

13 March 2017

Re: The inquiry from the House of Representatives Standing Committee on Communications and the Arts.

Dear Secretariat,

We are a Sydney based entertainment company entirely focused on the creation and production of global animated content for children. We are writing in response to the call for submissions on the Inquiry into the Australian Film and Television Industry, specifically its growth and sustainability.

Children's content is vitally important for two reasons. Firstly, for the social and cultural capital it generates. It's vital we provide Australian children with high quality content that entertains and enriches their lives and is culturally relevant. Secondly, the commercial value of the children's content production sector is highly significant both as a domestic employer and innovator and as an international exporter of product on a global scale.

As children's' animation producers, we are competing with every other kids' producer around the world to finance the production of our content via license fees from broadcasters and other content platforms. Animation needs to be financed internationally as broadcasters from a single territory do not commission a series entirely by themselves. Invariably we must piece together license fees from several platforms in multiple territories and combine these with subsidies and tax credits where available to complete our finance. Private equity and investment can also play a part.

What is vital for Australian producers is to build a solid base through significant license fees from our domestic broadcasters, which can then be enhanced through our offset scheme so we have financed a decent percentage of a series budget before we start looking for international partners to fund the remainder.

Working against us is the inevitable propensity of broadcasters in international territories to show partiality towards their local producers. This is something we can only overcome through success, by having breakout hits on a global scale, generating content that competes with the very top tier productions and creating brands that survive the test of time. It also helps if we as a territory offer attractive incentives to draw partners to Australia.

Our company is relatively young, established in 2013, but in a short space of time we have successfully created two original television series through domestic commissions from the ABC and Channel 7, and international license fees from the BBC and Netflix. Production budgets on both series were around A\$10m and were produced between 2014 to 2016.

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In each case, we could bring between 31-38% of the production finance from Australia through a combination of broadcast license fees and government rebates. As the controlling producer of both series we managed to retain roughly 50% of our production spend within Australia creating jobs and expanding the skill base of our local industry. Each production employed a total of 30 Australians with necessity to offshore some of the physical animation process to lower cost overseas studios to keep costs within an acceptable range. Critically, more of our production spend is happening in Australia (50%) than is being raised within Australia (35%).

Typically, our production budgets cover the running costs of the business during the production but there is never any surplus or profit from production. To remain a viable business, we need to execute marketing strategies, build our brands internationally, spend on innovation and training, develop new content and grow our team. To do these things we must generate revenues outside of production which we are very dedicated to doing.

Our business is focused on generating revenue from worldwide distribution of our content and through licensing of the brands that grow from that content. To achieve this, we must create internationally popular shows that drive audience and have strong potential for commercial exploitation. We have also successfully managed two rounds of external investment to help meet these goals based on the strong growth potential in our business.

Both the domestic broadcast license fees in Australia, and our government rebates, are vital to the above strategy because they help to give us a strong base platform from which to raise the remaining 65% of our production budgets overseas. Were there any threat to those broadcast license fees, or the government rebates, we would lose that platform and therefore our ability to originate, finance and produce quality children's content. In turn, this would have a devastating effect on the domestic industry.

We believe the current children's content quota system, applicable to FTA broadcasters, guarantees a minimum level of quality local production both for the industry and for Australian audiences. Without the children's content quotas, the FTA broadcasters would undoubtedly cut all spending on local produced children's programming. This would drastically change the local content options available for Australian audiences and leave children with a diet of foreign content.

It would also put the ABC in an unhealthy dominant position in Australia as a commissioner and curator of children's content. Independent children's content producers would be solely reliant on the ABC for domestic commissions and there would be dramatically less competition for audience share from other platforms. These would not be favourable conditions for Australian children or children's content producers so any change to the quota system must take this into account and produce a better scenario.

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In addition, the ABC budget allocated to kids' content is not protected and varies annually depending on the view of the Head of Television at the time. In the last three years, we've seen a dramatic reduction in the ABC budget allocated to children's content, which has already taken a toll on the sector so further funding challenges would be intolerable.

Another consideration are the current levels of offset rebates available to TV producers. Currently we can use the 20% producer offset, or the 30% PDV offset as a source of funding and include it in our finance plans on each production. Both are much lower than the 40% offset available to feature film producers even though children's content represents a much lower commercial risk in the long term with strong potential for revenue.

The primary goal should be to increase the available funding for children's content and grow the industry so we can compete more effectively in the international market and better serve our young audiences. For that we need to sustain a diverse ecology of broadcasters and other platforms to drive domestic commissions and ensure healthy competition.

Regards

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