

service to major areas in New Zealand to which no AM service is satisfactorily provided at present.

Financial Considerations

Mr W. P. Foster, Director of Corporate Planning for the Broadcasting Corporation of New Zealand, said the BCNZ's financial objective was to achieve a return on assets generally not less than the average achieved by the public and private sector companies—about 10 percent. The rate of return on assets in 1981/82 had been 6.7 percent and in 1982/83 it has been 11.7 percent.

The improvement was assisted by the effect of the wage and price freeze. The surplus was \$16.4 million in 1982/83. He produced a funds statement from the 1982/83 report and an analysis of additional costs of income relating to the YC-FM development broken down by year.

The current operating surplus was being used in financing the higher capital programme being undertaken, additional debtors and stocks and initial payments for the Olympic Games.

Mr Foster pointed out that the Corporation had to look to its ability to meet the future cash flows arising from investment decisions, and whether future income could support the level of resulting operating costs. He pointed out that non-commercial services of the Corporation cost \$49.9 million last year while net licence fee income was \$33.9 million, the difference being made up from income from commercial operations. With the prospect of private sector competition in television, the Corporation could not plan on the basis of Television New Zealand continuing to contribute to the costs of non-commercial radio activities. The real value of the licence fee with no prospect of an increase was dramatically illustrated by its ratio with the total net income. In real terms it had dropped 37 percent over the last five years.

The increasing costs of the New Zealand Symphony Orchestra required a subsidy from licence fees of about \$4.3 million in the 1983/84 year. So the availability of income for non-commercial radio activities would be restricted to a share of the declining real licence fee and the surplus that could be earned by commercial radio.

Without growth in commercial income the BCNZ would have to cut back services or commercialise traditional non-commercial services. The development could not be supported on the income estimated by Radio New Zealand from only 6 minutes of limited sponsorship commercial advertising. The net value of the cost of the development, including extension to 18 hours a day, was \$5.2 million requiring an income of over \$600,000 per annum to make it possible to proceed with planned development.

The Corporation had however accepted that the whole of the development cost could not be recovered from advertising and was prepared to commit itself to carrying the rest.

There was confusion in the submissions made by the Friends who isolated liquidity at balance date and assumed that this was surplus to requirements and would be available for capital development. We are satisfied from Mr Foster's evidence that the basis of this submission is fallacious.

It is reasonable that increased revenue will be required to assist in the cost of capital development. We believe that the Corporation should be prepared to carry the programme costs which should not be significant burden.

Statutory Considerations

Section 81 (4) Broadcasting Act 1976 provides that the Tribunal may amend or revoke any of the terms or conditions of the warrant or add any new terms and conditions which in its opinion are necessary in the public interest.

In considering an application to amend a warrant section 78 (6) provides that the Tribunal shall have all the powers, duties and authorities conferred on it by this Act in respect of applications for new warrants, and the provisions of the Act and regulations as far as they are applicable and with the necessary modifications apply accordingly.

Regulation 16 (2), Broadcasting Regulations 1977 (S.R. 1977/11) also provides that in considering any amendment or revocation of any of the terms or conditions of a warrant or the addition of any new terms or conditions under section 81 (4) the Tribunal shall have regard to such of the matters referred to in section 80 as are relevant.

Therefore, before determining whether or not to grant the applications, the Tribunal had regard to the following matters under section 80 Broadcasting Act 1976, so far as they are applicable and with the necessary modifications accordingly.

(a) The extent to which the proposed service is desirable in the public interest

We revert to this consideration again later.

At present the YC transmissions provide a good service to only 60 percent of the population concentrated primarily in and around the four main centres.

It is part of the policy of the Government that the YC programme should be extended and the only opposition to this extension came from those who thought the development created the need for advertising on the programme and that was too high a price to pay. There were some listeners who are getting an adequate service from the YC-AM stations who would prefer to have no change at all.

Those people (and others) would prefer that the development be financed from licence fees. While the Tribunal has on a number of occasions indicated that it considers that to be desirable there is no indication that the licence fee will be increased for this purpose. The indications have been to the contrary.

Previously an application for advertising on the Sports Roundup programme broadcast on YC stations was made and declined, but the Tribunal indicated that an application could be made again should there be no increase in licence fees.

The Tribunal considers that the disadvantages of broadcasting advertising are outweighed by the advantages of this development. But the advertising should continue only for that purpose which will be completed in five years. At that stage the advertising should also stop.

The Tribunal does not consider that a proposal for subscriptions as a method of funding the YC programme is practicable or likely to produce any substantial sum. Nor is there any indication that there will be any other source of public funding.

(b) The economic effect which the establishment of the station to which the application relates is likely to have in respect of broadcasting stations already in operation

A submission was made but no evidence was given suggesting adverse economic effect on other stations. In view of the nature of the advertising market aimed for, we consider that the effect will be minor. A much greater impact will be caused by the introduction of any new television stations with regional advertising potential.

Mr R. K. Wilkinson, Director of Sales and Marketing for Radio New Zealand, estimated that about one third of the \$400,000 revenue in the first full year would be drawn from public relations budgets. He considered it unlikely that any of the revenue would affect the income of existing private radio stations. The estimate was based on a 3 minutes per hour average.

(c) The effect which the establishment of the station to which the application relates may have on broadcasting services provided by the Corporation in the public interest

The case for this application largely rests on two premises. One is that it can help provide the funds for development of the Concert Programme and secondly, that the Corporation would not otherwise be able to proceed at the same pace on the available funds. It therefore follows that failure to grant the application would have the effect of diminishing the development pace but not of affecting any other stations conducted by the Corporation. The extraction of revenue from the market is unlikely to have any significant effect on radio or television revenues.

(d) The needs of New Zealand or the locality or localities proposed to be served, in respect of broadcasting service

A very strong case has been put for the development of FM services for the Concert Programme. Many of the areas have devoted Concert Programme listeners who have to listen to the programme on less than adequate signal strength.

Based on the 1976 census the daytime coverage of the 4 YC stations would be 61.9 percent of the population. At night time it was estimated this could decrease to 55 percent as the result of interference from distant New Zealand or overseas stations on the same or adjacent channels.

This would be balanced by the coverage from 2ZK Hawkes Bay and 4ZG Southland which broadcast at night time and whose coverage area comprises 6.2 percent of the population.

One of the major benefits is of course the introduction of a quality stereo service both to areas which do not have any service at all at present and to those adequately covered by the AM service.

(h) The requirement that frequencies be best utilised in the public interest

A number of submissions, such as the Music Federation's advocated simulcasting until the FM network was completed.

The Corporation wishes to simulcast on the grounds that in some areas the coverage would not be exactly the same. The Tribunal starts from a different point and believes that there have to be some changes and a recognition that a small number of people may lose a good service and get a poorer one on FM because a larger number of people will benefit. Generally 2 transmitters and frequencies should not be used to provide the same programme to substantially the same audience.

While it is obvious that the removal of service from a small number of people at any time will be regarded unfavourably, we do not believe it is possible to justify in most areas a continuation of both AM and FM service. This is accentuated by the comparatively small number involved.