

Efficiency	Implementation \$m	Saving \$m p.a.	Capital Saving \$m	Responsibility
Human Resources	0.5	-0.5	0.0	ABC
Legal and Business Affairs	1.9	-2.2	0.0	ABC
Finance and Accounting	0.5	-0.5	0.0	ABC
Audience and Consumer Affairs	0.3	-0.5	0.0	SBS
Communications, Marketing, Publicity and Promotions	2.4	-3.5	0.0	SBS
Technology (including Information Technology)	5.4	-5.0	0.0	ABC/SBS
Joint purchasing arrangements	0.0	-6.8	0.0	ABC/SBS
Co-location	62.5	-1.5	-64.0	ABC/SBS
ABC Innovation	1.6	-3.8	0.0	ABC
Catch up Services	0.0	-0.2	0.0	ABC/SBS
Digital Audio Broadcasting	20.4	-5.9	0.0	Policy
Retransmission on Foxtel	8.0	-6.0	0.0	ABC/SBS
Tapeless TV Production	0.0	-1.6	0.0	ABC
Centralisation of Master Control for Radio	6.1	-1.9	0.0	ABC
Transmission advice to public	0.8	-0.7	0.0	ABC/SBS
Outsourcing production	21.6	-0.4	-90.0	ABC
Outsourcing property management	3.9	-3.2	0.0	ABC
SBS Playout Facilities	2.6	-1.0	0.0	SBS
Outsourcing Outside Broadcast Vans	0.0	-0.1	0.0	ABC
Helicopters	2.2	-1.0	-0.7	ABC
Sale of Lanceley Place	0.6	0.0	-26.5	ABC
Rostering Process and Outsourcing Payroll	2.3	-1.1	0.0	ABC
Advertising on SBS	0.0	-15.6	0.0	Legislation
Rental of Smaller Properties	6.4	-5.6	0.0	ABC
Role of State and Territory Directors	2.1	-2.8	0.0	ABC
Centralised switchboard at ABC	1.9	-0.9	0.0	ABC
Short wave radio transmission	0.0	-5.5	0.0	ABC
ABC Commercial - short term	0.0	-2.2	0.0	ABC
ABC Commercial - long term	0.0	-2.5	0.0	ABC
ABC Communications Networks	0.5	-0.5	0.0	ABC
Production resources	5.6	-5.1	0.0	ABC



The ABC records all orchestras in each city (except Darwin and Hobart). Recording and broadcasting orchestras at their current volume was a condition of the devolution of orchestras from the ABC, which was a recommendation of the 1996 Mansfield review.<sup>12</sup> The ABC considers that Classic FM relates directly to its Charter in relation to the encouragement and promotion of musical, dramatic and other performing arts in Australia<sup>13</sup> and as such may be open to more qualitative benchmarking rather than quantitative.

Live recording uses a two person team in each state, with the exception of Sydney and Melbourne. Sydney and Melbourne employ additional personnel (music engineer and specialist music producer/musician). Personnel attend rehearsals, record concerts (usually on Friday/Saturday night), clear artist fees and negotiate broadcast rights.

In calendar year 2013, around half of the total Classic FM budget, approximately \$4.3 million was expended on 610 live concerts, of which 12% was associated with broadcast rights and artists fees. The budget for triple j in 2013 for recording 180 live concerts was \$0.532 million.

It is understood that the ABC is considering a reduction in the number of live recordings on Classic FM to 370 in financial year 2014-15. Should the ABC reduce the number of live recordings to 370, a potential saving of up to \$1 million may be achieved from savings in broadcast rights and artist fees and a reduction of 20% in FTEs associated with live music concert recordings. Given the low average weekly audience of Classic FM, this reduction in numbers could assist in lowering the cost per listener. There may be a potential impact of recording a lower level of state symphony orchestras, ACO and Musica Viva concerts on the classical music industry, the public and state governments as airplay drives government investment in Australian classical music, and a reduction in the volume of live music recordings may reduce the level of output for original content and reduce the quality of service to Australian audiences. However, retaining 370 recordings would allow the ABC to continue to meet its Charter responsibility of encouraging and promoting the musical, dramatic and other performing arts in Australia, meet the condition of devolution of the orchestras and be within the range of current concert activity which would lessen the impact on the ACO, Musica Viva and state symphony orchestras.

The ABC may also wish to consider investigating whether similar savings could be achieved in other radio operations.

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<sup>12</sup> Mansfield, B. *The Challenge of a better ABC Volume 1: A review of the role and functions of the ABC*. January 1997.

<sup>13</sup> *Australian Broadcasting Corporation Act 1983*, Subsection 6 (1)(c)



### Findings

The total cost of ABC Splash is \$3.4 million p.a. including a contribution of \$1.5 million from Government. In the short term, it may be possible for the ABC to realise savings of up to \$1.9 million when government funding for ABC Splash expires in the 2013-14 financial year. It is understood that the ABC will not continue to support ABC Splash when the government funding lapses. The study also suggests that the Health, Science and Ramp Up be transferred to an output division (either radio or TV multiplatform) along with the associated resources which can be leveraged for other content.

In the longer term, it may be possible for the ABC to achieve savings through centralising all digital services development and infrastructure into the Innovation Division, while content stays within the relevant areas. For example, should the ABC disband the current Strategic Development area and absorb its functions within the Innovation Division, this could achieve a savings of up to \$1.9 million p.a., minus transition costs.

The ABC may wish to examine the roles, functions, responsibilities or services of each of these areas to determine what savings may be achieved through such centralisation into the Innovation Division.

The table below includes both the figures for ABC Splash and for centralising digital services. Implementation costs include redundancy payments for 12.6 FTEs in the Strategic Development area. Redundancy costs are not required for the ABC Splash staff as they are non-ongoing.

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
ABC	1.6	-3.8	-

### 3.2.2 Catch up services: SBS ON DEMAND and ABC iview services

The ABC and SBS offer content online through their standard definition (SD) catch up services, ABC iview and SBS ON DEMAND. Catch up services are also available on a range of platforms, including mobile devices, game consoles and connected TVs and set-top boxes. ABC's online content is freely

available for a period of 14 days, whereas most SBS catch up content is available for seven days, with other videos available for 14 or 30 days.<sup>16</sup>

Both services are experiencing exponential growth as viewers increasingly seek content on digital devices. For example, program plays on iView on all devices grew from 9.1 million in June 2012 to 18 million in March 2014. The iView website alone receives 3.8 million visits per month, with 5.3 million plays per month.

Reliable and scalable digital content delivery requires the use of content delivery networks (CDNs). The study noted that unlike traditional transmission costs which do not increase as the volume of television and radio consumption increases, CDN services are charged on the basis of the amount of data being transferred. Over time, there will also be pressure to increase the bitrate (quality and download speed of the picture) of programs available on iView and SBS ON DEMAND. As such digital delivery costs are rising steadily in line with audience demand.

### *Options*

The study observed that in comparison to radio-frequency transmission (such as TV or radio) where the incremental cost of additional viewers is essentially zero, every additional online audience member has a bandwidth 'load'. Greater online audiences drive greater costs, for which the national broadcasters are not supplemented. In an effort to contain costs, SBS has already chosen to reduce the bit-rate at which their video content is being provided to audiences on the SBS ON DEMAND platform (from 1.5 mb/s to 1.0 mb/s) with an estimated saving of approximately \$0.2 million per annum from 2014-15.

Historically, both ABC and SBS have provided catch up content free of charge to viewers, presumably on the basis that it is already publicly funded. However, the study considers that there is an opportunity for innovative thinking about how the broadcasters could better monetise catch up content whilst still retaining at least a period of free access for viewers. The study explored a range of initiatives which could provide revenue opportunities for the broadcasters to offset their growing digital delivery costs. The study also considered ways in which catch up services could be delivered more efficiently to reduce costs at the backend.

There are several options that the broadcasters could consider to generate revenue and offset the cost of providing catch up services. For example, the national broadcasters could explore the feasibility of implementing a service incorporating the following features:

- viewers are directed to a pay per view service after an initial free period of access

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<sup>16</sup> SBS website [http://www.sbs.com.au/ondemand/help/#faq\\_9](http://www.sbs.com.au/ondemand/help/#faq_9) accessed 20 March 2014.



- provide standard definition content for free, but charge a fee for high definition content (which requires considerably greater bandwidth)
- charge a fee for access to archival content.

It is understood that the BBC is considering the introduction of charging models for its iPlayer content, including archival material. Although it has yet to be implemented domestically, it is already available for a monthly subscription fee for those outside the UK.

The study did not cost these revenue models which would depend on how they are applied and the costs imposed. There would be implementation costs associated with establishing paywalls and acquisition rights would need to be renegotiated.

Alternatively, the ABC and SBS could consider the creation of a joint platform to provide catch up TV services for both broadcasters. This could be achieved through a single online platform for the broadcasters' catch up services or through a joint venture between the national broadcasters or in conjunction with the other free-to-air broadcasters. A stand-alone entity, jointly owned by the ABC and SBS (with or without the commercial broadcasters), could leverage the content offerings of both broadcasters and generate revenue through the placement of advertising. The legal aspects of monetising ABC content through advertising would need to be explored further, but a joint platform hosted by SBS may alleviate this restriction.

#### Findings

The study considered that there are a range of options to constrain costs and monetise content through online services. However, considerably more analysis is required to evaluate emerging technologies, ascertain implementation costs and identify the impacts upon the consumers.

It is suggested that the broadcasters investigate the feasibility of: options to charge audience members for content beyond the free period; charging for high definition and/or archival content; monetising content through advertising; and joint consideration of the feasibility of establishing a joint online platform for the distribution of their content.

It is acknowledged that revenue options would have implications for viewers, which would be sensitive, and there would also be implementation costs in terms of developing paywalls or new delivery platforms

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
SBS	-	-0.2	-



### 3.2.3 Digital audio broadcasting (DAB) services

Unlike digital television, which has fully replaced analog television, digital radio is a supplementary service that operates alongside AM and FM radio. Given the low cost and efficient distribution properties of AM and FM radio, it is unlikely that digital radio will replace AM or FM radio in the medium to longer term.

The ABC's major radio networks Radio National, Classic FM and triple j, as well as Local Radio services in the mainland capital cities, are simulcast on analog and digital radio. There are also six digital only radio services: ABC Dig Music, ABC Jazz, ABC Country, ABC Grandstand, triple j Unearthed and ABC Extra. All digital radio content is duplicated on analog radio, online, on mobile apps or on digital television. The ABC has a contract for DAB services until 2024.

SBS has two radio channels, SBS Radio 1 and SBS Radio 2, which are simulcast on analog and digital radio, and five digital only radio services: SBS Radio 3, SBS Chill, SBS PopAsia, SBS PopAraby and SBS PopDesi. All digital radio content is duplicated on analog radio, online, on mobile apps or on digital television. While SBS Radio 3 broadcasts 21 languages which are only available on digital radio and are not broadcast on analog radio; however, these programs can be accessed online or on mobile apps.

Terrestrial digital radio represents a significant ongoing expense for what is primarily a complimentary service, which does not attract a significant additional audience (Nielsen survey results for September-November 2012, estimated the weekly reach for all ABC digital radio services to be approximately 750,000) compared to 716,000 for Classic FM, a single analog service. Nor does digital radio appear to be adding significantly to the diversity and quality of national broadcasting radio content already available to the public, at this stage.

#### *Findings*

The study notes that the Government has yet to form a view about the future of digital terrestrial radio services, and that it may be difficult to make decisions about ABC and SBS terrestrial digital services in isolation from other radio services. The study understands that commercial radio broadcasters are pressing for the Government to agree to, and possibly assist, the roll out of digital radio services in regional Australia.

The cost of digital radio services comprises the content costs (which would be very small for simulcast services, and modest for services which largely stream music content), and the distribution costs. Significant savings could be realised if a decision is taken to cease terrestrial transmission which is currently only available in capital cities. Content would continue to be available on alternative platforms such as the web, mobile and through digital television.

Digital radio services are provided for under a joint venture company established between the ABC and SBS with a 15 year contract with Broadcast Australia that expires in September 2024. The joint venture agreement also covers distribution and head end multiplex equipment and maintenance costs provided by other suppliers. It may be possible for these contracts to be terminated at a cost of approximately \$20 million, in order to achieve potential annualised savings of up to \$5.9 million p.a. (with indexation) from financial year 2014-15 onwards.



The study notes that implementation of this efficiency would depend on government policy

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
ABC	13.0	-3.8	-
SBS	7.4	-2.1	-

### 3.2.4 Retransmission on Foxtel

Free-to-air content, including ABC and SBS content, is currently rebroadcast on the pay TV service, Foxtel. Commercial broadcasters, the ABC and SBS pay for satellite capacity to deliver their services to subscribers on the Foxtel platform. At the end of December 2013, there were approximately 2.55 million Foxtel subscribers.

ABC and SBS TV and radio services, as well as commercial free-to-air services, are retransmitted free-to-air on the Viewer Access Satellite Television (VAST) satellite service, funded by the Australian Government for a total of \$116.5 million over the period of 11 years (financial years 2009-10 to 2019-20). The VAST service covers virtually 100% of the population and can be accessed through a VAST set top box and a satellite dish. In addition the ABC and SBS have extensive terrestrial networks covering the great majority of Australians, and ABC and SBS services are available through online and mobile platforms.

Since ABC and SBS TV and radio coverage are provided to 100% of the population through other delivery platforms, there may no longer be a need for ABC and SBS to pay for their services to be rebroadcast on Foxtel.

#### ABC

The ABC's agreement with Foxtel under the Foxtel Retransmission Deed deals with both cable and satellite retransmission. Under the Foxtel Retransmission Deed, the ABC is bound to pay for the satellite costs for a minimum term of ten years from the commencement of the satellite service on 1 February 2005. To meet this obligation the ABC has an agreement with Optus for satellite capacity, and Foxtel contributes \$0.75 million p.a. as a subsidy for the Optus satellite costs. Foxtel has a perpetual obligation to retransmit the ABC on cable without cost to the ABC. The ABC cannot exit the Foxtel agreement before 1 February 2015 without Foxtel's consent.

In financial year 2012-13, Optus satellite capacity cost to ABC for Foxtel transmission was \$5.17 million p.a. The ABC's current budget for the 2013-14 financial year for Optus satellite capacity for Foxtel retransmissions is \$4.9 million gross of the Foxtel subsidy.



The ABC's agreement with Optus for these satellite services extends until March 2017, with no provision for early termination. Were the ABC to terminate its arrangements with Foxtel on 1 February 2015, under its agreement with Optus, the ABC would still be committed to a further two years of satellite services from Optus until March 2017. Any reduction in service requested by the ABC would require consent from Optus.

#### *SBS*

SBS also has an agreement with Optus for satellite capacity to retransmit SBS services on Foxtel. In January 2014, SBS entered into a new five year agreement with Optus. According to SBS, as part of the new agreement, SBS negotiated a termination right if the Government provides legally binding written instructions to SBS preventing SBS from using the satellite retransmission capacity. In such a case, SBS and Optus must negotiate a termination fee.

SBS's current budget for the 2014-15 financial year is \$1.8 million p.a. for satellite capacity for Foxtel retransmissions of SBS ONE, SBS 2, and NITV in one time zone and a small number of radio services. Should SBS choose to exit this agreement, the exposure may be up to \$1.8 million for each year (or part thereof) remaining on the agreement; however negotiation with Optus may result in a different cost.

#### *Findings*

Removing ABC and SBS content from Foxtel may achieve savings of approximately \$6.7 million p.a., minus costs associated with the termination of contracts with Foxtel and Optus. However, the capacity to achieve these savings, at least in the short term, is subject to the following caveats.

Although virtually all Australians have access to ABC and SBS through a free-to-air delivery mechanism, ABC and SBS are nevertheless likely to have concerns about removing their content from Foxtel, to the extent that the Foxtel viewers that receive their service via satellite may choose not to adopt an alternative source of the service, or an alternative source of the service would require additional set up costs. For example, while a terrestrial signal may be available, it is possible that some Foxtel households may not have a free-to-air aerial in place and would need to install one (or a VAST set top box) to access the free-to-air signal. The study does not have numbers of households in this situation. In the case of SBS there may be a concern that advertisers would have at least a perception that the overall audience for SBS programs has reduced, and adjust advertising rates accordingly. Further analysis is required to determine the extent and validity of these concerns, noting the significant ongoing annual cost to the broadcasters of maintaining a Foxtel presence.

SBS is concerned that moving its free-to-air channels off Foxtel may have an impact on its commercial relationship with Foxtel; for example, its World Movies and Studio pay TV channels, which are a source of income for SBS.

Seeking to achieve this potential saving before the Foxtel and Optus contracts conclude (for example, through early termination) will require the consent of Foxtel and Optus. Should Foxtel and Optus refuse consent, this potential saving could be incremental, with a portion available at the conclusion of the ABC Foxtel agreement (1 February 2015) and another portion available at the conclusion of the ABC Optus agreement in March 2017. Potential savings for SBS would be



dependent on what terms may be negotiated within their Foxtel and Optus contracts for early termination.

Short of total withdrawal from the Foxtel platform, there are a range of alternatives for achieving efficiencies involving the broader free-to-air industry that could be further investigated. The study is aware that commercial television broadcasters are also re-considering current Foxtel-carriage issues. This may be an area where cooperation between commercial and national broadcasters may be fruitful in negotiations.

	<b>Implementation (one-off cost)</b>	<b>Efficiency (ongoing)</b>	<b>Capital Saving \$m</b>
	<b>\$m</b>	<b>\$m</b>	
ABC	-	-4.2	-
SBS	8.0	-1.8	-

### 3.2.5 Tapeless TV

The ABC has already been incrementally migrating to file based production technologies and workflows since 2007. The ABC has synchronised the transition to file based production methodologies with the asset refresh cycle as tape based technologies previously in use have reached end of life.

The ABC's broadcast operations have migrated to fully tapeless processing of content from ingest to FTP to MediaHub (which is also fully tapeless). However, internal and acquired content is still being delivered on tape via the TX library. Some tape handling ability will be required for the foreseeable future as many external providers deliver on tape and the ABC TX library and production collection will take time to fully digitize. The digital file acceptance project, currently in progress, will give the ABC the ability to receive file-based content from external vendors by the end of 2014. The ABC will continue to need tape handling capability as the rest of the industry moves to tapeless. The transition to a fully tapeless production will likely take 3-5 years.

The ABC also has an extensive archive of film, radio, news and TV with 70+ years of content. As such, the Archives present a significant challenge in providing digital archive capability in comparison with other Australian broadcasters' archival material. There are over 500,000 items of physical media in addition to the 50,000 hours of digitised content in the archive.

TV and News are continuing to transfer completed materials to tape for archival purposes. The impact of moving to a fully tapeless workflow is still being assessed, before capital expenditure is committed.



Implementing an automated system is estimated to result in costs of approximately \$0.7 million for the ABC and \$0.1 million for the SBS in the first year in service charges and staff redundancy payments. These savings are based on a reduction of 5.5 FTEs at ABC and 1 FTE at SBS. Savings of approximately \$0.6 million and \$0.1 million are anticipated for the ABC and SBS respectively, including maintenance costs for the automated system.

	Implementation \$m	Ongoing Saving \$m	Capital Saving \$m
ABC	0.7	-0.6	-
SBS	0.1	-0.1	-

### 3.3 Modernising the business

The study explored the potential for the national broadcasters to more fully integrate their activities with other broadcasting and production businesses. When the ABC was established there were no studios, electronics suppliers or independent producers and the ABC largely had to create these facilities itself. This has led to a 'build and own' culture which is still evident. The expansion of private facilities and services means the national broadcasters are now in a position where purchasing production facilities and services from private sources as required may be more economical. This section explores efficiencies that may be achieved through outsourcing services and updating employment practices.

#### 3.3.1 Outsourcing production

Current industry trends indicate that broadcasters now retain program Intellectual Property (IP) while outsourcing production facilities. In contrast to this trend, the ABC and SBS appear to continue to outsource program IP, while maintaining in-house production facilities. While developing and maintaining in-house production facilities could be seen as de-risking production and reducing impacts of any changes to government funding in the future, efficiencies may be able to be realised by greater use of available facilities outside the broadcasters.

##### Outsourcing production capability

The ABC currently operates TV production studios in Sydney, Melbourne, Adelaide and Perth, in addition to News and Current Affairs studios. Brisbane has a Multi-purpose studio (MPS) that can operate as a television studio if required, however it is seldom used for this purpose.



However, the ABC and SBS may wish to give consideration to a strategy to transition affected staff to an accumulation benefit scheme in the context of its next enterprise agreement as a means of reducing their long term superannuation liabilities.

### 3.3.9 ABC local radio stations

ABC Local Radio is a network of 60 local radio stations (nine metro and 51 regional) which broadcast to, and engage with, local communities around Australia. Each station delivers local news, sport and weather as well as stories that explore the events, places and people from their regional area. In addition, ABC Local Radio also fulfils an essential emergency broadcaster function at the regional level.

State	Number stations
NSW	15
VIC	9
QLD	12
SA	7
WA	10
TAS	3
ACT	1
NT	3
<b>Total</b>	<b>60</b>

At the time of the ABC's inauguration in 1932, the ABC controlled 20 radio stations (two in each of Sydney and Melbourne and eight in regional areas), which expanded in 1938 to two radio stations in each capital city and 12 in regional Australia. Several initiatives in subsequent years have brought the total to 60 ABC Regional radio stations.

Over the last 20 years the ABC has reviewed from time to time its regional locations to ensure its investment is being maximised. Factors that have underpinned this review process include:

- existing and future population/demographics



- nature/diversity of region based on resource, agri-business, government services, other communities of interest
- identifying communities that are good sources of news and information
- spreading resources throughout regions to deliver the best and most relevant service to regional Australia.

This study process has led to the closure of Kempsey, Grafton and Armidale offices and the opening of Port Macquarie, Gold Coast and Lismore offices.

### *Findings*

The study noted the cost of providing a local radio service in a widely disbursed environment and considered that there were no material efficiencies to be gained in this area. For example, in the absence of commercial providers, the ABC's Local Radio service is relied upon for local news, this requires a physical presence at the local level, with its associated staff, operating and capital expenses.

Given the sensitivities of making changes to regional services, the ABC may wish to undertake a further comprehensive review of all its 60 regional stations. Acknowledging its terms of reference the study makes no comment on the regional reach of ABC radio activities, but a review of the location of services against factors such as demographics could assist in maximising the efficiency of the regional radio presence and output. The study suggests that, if the ABC undertakes a review, the following criteria could be considered:

- Are they in the right locations? (Do they accurately reflect the changing demographics of Australia?)
- Are there areas of over servicing meaning resources could be freed-up to deliver new locations?
- Do their operating models and staff levels maximise investment? For example, would radio booths as opposed to stations be a more efficient means of maximising ABC exposure in regional communities?

Consistent with the comments on ABC Open in section 3.5.7, the review could also consider opportunities for closer integration of strategic objectives of regional radio and ABC Open.

### 3.3.10 Rostering process and outsourcing payroll

#### *SBS*

SBS currently outsources its payroll and rostering to a third party provider. All SBS staff have been transferred to the outsourced payroll system and approximately 700 staff are on the outsourced rostering system.



A fundamental question for the study team has been to understand how the ABC and SBS make decisions around resource allocation to achieve Charter objectives. The Charters themselves offer little direct guidance as they are broad statements of Parliamentary intent designed to accommodate changing audience demands. An additional mechanism would be needed to interpret these requirements in terms of resources.

Both the organisations have Strategic Plans, but these are at a high level and are unlikely to provide assistance in these sorts of inter- and intra-activity resource decisions. For example, the ABC's Strategic Plan simply states:

We are delivering on our Charter obligations. Our programming contains content of wide appeal and specialist interest. Our news and current affairs team provides high quality coverage of local, national and international issues. We have a commitment to telling Australian stories, promoting the arts and providing a forum for intelligent debate and discussion.<sup>29</sup>

The study was unable to find evidence that the broadcasters had in place a clear, consistent and transparent methodology to decide how competing initiatives relate to their Charters.<sup>30</sup> This raises the concern that decisions may then lack transparency for staff and for the Government, and budgets become locked to historic divisions of activity within the organisations. While it is acknowledged that Charter obligations are difficult areas to assess through quantitative industry benchmarks such as audience reach, the ABC and SBS could consider alternative qualitative benchmarks for these areas.

The lack of a clear evidence-based and published methodology for aligning functions with Charters appears to make it difficult for the broadcasters to decide what their priorities are and how resources should be allocated between alternative competing activities or when to cease an activity. The culture of promoting innovation from front-line managers also generates numerous new proposals that seek funding each year based on their relationship to the Charter with limited consideration by proponents of their ongoing impact on the Budget.

Both organisations would be assisted by clear and published statements from the boards and management which set out the processes and types of issues that are considered in determining whether activities are consistent with Charters, and the basis on which priorities are determined. In the commercial broadcasting sector audience share acts as a clear guiding principle for most budget related decisions. In setting its Budget the ABC considers the impact on audience reach and its

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<sup>29</sup> ABC Strategic Plan 2013-16: A clear direction for the ABC, p 2.

<sup>30</sup> With the exception of the formal commissioning processes in the Television and Radio Divisions.



objective of being a comprehensive public broadcaster were considerations. For SBS, audience reach was also a consideration for its internal decision making.

While important, audience metrics may only be one parameter of a balanced approach. The intention is clearly not to constrain the management of both organisations in making decisions. On the other hand, if these decisions are not made transparently the organisations risk attempting to be all things to all people, and management may not have the necessary framework for deciding internal allocations against strongly competing demands from different interest groups within the broadcasters, or simply for introducing paradigm shifts into historical distribution of resources.

Both broadcasters could promote a discipline that creates transparency and consistency in making divisions accountable for audience and the financial cost of the services and products they are responsible for delivering. The discipline would help align the development of bottom-up audience driven innovation with the strategic priorities set by the Executive and their Charters.

### 5.3 Statement of Expectations

The ABC and SBS are independent corporations created under their respective Acts and the CAC Act<sup>31</sup>. The Parliament has established this independence to make sure that what is broadcast is free from political influence. However, the Minister is accountable to the Parliament for the performance of agencies within his Portfolio and performance relates to many aspects of their operation that are distinct from programming decisions. In the context of this study, the Minister has a responsibility to ensure that public funds allocated to the broadcasters are used effectively and efficiently.

After careful consideration, and given the broad nature of the broadcasters' Charter responsibilities, the study has formed a view that it could be beneficial (and a logical next step following this study) for the Minister to provide each broadcaster with a statement of the Government's expectations. Such a statement could provide them with clarity around the Government's expectations relating to financial management and transparency. Any such statement must be consistent with the principles of editorial and operational (ABC) independence established by the Parliament.

- Under Section 8 of the ABC Act if the Minister at any time furnishes to the Board a statement of the policy of the Commonwealth Government on any matter relating to broadcasting or digital

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<sup>31</sup> ABC and SBS are statutory authorities under the CAC Act. The *Australian Broadcasting Corporation Act 1983* (ABC Act) provides that Section 28 (Compliance with General Policy Orders) and section 48A (General Policy Orders) of the CAC Act do not apply to the ABC (*Australian Broadcasting Corporation Act 1983*, Subsection 78(7) refers). The *Special Broadcasting Services Act 1991* does not include any similar exclusions.



media services, or any matter of administration, that is relevant to the performance of the functions of the Corporation and requests the Board to consider that policy in the performance of its functions, the Board shall ensure that consideration is given to that policy.

- Under Section 11 of the SBS Act the Minister may, after consultation with the Board, give written directions to the SBS Board in relation to the performance of the SBS's functions as appear to the Minister to be necessary in the public interest. The Minister must not give a direction in relation to the content or scheduling of programs to be broadcast or in relation to the content to be provided on a digital media service. Where the Minister gives a direction to the Board, the Minister must cause a copy of the direction to be laid before each House of the Parliament within 15 sitting days of that House after giving the direction.

It is acknowledged that a ministerial statement would be controversial and could give rise to concerns that the Government is intervening in the ABC and SBS for political reasons. However, the ABC and SBS Acts create a tension between a limited capacity of the Minister to make the broadcasters aware of government policies, and the necessary constraint that Ministers cannot influence editorial decisions.

However, provided it was carefully constructed and 'within legislative scope', the study considers a Statement of Expectations (SoE) would assist the boards to clearly understand the efficiency and financial outcomes the Government is seeking from the annual investment of taxpayer funding. In effect, a SoE would formalise the existing practice of informal feedback between government and the broadcasters by providing a more transparent and direct reporting line between the Minister and the boards of the national broadcasters. To give the public and the Parliament confidence on the scope of the SoE, the study considers that it should be made public.

A SoE could provide for a regular report back to the Minister (for example alongside the annual report) against specific matters or indicators.

By way of example, SoEs could ask the boards of the ABC and SBS to:

- report annually to the Minister in regard to specified categories of resource allocation
- furnish annually to the Minister their policy regarding the allocation of resources against Charter objectives
- elevate fiscal responsibility in their decision making vis a vis other priorities
- co-operate closely (between broadcasters) to maximize the efficiency of the publicly funded sectors of Australian broadcasting (as identified in the SBS Act<sup>32</sup>)
- not enter into contracts for the supply of services which include provisions prohibiting the disclosure of information to the Commonwealth (e.g. transmission service contracts)

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<sup>32</sup> *Special Broadcasting Service Act 1991*, Section 10 1(f).



## 5.5 Delivery of services

The ABC and SBS provide their radio and TV broadcasting services nation-wide terrestrially and via satellite. The Commonwealth funds the ABC and SBS for their actual costs of transmission.

The ABC and SBS current terrestrial transmission arrangements with Broadcast Australia create a limited incentive for the national broadcasters to achieve efficiencies in this area. Transmission arrangements are the subject of a separate review by the Department through the Transmission Options Project. Depending on findings from the Transmission Options Project, the Government may wish to consider a change to the structural way it funds national broadcaster transmission services.

While most of the transmission arrangements stand outside the Terms of Reference for this efficiency study, it may be preferable for the ABC and SBS to share in the benefits of savings in transmission costs rather than the current funding arrangement which requires any savings (from digital and certain analog transmission services) to be returned to budget. For example, if it proves possible to reduce transmission costs by 20%, it would be desirable for the national broadcasters to retain at least a portion of these savings.

It is inherently more efficient for the organisations to be able to assess terrestrial transmission needs and costs in the context of overall organisational costs, rather than in isolation, particularly as technology and audience changes shift more content distribution online. More flexible funding arrangements may create an incentive for the national broadcasters to negotiate more favourable terrestrial transmission contract terms. A benefit sharing arrangement would also recognise that some options to reduce expenditure on transmission and distribution may increase costs elsewhere in the national broadcasters. Alternatively, transmission funding could be included in the national broadcasters' base funding. However, the national broadcasters would need to be aware of and bear a risk that Government may request that the national broadcasters provide their services in new locations without new funding.

## 6 An Ideal Cost Base

The ABC and SBS provide a wider range of services and operate across a broader geographic base than any single commercial broadcaster in Australia. In light of these differences and given that commercial industry data at a disaggregated level is not available, the study was not able to satisfactorily build an ideal cost base from first principles.

## 7 Way forward

The study has examined a range of tactical elements of the broadcasters' functions, as well as providing some initial analysis of more complex and significant efficiency options. This should not be taken as the last word in terms of the efficiencies available, which would require a more in-depth, strategic analysis of functions, activities and cultures of the broadcasters. There are many areas



where the broadcasters could undertake further thinking and analysis. However, the study has clearly demonstrated that efficiencies are possible. Importantly, the study has also provided a detailed and generally comprehensive window into the cost base of the broadcasters, spread across their functions and geographies.

It is important to note that some of the efficiencies are mutually exclusive and several vary in terms of their achievability, risk and implementation costs. The study specifically cautions against an approach of totalling all the efficiencies to gain an overall figure which is then used to reassess the funding base of the ABC and SBS.

It is envisaged that the information contained in the report will form the basis of future discussions between the Government and the ABC and SBS on budgetary matters. In addition, it will also provide a level of financial information to the national broadcasters on each other's operations which can be used to model best practice within the two organisations.

The study provides a platform for discussions involving the Minister, Chairs and Managing Directors of the ABC and SBS. Such a dialogue could examine the report, and where there is agreement establish a timeframe and process for the implementation of the study's relatively more straightforward options and commence feasibility studies into the report's longer term and strategic findings.

Some of the financial information in the report will lose its currency fairly quickly. Consideration could be given to a regular and formalised process whereby the broadcasters update a set of data which would be available to the Government.

The study was specifically conscious that ultimately the implementation of the report's findings is a matter for national broadcasters' boards. In this light, the findings of this study are commended to the ABC and SBS boards for their detailed consideration.



## Appendix G: Implementation costs, efficiencies and capital savings for potential efficiencies suggested in report

Efficiency	Implementation - \$m		Efficiencies - \$m		Capital Saving \$m
	ABC	SBS	ABC	SBS	
Human Resources	0.5	0.0	-0.5	0.0	0.0
Legal and Business Affairs	1.9	0.0	-2.2	0.0	0.0
Finance and Accounting	0.5	0.0	-0.5	0.0	0.0
Audience and Consumer Affairs	0.0	0.3	0.0	-0.5	0.0
Communications, Marketing, Publicity and Promotions	0.0	2.4	0.0	-3.5	0.0
Technology (including Information Technology)	5.1	0.3	-4.6	-0.4	0.0
Joint purchasing arrangements	0.0	0.0	-5.0	-1.8	0.0
Co-location	0.0	62.5	0.0	-1.5	-64.0
ABC Innovation	1.6	0.0	-3.8	0.0	0.0
Catch-up Services	0.0	0.0	0.0	-0.2	0.0
Digital Audio Broadcasting	13.0	7.4	-3.8	-2.1	0.0
Retransmission on Foxtel	0.0	8.0	-4.2	-1.8	0.0
Tapeless TV Production	0.0	0.0	-1.6	0.0	0.0
Centralisation of Master Control for Radio	6.1	0.0	-1.9	0.0	0.0
Transmission Advice to Public	0.7	0.1	-0.6	-0.1	0.0
Outsourcing of Production	21.6	0.0	-0.4	0.0	-90.0
Outsourcing Property Management	3.9	0.0	-3.2	0.0	0.0
SBS Playout Facilities	0.0	2.6	0.0	-1.0	0.0
Outsourcing Outside Broadcast (OB) Vans	0.0	0.0	-0.1	0.0	0.0
Helicopters	2.2	0.0	-1.0	0.0	-0.7
Sale of Lanceley Place	0.6	0.0	0.0	0.0	-26.5
Rostering process and outsource payroll.	2.3	0.0	-1.1	0.0	0.0
Advertising on SBS	0.0	0.0	0.0	-15.6	0.0
Rental of Smaller Facilities	6.4	0.0	-5.6	0.0	0.0
Role of State and Territory Directors	2.1	0.0	-2.8	0.0	0.0
Centralised switchboard at ABC	1.9	0.0	-0.9	0.0	0.0
Short Wave Radio Transmission	0.0	0.0	-5.5	0.0	0.0
ABC Commercial: Digital Projects and ABC Retail - Short Term	0.0	0.0	-2.2	0.0	0.0
ABC Commercial: Digital Projects and ABC Retail - Long Term	0.0	0.0	-2.5	0.0	0.0
ABC Communications Networks	0.5	0.0	-0.5	0.0	0.0
Production resources	5.6	0.0	-5.1	0.0	0.0