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ABC FUNDING FOR THE 2003-2006 TRIENNIUM

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Executive Summary

Australia needs a genuinely competitive mass media environment. It is vital that our media are funded and controlled from truly diverse sources, rather than a shrinking number of network barons. A choice only between Omo and Fab sells Australia short.

The Friends of the ABC believe that true competitiveness is nurtured by appropriate regulation. We acknowledge, however, that it is difficult to draw a clear line between legitimate regulation of the media in the public interest and intrusive government control over what we see and hear.

The concept of a *diversity dividend* has been described by McKinsey and Company in an important study of public service broadcasters around the world. The study concludes that adequately funded and distinctive public service broadcasters, operating alongside commercial broadcasters, pay a handsome diversity dividend provided that the public broadcasters have:

1. Distinctive programming (similar programs minus the advertisements do not provide real competition).
2. Significant market share – the public broadcasters have to be in the mainstream, not on the margins. To achieve this, adequate funding is essential.

The ABC is highly efficient but, by almost every benchmark, it is poorly funded:

- ABC TV expenditure is only 36% of the cost of commercial TV in this country.
- The UK, Canada, Denmark, Germany and others provide much greater funding per head of population and much greater proportions of government expenditure to their public broadcasters.
- The recent piecemeal funding practices are inefficient. No broadcaster can plan and operate at maximum effectiveness without a predictable income.
- The existing funding level is woefully inadequate if the ABC is to participate effectively in the digital environment – a broadcaster limited by yesterday's technology cannot provide the needed competition.

There is widespread public support for more ABC funding:

- The National Social Science Survey found that Australians were willing to fund the ABC at 30% above the current level.
- 60% of respondents to a recent Newspoll thought that the ABC should be better funded.

Recommendations

The Friends of the ABC recommend that:

1. **The existing short-term budgets for regional programming, Radio Australia, online science education and the overseas TV service (total $39.24 per year) be rolled into the ABC's ongoing funding base and indexed for inflation.**

2. **An additional, indexed $65 million a year be made available to provide content for the ABC's two new digital TV channels and the Internet arm, *ABC Online*.**

Competition, Regulation or Regulated Competition?

Government Regulation of the Media - Some Difficulties

The Friends of the ABC acknowledge that governments dealing with the thorny issue of media regulation face two main areas of difficulty.

Firstly, accusations of limiting free speech inevitably accompany proposals for state regulation. There is strong resistance to the regulation of the print media. Regulation of the electronic media has only been tolerated because the broadcast spectrum cannot accommodate unlimited traffic. This difficulty is being compounded as new technologies challenge the claim of spectrum scarcity and regulation is perceived as being even less acceptable.

Attempts to protect the local industry from foreign dominance have had limited success. For example, the quota systems for Australian content deem programs made in New Zealand to be Australian. While the broadcasters may be operating legally, the spirit of the quotas has been circumvented.

Secondly, politicians are acutely aware of the power wielded by the major media proprietors at election time. This understandably makes them cautious about actions which might damage the interests of those powerful figures.

Inadequate regulation has allowed the Australian media to become less and less diverse. This has long been the trend in the newspaper and magazine industry, and a similar tendency is now clearly evident in the electronic media. One only has to compare the commercial news broadcasts to see the truth of this statement. The economies of media coalescing and networking on a national scale have posed a serious threat to our regional identity. Global networking now threatens our national identity.

Public Service Broadcasters Pay a Diversity Dividend

Given these difficulties in relation to regulation of the domestic electronic media (and the near impossibility of regulating global media), the internationally respected management consultants McKinsey and Company[i] suggest the concept of “regulated competition”. Under such a system governments augment direct regulation of the media with legislation and funding to ensure effective competition and desirable social outcomes. The McKinsey study rejects a simplistic reliance on market forces. It favours a structure which ensures that the government funded broadcasters compete with their commercially funded counterparts in a light-handed regulatory environment.

The McKinsey study notes:

> *In a world of many channels, we have found that a PSB (public service broadcaster) is at its most effective when it not only broadcasts a distinctive schedule, but also exerts pressure on its commercial competitors to do the same. … It does so by setting off a 'virtuous circle' with its commercial competitors. Because of its unique role and funding method, a PSB can popularise new styles of programming, and thereby encourage commercial broadcasters to create their own distinctive programmes. In this way, the viewing standards of the entire market are raised.*

It concludes:

> *While governmental regulation of commercial broadcasters can achieve some of these aims, our analysis shows that the PSB model is the preferable approach; it combines creative and market pressures on broadcasters to achieve a society's aims for its broadcasting market.*

This study sets two important conditions for this general raising of standards. Firstly, the programming of the public service broadcasters *must be distinctive*. There is no point in simply having commercial broadcasting without commercials; or, worse still, semi-commercial broadcasting (funded partly by government and partly by commercials).

In addition, the public service broadcaster must have a *significant market share*. As the study puts it:

> *To set this virtuous circle off, the PSB has to maintain sufficient share while remaining distinctive from commercial broadcasters. This is of critical importance for the public good. Our analysis clearly shows that there is a strong linkage between the health and funding model of the PSB and the overall quality of each national broadcasting market.*

The ABC has a 15% share of TV audiences and a 25% share of radio audiences. It has a combined reach (that is, the proportion of Australians who use an ABC service - TV, radio or online - each week) of about 85%. The ABC has managed, just, to maintain a significant market share. Unfortunately, declining funding and a rapidly expanding media environment are now joining forces to inflict a "double whammy" and the ABC is struggling.

The Friends of the ABC acknowledge that the efforts of the organisation have been heroic. It has established new radio networks like *Triple J* and *NewsRadio* using only the funds provided for the old networks. It has established two new digital TV channels without additional funding for program content. The Internet arm, *ABC Online*, was similarly established by robbing Peter to pay Paul.

Despite all the new services, funding has declined by a massive 29.5% in real terms since 1985 and there is no question that overall quality is being diluted:

- Overseas newsgathering operations are stretched to the limit.
- The hours of locally produced TV drama have declined.
- Radio Australia was almost halved by the 1996 budget cuts when the Indonesian service was reduced severely and other language services abolished. To the Government's credit, some of this lost funding has been restored, but Radio Australia remains well short of the pre-1996 position. Its transmitters in the Northern Territory have gone and the French language service to the pacific area has been abolished. Broadcasts to Indonesia have fallen from seven hours a day to four and a half hours a day. Audiences fell from 4% in 1986 to 1.8% in 1999.

If the ABC is to remain distinctive it must stay commercial free. The McKinsey study clearly documents the dangers for public broadcasters who have turned to advertising:

> *Many PSBs are funded, at least partly, through advertising. Our survey shows clearly the potential dangers of this approach. We have found evidence that the higher the advertising figure as a proportion of total revenues, the less distinctive a public broadcaster is likely to be.*

A significant market share means that the ABC must remain in the mainstream. A marginalised ABC cannot be effective in nurturing a rich, diverse broadcasting environment with a culture of continuous improvement. The ABC's distinctively different voice cannot be maintained without a significant funding increase. The McKinsey study states:

> *Our survey has also shown that distinctiveness itself is not enough. PBS in the United States has an extremely distinctive schedule, with special emphasis on education, arts and current events. Equally, TRT in Turkey has a schedule that is extremely non-commercial. However both networks have extremely low audience share, and the schedules of the commercial channels in their markets are not distinctive. Accordingly, American and Turkish viewers do not benefit from having a rich, vigorous program mix on their main channels.*

The Urgent Need to Improve Funding

Some Funding Benchmarks

Friends of the ABC acknowledge that no single benchmark is completely satisfactory, because rigorous comparisons between the ABC and commercial broadcasters in Australia are difficult. Similarly, comparison with public broadcasters overseas, while relevant, should take different conditions and types of services into account. Notwithstanding these issues, it is significant that *all* the following benchmarks point to the need for increased ABC funding.

Political Promises

The current Government's 1996 election promises included a commitment to maintain ABC base funding at the current level.[ii] That promise was not kept, and funding was reduced by 12%. Since then there have been some additional special purpose grants for limited periods, but the ABC's base funding has remained well below the 1995-96 level in real terms.

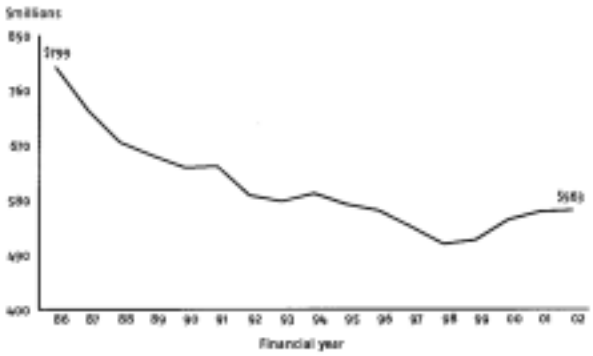
The ALP, the Democrats and the Greens have all promised to restore funding to the 1995-96 level in real terms.

While these promises provide a useful benchmark, it is important to note that none of them takes the substantial technological developments since 1995 into account. These developments include high definition television, streaming audio and video, multi-channelling in television and interactive media.

Willingness to Pay

Another benchmark is the public's willingness to pay. According to Professor Glenn Withers, the National Social Science Survey of March 2000 found that average public willingness to pay for the ABC was 30% higher than the funding provided in 1999-2000.[iii] Ironically, this is the amount

by which funding has been *reduced* since 1985. The 2000-01 ABC Annual Report shows that, adjusted for inflation and one-off funds, ABC funding has declined by 29.5% since 1985.[iv]



A 30% increase would have the virtue of being consistent with public opinion and with past funding levels. Funding over and above this increase would also be required to allow the ABC to take full advantage of emerging technological developments.

The Costs of the ABC's Commercial Competitors

Professor Withers also notes that the costs per hour of broadcast of ABC radio are only 40% of those of the average Australian commercial radio station.[v]

An alternative measure is the cost per television station. Professor Withers calculated that the 1998 station costs were:

ABC	$26.18m
Ten	$46.39m
Seven	$83.21m
Nine	$88.59m

If ABC TV were to be funded at the same level as Channel 9, a funding increase of 138% would be required. A 77% increase would be needed just to reach parity with the lowest cost station.

Professor Withers was also able to extract figures on comparative expenditure per employee for 1997. While ABC TV spends $149,000 per employee, the average commercial station spends $313,000. (Note: this is total expenditure per employee, not their salaries) If this figure were used as a benchmark, the ABC's budget should be increased by a little over 100%.

The Costs of Overseas Public Service Broadcasters

Professor Withers notes that the BBC is funded at three times the rate of the ABC on a per capita basis. The Canadian Broadcasting Corporation (CBC) gets 40% more than the ABC.[vi]

The McKinsey study found that Denmark funds its public broadcaster at five times the rate of the ABC, again on a per capita basis, while Germany provides three and a half times as much.

In terms of the proportion of government expenditure, the ABC in 1997-98 received less than 0.4%, while the BBC received 0.7% and the CBC, 0.5%.[vii]

ABC Online

The ABC's Internet arm, *ABC Online*, is one of Australia's most visited and trusted web sites. It costs a modest $11 million a year. The Fairfax organisation spent almost $100 million on its Internet presence, *F2*, in the financial year ended June 2000.

Stop/Go Funding Is Wasteful

While the ABC is under-funded on any of these measures, the way in which the funds are provided must also be improved. The ABC needs a reasonable degree of predictability if it is to manage its budget efficiently. Piecemeal funding results in piecemeal planning, rather than a vision for the future.

In recent years the Government has partially alleviated the funding shortfalls through special grants including $17.8 million a year for four years for regional initiatives, $2.8 million to strengthen Radio Australia, $18 million a year for five years for the overseas TV service, *Australia Television*[viii], and $2.5 million spread over four years for online science information [ix]

While the ABC has welcomed the extra money, dependence on this type of funding can be destabilising. For example, the regional initiatives funds have been used to employ nearly fifty new broadcasters in regional areas. If this money dries up in four years time, the ABC would need to consider sacking these young people - a disastrous situation for the bush, for broadcasting and for the individuals concerned.

Another problem with these piecemeal grants is that they lose value each year because they are not indexed for inflation. The Friends of the ABC urge the Government to roll these funds into the ongoing, indexed ABC funding base to ensure predictable, reliable and less disruptive operations.

Funding the Digital Initiative

In its submission for the 2000-2003 triennium, the ABC requested $194 million over three years (a rate of $66 million a year in Year 2000 dollars) to fund digital content.[x] In addition to *ABC Online*, which we understand is costing a little over $11 million a year, the ABC has established two digital TV channels, *Fly TV* and *ABC Kids*, without additional funding. When digital delivery systems mature, it is unlikely that the additional $65 million a year (for *ABC Online*, *Fly TV* and *ABC Kids*) will cover the full cost of these services, nonetheless we recommend an additional $65 million a year as the absolute minimum to be provided for these new services for the next triennium.

Recommendations

The Friends of the ABC recommend that:

1. **The existing short-term budgets for regional programming, Radio Australia, online science education and the overseas TV service (a total of $39.24 million per year) be rolled into the ABC's ongoing funding base and indexed for inflation.**

2. **An additional, indexed $65 million a year be made available to provide content for the ABC's two new digital TV channels and the Internet arm, *ABC Online*.**

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