would be no C drama programs produced in this country for commercial networks.
- In general, producers felt the current quota levels for drama were about right and set at a reasonable level.
- Network executives view the quota as a community obligation.

A lack of commercials classified for broadcast during the C periods raises questions about the potential implications of CTS advertising restrictions

- Neither producers nor networks advocated a lifting of the current amount of advertising allowed during C and preschool P-classified programs (P programs) (CTS 4, 4A, 14).
- Network executives reported that there is a lack of commercials to fill the available slots in C periods because the vast majority of advertisers do not apply for a C classification for their advertisement.
- It is unclear whether this reflects a lack of interest by most advertisers in broadcasting their commercial during a dedicated children's timeslot, a reflection of the content

⁴ OzTAM data supplied to ACMA. OzTAM (Australian Television Audience Measurement) is the official source of television audience measurement (TAM), covering the five city metropolitan areas and nationally for Subscription TV.

restrictions in CTS, or a limited understanding by advertisers about what constitutes appropriate advertising during C periods.

- This suggests a need for additional information on advertising trends and issues during C periods.

Some see the restrictions on the treatment of prizes in C game shows as too restrictive

- Both network producers and a few independent producers suggested revising CTS 9 requirements that prevent host endorsement of prizes offered and the value of a prize from being stated. Both independent producers and network executives questioned the strictness of interpretation of CTS 9.
- The possibility of allowing sponsorship with the appropriate guidelines for C programs was raised by a C non-drama producer because of the total reliance currently on low broadcaster licence fees to finance production of C non-drama programming.

Interpretation of criteria for classifying a C or P program (CTS 2) needs clarifying and where necessary revising

- There is consensus among network executives and producers that the CTS classification criteria were necessary.
- Many producers consider that the criteria need to be revised to reflect changes in the contemporary context. Both network executives and producers referred to children's exposure to a wider range of influences.
- Producers believe that ACMA has a particular view about what is the appropriate content and style for a given age group. They readily acknowledge self-censoring ideas before submission to ensure they sit within the perceived notion of the requirements.
- The implications of producers' self-censorship and the perceived conservatism in current interpretations of the classification criteria are issues for further consideration. Producers called for ACMA to convene a forum with the production community and the networks to discuss the issue.

Some streamlining of the application process for C classification was seen as desirable

- Two of the network executives and a few independent producers requested some streamlining of the application process for a second series of a program when the program has not changed (particularly C non-drama and P).
- While the limited ACMA resources were appreciated, some producers argued that a faster turn-around time of 30 days rather than 60 days would assist in production timing and financing.

Increasing demand for cross-platform productions

- The industry press has reported a demand in international markets for multi-platform properties integrating television, mobile and online, and enhancing interactivity.
- For children's channels in Australia and internationally, there has been a shift toward content creation extending beyond television. Children now have new ways to engage with characters and stories, where TV is part of a more diverse mix of media experiences.

Little development in cross-platform production for CTS programs

- Network executives and producers reported that very little cross-platform production had been made for commercial networks.

- The task of finding additional funds for online program development was seen as difficult in the tough financing environment.
- The commercial networks' focus is on meeting the on-air requirements of the CTS. They are therefore not active in encouraging development of programming that engages children across platforms.
- Some producers suggested the need for greater flexibility in format lengths. There was the belief that the CTS requirement for half an hour of continuous programming (CTS 3) was prohibiting new genres because networks will only commission half-hour programs.
- Some form of incentive for broadcasters to support content across other platforms appears to be needed to encourage such a development.
- Consideration of ways the CTS can broaden its scope beyond the television screen is required if the standards are to remain applicable to children's viewing and use of the various media today and in the near future.

Further research on children's changing media consumption is needed

- Research on children's use of media across platforms should be regularly updated to ensure the CTS keep pace with this rapidly changing landscape.
- Research on children's changing media habits and tastes need to be shared with networks and the production community to assist them in the development of programming that will engage Australian children.
- Research into advertising trends and issues that addresses the reported lack of advertisements during the C period is also needed.

Children's Television Production Project

1.0 Introduction

The Australian Communications and Media Authority (ACMA) is reviewing the Children's Television Standards (CTS). The Children's Television Production Project is part of a research program that will be used to inform the review. The overall aim of the research is to inform ACMA's understanding of the production and financing of Australian children's television and the implications of this for the CTS.

The report is divided into two parts:

- The first section draws on desk research and interviews with producers, network executives and funding agencies to describe the current environment for children's television production in Australia. It examines available data on the level of production, financial sources for production, and issues and trends influencing production. The implications of these trends and issues for the CTS are also examined.
- The second part of the report focuses on stakeholders' opinions on the working of the CTS. It examines any issues related to the standards and their views on ways the standards could be changed to more efficiently meet the CTS goals.

1.1 RESEARCH OBJECTIVES

The specific objectives of the research were to:

1. update ACMA's information base about the funding of children's television production in Australia and the implications this has for achievement of the objectives of the CTS;
2. identify trends and issues in the children's television production industry, both Australian and overseas, which might be affecting the production of CTS programs, both C drama and non-drama programs;
3. present the views of industry stakeholders concerning:
 - the effect of the CTS quota system on the volume of production of children's television programs;
 - the effect of the CTS classification criteria (CTS 2) on the production of children's television programs that engage with the child audience; and
 - potential implications of ACMA's process for classifying C and P programs on timing, funding and production values; and
4. increase ACMA's understanding of developments in children's production across media platforms that might be relevant to the CTS.

2.0 Methodology

2.1 DESK RESEARCH

Various information resources were used to gain a broad statistical picture of trends in the C drama and non-drama and P programs since 2000 and their sources of finance. These included the following sources:

1. Australian Film Commission (AFC), *National Survey of Feature Film and TV Drama Production 2005–06*
2. Australian Bureau of Statistics (ABS), *Television, Film and Video Production Survey 2002–03*
3. ACMA databases on C and P programs classified
4. ACMA CTS compliance reports
5. OzTAM⁵ ratings reports prepared for ACMA
6. ACMA TV business finance reports
7. Annual reports of the Film Finance Corporation (FFC)
8. Annual reports of state film and television support agencies

A literature search was conducted using electronic databases for newspaper and magazine articles on the children's television production locally and globally, and key trade magazines were reviewed for relevant information.

2.2 QUALITATIVE INTERVIEWS WITH KEY INFORMANTS

Face-to-face and telephone interviews were conducted with producers of C drama, non-drama and P programs, network executives with responsibility for the acquisition of children's programs, an expert in children's digital media and government funding

⁵ OzTAM (Australian Television Audience Measurement) is the official source of television audience measurement (TAM), covering the five city metropolitan areas and nationally for Subscription TV.

bodies. Seventeen interviews were conducted. A list of the research participants is in Appendix 1.

The interviews followed a structured interview pro-forma related to the research objectives.

3.0 Funding children's television production

3.1 OVERVIEW OF THE SECTOR

According to the ABS' *Television, Film and Video Production Survey 2002–03*, in that year television productions made specifically for children incurred \$78.8 million in costs. The average hourly cost of children's productions was estimated to be \$72,000.

ABS figures on expenditure on C programs and P programs by broadcasters and independent production companies show independent production companies are responsible for the bulk of the production expenditure in the children's sector.

Table 1: Estimates of spend on C (drama and non-drama) and P Programs by independent producers and broadcasters, 2002–03

	C programs	P programs
Broadcasters	\$10.7 M	\$4.9 M
Independents	\$54.8 M*	\$8.5 M**
Total	\$65.4 M*	\$13.4 M*

Source: ABS, *Television, Film and Video Production Survey 2002–03*

* Estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution.

** Estimate has a relative standard error greater than 50 per cent and is considered too unreliable for general use.

The *National Survey of Feature Film and TV Drama Production 2005–06* of all film and television drama productions by the AFC estimates that between 2001 and 2006 the production value of children's drama has averaged \$76 million per annum, with an average annual spend of \$60 million in Australia.

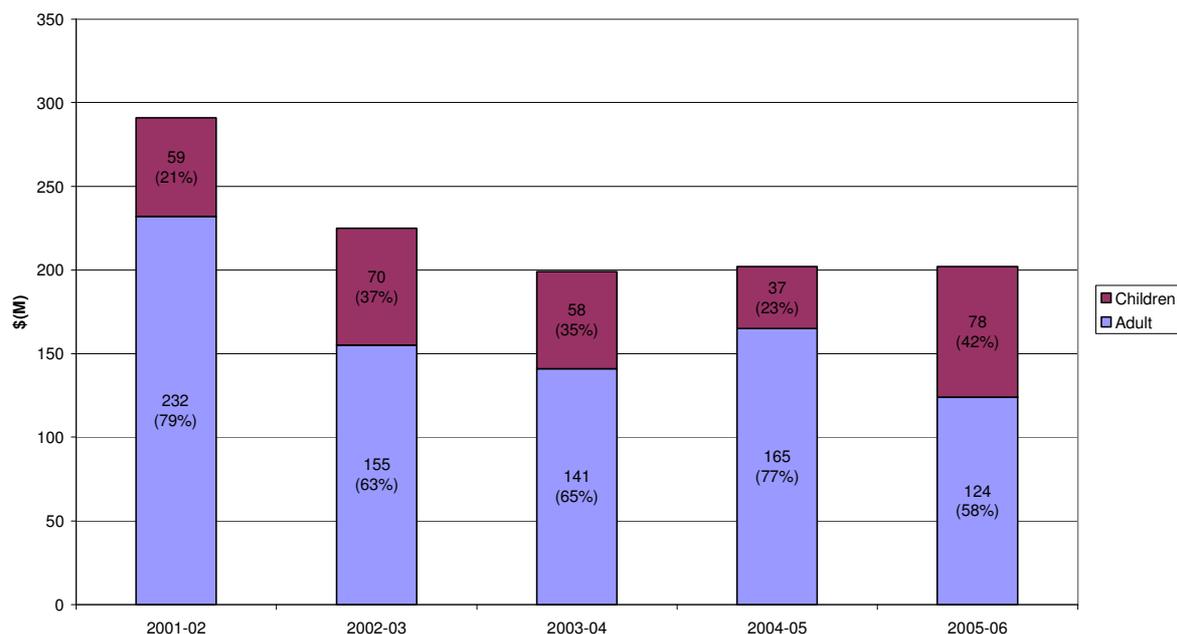
An estimated 1,100 hours of first-release commercial broadcast hours⁶ of children's programming⁷, including 120 hours of children's drama⁸, is produced annually. Children's drama production contributes an increasingly substantial proportion of all Australian drama production in Australia, ranging from 21 per cent in 2001–02 to 42 per cent of all Australian drama production in 2005–06 (see Figure 1). This reflects a drop in the level of adult drama production, while production for children's drama has remained relatively stable. As a consequence, children's drama production has become a larger part of the sector and plays a more significant role in the overall health of the production industry.

⁶ The term 'first release commercial broadcast hours' is taken from the ABS *Television, Film and Video Production Survey 2002–03* and is defined as the airtime the program would take up excluding time for commercials, advertisements and program promotions. The term refers to hours of children's television produced according to this definition and does not necessarily translate into hours broadcast.

⁷ ABS, *Television, Film and Video Production Survey 2002–03*

⁸ AFC, *National Survey of Feature Film and TV Drama Production 2005–06*, five-year average

Figure 1: Total TV drama spend in Australia, split between children and adult drama, 2001–02 to 2005–06



Source: AFC, *National Survey of Feature Film and TV Drama Production 2005–06*

Since 1998, 89 different titles⁹ have received an Australian C drama classification. Around half the titles have been in animation format and half were principally live action format. Over the last five years, 199 hours of animation and 320 hours of live action children's drama have been classified.

3.2 SOURCES OF FINANCE FOR C DRAMA

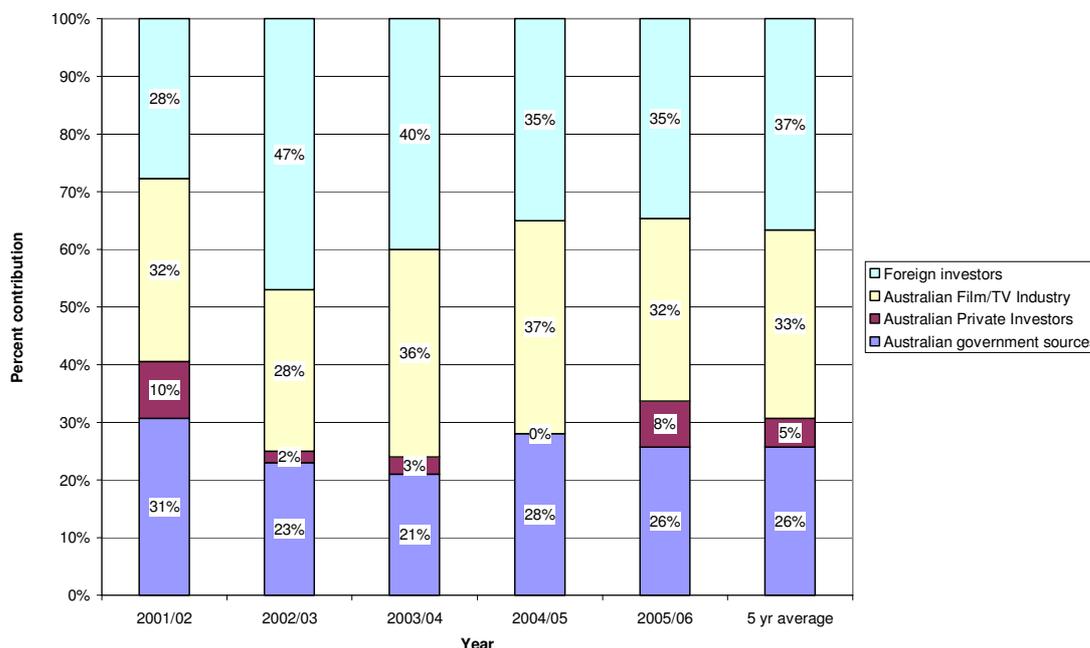
3.2.1 Overview of financial sources

C drama production is the most significant expenditure component of the Australian children's programming production. The data presented in Figure 2 indicates that C drama, on average, is funded roughly a third by Australian Government sources, a third by the Australian market (principally from broadcasters' licence fees), and a third by the international market. Private investment resulting from the deductions available under sections 10B, 10BA of the *Income Tax Assessment Act 1936* or the Film Licensed Investment Company (FLIC) Scheme accounts for a fairly small proportion. Figure 3 presents the breakdown of financial sources of children's drama production for both Australian and co-productions combined.

For each funding source considered, there are no observable statistical trends across the five-year period in total contribution, percentage contribution or number of films invested in. However, both Australian Government and private investors are showing a return to previous levels of interest this year after sharp reductions of funds during 2002–03 to 2004–05. Details of sources of finance for children's drama for 2002–03 to 2004–05 for Australian and co-productions combined and Australian-only productions are at Appendix 2.

⁹ Titles with more than one series have only been counted once.

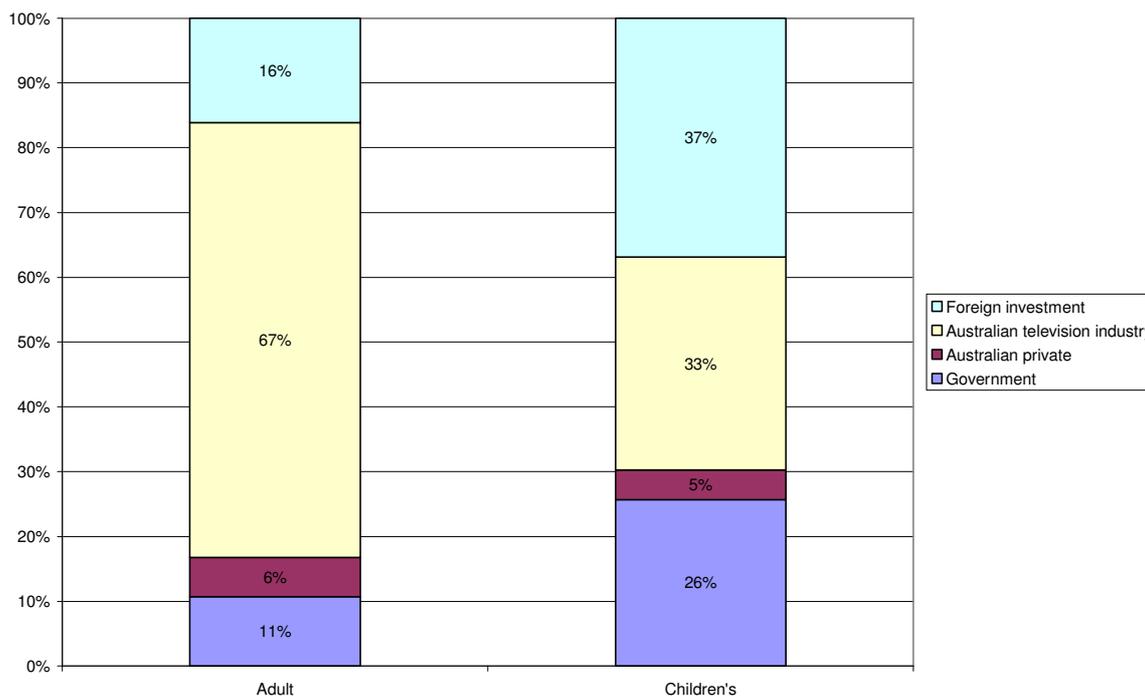
Figure 2: Financial sources for Australian and co-production children's drama by year, 2001–02 to 2005–06



Source: AFC, *National Survey of Feature Film and TV Drama Production 2005–06* (percentages five-year average based on surveys for 2001–02 to 2005–06)

Children's drama is more reliant on both government sources and foreign investment than Australian adult drama. The Australian TV industry provides the financial backing for 67 per cent of adult drama and 33 per cent of children's drama. The shortfall for children's drama is filled by foreign investors and government agencies (see Figure 3).

Figure 3: Financial sources for adult and children's drama



Source: AFC, *National Survey of Feature Film and TV Drama Production 2005–06*, percentages based on five-year average

3.2.2 Government sources

Film Finance Corporation

The FFC is the principal Australian Government agency providing financial support to the Australian film and television production industry. It invests in 'qualifying'¹⁰ Australian feature films, telemovies, miniseries and documentaries. The FFC can provide financial assistance in various ways, but the most common is through equity investments. Since its establishment in 1988, the FFC has been a key investor in children's drama.

Production value

The report, *Twenty Years of C – Children's television programs and regulation 1979–1999*,¹¹ documented the central role Australian's main funding body plays in the production of quality Australian children's drama. In the last five years, the FFC has invested in around half the local children's drama productions¹². The average annual production value of FFC participation productions was more than \$40 million and the average annual production value across all children's drama productions was \$76 million.

FFC investment level

The level of FFC investment in children's television drama is generally between \$15 million and \$20 million per annum. In the last five years, FFC investment has averaged \$15.5 million. The FFC participation in these productions represents around 39 per cent of the production total finance.

The FFC's *Production Investment Guidelines* outline the expected levels of private sector participation for various production categories. The guidelines stipulate that the FFC will not generally fund more than 43 per cent of the budget of a children's television miniseries. Producers seeking 38 per cent or less of budgets from FFC investment are considered first in the allocation of available funds, ahead of producers requiring 43 per cent. The FFC also sets equity investment caps of \$4.5 million for a 26 half-hour episode series and \$2.5 million for a 13 half-hour episode series. Other incentives are provided for producers that bring non-FFC funding to the project through the FFC recoupment split with the producer.

The FFC has made a clear policy shift to 'gear up its appropriation from government by co-investing with the marketplace and private investors both domestic and international and state funding bodies'¹³. The explicit purpose of the FFC policy is to gear up more productions by spreading its investment over a greater number of productions. This has resulted in a substantially lower share of the total children's drama budget, even though the actual amount of investment has picked up since the late 1990s.

¹⁰ 'Qualifying Australian films' are defined in section 10BA of the Income Tax Assessment Act.

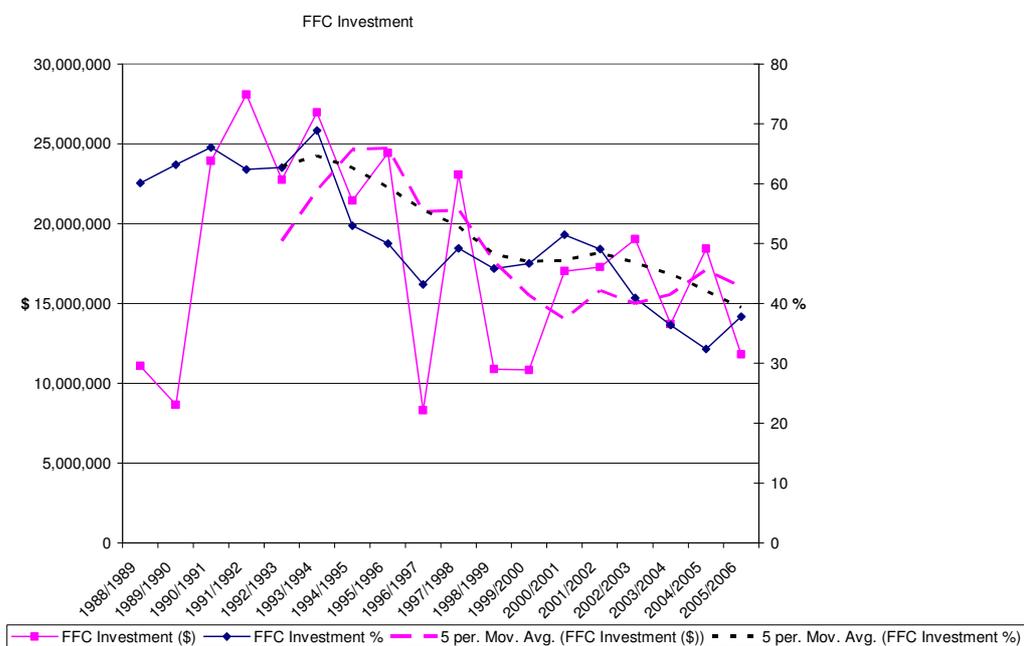
¹¹ Australian Broadcasting Authority (ABA), *Twenty Years of C, Children's television programs and regulation 1979–1999*, Sydney, March 2000. A report of the joint research commissioned by the ABA, the Australian Children's Television Foundation (ACTF) and the FFC.

¹² Using AFC national production survey data on the number of children's drama productions and FFC reports on production investment, 2001–02 to 2005–06.

¹³ FFC, *Annual Report 2005–06*.

Figure 4 demonstrates the shift in the level of investment by the FFC in children’s drama productions since the FFC was established (1988–9 to 2005–06).

Figure 4: FFC investment and percentage of total production value - inflation-adjusted and five-year moving average trend line, 1988–1989 to 2005–06



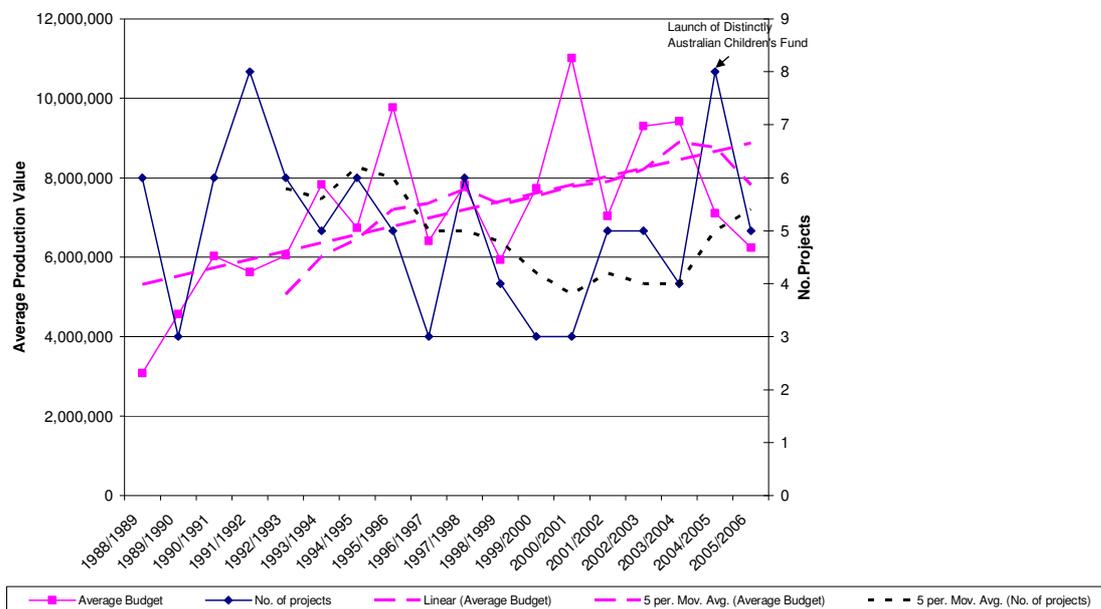
Source: FFC, *Annual Report 2005–06*—inflation adjustment based on Reserve Bank Australia inflation calculator at www.rba.gov.au

Figure 5 displays the production value and number of FFC-invested projects. There is no clear pattern in the number of projects invested in from year to year, and it does not explain the reduction in declining FFC investments as a proportion of total costs. The launch of the Distinctly Australian Children’s Drama Fund¹⁴ for children’s drama in 2004–05 created a spike for that year that lifted the average number of productions above the usual five, but there is little evidence of the lower proportional investment gearing up significantly more productions.

The other possible reason for the lower proportion of participation could be an increase in the overall cost of the productions applying for funding from the FFC. The trend line for the average production budget shows a substantial increase over 18 years, but this trend appears to have reached a plateau. The most likely explanation for this increase is the increase in the number of series’ episodes (and therefore hours) funded by the FFC. In the last five years, the FFC has invested in 299 hours of children’s drama with a five-year average of 64 hours per annum. The norm now for an FFC-funded production is 26 30-minute episodes, a shift from the 13 half-hour episode series that were more common in the 1990s.

¹⁴ The new fund was an acknowledgement by the FFC that the success of children’s drama in the international market could create a barrier for intrinsically Australian programs that may not necessarily have the potential to travel. The FFC applies around \$1.5 million annually of its children’s drama funding for low-budget projects with no international pre-sale.

Figure 5: Production value and number of FFC-invested projects – inflation adjusted with five-year moving average trend line, 1988–1989 to 2005–06



Source: FFC, *Annual Report 2005–06* – inflation adjustment based on Reserve Bank Australia inflation calculator at www.rba.gov.au

Figure 6 demonstrates that the level of influence that the number of FFC-invested hours of production has on production levels overall. A change in FFC investment therefore is likely to influence on the overall level of children’s TV drama produced.

Figure 6: Comparison of hours of FFC-financed C drama and total hours of C drama, 2001–02 to 2005–06



Source: FFC annual reports for 2001–02 to 2005–06 and AFC *National Survey of Feature Film and TV Drama Production 2005–06*

The decrease in equity investment level by the FFC is making the task of financing children's drama production increasingly difficult. It means that a greater share of the budget must be drawn from other sources—government agencies, the film and television industry, or private investment, local and international.

State agencies

With the decrease in the proportion of production budget funded by the FFC, the role of state government agencies responsible for supporting the local production sector has gained in significance. However, the total contribution by state film agencies remains comparatively small.

In Queensland, the Pacific Film and Television Commission (PFTC) supports local producers and attracts interstate productions through equity investment, loans via the revolving film finance fund, and production incentives and location assistance. Some examples of children's programs assisted by the PFTC are *H₂O Just Add Water*, *Mortified*, *Animalia* and *Farm Kids*. The level of investment varies but has been as high as \$2 million for a particular production.

In Western Australia, Screenwest has actively sought more children's drama production in Western Australia. Screenwest provides support to many local producers and offers incentives to attract producers from other parts of Australia to Western Australia. Children's productions with Screenwest investment include *Lockie Leonard*, *Sleepover Club 3*, *Streetsmartz*, *Dogstar*, *Alien Ark*, *Stormworld*, *Me and My Shadow*, *Boom News* and *The Nut Factory*.

The New South Wales Film and Television Office (FTO) has also provided production funds for children's drama programs in the last six years. *Blue Water High* has received the most substantial funding—around \$400,000 per series. Other programs with FTO funding include *Double Trouble*, *Mortified*, *Dragonfire*, *Snobs*. Other children's drama productions have received development funding.

Film Victoria has invested up to \$545,000 in a particular production in recent years. Children's drama projects with Film Victoria investment include *Holly's Heroes*, *Scooter: Secret Agent*, *Dogstar*, *Wicked Science* (series one and two), *Worst Best Friends*, *Saddle Club* (series two), *Search for the Ocean Star*, *Fergus McPhail*, *Pirate Islands*, *Short Cuts* and *Lockie Leonard*.

3.2.3 Foreign investment

Foreign investment makes up a much larger proportion of the financing of children's drama productions than of other Australian drama productions, accounting for 31 per cent of the budget of Australian-produced children's dramas and 59 per cent of children's co-productions. This is a combined contribution of 33 per cent, based on the five-year average (2001–02 to 2005–06)¹⁵. Foreign investment is commonly provided through co-productions or international pre-sales.

Co-productions

Co-productions, where creative control is shared with a partner company, are one means of gaining foreign investment. Co-productions can be either official or unofficial¹⁶. Official co-productions involve a memorandum of understanding or co-

¹⁵AFC, *National Survey of Feature Film and TV Drama Production 2005–06*, December 2006

¹⁶ Official co-productions are financing arrangements made under the provisions of government-to-government treaties or 'less-than-treaty status' arrangements.

production treaty with another nation. Australia has a memorandum of understanding or co-production treaty with the following countries:

- France
- Germany
- United Kingdom
- Canada
- New Zealand
- Italy
- Vietnam
- Israel
- Ireland

Since the inception of the official co-production program in 1986, there have been 84 official co-productions¹⁷. There were 32 co-produced feature films and three of these were children's feature films, co-produced with New Zealand, the United Kingdom and Canada.

There were 20 mini-series, seven of which were children's mini-series. One mini-series was a three-way co-production with France and New Zealand. Two others were with France, two with New Zealand, and one each with the United Kingdom and Canada.

Eighteen drama series were made as official co-productions, of which 13 were children's television dramas. The majority of these partnerships have been with Canada. Nine were made with Canadian co-producers, three had French co-producers and one had an Irish co-producer.

Some of the producers interviewed for this research said that the range of countries Australia has treaties with needs to be expanded because significant investment sources in Asia were currently being tapped through unofficial co-productions. The AFC reported that it has new co-production treaties in development to address this.

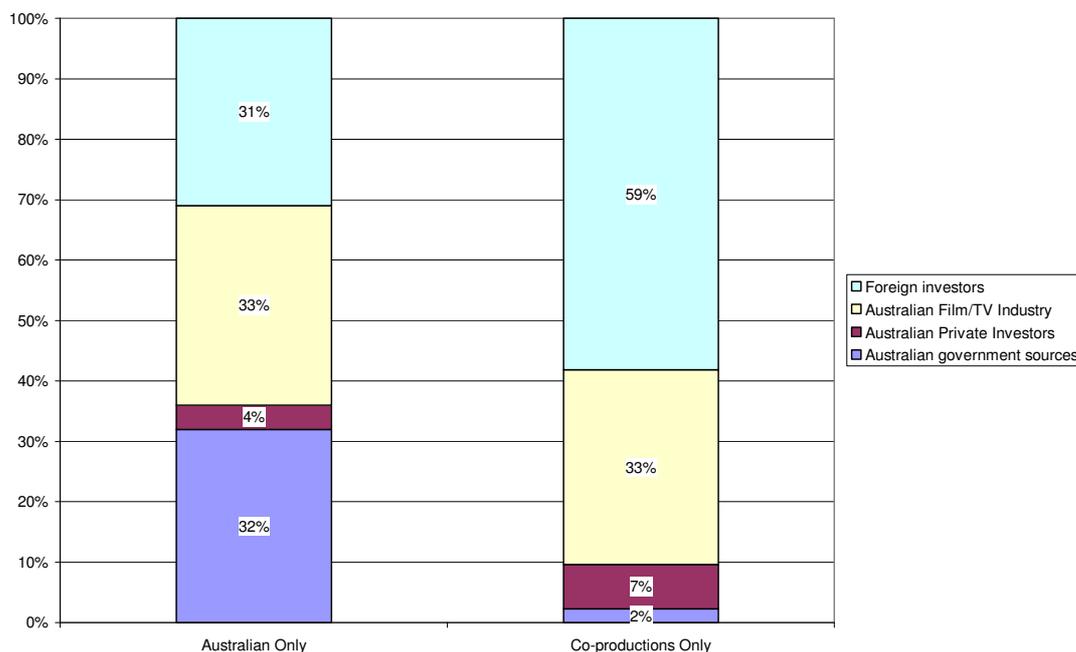
On average, three co-productions (official¹⁸ and unofficial) are made per year. These comprise around a quarter of all children's drama productions. About one third of all foreign investment is directed to co-productions, but only two per cent of Australian Government funding goes to them. The local film and television industry uses about a quarter of its funds on co-productions. One third of the small amount of private Australian investment is directed to co-productions, which is higher than expected.

Figure 7 compares the relative contribution from different sources for Australian productions and co-productions. The key differences are in the level of government funds and level of foreign investment. Co-productions draw around 40 per cent from the local market, while Australian productions draw nearly 70 per cent of their production finance from local sources.

¹⁷ AFC, *Data on Official Co-productions at March 2006*, at www.afc.gov.au/downloads/pubs/coprominiupdate_0606.pdf

¹⁸ An official co-production is issued with a provisional certificate automatically as it qualifies for 'national treatment'. Official co-productions are financing arrangements made under the provisions of government-to-government treaties or 'less-than-treaty status' arrangements. The AFC administers the International Co-production Program.

Figure 7: Financial sources for children's drama co-productions compared with Australian-only productions – five-year average, 2001–02 to 2005–06



Sources: AFC, December 2006, based on *National Survey of Feature Film and TV Drama Production 2005–06*

Producers noted in the interviews that, while co-productions are welcomed for the additional finance they bring to projects, the downsides are that co-productions incur additional cost components and equity is split.

International pre-sales

A pre-sale to an international broadcaster or international distributor is the other major source of financing for children's productions, accounting for around 30 per cent of the budget. Major European public broadcasters like the BBC and Germany's ZDF have in the past been a key 'one-stop' source of funding for children's drama. Some Australian children's drama producers have gained a high international reputation and developed strong relationships with these broadcasters. Reputation and track record are particularly important in the international market because they are crucial in achieving pre-sales and international distribution deals.

The potential implications of the CTS classification criteria for accessing international finance opportunities are considered in 5.3.2.

3.2.4 Australian film and television industry

Free-to-air broadcasters

The licence fee paid by the free-to-air broadcasters is the major component of the finance raised from the local industry. The FFC production guidelines for investment in children's television miniseries stipulate that a pre-sale from a broadcaster for free-to-air or subscription television of Australian rights must be not less than \$95,000 per half-hour. Subscription television or exclusive satellite rights cannot be included as part of the domestic free-to-air television licence fee.

The level of market attachment requirements for projects funded under the FFC's Distinctly Australian Children's Drama Fund is not as high. However, the projects are expected to have a domestic free-to-air television pre-sale of not less than \$90,000 per half hour. The licence fee paid by most free-to-air broadcasters for half an hour of children's drama is therefore \$95,000. For programs that do not have FFC participation, significantly lower licence fees have been paid by the free-to-air broadcaster. Licence fees as low as \$45,000 per half hour were reported by one of the producers interviewed for this study.

For the licence fee, broadcasters may also try to negotiate other 'back-end' rights, for example, for subscription channels, although this is clearly contrary to FFC guidelines. If back-end rights are desired, the broadcaster can take an equity stake in the program.

In interviews, producers reported significant problems when negotiating terms of trade with Australian free-to-air broadcasters. The broadcaster may demand significant 'hold-backs' on the exploitation of other rights by the producer. The required hold-backs can then cause problems in meeting other contractual obligations with subscription channel pre-sales. Hold-backs on DVD release and sales also affect the revenue stream from other 'windows'.

Some producers noted that Canadian producers were at a competitive advantage because their local broadcasters helped them put together the project financing deals, while in Australia broadcasters sought terms of trade that undermine the project's viability.

Subscription channel

There are three children's television networks on the Australian subscription television service—Nickelodeon, Disney and Cartoon Network. Each has two channels with a different target market. Both Nickelodeon and Disney provide a specialist pre-school channel. Children's channels invest in local children's drama production as part of Australian content drama requirements for subscription television. The pre-sale to a subscription channel is generally worth around \$5,000 per episode. Subscription channels' window for showing the production is around one year after it has been broadcast on the free-to-air network. Some examples of children's dramas with subscription channel pre-sales include *Fergus McPhail*, *Holly's Heroes*, *I Got a Rocket*, *Yakkity Yak*, *Nap Man* on Nickelodeon and *Pirate Island* and *H₂O Just Add Water* on the Disney Channel.

3.2.5 Private investment

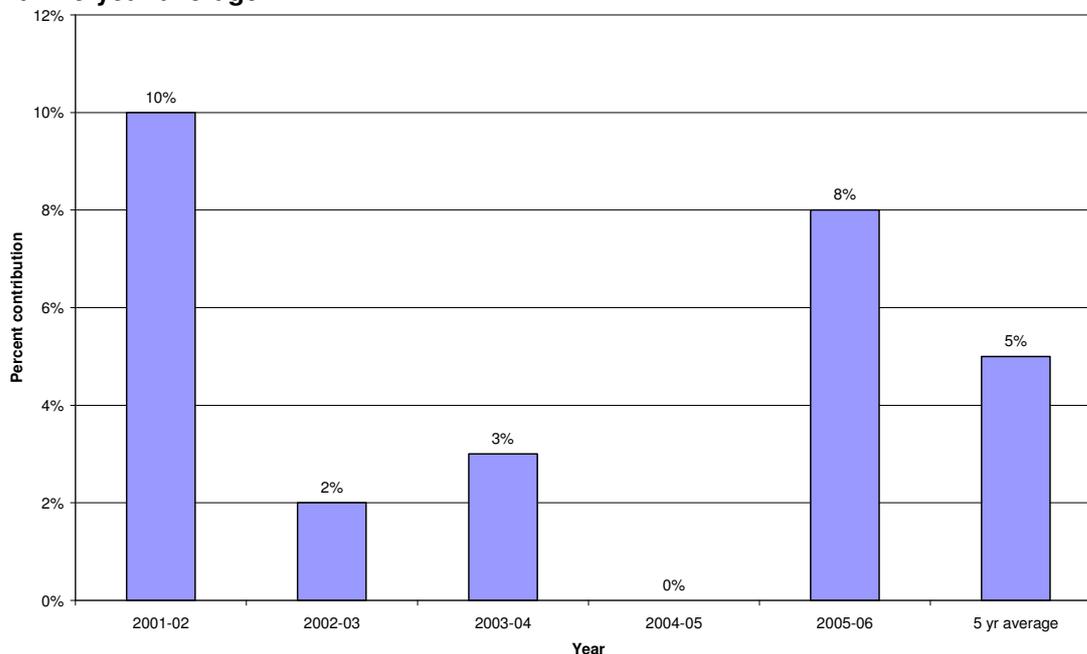
Private investment in film and television projects is encouraged through a 100 per cent tax deduction on productions certified under sections 10B or 10BA of the *Income Tax Assessment Act 1936*. The FLIC Scheme was introduced in 1998 to further encourage private investment by spreading the risk across more projects.

Generally, the level of private investment in film and television production has declined over the last two decades¹⁹ and the introduction of the FLIC Scheme has at best slowed the decline. The AFC data on private investment in children's drama over the last five years shows that nine productions have attracted private investment in this period. With the small amount of data, it is difficult to draw any strong conclusion

¹⁹ AFC, *Get the Picture*, 2004

about the pattern of private investment. An average of two productions is invested in annually by private investors.

Figure 8: Percentage contribution by Australian private investors, 2001–02 to 2005–06 and five-year average



Source: AFC, December 2006, based on *National Survey of Feature Film and TV Drama Production 2005–06*

The Australian Government's current review of indirect tax incentives aims to encourage greater private investment in local film and television production. This could result in a more successful scheme than the current section 10B, 10BA and FLIC Scheme in gaining a larger proportion of the budget from the local market. For example, the Screen Producers Association of Australia (SPAA) proposes an export incentive concession scheme that would reduce by 50 per cent the rate of tax otherwise payable on export earnings generated by a qualifying film. SPAA argues that the global focus of children's television makes such a scheme desirable for encouraging private investment.

3.2.6 Merchandising

For some animation producers, merchandising can be the key element that underlies the production investment. Indeed, in Japan some broadcast deals involve producers paying television advertisers to place their programs on sponsored blocks.

With a few exceptions, the role of product merchandising in Australian C drama programs has not been of any significance, with various factors making development of this revenue source difficult.

In particular, the development of a strong branded program needs volume. As a general rule, networks only make a short-term series-by-series commitment to a project because the focus is on meeting the annual CTS broadcasting quota. The lack of creative commitment or equity interest in C dramas by local broadcasters means producers can only raise sufficient finance for short-run series. Short-run series of 13 or 26 episodes lack the volume to establish the brand well enough to develop a potentially

lucrative merchandising revenue stream. As one producer explained, a minimum of 40 episodes would be required before merchandising was considered.

Secondly, network support in promoting the program is vital if merchandising is to develop a viable revenue stream. Currently, the promotion of C drama by commercial networks is low (see 5.3.2).

3.2.7 Implications for the Children's Television Standards

The objective of the CTS is that Australian children have access to a variety of quality television programs made especially for them. The production of quality Australian drama is particularly difficult because of the high proportion of a program budget that is required from off-shore sources. The local Australian film and television industry provides for a much lower proportion of the cost of children's production than it does for adult drama production.

The FFC's attempts to raise the relative contribution that broadcasters make to production costs by increasing the licence fee requirement tied to FFC funding has not reduced the disparity between commercial networks' contribution to children's drama compared with adult Australian drama.

A key difference between children's and adult drama is the profitability for the network of the two. Australian adult drama is broadcast during peak viewing times when advertising revenue from the program can be expected to meet the licence fee costs. Programming aimed at children specifically does not have the same advertiser appeal.

The CTS advertising restrictions may be a component in the C time-slot's lack of appeal to advertisers, but it is more likely that advertisers on commercial television are interested in a broader target audience. Advertisers interested in directing their commercials at children would be discouraged by the low ratings performance of the C program time-slots and have other alternatives such as the subscription television children's channels for targeting the child audience. Any further decline in C programs' ratings will place further pressure on producers for a reduction in the licence fee being paid by commercial networks. This will make productions more reliant on other sources of finance, especially offshore funding.

An increasing reliance on foreign investment for program funding puts pressure on the producer to make programs not just for Australian children but the global children's television market. There are trends in the international market (see 4.2), that may run contrary to CTS, in particular CTS 2, which relates to the classification criteria, and make it difficult for producers to raise the necessary finance. Trends in international licence fees and regulatory changes internationally can also make sourcing these finances more difficult, leaving producers juggling the competing requirements of many markets and regulatory goals across nations.

The section 4.0 considers trends in average licence fees, international market, production costs and audiences in more detail. The implications of those trends given the current financing structure will then be discussed.

3.3 C NON-DRAMA FINANCING

Networks are the major funding source for C non-drama programs either through licence fees or in-house production. A variety of magazine, information and game

shows have been broadcast by the networks in the last six years to meet the C non-drama requirement. Of the 25 separate titles²⁰ broadcast by the three networks from 2000 to 2005, only four titles were foreign programs. Independent production companies produced 17 of the 26 productions or 13 of the 22 locally produced programs. The remaining nine titles were in-house productions.

Larger Australian media businesses such as Southern Star Entertainment, Becker Entertainment and Beyond Productions produced the majority of C non-drama programs. Smaller independent production companies with a focus on children's programming like Ambience Concepts and Banksia Productions supplied a few of the programs broadcast.

The networks differ in how they source C programming. The Seven and Nine networks have broadcast a variety of titles over the past six years with a mix of independents and in-house productions. Network Ten has two programs, *Scope* and *Totally Wild*, which are produced in-house and comprise all their C non-drama programming.

When interviewed, some network executives felt that commissioning children's and preschool programming in-house is a more logical and cost-effective approach for them because they can exploit all the rights and keep costs down. Other networks had a broader acquisition policy and claimed they choose the most appropriate programming for their audience from either in-house production or independent production companies.

A few producers of C programs interviewed felt that the current model makes it increasingly difficult to profit from producing this material. The reasons given were:

- They are difficult to sell internationally because they are 'too Australian'.
- Budgets provided by networks are very small. Independents are expected to match a cash in-house budget for making a program. This makes the budgets extremely tight for independents that have all the additional infrastructure costs such as studio hire that in-house productions do not. They felt the low budgets had a negative effect on the quality of the productions.
- With no opportunity for sponsorship or prizing endorsement, and 100 per cent of the budget coming from the network, there is limited scope for gaining returns on investment and for building a viable production business.

3.4 P PROGRAMMING

Between 2000 and 2006, the Seven Network broadcast four different programs in compliance with P programming requirements. Two of the four were produced by local independent producers, the local Disney Channel produced another and an in-house production filled the requirement. The Nine Network aired three P programs in the period. These were produced by independent producers. Network Ten produced an in-house production to meet its P programming requirement.

The funding basis for P programming varies from program to program. Networks often can get independent P programming for a very low or no licence fee because the producers derive their returns from merchandising, DVD sales and live concerts. In some cases, the network will have a significant equity position in the program and

²⁰ A given title could have more than one series.

control all the back-end rights and have a stake in the other revenue streams. In the case of Playhouse Disney, the Seven Network and its local subscription children's channel collaborated on the production. Seven gained a cost-effective P programming and Disney Channel had a branded local program for launching a local preschool channel. In another case, a P program attracted foreign partners, which were aiming to format sales internationally.

In one case, private investment gained through the producer's personal relationships is the main financing base for the program, as a result of the producer's personal passion for the program. Indirect government support through the 10B and 10BA income tax deductions for 'qualifying Australian films' does not apply to these types of Australian productions.

4.0 Trends and issues in the Australian and overseas children's television production industry

4.1 TRENDS IN AVERAGE LICENCE FEES FOR DIFFERENT GENRES OF CHILDREN'S PROGRAMS, INCLUDING AUSTRALIAN C DRAMA

4.2.1 P programs

While hard data on these licence fees is not available, in interviews with P program producers most reported downward trends and pressure on the licence fees being paid for P programming. In one example, a P program that cost \$100,000 per half hour is paid a single licence fee of \$10,000 per half hour.

4.2.2 C non-drama programs

Producers report a downward pressure on the licence fee being paid for C non-drama programming, which directly affects the program's budget and in turn, they believe, the quality of the program.

4.2.3 C drama

The FFC sets a minimum licence fee requirement in their investment guidelines. In the last five years, this has increased from \$55,000 per half hour to \$95,000 per half hour.

The FFC wants to encourage the broadcasting industry to provide a larger proportion of production financing. However, many producers reported in interviews that some networks were now indicating a resistance to projects that were anticipating FFC participation as a financier. This situation is leaving producers in a difficult 'catch-22' situation and is creating a two-tiered system of licence fees. They need a pre-sale to an Australian broadcaster to meet the FFC guidelines and they cannot get the pre-sale if they apply for FFC funds. This leaves the producer with less licence fees being paid by the broadcaster and no government funding, which means less funding overall from the local market.

The trends are different for FFC-funded and non-FFC funded programs. FFC-funded projects are gaining an increase in licence fees, which are currently at \$95,000 per half hour, while non-FFC funded programs are experiencing a downward push on fees. The lowest fee reported in interviews with producers was \$45,000 per half hour.

4.2.4 International licence fees

International licence fees are decreasing. It was reported by one producer that, in the European market, licence fees were down 25 per cent on three years ago. Producers claimed there is less money available in international markets because broadcasters are under pressure to continue to produce double-digit growth in an increasingly shrinking and competitive market. The licence fee being paid by any one channel is getting much smaller. As one producer put it:

The pie is being sliced into an ever-increasing number of pieces.

4.2 INTERNATIONAL MARKET TRENDS

In the 1999, the report *20 years of C* noted the important role that international sources of finance play in children's drama production. At that time, producers raised concerns about the availability of this source of finance in the future. They noted the trend towards increased international competition with more countries providing generous production subsidies and local production quotas, particularly in the key markets in Europe and Canada.

Fragmentation of European markets, with a decrease in the prominence of the big public broadcasters and an increase in channels, had resulted in more potential sales, but a much reduced licence fee from any particular broadcaster. The influence of large production companies, such as major US studios or big public broadcasters, dumping product on these markets for low licence fees also made this source of financing increasingly difficult²¹.

These same factors have continued to impact on the children's television international market. Producers reported a reduction in the money available for production. One producer claimed:

Seven years ago, an animation budget was \$18,000,000, now you are lucky to get \$9,000,000 at the same time as production costs increase.

No one market delivers its share, which means producers are requiring increasing complex co-productions to get finance. This makes the production process more complex because each partner has to satisfy conditions for their market. As one producer described it:

We often try to hammer square pegs into round holes.

While financing is becoming more difficult, there is an increasing demand for better quality internationally. The big-budget programs produced by the major production studios set a high benchmark for the quality required on the global market. Producers reported that now they need to have good talent attached to the program to attract international investors.

Major overseas studios and big broadcasters are producing large volumes of high production value-branded programs to fill their dedicated children's channels and then dumping the product on auxiliary markets. An example is Disney's *Lizzie McGuire*. This results in less airtime available for other foreign product such as Australian productions.

²¹ ABA, *20 years of C – Children's Television Programs and Regulation 1979–1999*, Sydney, March 2000, pp. 50–51

The competition in the global market for children's programs continues to increase. MIPCOM Junior 2006, a specialist international screening marketplace and conference for children's programming and merchandising, attracted 529 companies, up from 512 in 2005. At the market, 937 programs were screened, of which 562 were new.

International trends in the content of children's programs are also affecting what attracts investors and sells in the global market. Animation currently dominates the international market, which means there are diminished opportunities for live action drama, locally and globally. Animation is more transportable, covers a wider age span, can be easily dubbed into different languages and is easily ported across platforms.

At MIPCOM Junior 2006, the results of a survey of buyers' three top purchase priorities confirmed animation's dominance in the market, with 70 per cent rating an animated program their number one purchase choice. Only four per cent of buyers surveyed nominated a drama program as their number one choice. Of the 30 most requested titles, 28 were animations and one was a drama program. An Australian animation was among the top 30.

The rise of American teen dramas like *Lizzy McGuire* and *Sabrina* were perceived to have affected the type of live action programs being sold in the international market. Producers reported that international partners now want to know how attractive the leads are when evaluating projects. The success story with teens in 2006 was the Disney Channel's *High School Musical*. This is expected to spawn a crop of musical theme drama programs. A more formulaic approach to kids' drama is becoming the norm of the market place, where copies of successful programs are better placed to attract investors.

The media and communications regulator for the United Kingdom, the Office of Communications (Ofcom) announced new restrictions in November 2006. The restrictions are intended to limit children's exposure to advertising for food and drink products high in fat, sugar, and salt (HFSS)²². The new regulations ban the advertising of HFSS products in programs aimed at a child audience:

Ofcom has estimated that the impact on total broadcast revenues would be up to £39m per year, falling to around £23m as broadcasters mitigate revenue loss over time. The commercial public service broadcasters (ITV plc, GMTV, Channel 4, and five) could lose up to 0.7% of their total revenues. Children's and youth-oriented cable and satellite channels could lose up to 8.8% of their total revenues; up to 15% of total revenues in the case of dedicated children's channels.²³

Broadcasters and advertisers have responded to the ban by claiming it threatens the future of UK-produced children's programming²⁴. It is too early to see the actual impact of the ban on the UK's independent production industry, but the likely spread of this form of regulation to other jurisdictions may further reduce the availability of funds for children's television production.

²² *New restrictions on the television advertising of food and drink products to children*, www.ofcom.org.uk/media/news/2006/11/nr_20061117

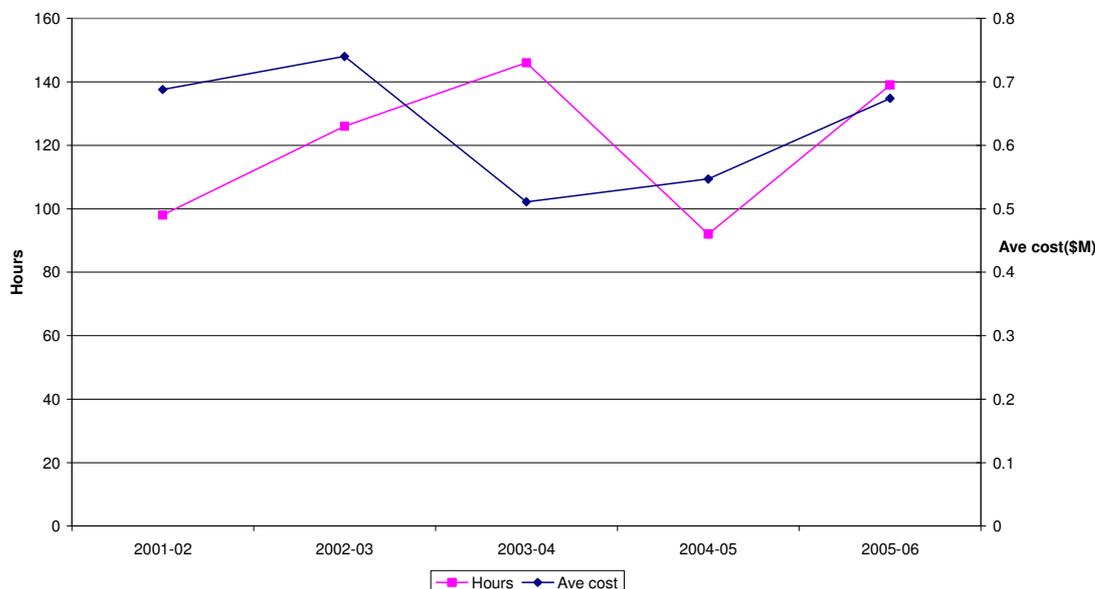
²³ *ibid*

²⁴ Owen Gibson and Rebecca Smithers, 'Junk food ad ban attacked from both sides', *The Guardian*, 18 November 2006

4.3 PRODUCTION COST TRENDS

Figure 9 presents the average cost per hour of children's drama production and hours of production, with no discernible trends in either in this short time period.

Figure 9: Average hours of children's TV produced and cost per hour



Source: AFC, *National Survey of Feature Film and TV Drama Production 2005–06*

In interviews with producers, views on the trends in production costs were fairly consistent. Most felt that, overall, costs are reasonably static with standard year-on-year increases. This has been achieved through careful management by the producer in containing costs. For example, some productions have moved interstate because of lower costs and more liberal filming restrictions that have helped contain costs. Technical developments have created savings in the production of animation and developments such as improved real-time rendering may also lead to potential savings. Technology for live action drama, where it is shot on tape and given a film finish, has also reduced costs.

The movement of computer-generated production to cheaper Asian production centres may represent both a threat to local producers and an opportunity for greater cost savings in animation production. In some locations, cast and crew wages have been contained because of the low level of the local production sector, which keeps cost pressure down.

Demand for better quality productions internationally, was perceived to be having significant cost implications. For instance, the need for recognised talent attached to a program pushed up cast and crew costs.

The increasing need for international partners increased costs because of the additional costs associated with co-productions.

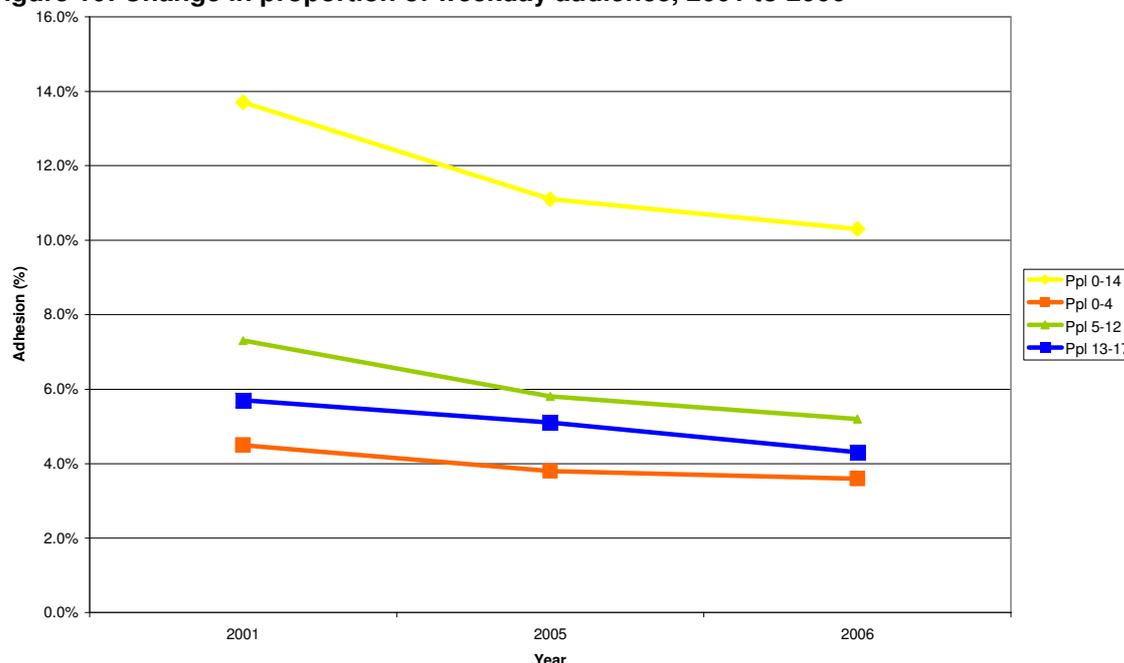
4.4 AUDIENCE TRENDS

TV viewing trends

The child audience is diminishing on free-to-air television, particularly for the commercial channels on weekdays. Between 2001 and 2006²⁵, the percentage of the total viewing audience on commercial channels of the 0–14 year old age group decreased from 13.7 per cent to 10.3 per cent.

The drop has been highest in the 5–12 year old age group's weekday viewing—down from 7.3 per cent to 5.2 per cent of the total commercial channels' viewing audience²⁶, a 28.8 per cent decrease in five years. Overall, children's viewing of free-to-air television has decreased. The penetration of subscription television is much higher in homes with children, so the decline in viewing of free-to-air television among this audience segment is not surprising.

Figure 10: Change in proportion of weekday audience, 2001 to 2006



Source: OzTAM reports prepared for ACMA

The drop in weekday audience between 4.00 and 5.00 pm, when C programming is usually broadcast, is of particular note. For this time band, the proportion of the total audience for commercial channels in the 5–12 year old age group has decreased from 8.1 to 3.9 per cent. The average audience of children aged 5–12 years for this time band has more than halved—down from 86,000 to 41,000. The average audience for the 5–12 years age group for subscription channels during this time band is greater than that for commercial channels, despite the massive difference in the availability of subscription television across the five city markets. The drop in the total free-to-air television audience in the 5–12 years age group over the last five years suggests that the ABC is also experiencing a drop in the child audience in this weekday afternoon time-slot. The strength of the subscription television audience at this time suggests a

²⁵ 2006 OzTAM ratings data is for January to June 2006

²⁶ OzTAM data supplied to ACMA

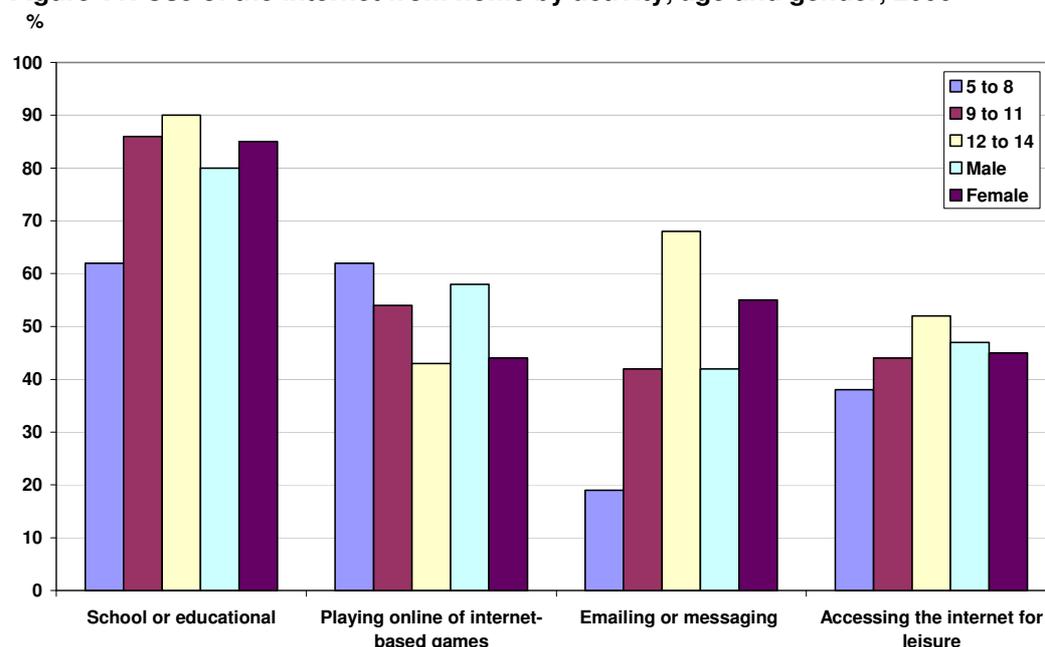
shift in viewing preferences rather than that children are now less available or not viewing television at this time.

Children's use of the internet from home

The 2006 ABS survey, *Children's Participation in Cultural and Leisure Activities*, found that 92 per cent of children aged 5 to 14 years used a computer from home, with 65 per cent of these (1.3 million) accessing the internet. Among children aged nine years and above, computer and internet access is close to 100 per cent.

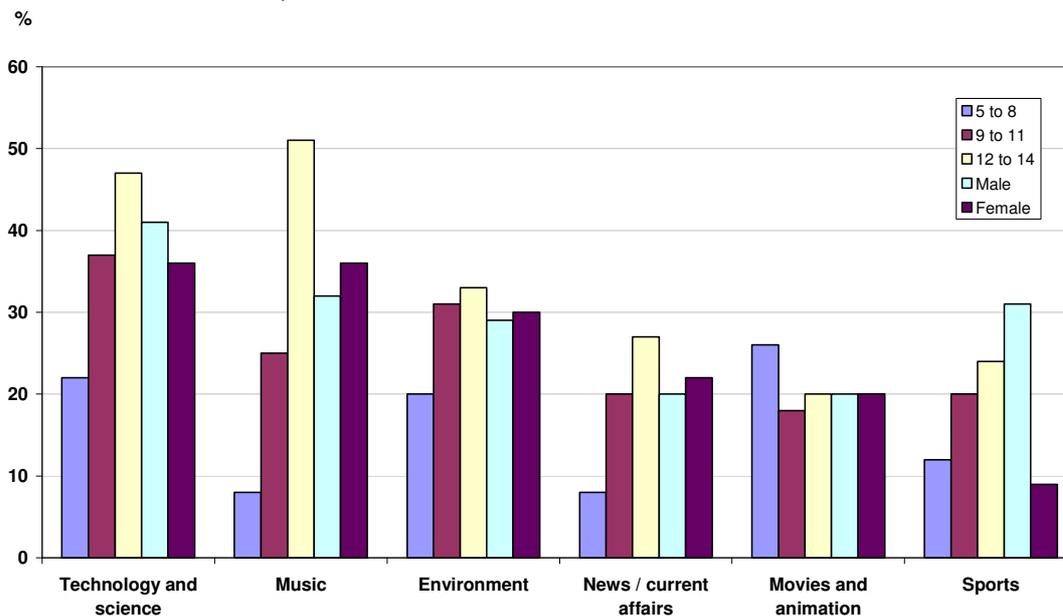
Children's use of the internet is predominantly for school and educational purposes (82 per cent), as well as online games (51 per cent) and email (48 per cent). Differences in gender and age group are outlined in Figure 12.

Figure 11: Use of the internet from home by activity, age and gender, 2006



Source: ABS, *81460 Household Use of Information Technology 2005–06*

Growth in broadband access has meant that 65 per cent of children accessed the internet from a home broadband connection in 2006. Popular internet categories were technology and science (39 per cent), music (34 per cent), the environment (30 per cent), news and current affairs (21 per cent), movies and animation (20 per cent), and sports (20 per cent). Figure 12 highlights differences in online media use by age and gender.

Figure 12: Use of the internet at home by children – selected characteristics by type of internet site accessed, 2006

Source: ABS, *81460 Household Use of Information Technology 2005–06*

4.5 IMPLICATIONS FOR THE CHILDREN'S TELEVISION STANDARDS

Globally, licence fees paid by broadcasters for children's programming are declining. Locally, the licence fee has increased by being tied to government finance. However, this mechanism appears to be unravelling—many producers reported that some networks are actively discouraging FFC involvement in projects as a condition of pre-sale and making significantly lower licence fee offers. The result will be the creation of a two-tiered system for C drama. If sufficient producers agree to the networks' reduced fee offers, a general decline in finance from the local market will occur with both lower licence fee and reduced support from government sources.

Attempts to set a minimum licence fee for children's drama in the CTS have been abandoned in the past because the regulatory setting was taken as a cap rather than a minimum requirement. This was particularly problematic because the minimum set by the regulator did not match that set by the FFC in its investment guidelines. If producers become more reliant on foreign investment, the cultural needs of other markets may have a greater influence.

The international market is becoming increasingly competitive and fragmented, requiring more overseas pre-sales to fund production. This leaves few revenue streams for equity investors to recoup their investment. This means that the long-term viability of production companies focused on children's programming is threatened. Trends in the international market will have more influence on production. While animation companies stand to benefit from this trend, it poses a threat to the goal of the CTS to offer a diversity of programs.

The prospect of reducing program budgets by reducing production costs does not appear to be a viable option. Animation programs may benefit from technology changes, but the real saving would be made from moving production offshore, which

would reduce employment in the local industry. Budget savings that affect the quality of productions may damage their likely success in attracting international sales. The 'cheap and cheerful' approach to filling children's drama quotas was abandoned in the past when the programs failed to make international sale.

The CTS classification criteria are currently a safeguard against production of programs with insufficient budgets. However, monitoring of changes in production techniques is needed to ensure the CTS classification criteria do not act to stifle new production techniques and genres that offer budget savings.

The declining children's audience for commercial television, particularly for C programs, may have the most implications for the CTS. The ongoing effects of these factors need to be considered against the basic goal of the CTS to deliver a diverse range of quality programs appropriate for the child audience.

The potential implications for the CTS of the declining audience for C-classified programs are discussed in the following sections.

5.0 Industry stakeholders' views on the relationship between the CTS and the production of children's television

5.1 VIEWS ON THE IMPACT OF QUOTAS

The CTS require commercial free-to-air television licensees to broadcast 390 hours of children's programming annually, consisting of 260 hours of C programs and 130 hours of Australian P programs.

All P programs must be Australian and 50 per cent of C programs in a given year must be first release Australian programming, with the following specific sub-quotas:

- 25 hours of first release Australian C drama per year;
- at least 96 hours of first release Australian C drama over three years; and
- eight hours of repeat Australian C drama per year.

5.1.1 Impact of quotas on the volume of children's television production

Producers are adamant that CTS quotas are essential to the survival of their business. Drama producers believe that without a quota system there would be no C drama programs produced in this country for commercial networks.

We have very vigorous production activity in Australia because of the quota ... No quota. no kids TV ...

Producers feel that the quota system is now the main driver in the market because the ABC and subscription channels do not have the funds to stimulate production.

Quota is only thing driving it. Now ABC in recent years is not a driver. Pay channels' \$5,000 licence fee will not get anything made.

Quotas also make Australian producers attractive as co-production partners because it makes obtaining local financing through broadcast pre-sales easier.

In general, producers felt the current quota levels for drama were about right and at a reasonable level. However, the practice by the networks of commissioning 13 or possibly 26 episodes of a series to fill the quota was viewed as at odds with the international market demands and made it difficult to build a sustainable business. The US model is a minimum of 40 episodes and up to 100. Programs of 13 or 26 episodes find it hard to compete. Producers felt that while the networks generally have little commitment to children's television, there are individuals who are committed to it within the networks' organisations.

Everyone is looking to dodge the system ... the networks just want to tick a box. Network executives made no secret of the fact that quotas drive them in provision of Australian children's programming.

I don't need to read the scripts, I just need to know it is filling my quota.

5.1.2 Impact of CTS quota on quality and content of programs

Quotas per se are not seen as affecting program quality, only the commitment of the networks. Producers felt that networks wanted to pay the minimum per episode to meet their quota. Some felt the quota had attracted people into the children's television production market and that, with increased competition in the supply side, networks were in a stronger position to lower fees and reduce the quality of programs produced.

For drama producers, the quota was not seen as a factor influencing quality for C drama because the programs need to be of sufficient quality to attract international sales and partners and without this the program would not be made.

5.2 VIEWS ON THE IMPLICATIONS OF VARYING DEGREES OF RESTRICTION ON ADVERTISING DURING CHILDREN'S PROGRAMMING

5.2.1 Restrictions on amount of advertising

CST 4, 4A and 14 set out the amount of non-program material that is permissible during 30 minutes of a C program and the restrictions on the allowable non-programming content. Producers and network executives were asked about the implications of these restrictions.

While producers generally support the current level of advertising restrictions, a commonly held view among them was that the reason for the lack of commitment to children's programming by the networks is because they are unable to profit from it. Some network executives concede that it would be easier to argue a case for greater involvement in children's television if the time-slot were more lucrative in terms of advertising revenue. Others felt a dedicated children's time-slot had little appeal to the type of advertiser that commercial television attracts. Neither party advocated a lifting of the current amount of advertising allowed during C and P programming.

Regulations related to the advertising content during C periods

The volume restrictions placed on advertising during C programs are not as much a problem as the lack of commercials to fill the available time-slots, according to all the network executives interviewed. Commercials need to be classified by Commercial

Advice Pty Ltd, which is run by Free TV Australia, before they can be broadcast. The application form for classification of commercials includes the following question:

Do you want to be able to schedule this commercial during children's programs?

According to the network executives, few advertisers responded positively to the question, which suggests that the vast majority of advertisers choose not to schedule their commercials during children's programs. As a result, there are very few advertisements available to schedule during C programming. The extent to which this is a consequence of CTS 10 (17–23), which covers regulations related to the content of the non-programming material, is unclear.

The lack of C-classified advertising affects the scheduling of C drama during weekend evenings and other lucrative time-slots. Some network executives reported that this simply reflects a lack of interest by advertisers in a time-slot dedicated to children because it is a general consumer product being advertised. However, others suggested more commercials could be made available for C periods if advertisers and networks had a better understanding of appropriate advertising during C time bands. Some network executives argued that the subscription channels had an unfair advantage over commercial networks because they do not have to comply with advertising restrictions.

These comments highlight the importance of ongoing awareness-raising strategies for both networks and advertisers about what constitutes appropriate advertising during C time bands.

Prizes

Limitations on prize-giving are in CTS 9, with stricter limitations for P programs (no prizes) than C programs. For C programs that do involve prize-giving, the presenter may not endorse or recommend a product or service presented as a prize and the value of the prize cannot be mentioned. The presenter's description of the prize should only be to clarify the nature of the prize.

Both network executives and two independent game show producers²⁷ raised concerns about CTS 9. The producers argued that programs would benefit from allowing sponsorship, with appropriate guidelines, with increased funding used to produce a higher quality program.

The two producers and two network executives questioned what they saw as a strict interpretation of the standard. They argued that it suited the flow and energy of their programs for the host to be able to say things like 'and here is your great prize'. Presenters are also restricted from offering cash prizes, because under CTS 9 the value of the prize cannot be mentioned.

Promotions and endorsements by program characters

Under CTS 22, no material may be broadcast during a C or P program or the breaks preceding or following the program that contains a product or service endorsed by a program's character. Two P program producers argued that the perceived strict application of the CTS reduced the revenue stream from spin-offs, which in turn affects the viability of P programs.

²⁷ Only a couple of the independent producers interviewed produce programs involving prizes.

While P producers support the general goal of this section of the CTS, they suggested a revision of CTS 22 to allow for parents to be informed about live performance schedules or where they might be able to find information on the product range. One noted:

Merchandising is a focus for investors ... this is the only way forward and we all need to find non-traditional investors to complete our funding.

5.3 VIEWS ON THE IMPLICATIONS OF CTS CRITERIA FOR C OR P PROGRAMS

The CTS also require pre-classification by ACMA of C and P programs. Programs are assessed for their compliance with the classification criteria (CTS 2) within the CTS. The programs must be:

- made specifically for children or groups of children;
- entertaining;
- well produced, using sufficient resources;
- enhance a child's understanding and experience; and
- appropriate for Australian children.

5.3.1 Effects of CTS criteria on production values

Overall, there was little comment on the effects of the CTS criteria on production values. Both network executives and producers feel that the CTS criteria are clear and ensure the production budget is adequate for the needs of the program.

It was also recognised that the external factors required to attract finance, as well as the producer's desire to produce a quality program, offer further guarantees for quality control.

5.3.2 Views on the implications of CTS criteria for the way children engage with the programs

The ratings performance of C programming is generally poor and is declining. As discussed above, children are increasingly attracted to subscription channels or the ABC for their programs. The poor rating performance of C programs—both drama and non-drama—suggests that there is a problem with Australian children's engagement with the programs produced specifically for them. The level of engagement by children with programs is a complex issue and requires the consideration of a range of factors.

Promotion and scheduling Issues

There needs to be adequate program promotion and suitable scheduling so that children find the programs. Network executives argued the set time bands for C programs makes it easy for children to know what is on and when. Some network executives explained how they shifted material around the C bands to try and capture a bigger child audience.

As discussed earlier, children's programming executives often face difficulty in scheduling C drama programs outside the regular C bands due to a lack of scheduled advertising material. However, the weekday afternoon C band suffers in terms of its

placement in the general viewing environment because the timeslot is surrounded by adult programming that is of little appeal to children.

The production community argue that a big factor behind poor ratings performance is a lack of commitment by the networks in children's programming. Many producers said they use their program's ratings performance in other markets rather than its performance in the local market to help with sales. When producers were asked about their own efforts to promote their programs, many claimed they were prevented from doing this by the network. While network executives involved in children's programming are keen to see it succeed with its target audience, they appear to lack support within their organisations for promoting children's programs.

Interpretation of the CTS 2(a)

Central to the process of classifying a C or P program is the concept that 'programs which, by the nature of their content and production approach reflect that they have been designed specifically (as opposed to primarily) for the age range'.

There is consensus among those interviewed that the CTS criteria are necessary. However, while the purpose of the criteria is accepted, many argued they are in need of revision to take account of a more contemporary context. For example, some producers argued the criteria were limiting the kinds of programs that could be made:

They are middle brow middle of the road, possibly because of the length of time they have been in place.

Some producers raised concerns about the interpretation of CTS 2(a). They reported that ACMA has particular views about appropriate content and style for a given age group, which some argued were becoming dated and did not reflect children's needs and interests today. However, the production community readily acknowledges self-censoring their own ideas before submission to ACMA, to ensure they sit within the perceived notion of the requirements.

There is a known formula you need to produce to get through ...

The acknowledgment of self-censorship makes it difficult to assess the extent to which it is ACMA's interpretation of CTS 2 rather than an adherence to 'known formula' by some in the production community that results in some programs appearing dated.

A similar belief seems to exist within the networks. The networks reported being more comfortable working with producers that know what is required to obtain C classification.

Both network executives and producers argued that children today were exposed to a wider range of influences, which they believed the current interpretation of CTS2 was not keeping pace with. Producers said Australian C drama was viewed as 'younger' in the international market and this was creating problems for financing productions:

C drama here plays to 10 year olds top

The quality criteria, under the current interpretation and administration, sees [sic] our C drama in particular falling behind and missing the beat with the audience and the international market.

When compared to the international market or other programs viewed in the local market, Australian C drama seems 'out of step' with kids.

Australian producers must have international financing to make the program—most of this money is from Europe and the UK. Increasingly, it is harder to get the co-production funding because our programs tend to play much younger internationally than they do here. European producers have acknowledged that by 10 or 11 years the opposite sex is interesting and they are open to viewing genre material that probably falls outside our current C criteria. We are yet to make that adjustment and our 10–13 year olds are telling us they have the same expectations.

Producers argued that the current interpretation of the standard did not permit satirical programs for kids, despite the use of satire being an international trend.

5.3.3 Views on the effects of the CTS criteria in encouraging or impeding innovation in newer genres

Views on the effects of the CTS criteria on innovation and new genres reflected overall concerns about the current CTS 2 interpretation. While the CTS criteria themselves were not seen as problematic, there were concerns raised about expectations of set styles and formats required for C classification.

Two producers suggested more flexibility in format lengths, reflecting a belief that the CTS requirement for a half-hour format (CTS 3) was prohibiting new genres²⁸. Some broadcasters and producers are experimenting with format lengths. For example, Animation Collective produced for Nickelodeon *Princess Natasha*, a drama series with five-minute episodes built to be played every day of the week and played back-to-back as a 25-minute episode on the weekend. This experimentation with form and content is not occurring on the Australian commercial networks. This lack of development on commercial networks may reflect assumptions about what the CTS allows.

Another producer argued that the current application process was an impediment to innovation. They argued the application process reflected a traditional media production paradigm which in turn did not permit innovation in program genres. An example was given of the AFI awards where two of the nominees for best script were unscripted—*Kenny* and *Ten Canoes*. This comment would appear to have relevance to CTS 11, which stipulates that ‘a drama be a fully scripted screenplay, in which the dramatic elements of character, theme and plot are introduced and developed so as to form a narrative structure’.

We are the only country in the world that insist[s] on a story arc—this puts us out of step with the rest of the world ... the Simpson's would never have been made here.

It is worth noting that when pressed to report what content the CTS prevents them from making, producers were unable to cite any examples.

5.4 HOW THE CLASSIFICATION PROCESS FOR C AND P PROGRAMS INTERACTS WITH TIMING, QUALITY AND FUNDING OF PRODUCTION

Overall, the classification process for C and P programs is not an issue for the producers. However, some aspects of the process were raised. While there was a

²⁸ CTS 3 requires that a licensee must broadcast C material for a continuous period of time of not less than 30 minutes. However, the duration of individual programs can differ within this half-hour period.

perception that ACMA responds as best it can with limited resources, the 60-day turn-around was viewed as too long and a 30-day turn-around was preferred.

Another aspect of the process that received comment from one producer was the need to submit draft scripts in blocks of 13, which meant that they could receive feedback when eight episodes had already been completed. The cost of rewriting the script if changes were required at that point was costly.

Both network executives and independent producers requested some streamlining of the application process for a second series of a program when it has not changed, particularly for C non-drama or P programs. The fact that there is a streamlined process for subsequent series suggests that there is a need for better communication of the processes.

Some producers raised concerns about whether ACMA staff have an appropriate skill set to make script assessments. They suggested that staff need to be properly trained in script assessment and have a clear understanding of the market²⁹.

Four of the producers asked for greater awareness by ACMA, in interpreting the standards, of what today's children want and expect from television, and its place in their lives. Two producers called for more research into children's digital media needs and uses to ensure informed assessments of C and P content.

No-one has looked at what is going on and who the audience is. It needs to go beyond number of hours and when it should be shown. If the aim is to get Australian stories to Australian children then they are failing.

They look at the specifics, i.e. violence etc., but not overall story quality.

There is a need to monitor where kids are at—ideally an in-house anthropologist.

The quality criteria, under the current interpretation and administration, sees [sic] our C drama in particular falling behind and missing the beat with the audience and the international market.

The implications behind these concerns are that Australian producers' ability to attract international partners and buyers is affected by an interpretation of the classification criteria that the producers feel are out of step with the kinds of programs today's kids want.

6.0 Developments in children's production across media platforms that might be relevant to the CTS

The most commonly talked about shift in media content is to 'user-generated content' (UGC) and, in particular, the YouTube phenomenon for the sharing of UGC. YouTube receives nearly 100 million unique hits daily³⁰ and the UGC on the site often uses clips of a favorite TV show. While this breaks copyright laws, the use of clips demonstrates a strong connection with the program and copyright owners are now actively encouraging the production of UGC.

²⁹ ACMA engages consultants, including scriptwriters, to make script assessments.

³⁰ Gary Rusak, 'Nets harness kid creator impulses and encourage expansion of user generated content', *KidScreen*, October 2006

*Kidscreen*³¹ reports that some broadcasters are coming up with ways to assist the creation of UGC that promotes the linear program. The Canadian Broadcasting Corporation (CBC) and our national broadcaster, the ABC, are two broadcasters leading the way. Examples include CBC's *Outlet* and the ABC's *Rollercoaster*, where children are engaging with program material and presenters across platforms, as well as being encouraged to produce their own content.

The demand in international markets is for multi-platform properties that move seamlessly from TV to mobile and the net, or vice versa³². Developments in computer-generated real-time rendering optimise content for streaming media, making it easier to move across platforms, view online and more readily adapt to the construction of interactive, immersive websites.

To keep up with this movement, some broadcasters are appointing dedicated heads of digital media to explore this world, discover a profitable business model and protect their rights for whatever they are worth. There is a change in mentality to creating content for a space that is wider than the television. Children now have new ways to engage with characters and stories, and television is only one of those ways. Accompanying a television show are the online back-stories, character diaries that can be downloaded and mobile phone content for what is going to happen next. Digital media experts claim the future is interactive, not linear—users will construct their own stories.

When networks and producers were asked about the creation of material for other platforms for their child audience, very little had been made. The exception was producers with programs sold to the ABC. The ABC was viewed as a willing partner in developing ways of engaging children in the television programs content across different platforms. Among the producers interviewed, commercial networks had not provided support for development of web content. Producers were expected to provide all the funding or sponsors for any web-based content. Many producers claimed they did not have the budget for the development of content for other platforms. They were unaware that web development budgets could be raised through government funding bodies such as the FFC as a budget item for the project.

The factors driving development are primarily market forces. The child audience is using and designing more and more personal media. The change in format lengths described in the *Princess Natasha* example referred to in 5.3.3, is a relatively simple way for broadcasters to stay in touch and be part of the new world. The current standards are perceived to prevent this style of production.

The commercial networks' focus is on meeting on-air requirements, not assisting producers to engage children in these other platforms. There needs to be some form of incentive for broadcasters to support content across other platforms to ensure networks remain relevant to the children's audience into the future.

³¹ *ibid*

³² Lana Castleman, 'Industry execs put their fingers on the pulse of current trends that might just pack a future punch in the kids biz over the next 12 months', *KidScreen*, December 2006

Appendix 1 Industry participants

PRODUCTION INTERVIEWS

Company	Name	Formats
Burberry Productions	Ewan Burnett	C Drama, C
SLR Productions	Suzanne Ryan	C Drama, P
Southern Star	Noel Price	C Drama, C
Flying Bark	Geoff Watson	C Drama, C, P
Buster/Dandy Productions	Donna Andrews, Justine Flynn	C Drama, P
Ambience Concept	Michael Boughen, Avril Stark	C Drama, C
Blue Rocket	David Gurney	C Drama, C
The Fairies	Jen Watts	P
Westside Film and TV	Anne Darouzet	C Drama

NETWORK INTERVIEWS

Company	Name
Network Ten	Cherrie Bottger
Nine Network	Jo Rooney, Martin Hersov
Seven Network	Lisa Fitzpatrick
ABC	Dierdre Brennan
Nickelodeon	Hugh Baldwin

FUNDING BODY INTERVIEWS

Company	Name	Position
FFC	Anne Marie Reid	Policy Manager
ACTF	Jenny Buckland	CEO
AFC	Hugh Short	Co-productions Manager

Appendix 2 Financial sources for Australian and co-production children's drama 2001–02 to 2005–06

CONTRIBUTIONS TO AUSTRALIAN AND CO-PRODUCTION RANGE OF TV DRAMA PROGRAMS FOR CHILDREN

	Contribution (\$m)	% of total	no. films invested in
Australian government sources ⁽¹⁾			
2001–02	20.7	31	7
2002–03	21.1	23	8
2003–04	15.8	21	5
2004–05	14.2	28	6
2005–06	24.0	26	8
5 yr average	19.2	26	7
Australian private investors ⁽²⁾			
2001–02	6.5	10	3
2002–03	2.2	2	2
2003–04	2.1	3	1
2004–05	0.1	0	1
2005–06	7.3	8	2
5 yr average	3.7	5	2
Australian film/TV industry ⁽³⁾			
2001–02	21.2	32	11
2002–03	26.2	28	14
2003–04	26.5	36	11
2004–05	18.7	37	9
2005–06	29.9	32	14
5 yr average	24.5	33	12
Foreign investors			
2001–02	18.5	28	9
2002–03	43.7	47	13
2003–04	29.2	40	9
2004–05	17.5	35	7
2005–06	32.8	35	10
5 yr average	28.4	37	10

CONTRIBUTIONS TO THE AUSTRALIAN SLATE OF TV DRAMA PROGRAMS FOR CHILDREN

	Contribution (\$m)	% of total	no. programs invested in
Australian government sources ⁽¹⁾			
2001–02	20.7	36	7
2002–03	20.8	31	7
2003–04	15.1	28	4
2004–05	13.4	34	5
2005–06	23.8	33	7
5 yr average	18.8	32	6
Australian private investors ⁽²⁾			
2001–02	6.5	11	3
2002–03	1.5	2	1
2003–04	0.0	0	0
2004–05	0.1	0	1
2005–06	4.0	6	1
5 yr average	2.4	4	1

Australian film/TV industry ⁽³⁾			
2001–02	15.0	26	10
2002–03	20.6	31	11
2003–04	21.2	39	8
2004–05	15.0	38	7
2005–06	22.4	31	10
5 yr average	18.8	33	9
Foreign investors			
2001–02	15.6	27	8
2002–03	24.6	36	10
2003–04	18.2	33	6
2004–05	11.1	28	5
2005–06	21.0	30	7
5 yr average	18.1	31	7

Source: Australian Film Commission, December 2006

1. Includes Australian and state government agencies and funding bodies. Comprises equity investments only—distribution guarantees, loans and underwriting are not included.
2. Private investment sources, including the FLIC Scheme, sections 10BA and 10B
3. Includes Australian-based film and television production companies, distribution companies, free-to-air broadcasters (commercial and public) and subscription television channels

Note: AFC survey results for investment in television drama by the commercial free-to-air and subscription television broadcasters do not correlate with expenditure reported by ACMA in its annual broadcasting financial results (BFR). This is because they are reporting different things. The AFC survey is focused on production activity and reports finance sources in place at the start of production. The ACMA BFR, on the other hand, reports expenditure by the commercial free-to-air channels on screening programs during the year and includes amortisation costs for programs purchased in previous years. In addition, broadcasters and subscription television channels purchase some programs (particularly features) after their completion, rather than investing at financing stage. The broadcasters provide this information as a condition of licence. For subscription television, ACMA reports annual expenditure by drama channels on 'eligible Australian drama', including licence fees, production expenses and limited pre-production costs. Expenditure on features may be apportioned across financial years. For both free-to-air and subscription television, the ACMA figures can include expenditure on New Zealand programs, following the 'Australian content' definition.