

National Broadcasters Efficiency Review

December 2018

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7 December 2018

Senator the Hon Mitch Fifield
Minister for Communications and the Arts
Parliament House
CANBERRA ACT 2600

Dear Minister

Report of the review into the efficiency of Australia's national broadcasters

We are pleased to provide you with the report of the review into the efficiency of Australia's national broadcasters.

In accordance with our terms of reference, we examined the efficiency of the operations of the ABC and SBS and provide recommendations on areas where greater efficiencies can be achieved. Our findings and recommendations are informed by financial analysis commissioned by this review which is based on data provided by the ABC and SBS, commercial broadcasters and other, publicly available, sources.

We have found that there are opportunities for the national broadcasters to improve their forward strategic planning and be more transparent in their performance reporting. We also found that the national broadcasters could achieve cost efficiencies in a number of areas. Key recommendations call on the ABC and SBS to:

- be more transparent in regard to charter interpretation, forward planning and performance reporting
- continue to invest in digital delivery platforms
- consolidate content into fewer linear television channels to focus on core charter content
- modernise technology and work practices in the case of the ABC, and
- seek opportunities to collaborate across industry to optimise broadcast operations, digital delivery and content commissioning and acquisition.

We also consider that longer term funding timeframes would provide greater certainty for the national broadcasters to implement the recommendation for a 10 year forward planning horizon.

We thank the national broadcasters for providing information to support this review. We also appreciate the valuable assistance provided by the taskforce within your Department.

Yours sincerely



Mr Peter Tonagh
Reviewer



Mr Richard Bean
Reviewer

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Glossary

ABC	Australian Broadcasting Corporation
ABC Act	<i>Australian Broadcasting Corporation Act 1983</i>
ARD	Joint organisation of Germany's regional public-service broadcasters
ASL	Average Staffing Level
BCAR	Bureau of Communications and Arts Research
BCG	Boston Consulting Group
BBC	British Broadcasting Corporation
BVOD	Broadcaster Video On Demand
CAGR	Compound Annual Growth Rate
CDN	Content Distribution Network
CEO	Chief Executive Officer
Clementi Review	Review of the Governance and Regulation of the BBC by Sir David Clementi
CNI	Competitive Neutrality Inquiry
CALD	Culturally and Linguistically Diverse
CY	Calendar Year
FAANGs	Facebook, Amazon Apple, Netflix and Google
FECCA	Federation of Ethnic Communities Councils of Australia
FTA	Free-to-air
FTE	Full Time Equivalent
FY	Financial Year
GB	Gigabyte
GfK	Consumer and market research company
HD	High Definition
IP	Internet Protocol
KPI	Key Performance Indicator
Lewis Review	2014 ABC and SBS Efficiency Study
LOTE	Language Other Than English
MCN	Multi Channel Network
MAM	Media Asset Management
MCR	Master Control Room
Mbps	Megabits per second
NBN	National Broadband Network
NITV	National Indigenous Television
NRK	Norwegian public broadcasting company
Ofcom	Office of Communications (United Kingdom)

OTT	Over-the-top
OzTAM	Provider of Television Audience Measurement (TAM)
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PGPA Rule	Public Governance, Performance and Accountability Rule 2014
PMO	Program Management Office
PwC	PricewaterhouseCoopers
SAP	Proprietary enterprise resource planning software
SBS	Special Broadcasting Service
SBS Act	<i>Special Broadcasting Service Act 1991</i>
SD	Standard Definition
SVOD	Subscription Video On Demand
VAST	Viewer Access Satellite Television

Executive summary

The ABC and SBS are vital public news and cultural institutions that strengthen Australia's media diversity, contribute to the cultural and social fabric of the nation and represent a major Commonwealth contribution to civic journalism. They are often described as national treasures, to be cherished and protected. The significant role of these institutions is reflected in both their wide audience reach and the extremely high level of trust placed in them by Australians.

All participants in the Australian media sector are under immense pressure. In recent years, the sector has fundamentally changed as audiences embrace new, often more compelling ways to consume a proliferation of media content. The increase in the volume of content and the number of viewing channels has fragmented audiences and led to a significant fall in consumption of audio visual content from traditional sources by traditional means. While these trends have an impact across the board, they have affected younger audiences the most.

The national broadcasters face particular challenges in responding to this changing environment. To remain relevant to Australian audiences they must invest in new delivery channels, but they must do so while maintaining their valued, trusted position with existing audiences. Importantly, they must maintain their strong position in areas such as agenda-setting journalism, regional coverage and Australian drama while operating within constrained government funding.

Both the ABC and SBS are focused on improving the efficiency of their operations in order to maximise resources devoted to the creation and acquisition of content and to facilitate the investment required in new content models and new delivery channels. However, assuming ongoing funding constraints, it is unlikely that incremental efficiency improvements will be sufficient to achieve their objectives—more profound changes are required. In the case of the ABC this is likely to include significant investment in digital platforms—investment that is unlikely to be possible without additional short-term funding support.

This review proposes three sets of initiatives to support the required changes.

1. Taking a longer-term perspective on planning and funding, with greater transparency and accountability for performance.
2. Delivering a series of efficiency measures to drive short and medium-term cost savings for reinvestment by:
 - a. focusing on the core
 - b. modernising work practices, and
 - c. increasing collaboration and sharing.
3. Investing in two key enablers of transformational change: technology and culture.

A list of the review's recommendations is provided in Chapter 9.

The scope of this review specifically excludes consideration of the merger of the ABC and SBS. However, a number of the proposed efficiency initiatives involve closer relationships both between the two organisations and with other broadcasters. This focus on collaboration—while maintaining the distinctive positioning and independence of each broadcaster—reflects a broader trend in the industry both in Australia and abroad.

The changes proposed are not 'business as usual' and they will not be simple to implement. However, incremental change will not be sufficient.

Protecting the role of our national broadcasters in Australian society is critical—and the challenges the organisations face mean that delivering that protection within the current funding envelope will require substantial change.

Chapter 1: Introduction and report structure

1.1 The review

On 13 August 2018, the Minister for Communications and the Arts, the Hon Mitch Fifield, announced that the Australian Government had commenced the review of the efficiency of the national broadcasters which had been foreshadowed in the May Budget. The Minister appointed Mr Peter Tonagh and Mr Richard Bean to conduct the review, assisted by the Department of Communications and the Arts and KordaMentha, and in cooperation with the ABC and SBS.

The reviewers were asked to examine the efficiency of the operations of the ABC and SBS and provide recommendations on areas where greater efficiency could be achieved. This is particularly important in the current budget environment in which the government has indicated that it will apply an indexation freeze to ABC funding for the next funding triennium.

Importantly, the review has proceeded on the assumption that it is unlikely that there will be any significant increase in base funding and that, therefore, the national broadcasters must continue to operate within a constrained envelope of funding.¹

The terms of reference for the review (page 16) recognise that the ABC and SBS play an important role in shaping Australia's sense of identity and informing, entertaining and reflecting the cultural diversity of Australian communities. The terms of reference note that the ABC and SBS enjoy operational and editorial independence, and are responsible for meeting a broad range of requirements under their respective charters, establishing Acts and other Acts. The delivery of the responsibilities of these institutions, resource allocation and the related prioritisation of initiatives are matters for the ABC and SBS boards and management.

The terms of reference also recognise that it is appropriate that from time to time the national broadcasters be part of a review that provides advice to Government and to their respective boards about ways in which they could be more efficient.

This review is intended to precede and to contribute to deliberations about the next funding triennium for the national broadcasters and to take into account both previous reviews and that the media sector is evolving at a rapid pace.

The terms of reference specifically identify a number of areas that are out of scope for this review. They are:

- Changes to the ABC and SBS charters
- Editorial policies of the ABC and SBS
- Allowing advertising on the ABC
- Quality of programs/content delivered by the ABC and SBS
- Charging for digital services
- Privatisation of the ABC or SBS
- Merger of the ABC and SBS.

The terms of reference specifically state that '[t]he Government will not merge or otherwise change the ownership arrangements of the ABC and SBS. Efficiency options will be consistent with ABC and SBS continuing as distinct corporate entities in public hands and under separate legislation.'

¹ There may be separate consideration of new policy proposals (separate to the national broadcasters' base funding) by the Government in the Budget context. Were any proposals to be approved, they would have the effect of providing additional funding for specific projects. Funding for these additional projects is most commonly required to be offset by the agency or its portfolio.

It is important to note that the review team did not have access to all of the information, plans and reports that would normally be expected in a review of this nature. Not all of the material requested was provided and access to management to enable assessment of that material was often restricted. This was a result of a number of factors including:

1. The ABC and SBS operate under the guidance of independent boards and have no direct obligation to make information available to review teams such as this. Management of both organisations cited concerns about the commercial sensitivity of some of their data and elected not to provide all of the information that was requested of them.
2. The review was conducted during a period of significant change and uncertainty for both the ABC and SBS. During the period of the review the Managing Director of SBS resigned to move to a new role and was replaced by a new Managing Director. At the ABC, the Managing Director and Chairman both left the organisation unexpectedly and were replaced by an Acting Managing Director and Acting Chairman respectively.

As a result, the recommendations of this review have been crafted as high level directional suggestions using examples to support them, rather than specific detailed initiatives.

The recommendations in this review are based on industry data, experience and informed assumptions having regard to specific data from the national broadcasters when available, and discussion of it when possible.

1.2 Review process

Following appointment of the reviewers by the Minister, the Department engaged KordaMentha to provide business efficiency expertise relating to the media and broadcasting sectors and assistance in financial and business systems analysis. The review drew upon submissions to the Inquiry into the Competitive Neutrality of the National Broadcasters (which was underway when this review started) and other publicly available reports and documents of the ABC and SBS. The review team met with ABC and SBS executives on a number of occasions, as well as other industry participants.

Reviews into the efficiency of the national broadcasters have been carried out periodically. Most recently, in 2014, an efficiency study referred to as the Lewis Review provided recommendations setting out how the ABC and SBS could make significant savings without reducing programming or services. Recommendations included modernising business models, outsourcing administrative functions, divesting surplus assets and cooperating on purchasing. The national broadcasters adopted a number of the recommendations, however they have not pursued some opportunities to streamline and modernise operations.

This review was not a detailed assessment of micro-opportunities across all of the ABC and SBS with associated quantified savings. Rather, it focussed on a few examples of higher value opportunities in the major areas of expenditure with an emphasis on the major challenges facing the two organisations now and in the foreseeable future.

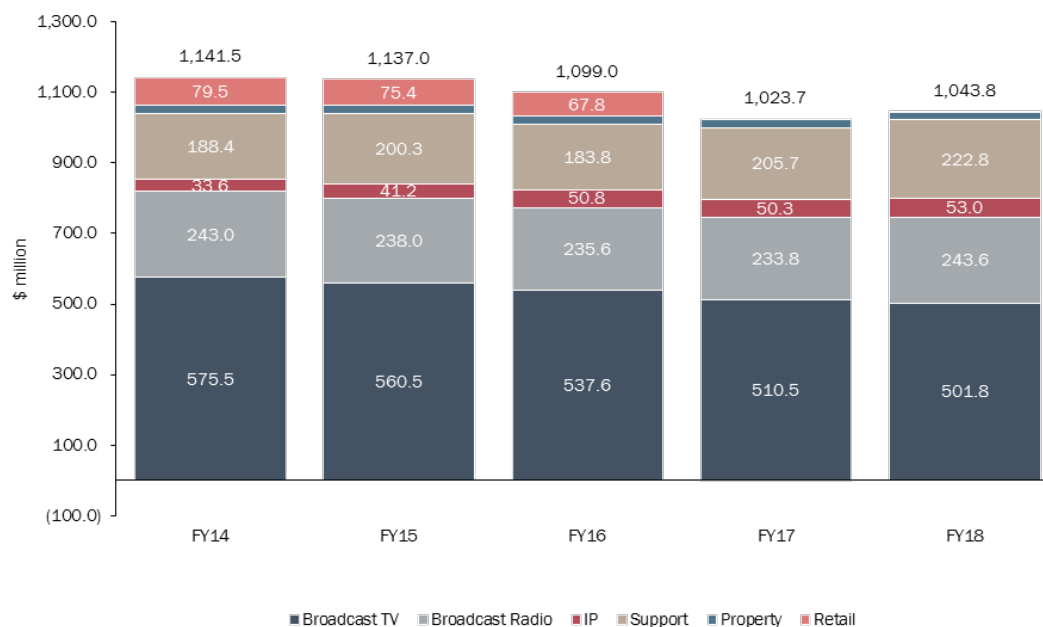
1.3 National broadcasters' current cost positions

The two national broadcasters start from significantly different positions both in relation to the cost pressures they face and their level of success in modernising their organisations.

The ABC operates under a mostly tax payer funded model with 93% of its funding coming from the government. Non-government funding has been declining, driven in large part by the closure of ABC Retail activities.

The ABC's total costs have declined by 2.2% per year over the past five years. Excluding costs relating to retail, total costs declined by 0.4% per year. The majority of cost relates to content and employees. The analysis suggests that there has been a shift in expenditure from broadcast television to IP platforms and support.

Figure 1: ABC costs by platform



Source: ABC

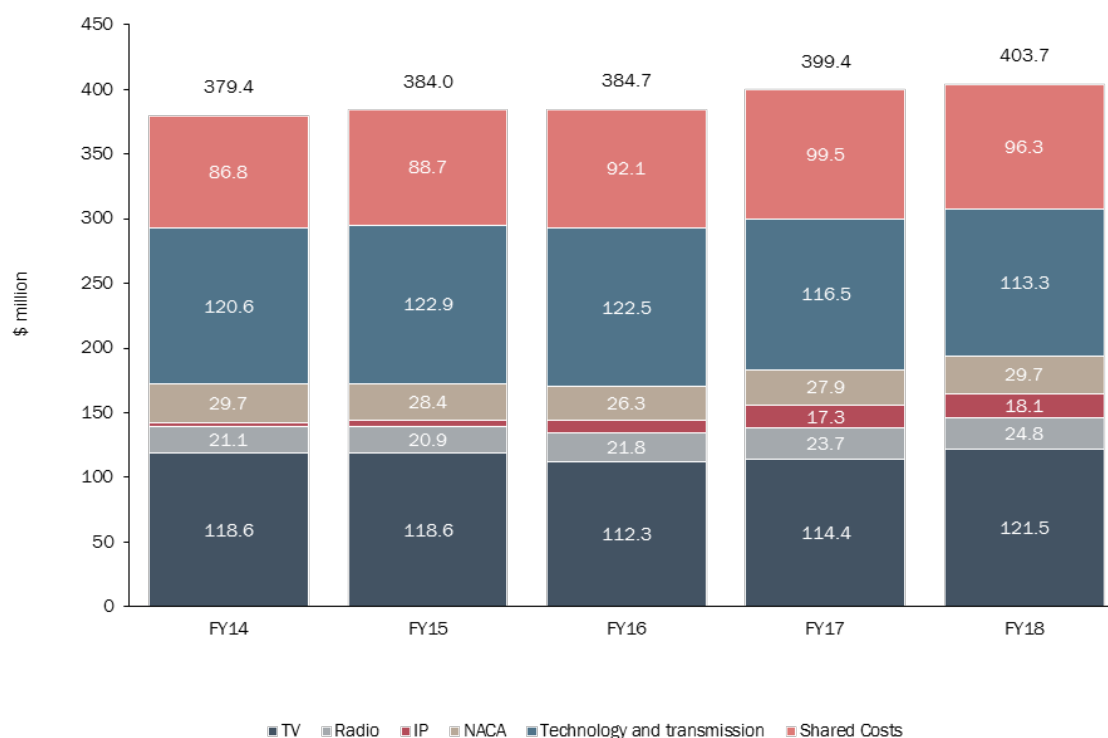
While costs, excluding retail, have declined slightly the reviewers consider that there continue to be opportunities to modernise the operations of the ABC with clear evidence of inefficient practices and opportunities for automation with appropriate investment.

SBS operates under a hybrid funding model based on a combination of government funding and advertising revenues. As advertising revenues have grown, total available funding for SBS has increased.

SBS costs have increased on average by 1.6% per year from \$379.4 million in FY14 to \$403.7 million in FY18. Increased costs have been driven by increased employee expenses associated with IP platforms and radio. Support costs have also increased on average by 2.6% per year.

Notwithstanding the increase in costs, SBS has pursued an aggressive modernisation programme across the organisation.

Figure 2: SBS costs by function



Source: SBS

As the ABC and SBS use different characterisations of costs it is difficult to draw direct comparisons between the two organisations.

1.4 Structure of the following chapters

The remainder of the report is structured in the following way:

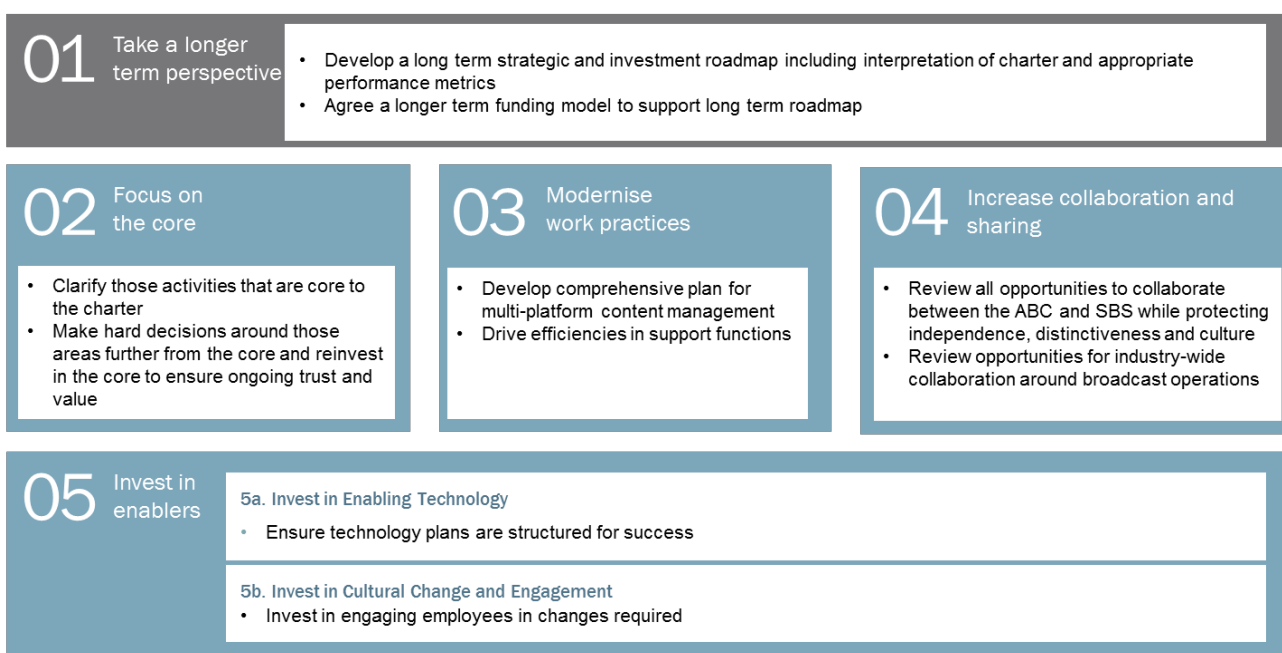
- the first three chapters provide an introduction and background to the ABC and SBS including an overview of the challenges of the environment in which they operate
- chapters 4 to 8 contain more detailed analysis and provide recommendations
- chapter 9 consolidates all recommendations in this report.

The report's aim is to provide a basis for long term strategic thinking about creating a more efficient and collaborative environment that strengthens the identity of the ABC and SBS through a focus on core content and services.

The recommendations should be viewed as part of a broader organisation-wide transformation plan, and not as discreet changes to be implemented independent of each other.

The recommendations are structured around five themes as outlined below.

Figure 3: Structure of the recommendations in this report



Terms of reference

Background

The ABC and SBS are vital public news and cultural institutions that strengthen media diversity and represent a major Commonwealth contribution to civic journalism.

In the fast-evolving world of media organisations, it is important to support the public broadcasters to be the best possible stewards of taxpayer dollars in undertaking their important work for the community.

This review will assist the public broadcasters as they approach the next funding triennium through which more than \$3.9 billion will be provided from July 2019.

This significant financial contribution by the community to the public broadcasters reflects the importance that Australians place on the role of the ABC and SBS in shaping Australia's sense of national identity and informing, entertaining and reflecting the cultural diversity of the community.

The Australian Parliament has ensured that the ABC and SBS enjoy operational and editorial independence, and are responsible for meeting a broad range of requirements under their respective Charters, establishing Acts and other Acts. This legislated independence is the foundation of public broadcasting.

It is important that from time to time all Commonwealth agencies, including the public broadcasters, participate in work that provides advice to government, and respective Boards, on areas where efficiency can be enhanced in the community interest. This was the context of the 2014 ABC and SBS Efficiency Study (the Lewis Review).

The current review will build on the Lewis Review, and is timely given the rapid pace of change in the media sector.

Scope

Mr Peter Tonagh and Mr Richard Bean will conduct a review, assisted by the Department of Communications and the Arts and in cooperation with the ABC and SBS, to examine the efficiency of the operations of the ABC and SBS and provide recommendations on areas where greater efficiencies could be achieved. The Department will engage specialist expertise and advice as required.

The review will examine the current operations of the ABC and SBS, having regard to the findings of the Lewis Review, to make recommendations on areas where greater efficiencies may be achieved. This includes investigating whether greater co-operation, collaboration and sharing of resources by the ABC and SBS would improve efficiency, and the benefits, costs and savings of doing so. It will also identify implementation options to assist the national broadcasters to operationalise the findings of this Review, including to clarify implementation costs.

The Government will not merge or otherwise change the ownership arrangements of the ABC and SBS. Efficiency options will be consistent with ABC and SBS continuing as distinct corporate entities in public hands and under separate legislation.

In response to sector-wide technological developments the review will also explore opportunities for greater efficiency through innovation.

Out of scope

The review will not consider changes to the ABC and SBS Charters. Consistent with the Government's long standing position, the review will also not consider:

- Editorial policies of the national broadcasters
- Allowing advertising on the ABC
- Quality of programs/content delivered by the broadcasters
- Charging for digital services
- Privatisation of the ABC or SBS, nor
- Merger of ABC and SBS.

Timing

The Minister extended the date for completing the review and providing a report to the Minister from October 2018 to 23 November 2018.

Chapter 2: The importance of the national broadcasters to Australian society

2.1 Introduction

The national broadcasters have long played an important role in Australian society. Over the years, their services have evolved significantly, in line with changing technology and changes in media consumption behaviour. The rate of this evolution has been accelerating and the two broadcasters now offer a wide range of services across multiple platforms reaching the vast majority of Australians every week.

Historical importance of the ABC

The Commonwealth passed the Television Act in 1953, opening the way to a new era of broadcast communications. The ABC launched its television services on 5 November 1956 with Channel ABN2-Sydney with presenter Michael Charlton, whose father Conrad had announced the first ABC radio service in 1932. Charlton welcomed viewers and introduced Prime Minister Robert Menzies to officially launch the network. Menzies said:

'It's tremendously important that we should have those things that we regard as almost the special responsibility of a Government station—accurate reporting, objective interpretation and comment, music, drama of the highest quality, a general presentation which, in the broad sense, in a human sense, represents a contribution to the educational standards of the country and will, I believe, strive more and more, year by year to achieve that ideal. This after all, is the great objective of a national television station. I don't mean that it is to be dull. It's quite possible to be amusing, they tell me, without being dull. The record of the ABC already, right around Australia, indicates a high level of capacity for providing what people want. And so, from tonight on, we will have in this city and this territory, in the whole area that is covered by the Station, the opportunity of a choice, the opportunity of following our own fancy, of pursuing our own mood, according to the kind of thing that we want to look at and listen to.'

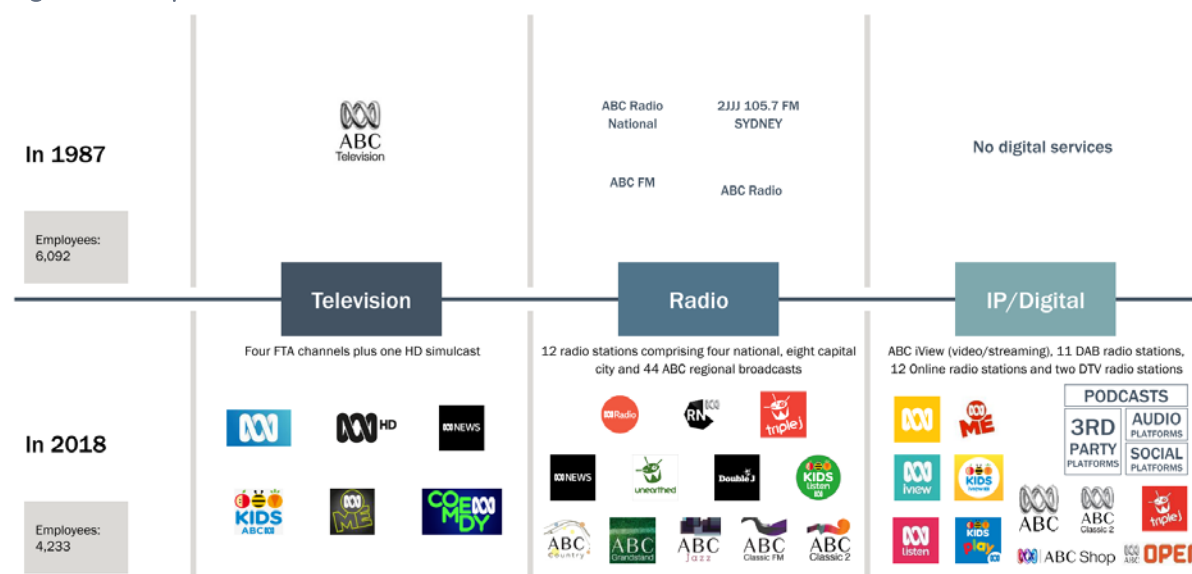
2.2 The ABC

Launched in 1932 as a single radio service, the ABC is now a multi-platform media operation and public broadcaster delivering Australian stories and conversations across the nation and reaching² more than 20 million Australians each month.³ The *Australian Broadcasting Act 1983* (ABC Act) establishes the ABC and includes the ABC's charter in section 6. Since 1987, the ABC has materially increased the number of its television channels, radio stations and digital services.

² The total number of people who have viewed, listened or visited a service over a given time frame. ABC Annual Report 2018 Glossary p. 264

³ ABC Submission to the Competitive Neutrality Inquiry, 2018, p. 12. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Figure 4: Comparison of ABC services over time



Source: KordaMentha analysis based on ABC data

The ABC now operates six national television channels, three national analogue broadcast radio networks, digital radio and online digital services including ABC iView, streaming, ABC News and Current Affairs online, ABC Open, abc.net.au and podcasts.⁴

2.3 SBS

SBS began in 1975 as two ethnic radio stations (2EA in Sydney and 3EA in Melbourne), initially licensed for three months to inform ethnic communities about the Australian Government's plans to change the health system through the introduction of the Medibank scheme. On 1 January 1978, SBS was established under the *Broadcasting and Television Amendment Act 1977*. In 1991, the *Special Broadcasting Service Act 1991* (the SBS Act) established SBS as a corporation and sets out its charter. SBS has a specific cultural remit to provide multicultural and multilingual television, radio and digital media services that inform, educate and entertain all Australians.⁵

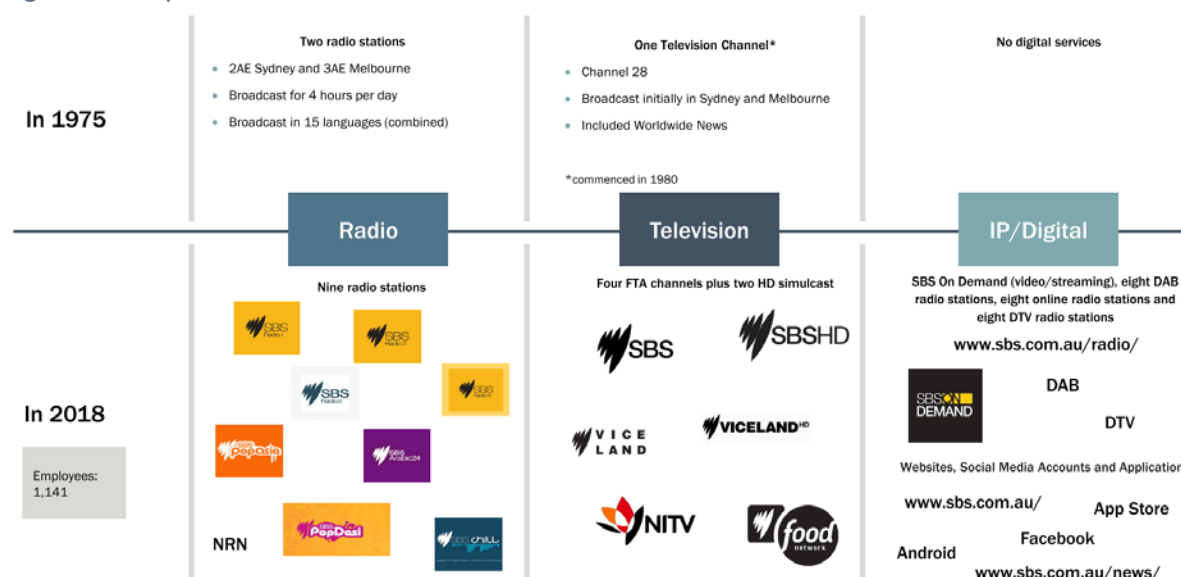
Today SBS reaches over 13 million Australians each month via its television and radio networks which include six television channels and nine radio stations delivered across digital TV, analogue and digital audio, websites and online streaming platforms. SBS's content includes SBS One, SBS Viceland, SBS On Demand, National Indigenous Television (NITV), SBS Food and SBS Radio.⁶

⁴ ABC Submission to the Competitive Neutrality Inquiry, 2018, p. 12: Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

⁵ *Special Broadcasting Service Act 1991*. Available at: <https://www.legislation.gov.au/Details/C2014C00736>

⁶ Australian Government, Portfolio Budget Statements 2018–19. Budget Related Paper No. 1.3, Communications and the Arts Portfolio, p. 285

Figure 5: Comparison of SBS services over time



Source: KordaMentha analysis based on SBS data

SBS states that it aims to create and commission content which ‘informs and promotes understanding among all Australians and maximises opportunities for people from diverse backgrounds to engage in social, political and cultural discourse’.⁷ Across the SBS main channel and Viceland, 41% of programming is in a language other than English⁸ (LOTE), while across SBS Radio 95% of programming is LOTE.⁹

2.4 The charters

Australia’s news and entertainment industries are, like their counterparts all over the world, experiencing disruptive change of unprecedented speed and scale. In these challenging times the role our national broadcasters play in supporting and promoting Australia’s cultural, economic and democratic values and institutions is more important than ever.

Under its charter, the ABC is mandated to provide innovative and comprehensive services which contribute to a sense of national identity, inform, educate, entertain and reflect Australian cultural diversity. The ABC Charter requires it to promote the arts and to broadcast to other countries programs that will encourage awareness and understanding of Australia. The ABC’s guiding legislation safeguards its independence from government to ensure that what is broadcast is free of political interference. 83% of Australians believe that the ABC plays a valuable role in the community.¹⁰

The ABC’s charter was amended in 2013 to include digital media services in response to the 2012 Convergence Review.¹¹ The amendments updated the charters of both national broadcasters to reflect that the ABC and SBS were then ‘at the forefront of Australian media’s transition to a new digital environment and their digital engagement can no longer be regarded as a peripheral activity to their

⁷ SBS Submission to the Competitive Neutrality Inquiry, 2018, p. 20. Available at:

<https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

⁸ SBS, 2017–18 Annual Report, p. 131. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

⁹ SBS, 2017–18 Annual Report, p. 137. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

¹⁰ ABC, Annual Report 2017–18, p. 20. Available at: <https://about.abc.net.au/reports-publications/2017-18-annual-report/>

¹¹ *Broadcasting Legislation Amendment (Convergence Review and Other Measures) Bill 2013*. Available at:

https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r4992.

traditional broadcasting.¹² The ABC was one of the first broadcasters to launch a video on demand platform in Australia.¹³ The ABC launched iview in July 2008, Australia's first high-resolution full-screen online video service.¹⁴

SBS's governing legislation directs it to provide multilingual and multicultural services that reflect and promote Australia's multicultural society. With a highly diverse and rapidly growing population SBS ensures access to trustworthy, informative and unbiased news and information meeting its charter obligations to promote social cohesion in Australia. Settlement programming is an integral part of the service, designed to assist new arrivals adapt to life in Australia. Like the ABC, SBS's charter was amended in 2013 to include the provision of digital media services.¹⁵ SBS On Demand is its main online platform, providing catch-up services and streaming video on demand services.

2.5 Funding the national broadcasters

The Commonwealth provides the national broadcasters with annual budgets that enable them to operate and provide their services. The budgets are currently reviewed on a three-year cycle.

Funding the ABC on a triennial basis (although there is no legislative basis for this arrangement) was a recommendation of the *'Review of National Broadcasting Policy—Discussion Paper: Australian Broadcasting Corporation'* released in February 1988. The then Government subsequently introduced triennial funding in 1988–89, which provided both national broadcasters with agreed indexed base funding for three years. The national broadcasters are required to produce a detailed report outlining how they have expended the funding provided by the Government over the preceding three years.

As referred to in Chapter 1, base funding for the national broadcasters is considered by the Government in the budget context. During a triennium, the national broadcasters may, with approval of the Minister for Communications, come forward with proposals for additional funding, which commonly must be offset from within the portfolio in which the national broadcasters sit. Planning for the next triennium has commenced and will form part of the 2019–2020 Budget considerations.

The ABC received \$1.04 billion (93%) of its funding from government in 2017–18.¹⁶ The ABC also conducts certain business activities which generate own-source revenue in addition to government funding, amounting to \$83.2 million (or 7% of its budget) in 2017–18. In 2017–18, the ABC employed 4,939 people equivalent to 4,233 fulltime employees operating from 71 Australian and 11 international locations.¹⁷

¹² Explanatory Memorandum—Broadcasting Legislation Amendment (Convergence Review and Other Measures) Bill 2013, p. 4. Available at: http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4992_ems_5921e924-1cb5-4c1a-be5a-5d85d54416c0/upload_pdf/378327.pdf;fileType=application%2Fpdf

¹³ ABC Submission to the Competitive Neutrality Inquiry, 2018, Attachment B, p. 87. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

¹⁴ ABC, Annual Report 2008–09, pp. 15, 17. Available at: <https://about.abc.net.au/reports-publications/2008-2009-annual-report/>

¹⁵ Explanatory Memorandum—Broadcasting Legislation Amendment (Convergence Review and Other Measures) Bill 2013, p. 4. Available at: http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4992_ems_5921e924-1cb5-4c1a-be5a-5d85d54416c0/upload_pdf/378327.pdf;fileType=application%2Fpdf

¹⁶ Australian Government, Portfolio Budget Statements 2018–19. Budget Related Paper No. 1.3, Communications and the Arts Portfolio, p. 71. Available at: <https://www.communications.gov.au/who-we-are/departments/budget/2018-19-budget-communications-and-arts-portfolio>

¹⁷ ABC, Annual Report 2017–18, p. 92 and KordaMentha analysis

SBS is a hybrid funded broadcaster, legislation having been enacted over a period of time to allow SBS to generate its own income. The *Broadcasting and Television Amendment Act 1977* permitted program sponsorship with approval of the Minister. This also permitted SBS to charge for the provision of services and facilities, and to sell programs and rights or interests in programs. It was not, however, to generate revenue from commercial advertising.

The *Special Broadcasting Service Act 1991* authorised ‘advertisements or sponsorship announcements’, with the Act prescribing that the advertisements are only to run ‘during periods before programs commence, after programs end or during natural program breaks’. The time limit for these is five minutes per hour, not including station promotional material.

Government funding currently comprises around two thirds of SBS’s operational budget, with the remainder generated through commercial revenue via the sale of goods and services, advertising, sponsorship and rents. The decision by SBS to introduce in-program advertising and including during major events has contributed to their increased revenue.

In 2017–18, \$280.1 million of SBS funding was from government, down from \$281.6 million in 2016–17, and \$124.3 million from advertising and other commercial activities, up from \$115.6 million in 2016–17.¹⁸

SBS is considerably smaller than the ABC, receiving approximately one quarter of the ABC’s funding in 2017–18.¹⁹ The average staffing level for SBS in 2017–18 was 1,154.²⁰

2.6 National broadcasters’ audience share and reach

Both the ABC and SBS reach a significant proportion of Australians each week through their television, radio and online services.

Measurement

The national broadcasters typically measure their audience in two ways. The first one is reach, which is defined by OzTam²¹ as the sum of the number of unique viewers who have seen at least one minute of an event or time band across its total duration.²² The second measure is average hourly audience, which is the average number of viewers across a full hour of viewing.

In Australian media, the reporting of ratings has historically been confined to what is known as ‘5 city metro,’ which includes viewership of the OzTAM panels in the five largest cities (Sydney, Melbourne, Brisbane, Adelaide and Perth). Since the 2010s, it has become more common for television networks to publicly use ‘national ratings’, which combine the 5 city metro audience with ratings from Regional TAM.

¹⁸ SBS, Annual Report 2017–18, p. 97. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

¹⁹ Australian Government, Portfolio Budget Statements 2018–19. Budget Related Paper No. 1.3, Communications and the Arts Portfolio. Figure derived from the ABC (p. 71) and SBS (p. 287). Exact figure: 26.8%

²⁰ Australian Government, Portfolio Budget Statements 2018–19. Budget Related Paper No. 1.3, Communications and the Arts Portfolio, p. 287. Available at: <https://www.communications.gov.au/who-we-are/departments/budget/2018-19-budget-communications-and-arts-portfolio>

²¹ OzTAM is a provider of Television Audience Measurement (TAM) covering Australia’s five mainland metropolitan markets and nationally for subscription television.

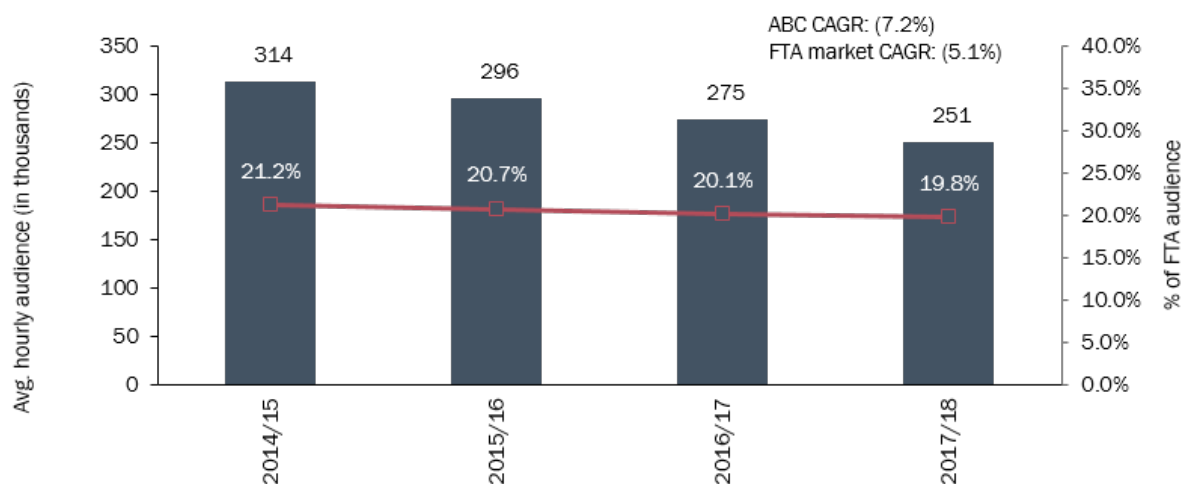
²² OzTAM, Terms and definitions. Available at: <https://oztam.com.au/TermsAndDefinitions.aspx>

2.6.1 The ABC

The ABC's combined national audience reach across television, radio and online was estimated to be 70.2% in 2018, representing an increase of 0.7% compared to the ABC's net reach in 2017 (69.5%).²³

In linear television, the ABC average audience has been declining (see Figure 6 below). While this is an industry-wide trend, the ABC decline has been greater than the average, with a decline in share from 21.2% in 2014–15 to 19.8% in 2017–18. This represents a compound annual growth rate (CAGR) decline of 7.2%, compared to the FTA market CAGR decline of 5.1%, which is shown in Figure 7.

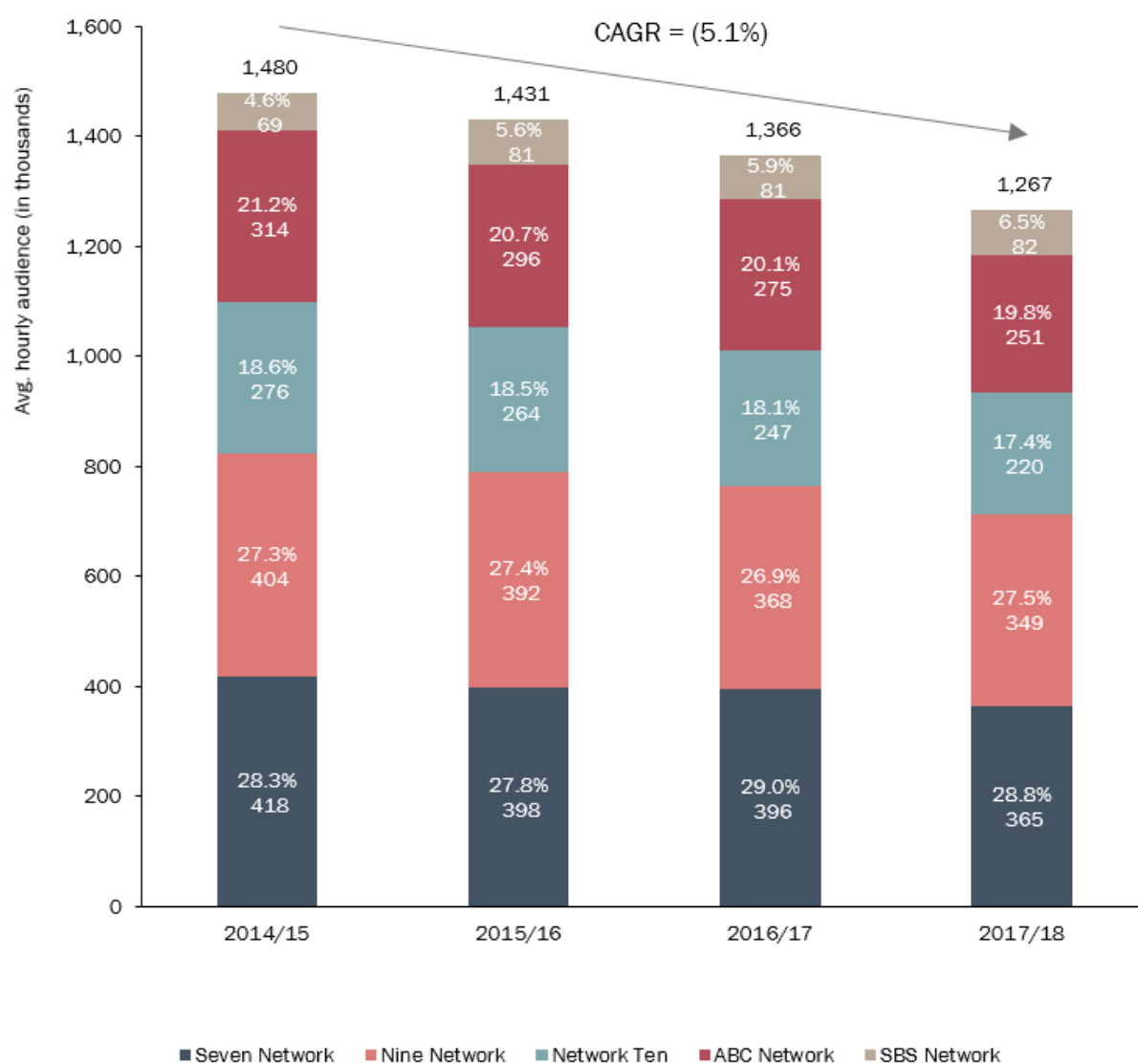
Figure 6: ABC network—average hourly audience (metro). CAGR = (7.2%)



Source: KordaMentha analysis based on OzTAM data

²³ ABC, Annual Report 2017–18, p. 62. Available at: <https://about.abc.net.au/reports-publications/2017-18-annual-report/>

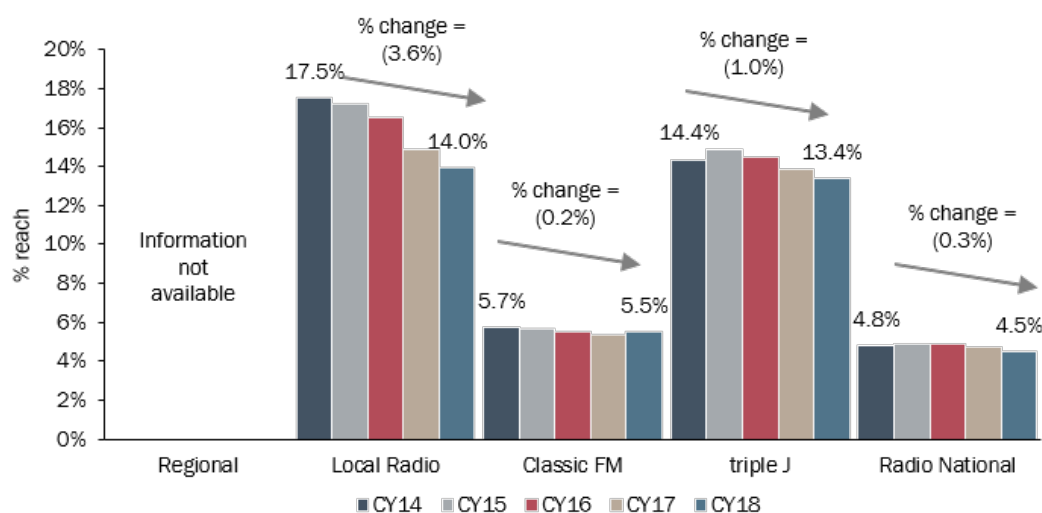
Figure 7: Free-to-air networks—average hourly audience (metro)



Source: KordaMentha analysis based on OzTAM data

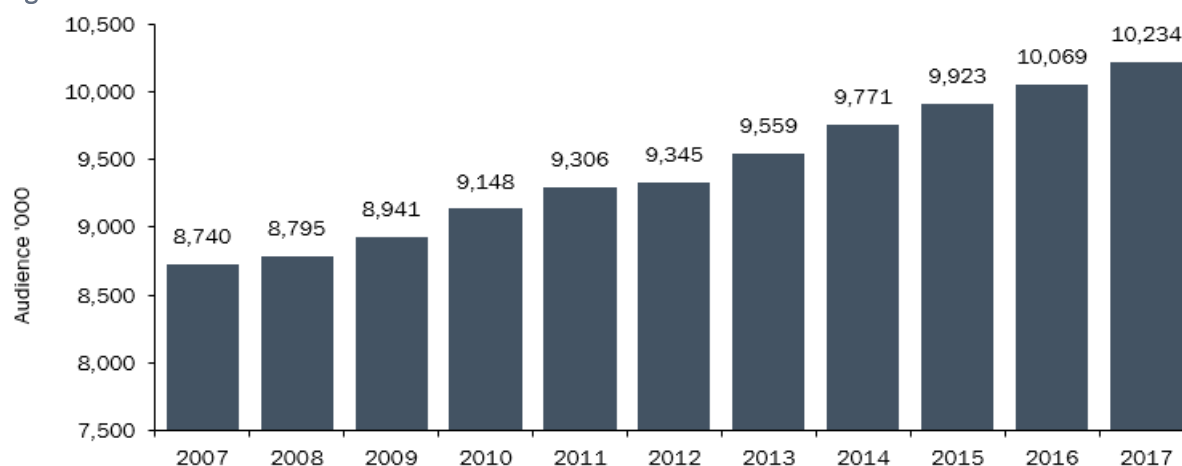
There has been relatively consistent radio consumption from 2014, with the largest decrease in local radio listening (Figure 8 below). This is in contrast to the sector-wide trends which shows an increase in radio consumption driven by the streamed radio and podcasting market (Figure 9 below).

Figure 8: ABC radio—average weekly radio reach % by station (5 city metro)



Source: KordaMetha analysis based on ABC data

Figure 9: Metro commercial radio audience



Source: KordaMetha analysis based on Southern Cross Austereo, FY18 Investor Presentation 23 August 2018.

During 2017–18, the ABC iView's website and apps achieved an average of 3.3 million visitors (up 6% on the previous year) and 19.5 million visits per month (up 7% on the previous year). Program plays increased by 10%, from 52 million per month in 2016–17 to 57 million per month in 2017–18.²⁴ Unlike for TV and radio, there is no universally accepted method of measure for online visitors.

Despite these gains, the digital audience increase is not offsetting the decline in linear TV and radio. While the iView audience has grown with a compound annual growth rate of 23.7% since 2014–15, the time average time spent on iView per month has stayed relatively flat with a compound annual growth rate of -0.3%.²⁵ While no direct comparison between TV, radio and iView is possible, an available interpretation of this data is that the ABC is losing audience share across all of its platforms.

²⁴ ABC, Annual Report 2017–18, p. 71. Available at: <https://about.abc.net.au/reports-publications/2017-18-annual-report/>

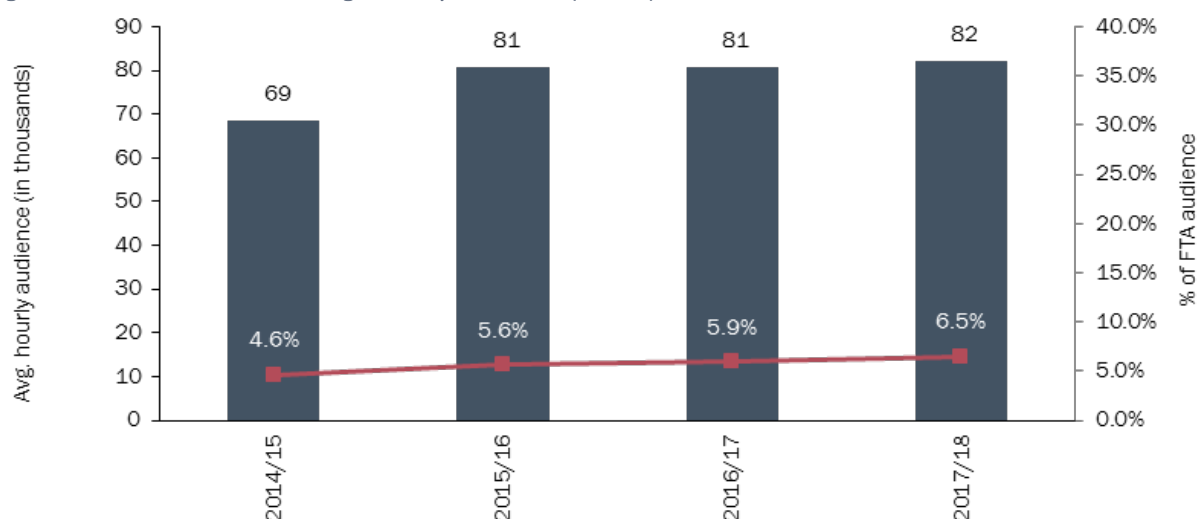
²⁵ KordaMetha analysis of data from Webtrends

2.6.2 SBS

In 2017–18, over 13 million Australians engaged with SBS programs on television each month, slightly down on the 2016–17 results (13.1 million).²⁶

In linear television, SBS is maintaining its average audience (Figure 10 below), driven by major events and programs during 2017–18 including the 2018 World Cup, *The Handmaid's Tale* and *The Ghan*. SBS's average hourly audience increased by approximately 20% (12,000 viewers) between 2014–15 and 2015–16 following the introduction of the Food Network.

Figure 10: SBS network—average hourly audience (metro)



Source: KordaMentha analysis based on OzTAM data

SBS does not use the audience data used by other radio broadcasters (e.g. that provided by market research company GfK) to measure its radio audience, as the majority of its audience speaks a language other than English and the survey is collected in English. Instead, SBS commissions bespoke audience measurement surveys completed by McNair Ingenuity (Yellowsquare) and also utilises unique online audience data for online radio stations. Copies of the Yellowsquare reports for FY14–FY18 were requested but not provided to the review.

SBS digital audiences have been growing strongly. For example, monthly video chapter views on SBS On Demand and sbs.com.au totalled 26.5 million, an 83% increase on 2016–17 (14.5 million),²⁷ noting that this is not a measure of the length of time viewers are engaged.

2.7 Trust in the national broadcasters

The importance of the national broadcasters in Australia is reflected not only in their significant reach but also in the high degree of trust placed in them by Australians. The national broadcasters are highly regarded by the Australian public, with both the ABC and SBS repeatedly scoring highly in independent surveys of trust in institutions. 82% of Australian adults aged 18 to 75 years trust the information that the ABC provides compared to levels of trust recorded for internet search engines (74%), commercial radio (60%), commercial television (58%), newspaper publishers (56%) and Facebook (37%).²⁸

²⁶ SBS, Annual Report 2017–18, p. 150. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

²⁷ SBS, Annual Report 2017–18, p 23. Available at:

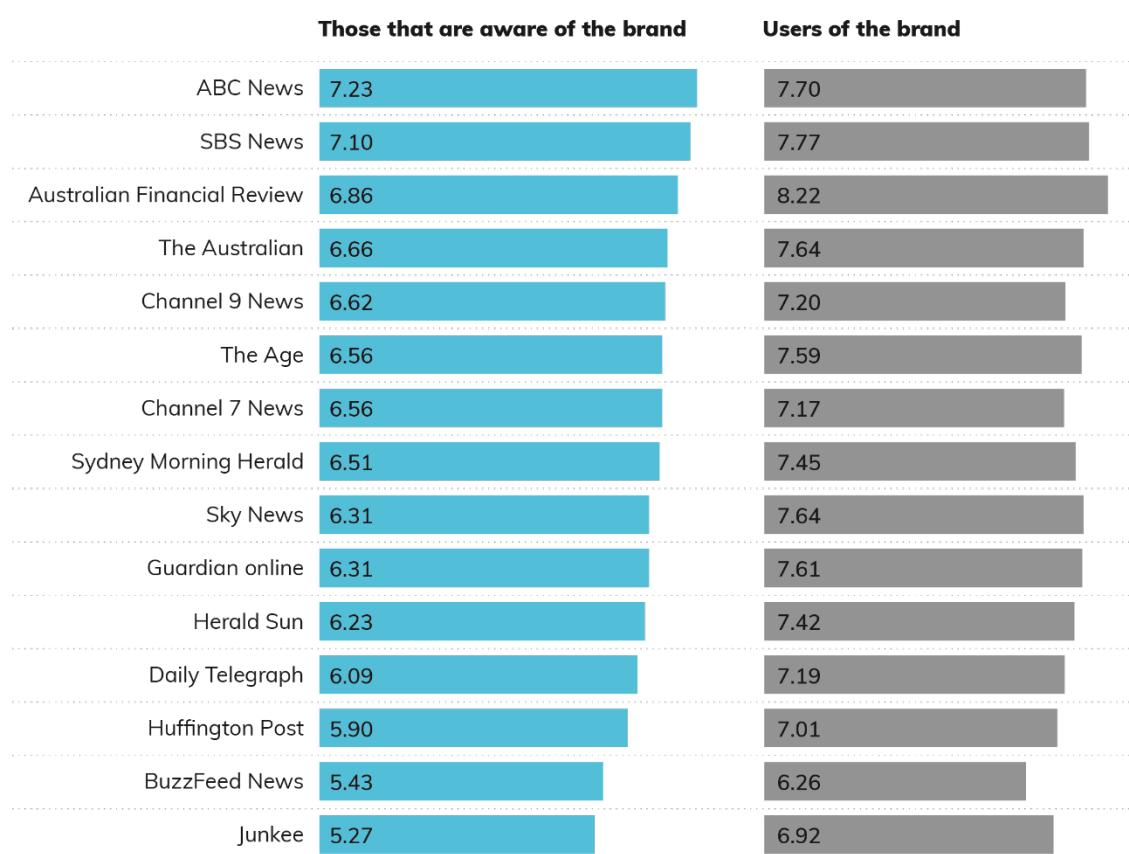
<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

²⁸ PWC, Strategy & Funding and Trust: A review of the future funding requirements of the ABC, p. 13

Globally, audiences view public broadcasters as highly trusted sources of news and current affairs. In the United Kingdom, Germany and Norway, the public broadcasters the BBC, ARD and NRK are the most trusted sources of news content in their countries.

Australians consistently rank the ABC and SBS first and second as the most trusted sources of news and current affairs while the ABC ranks as one of Australia's most highly trusted institutions behind only the Federal Police, State Police and the High Court.²⁹ Despite comparatively high levels of trust there is some indication that trust has declined in recent years (see Chapter 5 for further discussion).

Figure 11: Trust in Australian news brands



Question: how trustworthy would you say news from the following brands is, where 0 is 'not at all trustworthy' and 10 is 'completely trustworthy'?

Source: Reuters Digital News Report 2018³⁰

This trust in the national broadcasters may in part reflect the role they have played in both reflecting and promoting positive societal change. This can be seen in the ABC's deep and continued commitment to investigative journalism and SBS's ongoing commitment to Australia's diverse communities. Recent examples include the *Four Corners* report, *Who Cares*, which shone a spotlight on the failings of the aged care industry and the SBS drama program *Sunshine* depicting Sudanese-Australian communities in Melbourne.

²⁹ PWC, Strategy & Funding and Trust: A review of the future funding requirements of the ABC, p. 13

³⁰ Reuters, Digital News Report 2018. Available at: <http://www.digitalnewsreport.org/survey/2018/australia-2018/>

In its submission to the Competitive Neutrality Inquiry (CNI), the Federation of Ethnic Communities Councils of Australia (FECCA) emphasised the important role played by SBS in servicing the needs of migrant, culturally and linguistically diverse (CALD) communities, refugee, and non-English speaking background Australians.³¹ According to FECCA:

*The continued relevance and importance of SBS is demonstrated by the current social and political climate, noting the recent Scanlon Foundation report Mapping Social Cohesion which highlighted a rise in the proportion of people experiencing discrimination on the basis of skin colour, ethnicity or religion.*³²

88% of SBS audiences say SBS increases social cohesion through telling stories from different perspectives and from different cultures.³³

Working with communities represents a core strategy of both national broadcasters. In March 2017, the ABC announced a significant additional investment in rural and regional Australia through the 'Connecting Communities' package. Connecting Communities provided an extra \$15 million per annum for around 80 new jobs to support audience and content initiatives, with the aim of building the capability of regional teams and increasing the distinctiveness of ABC content. Also provided was a one-off investment of \$4 million for tools and production equipment to facilitate increased volume, quality and diversity of regional stories. A remote communities initiative provides journalists with an opportunity to spend time in rural communities rarely represented in the media, and bring their stories to local and national audiences.³⁴

The 'Inspire Communities' strategy represents SBS's commitment to community engagement, focused around activating, supporting and extending SBS content with key community groups and audiences, partnering with communities to help tell their important stories; and identify industry partnerships that improve the depth and breadth of SBS's community impact and contribute to a cohesive society.³⁵

Some examples highlighting SBS's community engagement initiatives include:

- *SBS's Community and Stakeholder Engagement*: interactive sessions and forums hosted throughout the country providing insights from stakeholders representing CALD and Aboriginal and Torres Strait Islander communities, industry bodies and state government.
- *SBS National Languages Competition*: celebrating a love of learning languages and language retention.
- *SBS Outreach Projects*: The Harmony Art Collective, a partnership between SBS, the Department of Home Affairs and aMBUSH Gallery to unite disadvantaged youth aged 15–24 through visual art.
- *Advancing Community Cohesion Conference*: bringing together more than 250 international and Australian delegates to explore the barriers and challenges to social cohesion.³⁶

³¹ Federation of Ethnic Communities Councils of Australia Submission to Competitive Neutrality Inquiry, 2018, p. 2. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

³² SBS Submission to the Competitive Neutrality Inquiry, 2018, p. 23. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

³³ SBS Submission to the Competitive Neutrality Inquiry, 2018, p. 46. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

³⁴ ABC, Annual Report 2017–18 Vol II, p. 35. Available at: <https://about.abc.net.au/reports-publications/2017-18-annual-report/>

³⁵ SBS, Annual Report 2017–18, p. 9. Available at: <https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

³⁶ SBS, Annual Report 2017–18, pp. 61–62. Available at: <https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

2.8 Conclusion

While the national broadcasters are often the subject of criticism from the public and their competitors, they continue to play a vital role in Australian society. They are the most trusted news brands in Australia and they deliver unique and profound benefits to the Australian community.

Given the position that they hold, it is critically important that the national broadcasters are able to adapt to the changes facing them and Australian broadcasting generally.

Chapter 3: Challenges and responses

3.1 Media environment

The ABC and SBS, like all broadcasters, are participants in an industry in the midst of significant and rapid change—change that has fundamentally and permanently altered the media landscape in Australia and internationally.

Some key changes that have influenced the Australian broadcasting operating environment include:

- technological advancement including widely available high speed internet and a proliferation of new media devices
- fragmented audiences preferring to consume content whenever and wherever they wish
- increased competition for audience, particularly from digital players, and a decline in traditional broadcast audiences
- advertisers following audiences online placing significant pressure on revenue sources for traditional players.

3.1.1 Technology and connectivity

The community has greater access to high speed internet and low cost bandwidth than ever before. In June 2018 there were 14.7 million internet subscribers in Australia. The overwhelming majority of these subscribers had access to internet speeds in excess of 8 Mbps, capable of delivering multiple concurrent standard definition or single high definition quality television streams.³⁷

There has also been a concurrent proliferation of media devices including smart televisions, access devices like Apple TV and Chromecast, and smartphones and tablets which, unlike traditional television sets, can exploit improvements in internet speed and enable access to stream online video content.³⁸

3.1.2 Greater availability and access to online content

The entrance of the FAANGs (Facebook, Amazon Apple, Netflix and Google) in the Australian market has increased competition for audiences and advertising revenues. The rising popularity of over-the-top (OTT) streaming services such as Netflix and Stan has resulted in the migration of some audiences from free-to-air (FTA) television to online content providers.³⁹ According to recent data, over 13 million Australians have access to pay or subscription television. At the end of June 2018, over 9.8 million Australians used Netflix⁴⁰ and over 2 million Australians used Stan.⁴¹ These global businesses have increased audience expectations of content quality and contributed to higher content acquisition costs as competition for content increases.

More people are viewing more video content but broadcast television audiences are declining with audiences moving to online viewing.⁴²

³⁷ Australian Bureau of Statistics, 8153.0—Internet Activity, Australia, June 2018. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8153.0>

³⁸ PwC, Australian Broadcast Media Landscape 2018–2022, pp. 1, 8

³⁹ Australian Communications and Media Authority, Communications report 2016–17, p. 71. Available at: <https://www.acma.gov.au/theACMA/communications-report>

⁴⁰ 3.9 million households.

⁴¹ Roy Morgan, Netflix set to surge beyond 10 million users, 3 August 2018. Available at: <http://www.roymorgan.com/findings/7681-netflix-stan-foxtel-fetch-youtube-amazon-pay-tv-june-2018-201808020452>

⁴² Australian Communications and Media Authority, Communications report 2016–17, p. 72. Available at: <https://www.acma.gov.au/theACMA/communications-report>

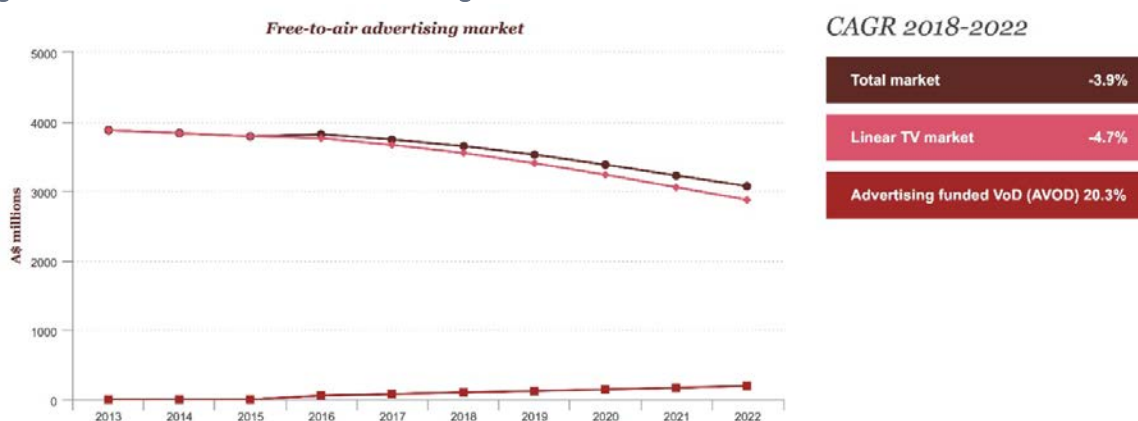
3.1.3 Pressure on traditional players

As a result of these changes, linear television broadcast viewing has declined, particularly among young audiences, and advertising has moved elsewhere.

Commercial FTA television revenues have declined steadily since 2015–16 and are forecast to continue to decline over the next five years (2018–2022) at a negative compound annual growth rate of 3.9% (see Figure 12 below).⁴³ Since 2014, primetime reach to young audiences (18–24 year olds) has declined to 56.5%, while linear viewing by older Australians (65+) remains strong at 93.5%.⁴⁴

The decline in revenue for commercial FTA broadcasters reflects two main trends: first, the migration of audiences to competing media such as online video; and second, the shifting preferences of advertisers to online advertising channels.⁴⁵ These industry trends affect the entire Australian media sector, but particularly the commercial sector which is reliant on audience-driven advertising for the vast majority of its revenue.

Figure 12: Decline in free-to-air advertising market



Source: PwC Australia's Entertainment & Media Outlook 2018–2022

Traditional subscription services have not been immune to the impact of the global online media market. Growth in the subscription video on demand (SVOD) market in Australia has also seen the decline of Foxtel's overall subscriber base.⁴⁶

3.2 Industry responses

Traditional players have had to adapt the content and methods of delivery they offer and reduce their costs to remain competitive. International and digital market participants actively compete with Australia's national and commercial broadcasters not only for audiences (and advertising revenue) but also for content. As a result, traditional media players in Australia have:

- shifted content investment toward live, reality and sports programming
- pursued new revenue streams in other areas
- increased their focus on cost efficiency, and
- sought opportunities for industry collaboration.

⁴³ PwC, Australia's Entertainment & Media Outlook 2018–2022

⁴⁴ PwC, Australian Broadcast Media Landscape 2018–2022, p. 14

⁴⁵ PwC, Australian Broadcast Media Landscape 2018–2022, pp. 1, 9

⁴⁶ PwC, Subscription Television: Australian Broadcast Media Landscape 2018–2022

Commercial broadcasters, whose revenues have declined in a way that the funding of the national broadcasters has not, have faced this challenge head on. The emphasis of their programming investments has shifted towards favouring live viewing, where linear audiences remain relatively more resilient, to meet the shrinking overall advertising market. The pressure on FTA broadcasters has had some noticeable consequences, for example the proposed merger of Fairfax Media and Nine Entertainment Co and the administration of Network 10 in 2017.

In its submission to the Competitive Neutrality Inquiry (CNI), Free TV Australia noted that:

[The] explosion in competition for viewers is delivering exceptional choice for consumers, but is also very challenging for the traditional free-to-air TV sector. Audiences are fragmenting, advertising revenues are declining and consumers are quickly forming new viewing habits.⁴⁷

Free TV highlighted various responses that commercial broadcasters have made to remain competitive, including:

- Reducing operational costs.
- Re-negotiating sports rights, which has resulted in more sharing of rights with non-FTA television players (such as Fox Sports) and significant sports rights changing hands (such as cricket moving from Nine Entertainment Co to Seven West Media/Fox Sports, the Australian Open moving from Seven West Media to Nine Entertainment Co, and the Melbourne Cup moving from Seven West Media to Network Ten).
- Diversifying income streams via investments in growth businesses with less exposure to advertising revenues. For example, investments in business-to-consumer businesses such as subscription Video on Demand, and non-media businesses.
- Improving measurement of audiences, including increasing audience measurement body OzTAM's panel size and the introduction of reporting on advertising video on demand (AVOD) audiences in addition to terrestrial audiences in order to provide more precise audience information to potential advertisers.
- Jointly investing in marketing, via new industry body Think TV, to promote television advertising.⁴⁸

Some of the actions taken by commercial broadcasters to lower their costs can serve as useful examples for the national broadcasters.

3.3 Challenges for the national broadcasters

The ABC recently noted:

The growth of the internet, smartphones and tablet use, and the rise of digital giants (such as Google, Facebook and Netflix) has significantly changed audience behaviours and expectations. Old boundaries between traditional markets and platforms have been blurred, and, in many ways, content markets are now global... The ABC has not been immune from these new dynamics. It too has faced challenges to adapt to remain relevant, meet audience expectations, deliver on its legislative Charter, and continue to offer taxpayers value for money.⁴⁹

Australia's national broadcasters face challenges both common to all media organisations in the changing market and also particular to them by virtue of their government funding, public accountabilities, and unique audience expectations.

⁴⁷ Free TV Submission to the Competitive Neutrality Inquiry, 2018, p. 18. Available at:

<https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

⁴⁸ PwC, Australian Broadcast Media Landscape 2018–2022, p. 2

⁴⁹ ABC Submission to the Competitive Neutrality Inquiry, 2018, p. 4: Available at:

<https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Both the ABC and SBS have changed the services they offer and the ways they offer them to maintain trust relevance as audience behaviours change.

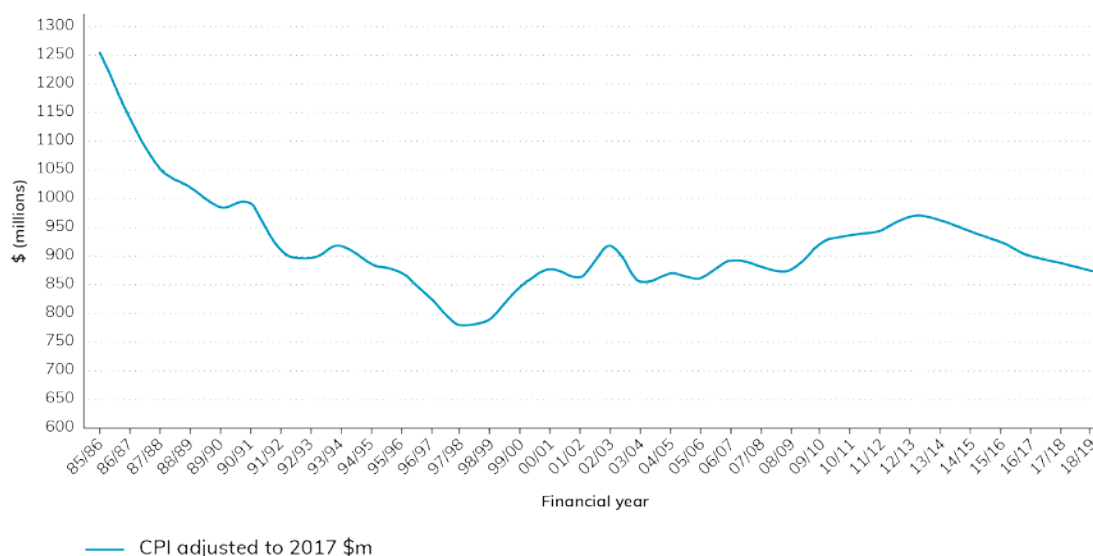
They have done this through investment in new services such as SBS On Demand, ABC iview, digital radio services, podcasts, websites and digital apps. In order to meet these objectives while operating within fixed government funding, they have sought to reduce costs and redirect resources.

Unlike commercial broadcasters, the national broadcasters are required by their legislation to provide free and universally available services. They are, therefore, not always at liberty to adjust their services or reduce offerings to the Australian public in order to redirect funding to, for example, diversifying digital services to better meet audience demands.

Over the last 30 years the ABC has materially increased the number of television channels from one to four (plus HD), radio stations to 56 and added digital service offerings, including on-demand platforms, podcasts and radio streaming. Total expenditure on broadcast TV content has reduced by an average of 3.4% per annum over the last five years.⁵⁰ The ABC has undergone significant consolidation of its back-end services over the last decade, resulting in staffing cuts. Since 2008 the ABC has reduced its full time equivalent staff by almost 400, the major cuts following the Lewis Review.

The diagram below depicts the trajectory of the ABC's funding over the last 30 years, in real terms and adjusted to 2017 levels. The steep decline in the 1990s can be partially attributed to inflation rates. The level of ABC funding has remained relatively stable in the last two decades.

Figure 13: ABC historical funding diagram



Source: ABC. Note: this is operational funding and excludes funding for transmission.

Despite efforts by the ABC, the organisation continues to be reliant on outdated, often end-of-life systems and inefficient processes to support them. This is reflected in 34% of assets currently being end-of-life leading to concerns as to ongoing reliability on many platforms. There is a clear need for short term investment in modernising systems to drive longer term efficiency and ensure reliability.

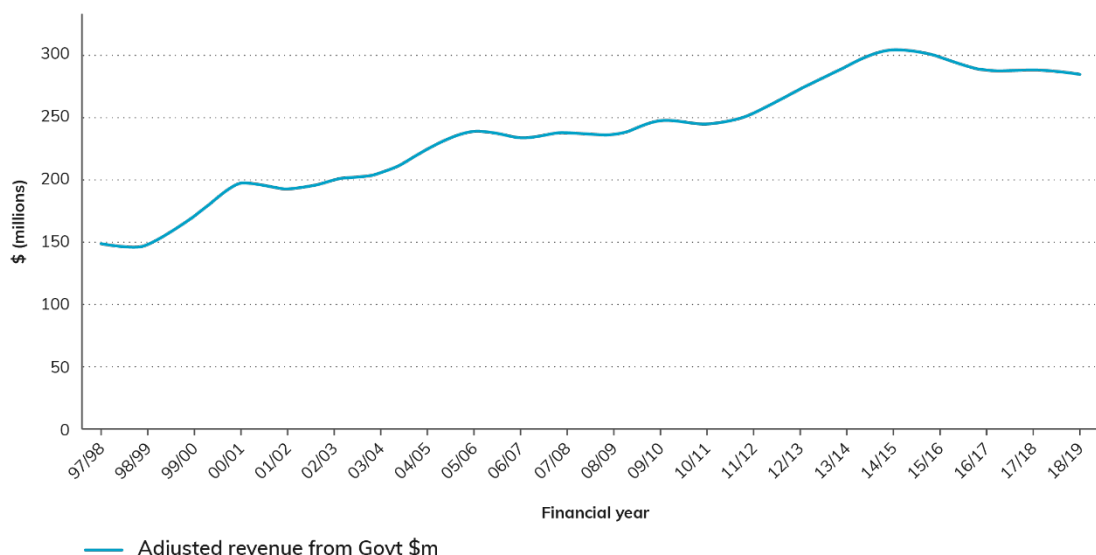
The reviewers were not provided with any plans for this investment and it appears that there is a lack of alignment in the organisation around the scope and investment required.

⁵⁰ KordaMentha analysis

SBS has also materially increased the number of its television channels from one to four (plus HD) including the adoption of National Indigenous Television (NITV) and has allocated significantly increased resources to news and radio in Languages other than English (LOTE). Since 2016, SBS full time equivalent (FTE) staff numbers have increased by 140.

The figure below shows a steady increase in SBS revenue in recent decades.

Figure 14: SBS historical funding diagram



Source: SBS Annual Reports

In some important areas SBS provides a distinct counterpoint to the experience at the ABC. SBS has undergone a significant modernisation and change management process in recent years. For example, it has invested in a new media asset management system which has resulted in materially more efficient in work practices

During this period SBS has developed a positive, engaged culture and a clear sense of organisational direction. A 2017 employee opinion survey showed that 78% of SBS employees had a favourable response to their workplace, a measure placing it in the top quartile of Australian and New Zealand benchmark data.⁵¹

In summary, the challenge for the national broadcasters in the current environment is threefold:

1. The ABC and SBS must operate within limited, relatively inflexible budgets.
2. They must invest in new technologies to modernise production and distribution, pursue new digital services and meet audience expectations. This is a particular challenge for the ABC.
3. Their ability to remove existing services to fund new services is limited due to legislation and community expectations.

In order to successfully overcome these challenges, it is more important than ever that the national broadcasters operate as efficiently as possible and reinvest savings into future projects and content.

There is opportunity for the boards and senior management of the ABC and SBS to respond to the challenges facing the national broadcasters by leading substantive and meaningful change, creating lean and efficient organisations to the benefit of their staff and the Australian public.

⁵¹ KordaMentha analysis

Chapter 4: Take a longer term perspective

4.1 Introduction

Taking a long term perspective is challenging for any organisation operating in a fast changing environment.

Nevertheless, long term strategic planning is necessary to guide investment and funding decisions, motivate and inspire staff, manage external stakeholders and plan for and execute the changes that will be required if the challenges of the future are to be met. The process provides an opportunity to draw out scenarios and alternative futures, and discussing these things naturally leads to decisions about where an organisation's focus should and should not be.

This chapter will set out the planning and performance measurement processes the national broadcasters currently employ, provide an assessment of whether these processes are operating effectively and include recommendations about how they could be improved.

It is particularly important to take a look at the national broadcasters' planning processes for three reasons.

1. Significant investment decisions will be required in the near future to support modernisation of technology and operations and these decisions will have long term implications. For example, any expenditure on the modernisation of broadcast operations technologies requires assumptions about a long term future delivery model (for example, terrestrial broadcast vs IP delivery).
2. It is likely that the ABC will require one off funding in the short term and that the benefits will be realised only in the longer term. A clear view of the intended planning trajectory and expected benefits will be required to justify this funding. For example, the ABC is likely to require funding support for its modernisation investments and any funding request should be justified with a clear case for return on investment.
3. Continuous transformation will be required to adapt to the changing environment and ongoing change will only be achievable if all involved understand, accept and support it. This will require a clear and compelling articulation of the medium to long term future.

Long term planning will give the national broadcasters a strong basis on which to make investment decisions, manage community expectations, motivate staff and respond to challenges from commercial industry or the government of the day. The benefits of long term planning for public sector organisations are enhanced when planning and objectives are publicly available and understood by the wider community.

4.2 Current planning model

Each of the national broadcasters has an existing framework which guides its planning and reporting. The existing formal planning and accountability model is summarised below.

1. Charters—set out in governing legislation.
2. Corporate plans—four-yearly corporate plans are required under the ABC and SBS Acts, and the Public Governance, Performance and Accountability Act 2013 (the PGPA Act).⁵²
3. Annual reports required under section 46 of the PGPA Act and the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).⁵³
4. Public appearances at Senate Estimates Hearings three times a year.

⁵² *Public Governance, Performance and Accountability Act 2013*. Available at: <https://www.legislation.gov.au/Details/C2013A00123>

⁵³ *Public Governance, Performance and Accountability Rule 2014*. Available at: <https://www.finance.gov.au/resource-management/pgpa-rule/16E/>

4.2.1 Charters

The ABC and SBS are guided by their respective charters (which are provided in [Appendix A](#)). These charters are contained in the ABC Act and SBS Act which have been in place since 1983 and 1991 respectively, with the only significant change being the additional mandate to provide digital media services in 2013.

The ABC Charter specifies that a function of the ABC is to provide ‘innovative and comprehensive broadcasting services of a high standard as part of the Australian broadcasting system’.⁵⁴ This includes broadcasting programs ‘that contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community’, as well as those of an educational nature.⁵⁵ The Charter also specifies that the ABC is to provide digital media services,⁵⁶ and ‘encourage and promote the musical, dramatic and other performing arts in Australia’.⁵⁷ The Charter refers to the need of the ABC to provide a balance between broadcasting programs of wide appeal and broadcasting specialised programs.⁵⁸

The SBS Charter states that the ‘principal function of the SBS is to provide multilingual and multicultural radio, television and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia’s multicultural society’.⁵⁹ The Charter also imposes a range of other functions on SBS, including that it ‘contribute to meeting the communications needs of Australia’s multicultural society’,⁶⁰ and ‘promote understanding and acceptance of the cultural, linguistic and ethnic diversity of the Australian people’.⁶¹

4.2.2 Corporate plans

The PGPA Act (section 35(1))⁶² requires the accountable authority of a Commonwealth entity to prepare a corporate plan each year. The PGPA Rule⁶³ requires a minimum four year outlook, however, it does not preclude an entity from producing a corporate plan that covers a longer period if it is suitable for an entity’s specific requirements.

The minimum content requirements for corporate plans are set out in section 16E of the PGPA Rule. A corporate plan must include the:

- purposes of the entity
- broader environment within which the entity works

⁵⁴ *Australian Broadcasting Corporation Act 1983*, section 6(1)(a). Available at: <https://www.legislation.gov.au/Details/C2013C00136>.

⁵⁵ *Australian Broadcasting Corporation Act 1983*, section 6(1)(a)(i) and (ii). Available at: <https://www.legislation.gov.au/Details/C2013C00136>.

⁵⁶ *Australian Broadcasting Corporation Act 1983*, section 6(1)(ba). Available at: <https://www.legislation.gov.au/Details/C2013C00136>.

⁵⁷ *Australian Broadcasting Corporation Act 1983*, section 6(1)(c). Available at: <https://www.legislation.gov.au/Details/C2013C00136>.

⁵⁸ *Australian Broadcasting Corporation Act 1983*, section 6(2)(a)(iii). Available at: <https://www.legislation.gov.au/Details/C2013C00136>.

⁵⁹ *Special Broadcasting Service Act 1991*, section 6(1). Available at: <https://www.legislation.gov.au/Details/C2014C00736>.

⁶⁰ *Special Broadcasting Service Act 1991*, section 6(2)(a). Available at: <https://www.legislation.gov.au/Details/C2014C00736>.

⁶¹ *Special Broadcasting Service Act 1991*, section 6(2)(c). Available at: <https://www.legislation.gov.au/Details/C2014C00736>.

⁶² *Public Governance, Performance and Accountability Act 2013*, section 35(1). Available at: <https://www.legislation.gov.au/Details/C2013A00123>.

⁶³ *Public Governance, Performance and Accountability Rule 2014*, section 16E. Available at: <https://www.finance.gov.au/resource-management/pgpa-rule/16E/>.

- planned performance of the entity, including details of the methodology, data and information that it will use to measure and assess its performance
- capability of the entity, including the plans and strategies it will implement to achieve its purposes
- entity's risk oversight and management systems.⁶⁴

In addition to the PGPA Act, the SBS Act also describes what must be included in SBS's corporate plan.

Section 48 of the SBS Act defines matters to be included in corporate plans:

- (a) outline the overall strategies and policies that the SBS and its subsidiaries are to follow:
 - (i) to achieve the objectives of the SBS; and
 - (ii) to fulfil the SBS's principal and subsidiary functions; and
 - (iii) to ensure that the Board performs its role under paragraph 9(b) and fulfils its duties under section 10; and
- (b) include a forecast of the revenue and expenditure of the SBS and its subsidiaries, including a forecast of capital expenditure and borrowings; and
- (c) set out any measures that the Board proposes to adopt (in addition to receiving advice from the Community Advisory Committee) to ensure that it is aware of, and responsive to, community needs and opinions (including the needs and opinions of small or newly arrived ethnic groups) on matters relevant to the Charter; and
- (d) include such other matters as are prescribed.⁶⁵

The SBS Corporate Plan for 2017–18 includes reference to five elements of its strategic priorities:

1. distinctive content
2. digital acceleration
3. inspiring communities
4. great business
5. great people, great culture.

In addition to the PGPA Act, the ABC Act also describes what must be included in the corporate plan. The ABC Corporate Plan must be prepared annually. The plan must:

- (a) outline the overall strategies and policies that the Corporation and its subsidiaries are to follow to ensure that the Board fulfils its duties under section 8; and
- (b) include a forecast of the revenue and expenditure of the Corporation and its subsidiaries, including a forecast of capital expenditure and borrowings; and
- (c) include such other matters as are prescribed in the regulations made for the purposes of this Act.⁶⁶

⁶⁴ Department of Finance, Corporate plans for Commonwealth entities Resource Management Guide No. 132, January 2017. Available at: https://www.finance.gov.au/sites/default/files/RMG_132_Corporate_plans_for_%20Commonwealth_entities_30Jan17_0.pdf

⁶⁵ *Special Broadcasting Service Act 1991*, section 48. Available at: <https://www.legislation.gov.au/Details/C2014C00736>.

⁶⁶ *Australian Broadcasting Corporation Act 1983*, section 31B. Available at: <https://www.legislation.gov.au/Details/C2013C00136>

4.2.3 Accountability and performance reporting

4.2.3.1 Annual report

Both the ABC and SBS produce Annual Reports, which are an important mechanism to report retrospectively against the objectives of the previous year.

Requirements for Annual Reports and what they should include are set out in Section 46 of the PGPA Act and the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). For the ABC, this includes, for example, reporting on the amount of local content on television and radio.

4.2.3.2 Senate Estimates

Both the ABC and SBS are accountable to Parliament through public Senate Estimates hearings and can be compelled to explain decisions about activities and expenditure at these hearings. The managing directors and other senior managers appear before Senate Estimates three times a year and Senators have the opportunity to scrutinise the organisations' funding, content and other decisions.

4.2.4 Informal planning

In addition to their publicly available formal planning architecture, both organisations undertake internal planning and strategy activities.

SBS provided the review team with a clear high-level articulation of its four-year 'Strategic Journey' which included a clear purpose, five strategic pillars (areas of focus) and a clear set of organisational values. It is clear from discussions with SBS staff that this 'Strategic Journey' is well understood by staff and that it provides an unusually high level of alignment and cohesion throughout the organisation. This alignment contributes to the agility of SBS, its willingness to embrace change and the high engagement scores of staff within the organisation. This is dealt with further in Chapter 8 (Invest in enablers).

The ABC did not provide the review with a similar perspective on future strategy. Reference was made to work underway on 'Project Jetstream', but that this work is not complete and it is unclear whether this project is supported by the organisation following recent management and board changes. Discussions with ABC management did reveal a clear concern about lack of investment in both the maintenance and upgrade of existing technologies ('stay on air' investments) and the technologies required to modernise the organisation.

In 2018, the ABC introduced annual public meetings to allow the ABC board and management to engage directly with the public about current and future activities. The meeting aims to communicate with industry, stakeholders and practitioners in the media industry.⁶⁷

The ABC reports regularly on levels of trust within the community and conducts audience insights research and analysis to allow tracking of audience needs and preferences.

The ABC has also committed to develop a Content Plan that will be revised and published annually. According to the ABC:

The Content Plan will:

- *indicate to the public and the market the ABC's creative vision;*
- *communicate the standard and expectation of creative quality that audiences should expect from the ABC; and*
- *clearly define how the ABC will execute on its plans to continue meeting its charter obligations.*

⁶⁷ ABC Supplementary Submission to the Competitive Neutrality Inquiry, 2018, p. 16. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Publishing the Content Plan will improve the level of transparency and the ABC's accountability. In particular, this will provide more forward notice to the market about the ABC's future activities and may have the additional benefit of promoting competition and certainty in the market as content creators and producers will be in a better position to scale their businesses up and down based on the expected pipeline and focus of future ABC activities. The commitment to revise the plan each year will ensure that it remains relevant.⁶⁸

The review strongly supports the Content Plan initiative.

Lessons from international broadcasters

While there are many differences between the BBC in the UK and Australia's national broadcasters, not least the BBC's enviable level of funding, the review found recent changes to the planning and accountability methods adopted by the BBC and its regulator, Ofcom, to be of interest.

There are some elements of the BBC's reformed strategic forward planning and performance reporting architecture that would both benefit Australia's national broadcasters own planning and reporting systems and support them to more effectively demonstrate their value to the government and the Australian public.

The BBC has undergone a period of significant review and change in recent years. Most significant is the BBC Charter Review which included the Review of Governance and Regulation by Sir David Clementi in 2016 (Clementi Review).

Following the Clementi Review, the BBC now publishes in advance an annual plan for each financial year.⁶⁹ Among other things, the annual plan includes the BBC's creative remit and work plan for the coming year, along with proposals for how it will comply with its general duties including measurable criteria to assess compliance with the published plan.⁷⁰ Performance against these criteria is reported in the Annual Report.

Reforms to the BBC's legislation introduced a new regulatory regime through Ofcom while also enshrining the BBC's independence. They also provide a process for the BBC to develop a forward-looking plan which sets out clearly how the BBC will operate over a 10 year period. Further, the legislation gives Ofcom the responsibility to hold the BBC accountable to its 10 year plan. The first Ofcom report on the BBC's implementation of the plan will occur in mid-2019.

The BBC has adopted a process of outlining five 'Public Purposes' that expand on its high level mission statement. The BBC's five public purposes support the delivery of its core mission to inform, educate and entertain. The five public purposes are set out by the Royal Charter and Agreement, the constitutional basis for the BBC as presented to Parliament. These include statements such as 'the BBC should help everyone learn about different subjects in ways they will find accessible, engaging, inspiring and challenging'.

See also [Appendix B](#) for an overview and comparison of Australian, UK and Canadian public broadcaster frameworks.

⁶⁸ ABC Supplementary Submission to the Competitive Neutrality Inquiry, 2018, p. 16. Available: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

⁶⁹ BBC Charter, article 36(1) and (3). Available at: https://www.bbc.co.uk/bbctrust/governance/regulatory_framework/charter_agreement.html

⁷⁰ BBC Charter, article 36(2); the BBC Annual Plan 2018/19 includes sections on the BBC's creative remit (p. 7), market impact (p. 51) and general duties in relation to commercial activities (p. 55)

4.3 Commentary

The ABC and SBS fulfil all of their legal obligations to produce corporate plans and annual reports, as well as electing to produce further strategy documents to communicate with staff, government and the wider community. Despite this, the review found that there is insufficient strategic planning and performance data produced by the national broadcasters to allow those interested to engage in a meaningful and informed way.

While meeting legislative requirements for planning and reporting, the national broadcasters should approach their strategic and performance architecture in terms of what staff, managers, audiences, government and external content creators need.

This section provides some analysis of the current system in order to identify where improvement is possible.

4.3.1 Charters

Changing the charters is outside the scope of this review. The charters are necessarily broad and appropriately open to interpretation. This has allowed them to be enduring and adaptable over decades with only very minor changes. They are not intended to and do not provide the level of clarity required for them to be used directly as planning tools. Neither do they easily lend themselves to measurable accountability. As a result, there is often debate (both internal and external) about whether particular strategies, activities or content are ‘on-charter’, causing unhelpful distraction to the day-to-day focus of the organisations.

The charters of the ABC and SBS ([Appendix A](#)) as articulated in their respective Acts are too broad to effectively guide investment and measure performance—they are not intended to and it is not appropriate that they should, on their own, serve those purposes. However, it would be helpful to have the charters more effectively linked with the corporate plans’ goals, measurement and accountability.

The national broadcasters have sought to clarify the remit of their charters, for example in their Annual Reports and the ABC’s *Investing in Audiences Strategy* in March 2017. This is one of the ABC’s principal strategies for meeting its charter obligations, and it has more recently commenced the development of a content strategy. However, public interpretations of the charters in the broadcasters’ planning documents are fragmented and less useful than they could be.

4.3.2 Forward planning

Each organisation presented this review with its own version of a long term plan, but neither the ABC’s nor SBS’s plan was sufficiently granular to support long term planning or investment decision making.

The ABC and SBS currently publish public reports which contain mostly general comments on the broadcasting industry and high level statements about what they intend to do over the planning period, but little by way of measurable goals. By contrast the BBC and the Canadian Broadcasting Corporation publish detailed documents that set out the activities they intend to undertake and the financial forecasts associated with them (see [Appendix B](#) for comparisons of the accountability documents prepared by international and Australian broadcasters).

While the ABC Corporate Plan aims to provide a four-year forward view that articulates strategy and key performance indicators, in its current form the Corporate Plans provide insufficient guidance for the investment horizon or projections of likely future circumstances. One possible consequence is the apparent lack of sufficient ‘maintenance capital’ investment over many years—34% of the ABC’s asset base is currently (FY18) at end-of-life, increasing to 68% by FY23, with 80% of this asset base within the

content production and distribution areas.⁷¹ This has resulted in concerns about the short-term reliability of content delivery.

Neither the ABC nor SBS appears to have formal plans that extend beyond a high level four year outlook. While senior managers expressed views on many long term issues during discussions with the review team, for example maintenance capital, the future of linear channels and the role of outsourcing some activities, no consistent organisation-wide view on these issues was provided to this review and it is apparent that prioritisation of activities remains challenging.

4.3.3 Performance reporting

Best practice performance reporting requires detailed, objective and clearly defined performance measures that are linked to goals in the short, medium and long term with progress toward them tracked periodically.

The ABC's 2018–19 Corporate Plan contains 24 Key Performance Indicators (KPIs) to measure performance under four pillars. These measures deal with the quantity of Australian content, quality of content, trust, user experience, reach, access and availability, and corporate culture (see below).

Figure 15: The ABC's performance reporting

Pillar	Performance areas (no. KPIs)
1. Creating distinctive content that matters for all Australians	Australian content (5) Quality (3) Trust (1)
2. Providing an outstanding audience experience	Experience and value (2)
3. Delivering programs that reach and engage with more people	Reach (6) Access (4) Availability (2)
4. Building a great place to work	Culture (1)

Source: ABC Corporate Plan 2018–19, part 5

SBS's 2018–19 Corporate Plan outlines 11 KPIs to assess performance against four 'significant activities'. The KPIs cover matters such as the amount of programming, first-run programming, transmission and support expenditure as a percentage of total expenditure, population reach and service standards. The four activities and the number of KPIs are as follows.

Figure 16: SBS's performance reporting

Activity	No. KPIs
1. Content creation, acquisition and curation	4
2. Content broadcast, technology and transmission	4
3. Content commercialisation	1
4. Content support activities	2

Source: SBS Corporate Plan 2018–19, pp. 17–25

While both plans go some way toward articulating performance metrics, the regular measurement and transparent analysis of success or failure is critical to ensuring success.

⁷¹ PwC, Report for ABC on Funding and Trust, p. 33

In its supplementary submission to the CNI, the ABC indicated it is open to methods of improving the Annual Report process in order 'to communicate important metrics and performance indicators to the broader market.'⁷² The review strongly supports this commitment by the ABC.

The ABC and SBS's Annual Reports provide performance data against the metrics set in the previous Corporate Plan. Greater publicly available analysis and accountability where a metric is not achieved would provide insight for the public and the broadcasters into how they could improve performance and where their strategies need to be adjusted.

4.3.4 The current funding mechanism

The ABC and SBS receive funding allocations from the Commonwealth via a triennial (three year) funding mechanism. The next triennium is due to commence in 2019–20.

Three years is not long enough to support long term planning.

This lack of certainty about funding of upcoming projects over a longer investment horizon presents a profound challenge for the national broadcasters, especially during a period in which the ABC in particular is likely to require funding to support a major modernisation project for which the benefits will likely be realised over a longer period.

The short term nature of the funding allocation also creates challenges in terms of the independence of the national broadcasters through the creation of a perception that funding could be a lever used by government to influence them.

4.4 Recommendations

There is scope for our national broadcasters to improve their forward planning, performance measurement and reporting, and for the Government to implement an improved funding model which would enable a longer planning horizon.

The absence of detailed published planning and performance measurement materials from the national broadcasters results in a lack of transparency, hampering useful scrutiny by the public and government. There are limits to the level of transparency that an organisation can accommodate, particularly in relation to the financial and commercial information of partners, but there is undoubtedly scope for the national broadcasters to more actively make strategic, planning and performance information publicly available.

A potential long term strategic performance model might look similar to the framework outlined in the next section.

The diagram below illustrates how current processes might be transformed to drive improvement.

⁷² ABC Supplementary Submission to the Competitive Neutrality Inquiry, 2018, p. 16. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Figure 17: Recommended changes to the current planning and accountability framework

	From	To
Charter interpretation	<ul style="list-style-type: none"> No public statement of priorities and charter interpretation. 	<ul style="list-style-type: none"> Public statement of charter interpretation.
Long term planning and deliverables	<ul style="list-style-type: none"> No public long term planning. 	<ul style="list-style-type: none"> High level 10 year strategic roadmap to guide the investment decisions and focus of the organisations.
Medium term (1–4 year) planning and deliverables	<ul style="list-style-type: none"> Four yearly Corporate Planning process. Annual Reporting and Senate Estimates Hearings. 	<ul style="list-style-type: none"> Four year plan reflecting the objectives of the 10 year strategic roadmap. Annual statement of deliverables for the next 12 months. Annual Reporting maps performance against deliverables.
Performance measures	<ul style="list-style-type: none"> ABC and SBS currently publish KPIs that tend to reflect the status quo. 	<ul style="list-style-type: none"> Set KPIs across all planning levels, but with a particular focus on the medium term plan and annual deliverables.
Funding model	<ul style="list-style-type: none"> Three year funding through the triennium process. 	<ul style="list-style-type: none"> 10 year funding envelope allowing flexibility between years.

The review does not support additional reporting without a clear improvement in the efficiency of the national broadcasters and benefit to the public, nor does it endorse the addition of layers of bureaucracy that slow their flexibility and adaptability. Where an existing planning, strategy or reporting process can be incorporated into, adapted, or reasonably substituted for an element of the proposed structure, that should be done.

In addition, the review does not support the implementation of any measures that would limit the broadcasters' independence.

The implementation of the elements of this proposal will be a matter for the national broadcasters' boards and management.

4.4.1 Charter interpretation

The national broadcasters should each prepare and publish a document that sets out its interpretation of its charter and how it intends to fulfil the obligations expressed in that interpretation.

The 'statement of charter interpretation' would assist the national broadcasters to set priorities and guide swift and transparent differentiation between peripheral and core activities. The statement would also inform business plans for any proposed new services and activities. The statement should explain each charter-related function that the broadcaster intends to perform, why each function is important or valuable to the Australian public and the rationale that supports the direction proposed.

This statement would set out:

- services and content the national broadcasters consider to be central to meeting their charter obligations
- services and content they consider necessary to support charter obligations
- services and content that are peripheral to, or outside their charters, but are pursued for well-articulated reasons.

By way of example, the statement might describe core functions such as:

- providing accurate and unbiased news and current affairs
- telling authentic Australian stories through locally produced drama, comedy and documentaries
- being the home of children's content for Australian families.

The statement would provide direction for long and medium term planning and form the basis for operational goals and performance metrics. It would therefore need to be explicit enough that compliance with it could be measured, but also capable of being relevant in the medium term so that it can be updated every four years, with a 10 year outlook in harmony with the wider corporate planning architecture.

It should demonstrate a clear intention to promote innovation as well as maintain emphasis on current core functions that continue to serve the Australian public well.

As the media landscape continues to be influenced by market and technological change, this document will evolve to assist the national broadcasters to stay relevant and at the forefront of modern broadcasting.

As this occurs, the broadcasters should take the opportunity to transparently present changes to their charter interpretation, including outlining what impact changes will have on their functions and Australia's wider broadcasting sector. The rationale for any changes should be well and publicly articulated.

By way of example, the former Managing Director of SBS, Mr Michael Ebeid appeared before the Senate Estimates Hearing on 24 October 2017 and stated that:

[O]ur strategy to acquire small amounts of general interest English-language titles and movies that do have a broad appeal is to attract a new audience so that we can cross-promote our SBS charter aligned content with the aim of having a bigger impact. That strategy has been working for SBS for many years and suddenly some are criticising SBS for doing this in the online space, driven solely by reasons of self-interest.⁷³

This statement provided important context for SBS's decision-making regarding the acquisition of some content that might not be considered central to its charter.

Recommendation 1

The ABC and SBS should develop a public 'statement of charter interpretation' to:

- assist the national broadcasters to set priorities and guide swift and transparent differentiation between peripheral and core activities
- inform business plans for any proposed new services and activities and set out the rationale that supports the direction proposed
- explain each charter-related function that the broadcaster intends to perform, and why each function is important or valuable to the Australian public
- provide direction for long and medium term planning and form the basis for operational goals and performance metrics
- promote innovation as well as maintain emphasis on current core functions that continue to serve the Australian public well.

⁷³ Environment and Communications Legislation Committee Estimates, 24 October 2017, Communications and the Arts Portfolio, Special Broadcasting Service Corporation. Available at: <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22committees/estimate/2442658e-e00e-4e98-98d9-107cc097660b/0000%22>

4.4.2 Effective forward planning

4.4.2.1 Long term—10 years

A long term strategic roadmap would guide the investment decisions and long term focus of the organisations.

The ABC and SBS should each prepare a long term (10 year) roadmap that is rolled forward and reviewed every four years to maintain relevance in light of market developments. This would provide guidance to the organisation, the public, the government and to the content community on what activities the national broadcasters intend to (or not) undertake over the next decade. The roadmap would be supported by high level financial forecasts.

The roadmap would be adaptable and subject to change and its creation should be seen as an inclusive process by which the organisations can align their staff, prioritise and justify new investments, promote efficiency and be held accountable for strategic goals.

The roadmap should be closely aligned with the charter interpretation and develop a series of objectives and high level strategies for how these objectives will be achieved, including cost of implementation and funding options. The plan would provide a framework for how decisions can be evaluated against the organisations' objectives.

The plan should also include detailed information on what type of content the broadcasters consider to be central to meeting their charter obligations, and any content that will no longer be produced or broadcast.

Strategic objectives would be more specific, quantifiable and actionable than the functions outlined in the statement of charter interpretation. For example, if one of the elements of the statement is a commitment to high quality Australian drama, the roadmap would identify the intended expenditure on Australian drama in coming years.

Equally, the roadmap would highlight expectations of changes to delivery technologies over the planning period.

The strategic roadmap should be the vehicle by which the organisations ensure that they adequately plan for reinvestment in capital equipment and present funding plans for investment needs, for example when short term investment is required to deliver longer term benefits.

Articulating a long term vision in a strategic roadmap is also a critical tool to create an organisational culture in which people feel engaged and that their efforts are contributing to a positive direction. A high level of employee engagement is associated with workplaces where staff understand and believe in the purpose of the organisation, understand the role that they play in helping to achieve that purpose, know what is required of them, have the capabilities necessary to make any changes required and see the benefits for them in embracing that change. This is discussed in further detail in Chapter 8.

4.4.2.2 Medium term—4 years

The next level of strategic planning should build on the existing Corporate Plans and further refine the goals and objectives outlined in the 10 year roadmap through the preparation of an annual plan. That plan would detail deliverables over the first 12 months and forecasts over a further three years, at a higher level but including initiatives that might take several years to implement.

The plan should include:

1. the strategic objectives outlined in the long term roadmap
2. discussion of the challenges expected in reaching each of these objectives and an outline of the activities to be undertaken to achieve them
3. financial forecasts and performance indicators
4. assessment of the previous year's performance including which goals were met and which were not.

The plan would be revised annually to reflect changing market conditions and include a discussion of which goals have changed and why. This document could be modelled on the annual plan prepared by the BBC.

The reviewers welcome the ABC's commitment to introducing an Annual Content Plan and expect it will align closely with the objectives of this medium term business plan.

Recommendation 2

The ABC and SBS should develop a long term (10 year) strategic roadmap to guide investment decisions and focus of the organisations.

Recommendation 3

The ABC and SBS should adapt the PGPA mandated corporate plan to provide a medium term (1–4 year) detailed business plan including detailed annual deliverables.

4.4.3 Accountability and performance reporting

KPIs are a very common way of measuring and assessing performance, but whatever type of articulated goal is used, it must be sufficiently specific, measurable, and capable of being acted on and achieved over the forecast period. The KPIs currently published by the ABC and SBS typically refer to the 'status quo', for example percentage of population served or service uptime which has not changed in many years.

To allow progress toward strategic goals and other commitments to be objectively measured, the ABC and SBS should develop a series of performance measures that will allow the public to understand what they plan to achieve and determine whether they have been successful in meeting those objectives.

The KPIs should be specific and include measures of success for the achievement of objectives (e.g. programming and content objectives, efficiency metrics, progress on modernisation initiatives) but also measure the desired behaviours to achieve these. For example, growth in audience reach alone is an insufficient measure of meeting audience goals if time spent viewing is reducing.

Ofcom (the BBC's regulator) publishes a very prescriptive set of KPIs and quotas specifying the amount and type of content to be broadcast. The review does not recommend following this example. It would be appropriate for the ABC and SBS to set their own KPIs with an emphasis on transparent outcome-based measures.

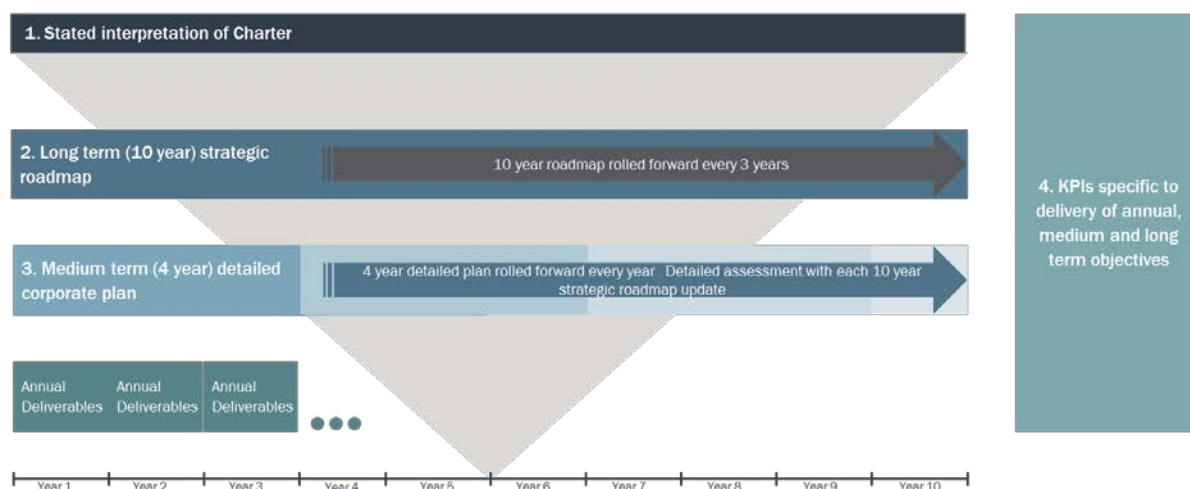
Recommendation 4

The ABC and SBS should attach clear and detailed performance indicators to one, four and ten year forward plans to track progress toward strategic and operational goals.

The following diagram sets out a scheme for the proposed reporting architecture.

Figure 18: Long term perspective—planning and performance model for the ABC and SBS

Long-term perspective building blocks



4.4.4 Funding certainty

The review recommends that the Government consider a longer term, ideally 10 year, funding model (aligning with the recommended strategic planning architecture), to provide greater certainty over the investment horizon and to allow for both more efficient allocation of capital and better decision making by the national broadcasters.

The funding mechanism should support the ten year plan and allow for funding for near term investment that will deliver longer term benefits provided that those investments deliver appropriate savings (or other suitable return on investment) in future years.

Recommendation 5

The Government should introduce a 10 year funding model to provide greater certainty over a 10 year forward planning horizon.

Chapter 5: Focus on the core

5.1 Introduction

Over the past two decades the national broadcasters have significantly expanded the range of content and services they offer Australian audiences. More content has been made available over more delivery methods, including an increased number of linear TV channels, more radio stations and new digital services.

Impressively, this expansion has occurred largely within existing funding, through efficiencies and, in the case of SBS, increased advertising revenues.

However, in an environment of funding constraints, more pressure on costs and the need for further investment, there are risks associated with sustaining the existing set of content and delivery channels. These include fragmentation and a decline in the quality and consistency of that content that sits at the core of the purpose and value of both the ABC and SBS.

Internationally, there has been a movement to consolidation as broadcasters recognise the need to protect and build their position with audiences rather than see it dissipate with fragmentation of purpose and budgets.

To ensure the national broadcasters maintain their very strong position of value and trust with Australians, the review considers that two actions are required.

1. A review of content to ensure that expenditure is focused on those areas that are 'core' to the fulfilment of charter obligations and, where necessary, investment is redirected from content that is further from the core.
2. A review of delivery channels to ensure that sufficient funding is available to support the growth of appropriately focussed digital delivery methods, as audiences continue to shift their viewing behaviour with greater choice of platforms and devices.

The review finds that, in the longer term, between **\$80 million and \$115 million per annum could be found for reinvestment** in core content and digital delivery infrastructure if these actions were taken. In addition, a minimum of **\$45 million** in content and resourcing would also be diverted from existing multi-channels to reconfigured ABC and SBS main channels and IP platforms.

Achieving this level of change is likely to take a number of years as it is in part dependent on continued evolution of consumer behaviour and renegotiation or expiry of a number of current contracts.

5.2 Growth in services in recent decades

The ABC and SBS have, over the past 20 years, significantly increased the scope of their services to the Australian public. Figure 4 on page 19 shows the substantial increase in the services provided by the ABC between 1987 and 2018, particularly in digital services (which did not exist in 1987). Similarly, Figure 5 on page 20 shows the growth in services provided by SBS since 1975.

The level of growth has occurred in response to audience demand and technological change and, importantly, these services have been introduced through efficiencies in other parts of the organisations with little or no additional funding.

The ABC received no additional funding for the creation of its News channel, and SBS received no additional funding for its introduction of the Food channel or the Viceland channel.

Expanding the number and type of digital services offered to audiences has been critical to the development of both national broadcasters and the reviewers do not support some recent commentary that the national broadcasters should not be delivering digital services.

Delivering unique ABC and SBS content to consumers in the way in which they expect to consume their content is vital to the ongoing relevance of the national broadcasters.

Moreover, the important role of the ABC and SBS in innovation is reflected both in their original charters and in the amendments to those charters in 2013 to include the provision of digital media services.

These updates were made to reflect that the ABC and SBS are ‘at the forefront of Australian media’s transition to a new digital environment and their digital engagement can no longer be regarded as a peripheral activity to their traditional broadcasting.’⁷⁴

The ABC:

*...strives to be at the forefront of media changes to remain a trusted source of Australian conversations, cultures and stories. In circumstances where audiences are increasingly consuming content online, the ABC seeks to ensure that its publicly-funded content is accessible by all Australians.*⁷⁵

SBS has also referred to the need for it to offer a variety of services on multiple platforms:

Like all domestic media operators, SBS anticipates that the external market environment within which it operates will continue to change significantly.

As a small operator, platform content distribution is crucial to SBS’s success in audience content discovery and consumption...

*SBS will also need to continue to commit to acquiring or commissioning even more distinctive content to appeal to, be relevant to, and inspire the communities that it seeks to serve...*⁷⁶

There is no doubt that change will continue and it is essential that the ABC and SBS continue to adapt to that change through innovation in both content and delivery.

5.3 The challenge of expanded services

While the broadcasters have, to date, been able to pay for their expansion within existing funding, this will become increasingly challenging. There are five main reasons for this.

1. Funding is finite, with the government indicating a freeze on indexation for the ABC.
2. Fragmentation of audiences is accompanied by increased costs as the rights to distribute across multiple platforms must be acquired to meet audience expectations.
3. ‘Low hanging’ efficiencies have already been realised in many areas with further savings likely to be reliant on more substantial change.

⁷⁴ Explanatory Memorandum—Broadcasting Legislation Amendment (Convergence Review and Other Measures) Bill 2013, p. 4. Available at:

http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4992_ems_5921e924-1cb5-4c1a-be5a-5d85d54416c0/upload_pdf/378327.pdf;fileType=application%2Fpdf

⁷⁵ ABC Submission to the Competitive Neutrality Inquiry, 2018, p. 19. Available at:

<https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

⁷⁶ SBS Submission to the Competitive Neutrality Inquiry, 2018, p. 105. Available at:

<https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

4. Further investment is required to support digital delivery methods.
5. Audiences continue to shift to digital delivery channels which incur variable transmission cost increases while the fixed costs of traditional channels remain.

Of particular concern is the risk that fragmentation of budgets will result in a decline in the quality and consistency of activities central to charter and that the high value and trust accorded the national broadcasters will suffer accordingly.

Indeed, throughout the review concerns such as ‘we have already cut that area to the bone’, ‘we can’t deliver a quality service if we don’t have more budget’ or ‘our spend on X is now so small that it is nearly irrelevant’ were expressed.

There has been much public commentary about cuts to some programming considered by many as ‘core’ to the ABC. In addition, while trust in the ABC is high compared to other organisations,⁷⁷ there has been some indication that trust has declined in recent years. For example, one survey shows that trust in ABC TV news and current affairs has declined from a high of 74% in June 2012⁷⁸ to 62% in October 2018.⁷⁹

The review does not assert a direct link between these observations and a fragmentation of expenditure. However, it recommends that consideration be given to identifying services that are at the heart of the national broadcasters’ role and purpose, protecting funding for them and, if necessary, augmenting that funding by eliminating other activities.

It is clear that a unique challenge for the national broadcasters is that it can be extremely difficult for them to remove services once they have been introduced, even if those services are only valued by a very small audience. This is especially the case for longstanding services. Some choices, however, would not be so difficult to make.

Two examples of services the ABC as previously decided to cease offering are its physical and online retail stores and its shortwave radio services.

⁷⁷ See, for example, Roy Morgan, ‘ABC most trusted | Facebook most distrusted’, 26 June 2018. Available at: <http://www.roymorgan.com/findings/7641-media-net-trust-june-2018-201806260239> and ‘ALDI, Bunnings, Qantas and ABC the Most Trusted Brands in Australia’, 27 August 2018. Available at: <http://www.roymorgan.com/findings/7709-roy-morgan-annual-net-trust-score-review-august-2018-201808272319>

⁷⁸ Essential Report, Trust in Media, 25 June 2012. Available at: <https://www.essentialvision.com.au/trust-in-media-5>

⁷⁹ Essential Report, Trust in Media, 9 October 2018. Available at: <https://www.essentialvision.com.au/trust-in-media-14>. Trust in commercial TV news and current affairs has been lower, but relatively stable over the same period.

Closure of the ABC's physical and online retail stores

During the 2014–15 financial year, the ABC Board resolved to gradually close the ABC's 50 ABC Shops, with the last shop closing on 31 March 2016. The ABC shifted the focus of its retail model from a bricks and mortar operation to the ABC Shop Online and an expanded network of ABC Centres (licensed ABC franchises within existing retailers).⁸⁰

At the time of the closures, the ABC reported:

In 1981, the ABC opened its first standalone shop in Hobart. Over the following decades, the ABC Shop network became the public face of the ABC and a touchpoint for ABC audiences around Australia. At its peak, the physical shop network served more than 10 million customers each year and generated profits that were returned to the ABC for investment in content making.

*Revenues from the network began to slide from 2011–12 with the decline in demand for product formats such as DVD and CD. Customers were increasingly purchasing books, CDs and DVDs online and accessing content digitally through online subscription, download and streaming services. While the adoption of strategies to improve performance and efficiency had some limited success, ultimately these strategies and further reviews of the business were unable to find a path to sustained profitability for the ABC Shops.*⁸¹

About 300 ABC staff were made redundant as a result of the closures.⁸² It has been estimated that the stores cost approximately \$75 million per year.

The ABC Shop Online diversified away from DVDs, and experienced growth across the audiobook, book, music and toy categories. This was supported by strong ABC product releases and an affiliate agreement with The Wiggles Shop.⁸³

However, faced with continued strong competition, in August 2018, the ABC announced a proposal to close the ABC Shop Online and the in-store ABC Centres by the end of 2018 (there were 41 ABC Centres as at 30 June 2018,⁸⁴ down from 201 as at 30 June 2017⁸⁵). The ABC anticipated 16 redundancies as a result. The ABC stated:

*This proposal directly responds to the changing market, in particular consumers' shift to digital delivery of audio and visual content. Coupled with the intensifying global competition affecting the entire retail sector, the resulting decline in physical sales means the retail business is becoming increasingly unviable.*⁸⁶

⁸⁰ ABC, Annual Report 2015–16, p. 74. Available at: <https://about.abc.net.au/reports-publications/2015-2016-annual-report/>

⁸¹ ABC, Annual Report 2015–16, p. 74. Available at: <https://about.abc.net.au/reports-publications/2015-2016-annual-report/>

⁸² ABC, Annual Report 2015–16 p. 74. Available at: <https://about.abc.net.au/reports-publications/2015-2016-annual-report/>

⁸³ ABC, Annual Report 2016–17: Volume 1, p. 80. Available at: <https://about.abc.net.au/reports-publications/2016-17-annual-report/>

⁸⁴ ABC, Annual Report 2017–18: Volume 2, p. 26. Available at: <https://about.abc.net.au/reports-publications/2017-18-annual-report/>

⁸⁵ ABC, Annual Report 2016–17: Volume 1, p. 81. Available at: <https://about.abc.net.au/reports-publications/2016-17-annual-report/>

⁸⁶ ABC Commercial, Announcement on retail activity, 15 August 2018. Available at: <http://about.abc.net.au/statements/abc-commercial-announcement-on-retail-activity/>

Closure of the ABC's shortwave radio services

The ABC ended its shortwave radio services in the Northern Territory and to international audiences from 31 January 2017. This followed the cessation of its shortwave services in Western Australia and Queensland in the 1990s.⁸⁷

Shortwave radio is used for broadcasting radio communications over long distances.

The ABC had operated three domestic shortwave services in the Northern Territory since 1985 and an international shortwave service since the 1930s.⁸⁸ At the time of their closure, the services in the Northern Territory broadcast the proximate local radio service, while the international service broadcast Radio Australia in multiple languages to Papua New Guinea and the Pacific.

When announcing the closure, the ABC stated:

While this technology has served audiences well for many decades, it is nearly a century old.

The ABC's audiences are increasingly using digital devices as access to shortwave sets is difficult due to prohibitive cost. In addition, using the technology is complicated, for example, frequencies change from day to night.

Following the end of the Australia Network contract in 2014, and the ABC's new international strategy, the ABC believes that funds applied to this legacy technology can be better invested in new content and FM transmission services.

*The ABC believes that technological advancement has improved accessibility of FM services, particularly via mobile phone, negating the impact of no longer offering shortwave.*⁸⁹

The ABC stated that the closure 'will potentially allow for \$1.9 million to be reinvested in expanded content and services' and indicated that no jobs would be lost as result of the decision.⁹⁰

While the ABC had strong grounds for its decision, it faced criticism from those who relied on the services and from others who felt they should remain, including for failing to adequately consult before making its decision.

5.4 Experience of other broadcasters

Refocussing of efforts is increasingly common in the local and global media environments. Major players are adopting a 'fewer, bigger, better' approach to their portfolios in the belief that a focus on distinctive, brand-aligned content is critical to survival as proliferation of content and platforms continues.

One example of this is shown in reports that the BBC is planning to reduce its online services in an attempt to make its content easier to find, and to concentrate on eight key areas.⁹¹

⁸⁷ Senate Environment and Communications Legislation Committee, Report on the Australian Broadcasting Corporation Amendment (Restoring Shortwave Radio) Bill 2017, August 2017, p. 3. Available at: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Shortwaveradio/Report

⁸⁸ ABC, ABC Exits Shortwave Radio Transmission, 6 December 2016. Available at: <http://about.abc.net.au/press-releases/shortwave-radio/>

⁸⁹ ABC, ABC Exits Shortwave Radio Transmission, 6 December 2016. Available at: <http://about.abc.net.au/press-releases/shortwave-radio/>

⁹⁰ ABC, ABC Exits Shortwave Radio Transmission, 6 December 2016. Available at: <http://about.abc.net.au/press-releases/shortwave-radio/>

⁹¹ PC Magazine, Report: BBC Cutting Back on Online Services to Fight Netflix, 11 September 2018. Available at: <https://uk.pcmag.com/bbc-iplayer/117334/report-bbc-cutting-back-on-online-services-to-fight-netflix>

Streamlining of the BBC's online services

In September 2018 it was reported that the BBC was planning to streamline its online presence to focus on eight core services: iPlayer; news; music and spoken word; weather; sport; children's content; BBC Bitesize (which provides online resources for students), and the BBC's main news homepage.⁹²

Under the proposal, the BBC would remove certain features and the BBC Earth and BBC Arts sections from its website, and there would be less focus on celebrity culture.⁹³

The proposal followed internal research that found that the eight areas accounted for 90% of the BBC's online audience.⁹⁴

The Director-General of the BBC, Tony Hall, was reported as saying:

*In the global marketplace against well-resourced competition, we have to concentrate on a smaller number of stand out services that deliver our very best content online.*⁹⁵

In relation to the BBC's online presence, Lord Hall said:

At present we are number three in the UK. We must keep it that way. It's the only UK website in the top five and, perhaps most telling of all, it's the only one that's powered by its own content. That's why we're focussing on just eight world class services.

*We are transforming iPlayer from a catch-up service to a destination, for long form, short form and Live. And we're changing the way we can all consume radio—with a new audio service BBC Sounds to replace iPlayer radio—to give you easier access to the great British content we make.*⁹⁶

Similarly, in February 2016 the BBC ceased the operation of terrestrial broadcast channel BBC3, redirecting it to become an online service with a significantly smaller budget. The change was accompanied by a £30 million increase in expenditure on drama on BBC1,⁹⁷ among other enhancements to other channels.

Move of BBC3 online

In November 2015, the BBC Trust announced its decision to approve the closure of the BBC3 terrestrial broadcast channel and move the service online.⁹⁸ There was a brief phased migration to the online platform before the channel ceased operation in February 2016.⁹⁹

Targeted at 16–34 year olds, the channel's remit was 'to bring younger audiences to high quality public service broadcasting through a mixed-genre schedule of innovative UK content featuring new UK talent.'¹⁰⁰

⁹² PC Magazine, Report: BBC Cutting Back on Online Services to Fight Netflix, 11 September 2018. Available at: <https://uk.pcmag.com/bbc-iplayer/117334/report-bbc-cutting-back-on-online-services-to-fight-netflix>

⁹³ The Guardian, BBC coverage of Cliff Richard raid was over the top, says Tony Hall, 12 September 2018. Available at: <https://www.theguardian.com/media/2018/sep/11/bbc-to-cut-back-online-services-to-fight-netflix-say-reports>

⁹⁴ PC Magazine, Report: BBC Cutting Back on Online Services to Fight Netflix, 11 September 2018. Available at: <https://uk.pcmag.com/bbc-iplayer/117334/report-bbc-cutting-back-on-online-services-to-fight-netflix>

⁹⁵ The Guardian, BBC coverage of Cliff Richard raid was over the top, says Tony Hall, 12 September 2018. Available at: <https://www.theguardian.com/media/2018/sep/11/bbc-to-cut-back-online-services-to-fight-netflix-say-reports>

⁹⁶ BBC, Speech by the Director-General of the BBC, Tony Hall to the 2018 Royal Television Society London Conference, 18 September 2018. Available at: <https://www.bbc.co.uk/mediacentre/speeches/2018/tony-hall-rtsc>

⁹⁷ BBC, BBC One to get £30m from Three closure, 6 March 2014. Available at: <https://www.bbc.com/news/entertainment-arts-26464007>

⁹⁸ BBC, BBC Trust publishes final decision on proposals for BBC Three, CBBC, iPlayer, BBC One+1, 26 November 2015. Available at: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes_decision

⁹⁹ BBC, BBC Trust publishes final decision on proposals for BBC Three, CBBC, iPlayer, BBC One+1, 26 November 2015. Available at: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes_decision

¹⁰⁰ BBC, BBC Three Service Licence, issued September 2013. Available at: http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/regulatory_framework/service_licences/tv/2013/bbc_three_sep13.pdf

The decision followed what the BBC Trust described as ‘a detailed and rigorous assessment that began in January 2015, which has included two public consultations, audience research, and a wide range of independent evidence.’¹⁰¹

In announcing the decision, the Trust said:

It hasn’t been an easy process either. It’s a difficult decision to close a TV channel and one that’s been finely balanced throughout...

On this occasion we agreed with the BBC that the future of broadcasting is online and that the BBC, as it has done many times in its history, must adapt and change with the times in order to remain relevant. This decision ensures that BBC Three will continue to develop and flourish.

*Younger people are watching less broadcast television, they’re watching more online and they’re using newer digital services in different ways. We need to move with our audiences and respond to these changing habits.*¹⁰²

A ‘public value test’ was undertaken comprising a ‘public value assessment’ by the BBC Trust and a ‘market impact assessment’ by the regulator, Ofcom. The public value assessment identified savings of £30 million a year and that the new online service ‘will be more distinctive than the existing BBC Three channel, whose audience is currently falling’.¹⁰³ The market impact assessment found ‘that the switch to an online service is likely to create a positive market impact for rival TV channels.’¹⁰⁴

The Trust imposed a range of conditions on the move, including: a commitment that all BBC3 long-form content would be transmitted on BBC1 and BBC2 on an ongoing basis; commitments to creative risk-taking and programs targeted to younger audiences on BBC1 and BBC2; a gradual transition; accessibility standards; and a review within 18 months.¹⁰⁵

The decision generated both protests (including a petition from 300,000 viewers¹⁰⁶) and support from those who felt that the target audience was better served online.¹⁰⁷

The protests at the switch of BBC3 to online delivery highlight a challenge for public broadcasters—to respond to and even lead change while continuing to serve existing audiences. This is an obligation not shared by commercial operators. It has been said that the BBC moved too soon to close BBC3 as a linear broadcast channel, and it may be that the ABC should be the first to begin some important moves toward IP delivery but the last to abandon linear broadcast entirely.

A number of other global channel providers are also moving to rationalise the number of channels that they deliver in order to strengthen a smaller number of more distinctive and impactful channels.

In 2017, US-based media company Viacom outlined a new strategic direction, including a consolidation and focus on six core flagship brands.

¹⁰¹ BBC, BBC Trust publishes final decision on proposals for BBC Three, CBBC, iPlayer, BBC One+1, 26 November 2015. Available at: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes_decision

¹⁰² BBC, Our decision on BBC Three’s future, 26 November 2015. Available at:

<http://www.bbc.co.uk/blogs/bbctrust/entries/b428d959-e93c-48e0-8ba6-65335d773bf7>

¹⁰³ BBC, BBC Trust publishes provisional conclusions on proposed changes to BBC television and online services, 30 June 2015. Available At: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes

¹⁰⁴ BBC, BBC Trust publishes provisional conclusions on proposed changes to BBC television and online services, 30 June 2015. Available At: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes

¹⁰⁵ BBC, BBC Trust publishes final decision on proposals for BBC Three, CBBC, iPlayer, BBC One+1, 26 November 2015. Available at: https://www.bbc.co.uk/bbctrust/news/press_releases/2015/service_changes_decision

¹⁰⁶ change.org, Save BBC Three Petition. Available at: <https://www.change.org/p/to-the-bbc-trust-savebbc3>

¹⁰⁷ BBC, BBC Three to be axed as on-air channel, 5 March 2014. Available at: <https://www.bbc.com/news/entertainment-arts-26447089>

Viacom's six flagship brands

In February 2017, Viacom chief executive, Robert Bakish, announced that the company would focus on six flagship brands: Black Entertainment Television (BET), Comedy Central, MTV, Nickelodeon, Nick Jr. and Paramount.

These brands would represent 'the company's highest priorities' and 'benefit from significant and increased resource commitments'.¹⁰⁸

According to Viacom:

*'These six brands each have compelling, valuable and distinct brand propositions. They serve diverse, substantial audiences with largely-owned content, have global reach and distribution potential across linear, digital, film, and consumer products, events and experiences. Viacom's other brands—some of which hold strong positions in their categories and maintain diverse and loyal followings—will be realigned to reinforce the six flagship brands.'*¹⁰⁹

The move formed part of a five-point plan announced following a review of the company's operations and performance. Under the plan, Viacom would:

1. Put the full power of Viacom behind six flagship brands: BET, Comedy Central, MTV, Nickelodeon, Nick Jr. and Paramount
2. Revitalize and elevate approach to content and talent
3. Deepen partnerships to drive traditional revenue
4. Make big moves in the digital world and physical world
5. Continue to optimize and energize the organization¹¹⁰.

In July 2017, Kevin Reilly, President of US television networks TBS and TNT, and chief creative officer of Turner Entertainment Networks stated:

*'Viacom has already done their internal contraction, which was arguably overdue... It's a good move, but that's not going to solve everything overnight. It's just that the means by which what television is and the means by which we're delivering it is a transformation that will be picking up steam from here forward, and if you're overexposed on linear channels, and you haven't built an infrastructure and connection with an audience, you'll find your entity under stress.'*¹¹¹

5.5 Addressing these challenges

5.5.1 Core content

5.5.1.1 Adherence to charter

As outlined in Chapter 4, the charters of the national broadcasters each set out their functions and duties. The charters are the primary articulation of the mandate of each broadcaster and determine their core roles (the charters are provided in full in [Appendix A](#)).

The charters are necessarily broad and open to interpretation and a great deal of the content on both the ABC and SBS clearly fits within their scope.

¹⁰⁸ The Hollywood Reporter, Viacom Unveils Focus on Flagship Brands, "Deeper Integration" of Paramount Pictures, 9 February 2017. Available at: <https://www.hollywoodreporter.com/news/viacom-unveils-focus-flagship-networks-deeper-integration-paramount-pictures-973795>

¹⁰⁹ The Hollywood Reporter, Viacom Unveils Focus on Flagship Brands, "Deeper Integration" of Paramount Pictures, 9 February 2017. Available at: <https://www.hollywoodreporter.com/news/viacom-unveils-focus-flagship-networks-deeper-integration-paramount-pictures-973795>

¹¹⁰ The Hollywood Reporter, Viacom Unveils Focus on Flagship Brands, "Deeper Integration" of Paramount Pictures, 9 February 2017. Available at: <https://www.hollywoodreporter.com/news/viacom-unveils-focus-flagship-networks-deeper-integration-paramount-pictures-973795>

¹¹¹ Deadline Hollywood, Turner's Kevin Reilly Foresees More Media Consolidation & Fewer TV Channels—TCA. Available at: <https://deadline.com/2017/07/turners-kevin-reilly-more-media-consolidation-fewer-tv-channels-tca-1202137726/>

It is not appropriate that the review undertake a detailed assessment of what content is core to meeting the charter obligations of the national broadcasters. However, it is clear from statements from both broadcasters that they consider that there are some types of content that are absolutely core to their charters and others that are further from the core. The reviewers agree.

For example, the ABC has identified the importance of focusing on particular types of content that meet its view of the charter but that also create a distinctive destination for Australian audiences (that is, taking into account the content that is available through other providers).

The box below includes some statements about these issues from the ABC and its acting Managing Director.

The ABC and ‘distinctiveness’

In its supplementary submission to the Inquiry into the Competitive Neutrality of the National Broadcasters, the ABC stated that:

The ultimate arbiter of whether the ABC produces new content or launches a new product or service is whether it is consistent with, and helps the Corporation to deliver to, its Charter. The Charter requires the ABC to, among other things, provide innovative and comprehensive broadcasting services of a high standard, including programs of both wide appeal and specialised interest, to provide digital media services, and to encourage the performing arts...

In fulfilling its Charter requirements, the ABC actively strives to ensure its content is distinctive and takes into account the services already provided by the commercial and community sectors. These considerations are typically interrelated.

Distinctiveness can be defined as delivering content and service offerings to audiences that are differentiated from that provided by the commercial and community sectors in important, and often multiple, ways. Put another way, the ABC strives to offer audiences choices at the program and channel level which are distinguishable from these other sectors, and in line with the policy objectives of public broadcasting. It means that if the ABC produces content in the same genres as other broadcasters, there will be points of difference between the programs. The ABC actively avoids mimicking any existing programs.¹¹²

The Acting Managing Director of the ABC, Mr David Anderson, recently provided the following examples of content offered by the ABC that makes it ‘unique and a priceless national asset’:

- *Vibrant new kids’ programs that delight and educate our children;*
- *Agenda-setting journalism that shines a light into dark corners and holds regulators and lawmakers to account;*
- *The rich, direct and often lifesaving conversations we have with our regional and rural audiences;*
- *The insightful work of Radio National;*
- *Our commitment to the promotion and support of cultural endeavours, particularly music, the arts and creative communities;*
- *Colourful dramas like Mystery Road that use local actors, local crews, local locations and local stories to entertain us;*
- *And our ability to unite the nation, whether it be on Australia Day, the approaching Remembrance Day/Armistice celebrations or through our in-depth coverage of the drought;*
- *And this week, of course, the Invictus Games.¹¹³*

¹¹² ABC Supplementary Submission to the Competitive Neutrality Inquiry, 2018, pp. 11–12. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

¹¹³ Anderson, David, 23 October 2018 Senate Estimates Hearing. Available at: <http://about.abc.net.au/statements/opening-statement-to-senate-environment-and-communications-legislation-committee/>

It is equally clear to the review team that some of the content that is delivered by both broadcasters lies further from the core of their charter obligations. This is illustrated by comments from former SBS Managing Director, Mr Michael Ebeid, to a Senate Estimates Committee:

*I remind the committee that we do from time to time have programs that have absolutely nothing to do with our charter that are broad entertainment programs, to be able to attract a slightly broader audience to then cross-promote...*¹¹⁴

The example of *The Handmaid's Tale* (a program that the SBS considers 'on charter') has been cited by many critics, while SBS has stated that of those viewers who watched the program, '24.4 per cent went on to watch a language other than English drama, an SBS commissioned Australian series or an SBS current affairs program.'¹¹⁵

In response to the Competitive Neutrality Inquiry, Free TV commissioned a media law academic, Dr Murray Green, to assess the top 50 programs on SBS1, SBS Viceland and SBS Food Network for alignment with SBS's primary functions under its Charter. In Dr Green's view, between 52% and 66% of content assessed was not Charter aligned, with SBS Viceland and SBS Food Network showing the greatest non-alignment (Figure 19 below).

Figure 19: Alignment of content with the SBS Charter

Channel	Percentage of content not Charter aligned
SBS 1	52%
SBS Viceland	58%
SBS Food Network	66%
NITV	Not assessed

Source: Free TV submission to the Competitive Neutrality Inquiry—June 2018: Analysis of Dr Murray Green

This analysis, though disputed by SBS, provides an indication that there is a broad spectrum of content from 'core' to the charter through to some distance from that core.

5.5.1.2 Content expenditure

The ABC and SBS have significant content budgets.

The review estimates that the ABC spends \$583.1 million on content creation and acquisition, representing 56% of the ABC's total costs (excluding selling and retail costs).

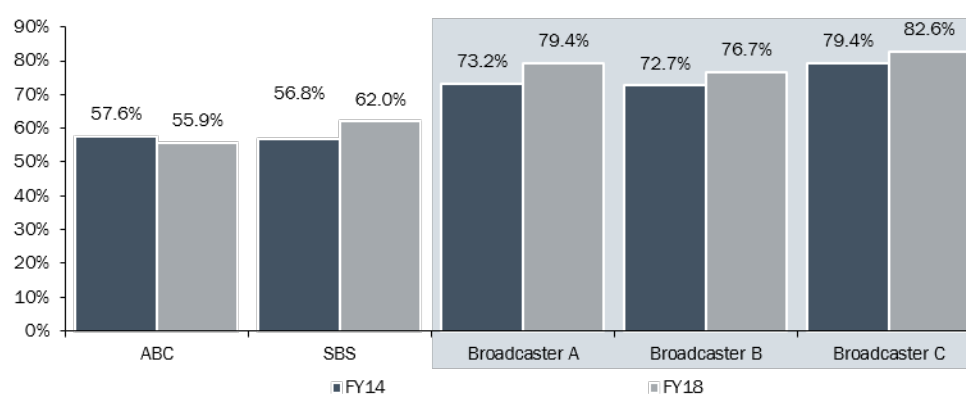
SBS's expenditure on content is estimated to be \$231.5 million, representing 62% of SBS's total costs (excluding selling and retail costs).

Benchmarking across other Australian broadcasters indicates that expenditure on content as a percentage of total expenditure is lower at the ABC and SBS than it is at other broadcasters (Figure 20 below).

¹¹⁴ Ebeid, Michael, 27 February 2018 Senate Estimates Hearing. Available at: <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Festimate%2Fe7a8364f-1f69-4a4b-9f10-70eef15e6814%2F0006;query=Id%3A%22committees%2Festimate%2Fe7a8364f-1f69-4a4b-9f10-70eef15e6814%2F0000%22>

¹¹⁵ SBS Submission to the Competitive Neutrality Inquiry, 2018, p. 13. Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Figure 20: Content costs share of total costs (excluding selling and retail)



Source: KordaMentha analysis of ABC, SBS and commercial broadcaster data

It is appropriate that close attention is paid to the content that these very significant sums are spent on.

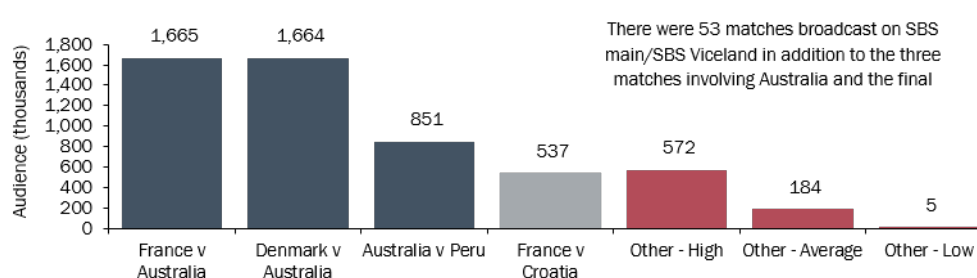
5.5.1.3 Sport as an example

Sport is an example often cited in media commentary as being 'off charter' for SBS, particularly the Tour de France and the FIFA World Cup. The review does not make any finding as to the fit with the SBS charter, other than noting their apparent appeal to a wide range of Australian communities.

There is no doubt that SBS has invested a great deal in these two sporting events. SBS argues that these events have become integral to its brand and not only drive advertising revenue but also offer important cross-promotional opportunities—in other words, they support it in meeting its charter obligations elsewhere in its schedule.

The review was not provided with information on the net cost of these two events nor on the effectiveness of using them to cross-promote other SBS programming. However, it is estimated that the two events combined are loss-making for SBS (costs less advertising/sponsorships) but generate significant audiences as shown below.

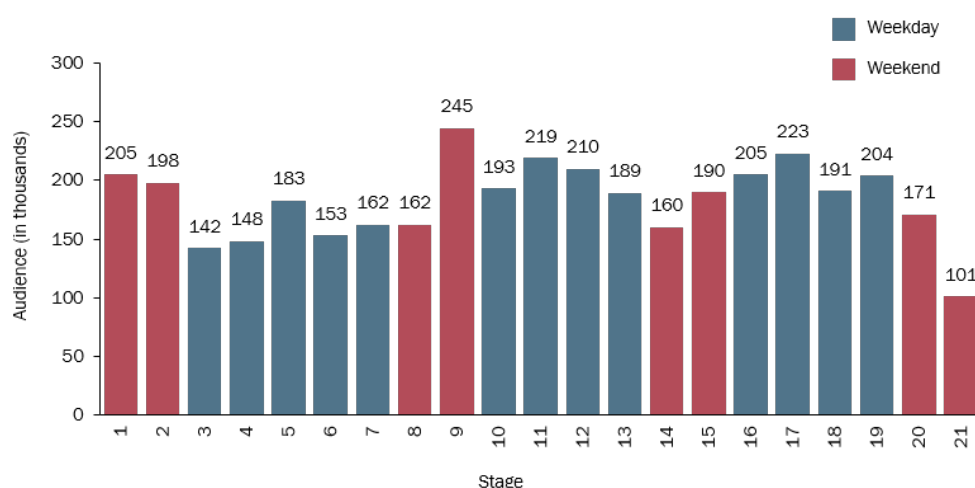
Figure 21: FIFA World Cup audience (SBS/SBS Viceland)



Source: KordaMentha analysis based on OzTAM data

Notes: Excludes 'late live' audience

Figure 22: Tour de France audience by stage (SBS Main)



Source: KordaMentha analysis based on OzTAM data

Notes: Audience on SBS main channel. Excludes Viceland and 'late live' audience.

Choice of content is a matter for the SBS board and management. They should carefully consider how central events such as these are to the SBS charter.

5.5.1.4 Lifestyle as an example

ABC Life was introduced by the ABC in August 2018.¹¹⁶ It 'helps you stay on top of the things that matter to you: food, wellbeing, work, money, travel, style, sex and relationships, home and garden, and family.' It includes content such as 'Stopping Guests Taking Photos at Your Wedding Could be Good for You and Them' and 'The Tricks to Choosing the Freshest Fruit and Vegies'.

The review was not provided with specific information about the cost of ABC Life but was told that it is largely leveraging existing content and has a very low incremental cost. It may be observed that costs incurred in repurposing content and standing up teams to manage new products can be higher than anticipated.

Lifestyle content is an area that is covered widely in the industry both by large, traditional players and by smaller, entrepreneurial players. It is not clear that the content is core to the ABC's charter nor is it clear that what is offered is distinctive in the marketplace or otherwise supports the meeting of charter obligations. Audience data, including crossover to other content, was not provided to the review.

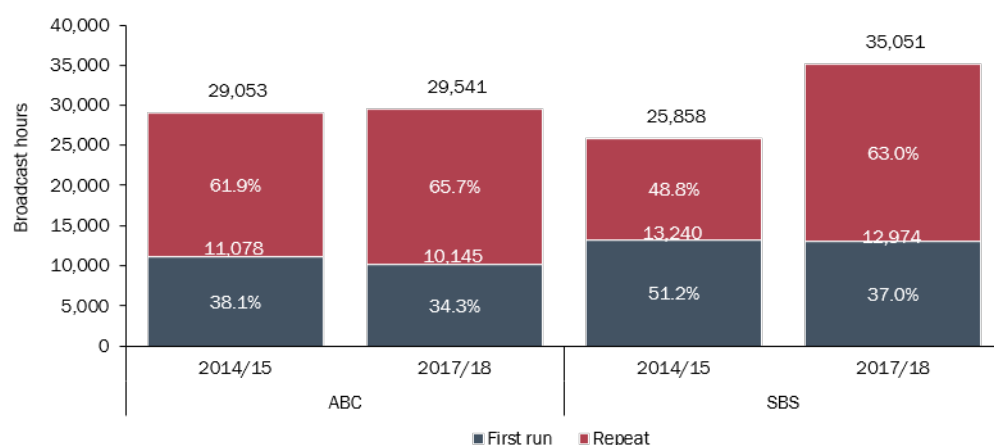
While it is a matter for the ABC board and management to determine which content best supports its charter, the review considers that content such as that on ABC Life is further distant from the core than other content such as independent agenda-setting journalism.

5.5.1.5 Decline in unique content

There is some evidence that, notwithstanding the significant increase in total hours broadcast, the number of unique or first-run hours of content broadcast by the national broadcasters has declined since 2014–15.

¹¹⁶ ABC, ABC Life: a new way to connect Australians, 3 August 2018. Available at: <https://about.abc.net.au/press-releases/abc-life-a-new-way-to-connect-australians/>

Figure 23: Broadcast hours—first run and repeat

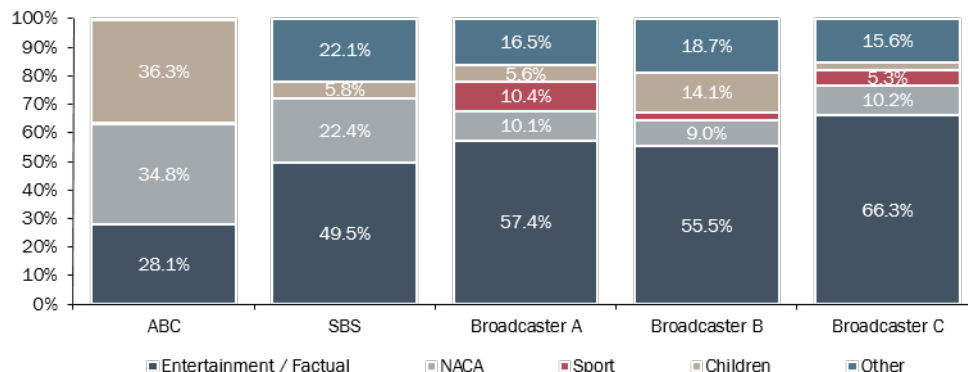


Source: KordaMentha analysis based on SBS and ABC data

There have been large declines in first-run documentary and factual content on the ABC (down from 475 hours in 2014–15 to 169 hours in 2017–18) and drama (down from 245 hours in 2014–15 to 199 hours in 2017–18).

The chart below attempts to compare the broadcast of various content types on Australian free-to-air television. There are challenges in comparing the content available across broadcasters given definitional differences.

Figure 24: Broadcast hours by genre (FY18)



Source: KordaMentha analysis of ABC, SBS and commercial broadcaster data

Broadcast of children's content is low across all networks except the ABC. The review acknowledges that the commercial networks are subject to quota obligations. Given the popularity of ABC Kids across both terrestrial broadcast and BVOD, the ABC's commitment to children's entertainment is clearly of vital importance.

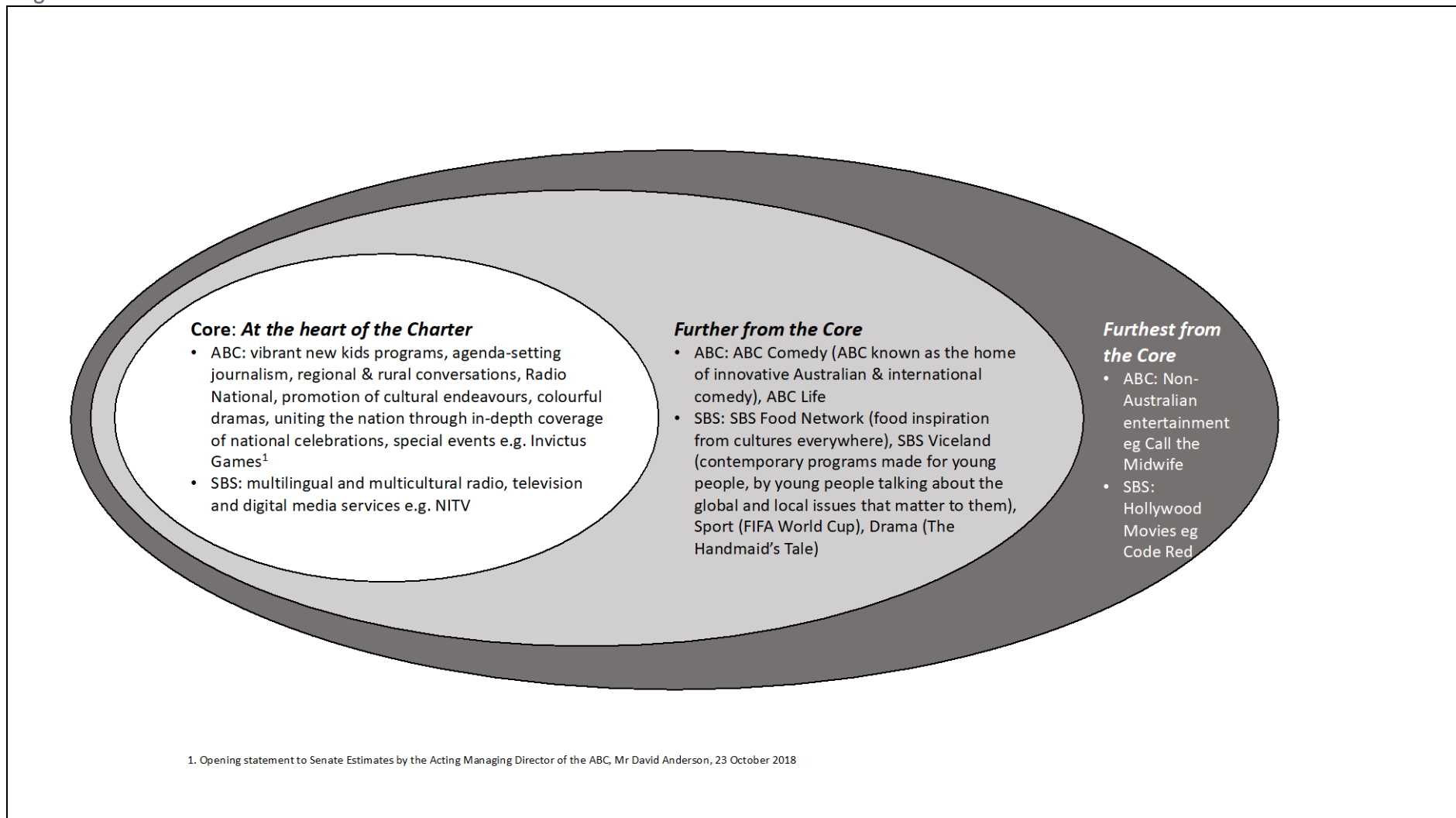
The ABC and SBS broadcast significantly more news and current affairs than the commercial FTA networks. The independence and depth of coverage by the ABC and the unique international and LOTE coverage of SBS form critical parts of the services they offer to the Australian public. These services include the ABC's dedicated news channel (ABC News) and SBS broadcasting international LOTE news on both SBS1 and SBS Viceland.

5.5.1.6 Summary

The charters of the national broadcasters are necessarily broad and, arguably, most content could be considered to fit within them in some way.

It is critically important, however, that the national broadcasters have a clear, publicly articulated view about those types of content that are central to meeting their charter obligations and those types of content that are further distant from the core. By way of example, the following chart illustrates a suggested approach to considering content from the perspective of relevance to charter obligations.

Figure 25: Illustrative view of 'core' content



5.5.1.7 Recommendations—identify core content areas and protect investment in them

The review considers that it is vital that the national broadcasters protect expenditure on core content.

The ABC and SBS should clearly define a small set of content areas that are central to meeting their charter obligations and to the trust and value placed in them by Australian audiences.

They should commit to a level of investment that is sufficient to ensure the quality and consistency of those areas over the long term.

While it is a matter for the ABC and SBS management and boards to identify those core content areas, the review, to provide an example, suggests four key areas:

1. high quality news and current affairs
2. authentic Australian drama
3. Australian children's programming, and
4. multicultural and indigenous Australian storytelling.

Both the ABC and SBS play a particularly vital role in the independence and breadth of views across news and current affairs. The review supports the protection and growth of budgets for core news and current affairs programming to ensure ongoing high standards.

In response to the competitive pressures in the Australian media industry commercial broadcasters have shifted their focus towards reality and sport and away from Australian drama and children's programming beyond meeting their formal obligations. Given their charter obligations, it would be appropriate for the national broadcasters to protect and grow resources devoted to drama and children's programming. Investing in drama will provide further exposure of Australian stories and talent to Australian audiences. It will also support Australian production while the national broadcasters continue to provide a safe and trusted environment for children's programming.

Multicultural Australian story telling is clearly at the core of the SBS charter and the review recommends a continued focus on this area along with indigenous programming.

Recommendation 6

The ABC and SBS should clearly identify those areas of content that are at the core of their charter obligations and ensure that they are adequately funded. Where necessary to protect and grow those core areas, the ABC and SBS should reconsider expenditure in other content areas with the goal of stopping expenditure where necessary to reinvest in the core.

5.5.2 Delivery channels

One of the major challenges for the broadcasting industry is that audiences, in Australia and globally, are shifting their viewing habits away from traditional linear broadcast channels towards digital streaming and on-demand services.

Three important issues arise as a result of that shift.

1. Adding new digital channels requires investment.
2. The addition of new delivery channels is typically not matched with reductions in traditional delivery channels.
3. The delivery cost of new digital channels tends to be variable and increases with usage while the cost of traditional channels is fixed and remains unchanged as usage declines.

This creates challenges for the ABC and SBS, especially for multi-channel broadcast (ABC Comedy, Me, Kids and News and SBS Viceland and Food Network) which have very small and generally declining viewership overall and particularly during certain parts of the day.

These channels require substantial ongoing funding, and there may be better ways to meet the needs of audiences while freeing up resources to invest in core content and the most appropriate, likely IP-based, delivery mechanisms.

The broadcasters should actively plan for the transition of these channels from terrestrial broadcast to IP delivery over the longer term.

A number of potential longer term benefits arise from the transition of these channels.

1. Freeing up financial, management and creative resources for core content and services.
2. Freeing up financial and management resources for the development of state-of-the-art IP delivery platforms and content production and management methods.
3. Negotiating the return of unused broadcast spectrum to the Commonwealth for more efficient and higher value use, potentially in return for capital for investment in modernisation.

5.5.2.1 Costs of delivery

Delivery cost is a significant element of the total costs of both the ABC and SBS. It represents around \$328 million per annum including television and radio.

Terrestrial broadcast costs

Broadcast Australia provides broadcast transmission services to both national broadcasters. In FY15, the ABC and SBS renegotiated their contract with Broadcast Australia to provide ongoing cost savings of 17% over the life of the contract in return for a contract to 2035. The review understands this contract cannot be terminated before This text has been redacted. and is subject to termination charges before 2035.

The broadcasters did not provide a copy of the contract and, as a result, it is not possible to estimate when and to what extent cost savings would be available from reducing the use of these services.

Given the complexity and length of the relationship between the national broadcasters and Broadcast Australia, further analysis should be undertaken.

Foxtel retransmission

Both broadcasters also retransmit their services on Foxtel via satellite. The 2014–15 Lewis review stated:

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.

The ABC and SBS pay This text has been redacted.¹¹⁷ respectively for retransmission of their channels on Foxtel. The Foxtel contract was not provided to the review, and neither was a related arrangement with Optus for satellite services.

¹¹⁷ The SBS figure is This text has been redacted.

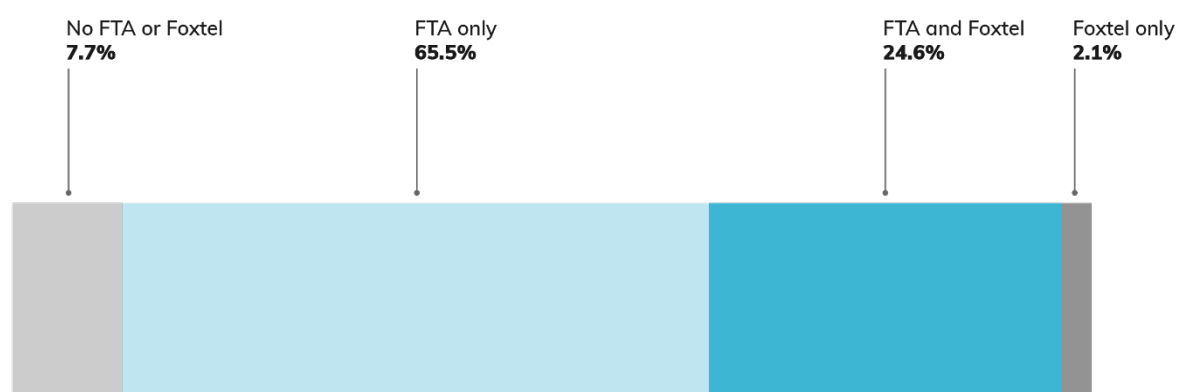
Nevertheless, it is likely there is an opportunity to reduce this cost if the number of terrestrial channels retransmitted is reduced. Alternatively, it may be possible to eliminate retransmission altogether given the alternative options Foxtel customers have to receive these services.

Any termination of these arrangements would need to consider that:

- There may be households that are in ‘blackspots’ and unable to receive FTA signals and therefore rely solely on Foxtel for access to the ABC and SBS. However, there were no estimates of the number of households potentially affected available to the review; and
- Audiences may be unwilling to ‘switch remotes’ to watch ABC or SBS content via their FTA TV aerial.

Further analysis should be undertaken to understand the percentage of the population solely reliant on Foxtel. Figure 26 illustrates the consumption of Foxtel and FTA television based on a 2016 survey by Roy Morgan. It shows that the potential loss of audience from discontinuing Foxtel retransmission is minimal.

Figure 26: Consumption of television (% of population)



Source: Roy Morgan 2016 survey

In the case of SBS, the analysis should be cognisant of the revenue stream and loss of audience from discontinuing Foxtel. SBS would need to be confident that loss of audience and resulting advertising revenue would be less than the This text has been redacted. cost of continuing retransmission.

Viewer Access Satellite Television (VAST)

The ABC and SBS pay Optus for satellite transmission over the VAST network; this provides their channels to approximately 200,000 households¹¹⁸ outside terrestrial coverage areas—predominantly rural and remote Australia.

The ABC pays This text has been redacted. for VAST (broadcast of four channels). SBS pays Optus This text has been redacted. which the review understands to cover VAST (broadcast of five channels) and Foxtel and includes satellite uplink and transmission to homes.

It is unlikely that this service could be discontinued as it would result in loss of service. However, any reduction in terrestrial channels may result in a reduction in the cost of this service.

¹¹⁸ Department of Communications and the Arts, Review of the Viewer Access Satellite Television (VAST) service—issues paper, May 2018, p. 4. Available at: <https://www.communications.gov.au/documents/review-viewer-access-satellite-television-vast-service-issues-paper>

5.5.2.2 Cost of multi-channels

The multi-channels are estimated to consume significant resources. The review was not provided with a breakdown of costs of all of these channels and costs have been estimated based on a number of assumptions about cost allocations.

Based on these assumptions, the ABC and SBS are estimated to spend over \$150 million utilising over 700 full time equivalent (FTE) staff to operate their multi-channels (excluding transmission costs). The major contributor to these costs is the ABC News channel.

The review estimates that the ABC spends over \$120 million on its multi-channels with approximately 600 full time equivalent staff (approximately 15% of the ABC workforce). Based on these estimates ABC News is the highest cost multi-channel utilising the largest proportion of full time equivalent staff.

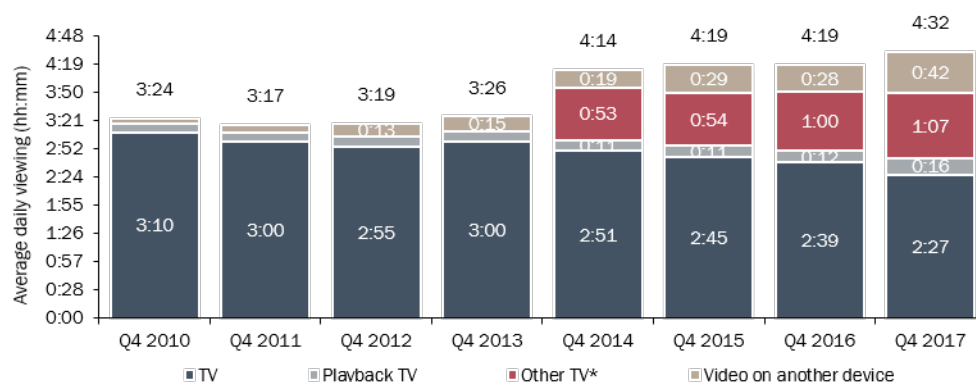
The review understands that SBS spends over \$35 million on its multi-channels with approximately 120 full time equivalent staff.

These are high level estimates and details are not provided in this report given some commercial sensitivity concerns expressed. It should be noted that the basis for allocating costs between channels adopted by the review may not reflect the basis that would be used by the ABC or SBS.

5.5.2.3 The decline in linear television viewership

Viewing of traditional linear broadcast television is facing a long-term decline as audiences shift their viewing behaviours towards IP-delivered services. Figure 27 below shows an overall decline in time spent watching TV in the home from 3 hours and 10 minutes per day in 2010 to 2 hours and 27 minutes per day in 2017. This reduction in traditional TV viewing is being offset by an increase in viewing of video on other platforms whether on the TV, smartphones, tablets, desktops or laptops.

Figure 27: Time spent watching TV by device over time

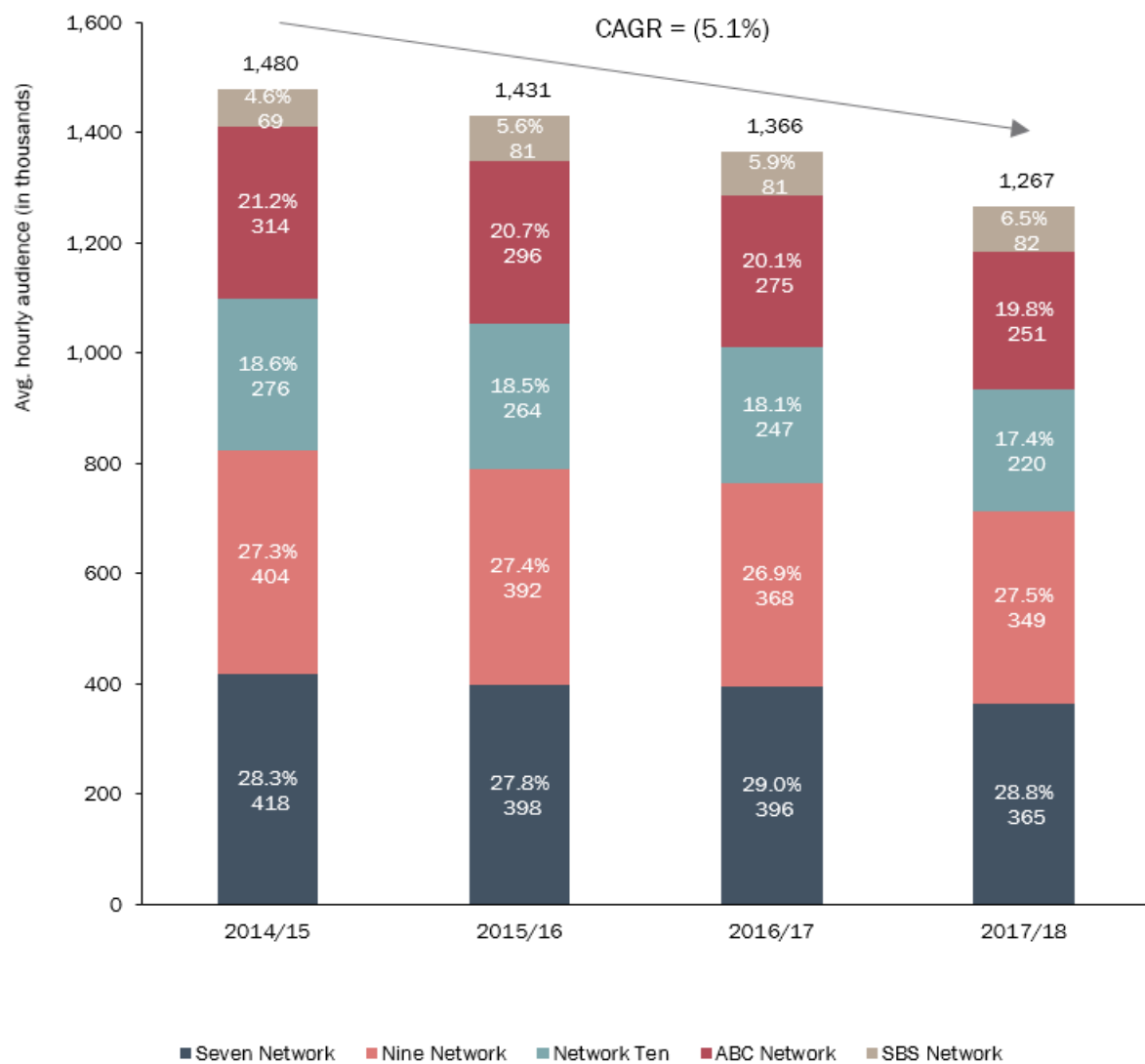


Source: Australian Video Viewing Report, Quarter 4 2017. Oztam, Regional Tam, Nielsen.

*Other TV includes using TV for gaming, VOD, DVD or other platforms.

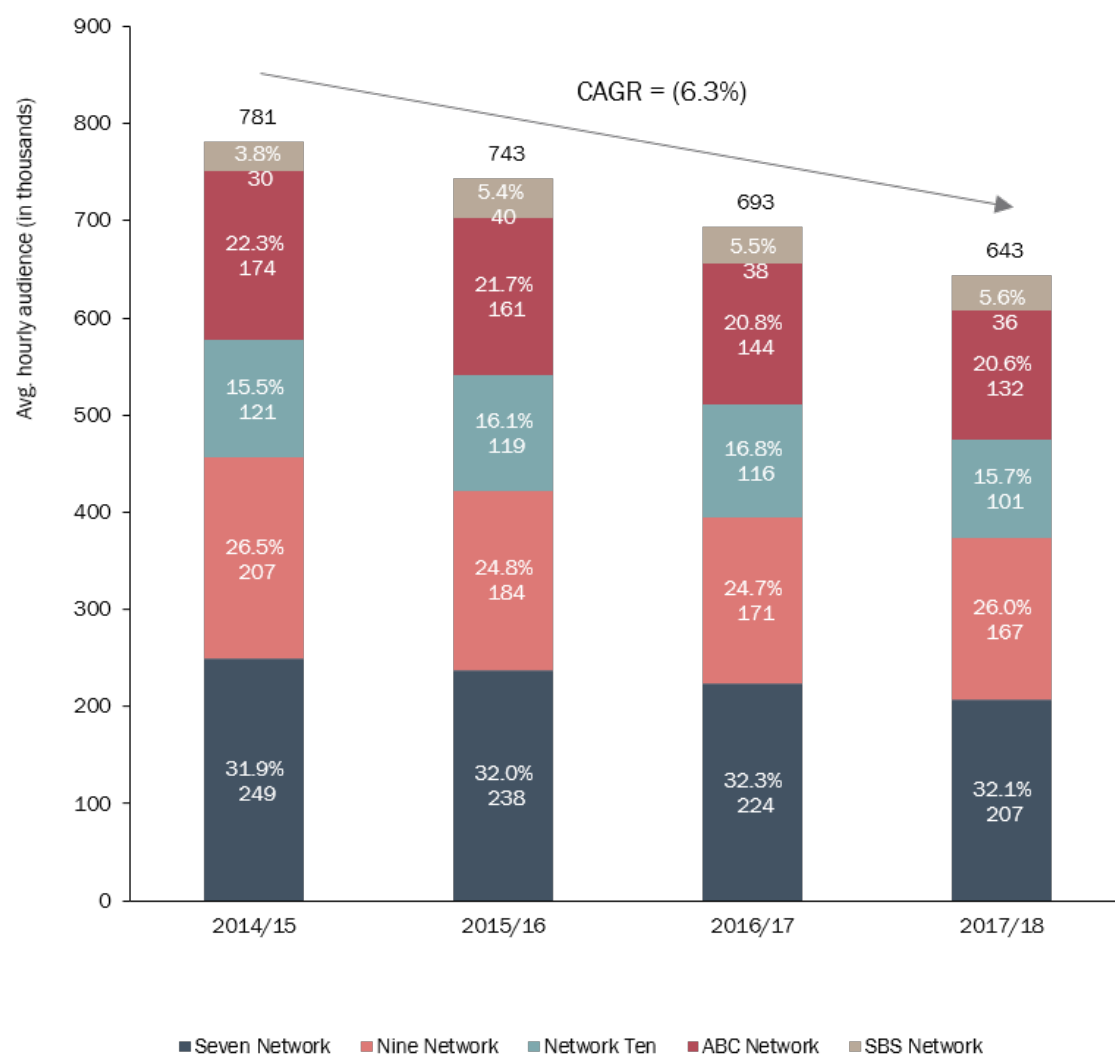
This decline in linear television viewing has been steady in both metropolitan and regional areas over the past four years and affects all broadcasters with the exception of SBS (Figure 28 and Figure 29 below). SBS has gained market share in both markets, primarily as a result of the introduction of the Food Network in 2015–16.

Figure 28: Average hourly metro audience by network



Source: KordaMentha analysis based on OzTAM (metro) data

Figure 29: Average hourly regional audience by network



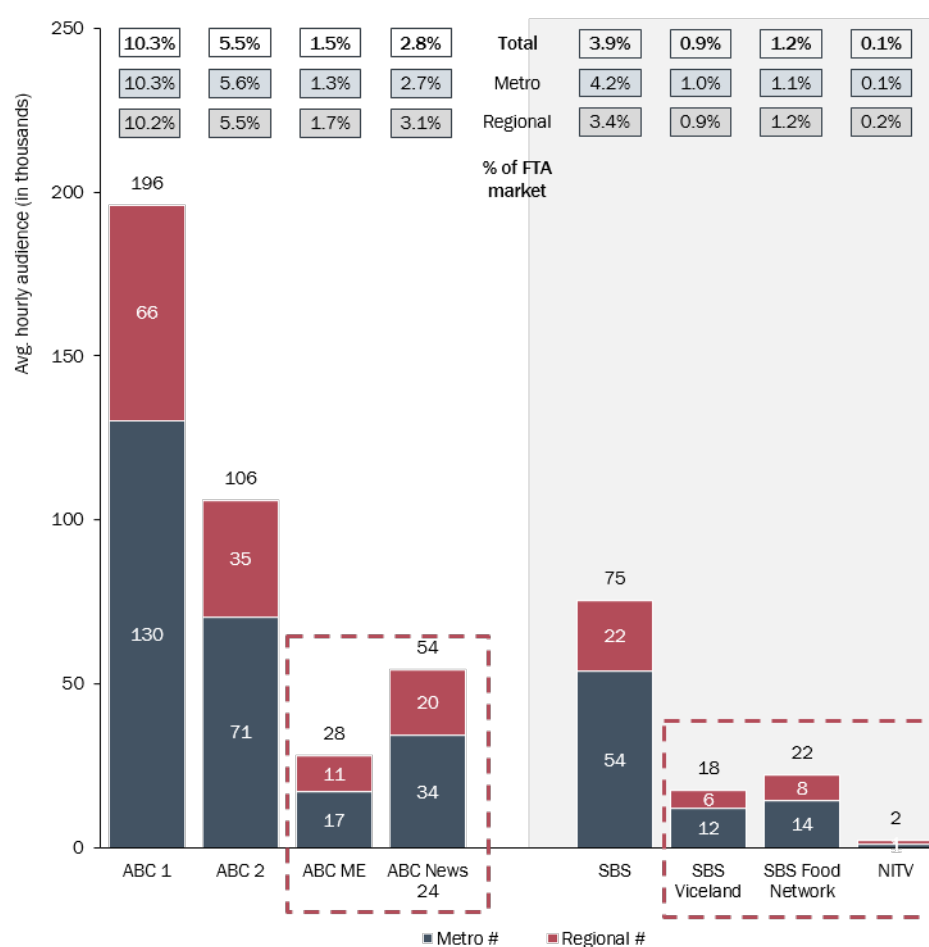
Source: KordaMentha analysis based on RegionalTAM data

Notes: Affiliates included in regional audience data with partner networks

Multi-channel viewership

ABC and SBS audiences (Figure 30) are relatively small outside of the main channels and ABC Kids, with average audiences for ABC ME, SBS Viceland and SBS Food Network all less than 30,000 per hour.

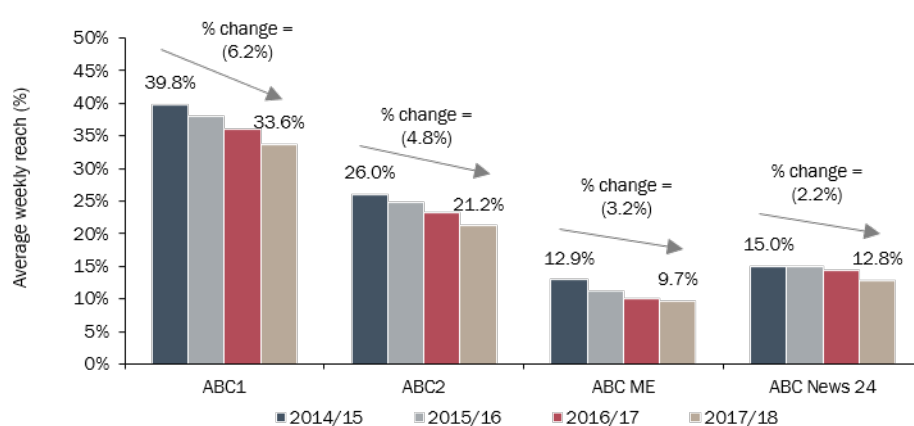
Figure 30: Average hourly audience (metro/regional)



Source: OzTAM and RegionalTAM data

The weekly reach of the ABC's channels is declining as shown in Figure 31 below.

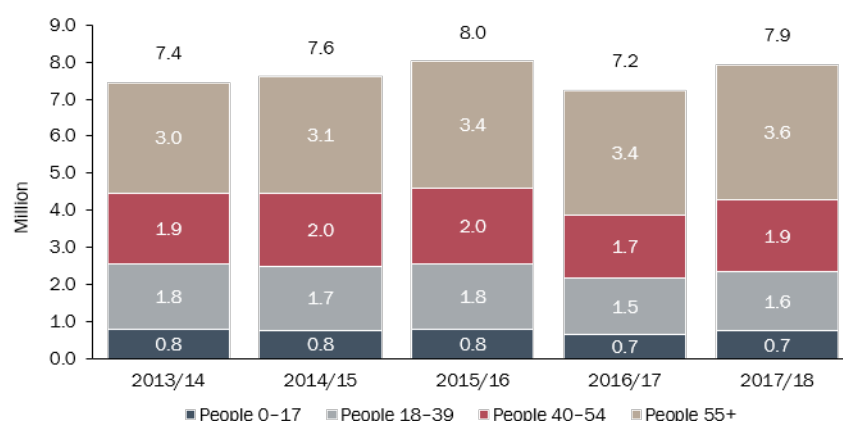
Figure 31: ABC Network—metro—average weekly reach %



Source: KordaMentha analysis based on ABC data

SBS television reach grew from 7.4 million in 2013–14 to 7.9 million in 2017–18 at a compound annual growth rate (CAGR) of 1.6% per year (Figure 32 below). This was primarily as a result of the introduction of Food Network in 2015–16.

Figure 32: SBS television—average weekly reach by age (24 hour, 5 city metro and regional)



Source: KordaMentha analysis based on SBS data

Indexed to 2013–14, SBS reach has grown in line with the Australian population, however, total broadcast hours have grown at a higher rate. Accordingly, average weekly reach per broadcast hour has declined from 15,577 people per weekly broadcast hour in 2013–14 to 11,754 people per broadcast hour in 2017–18 at a CAGR of -6.8%.

ABC multi-channels

The ABC has three multi-channels: ABC2 (which is split between ABC Kids and ABC Comedy¹¹⁹), ABC ME and ABC News (previously ABC News 24).

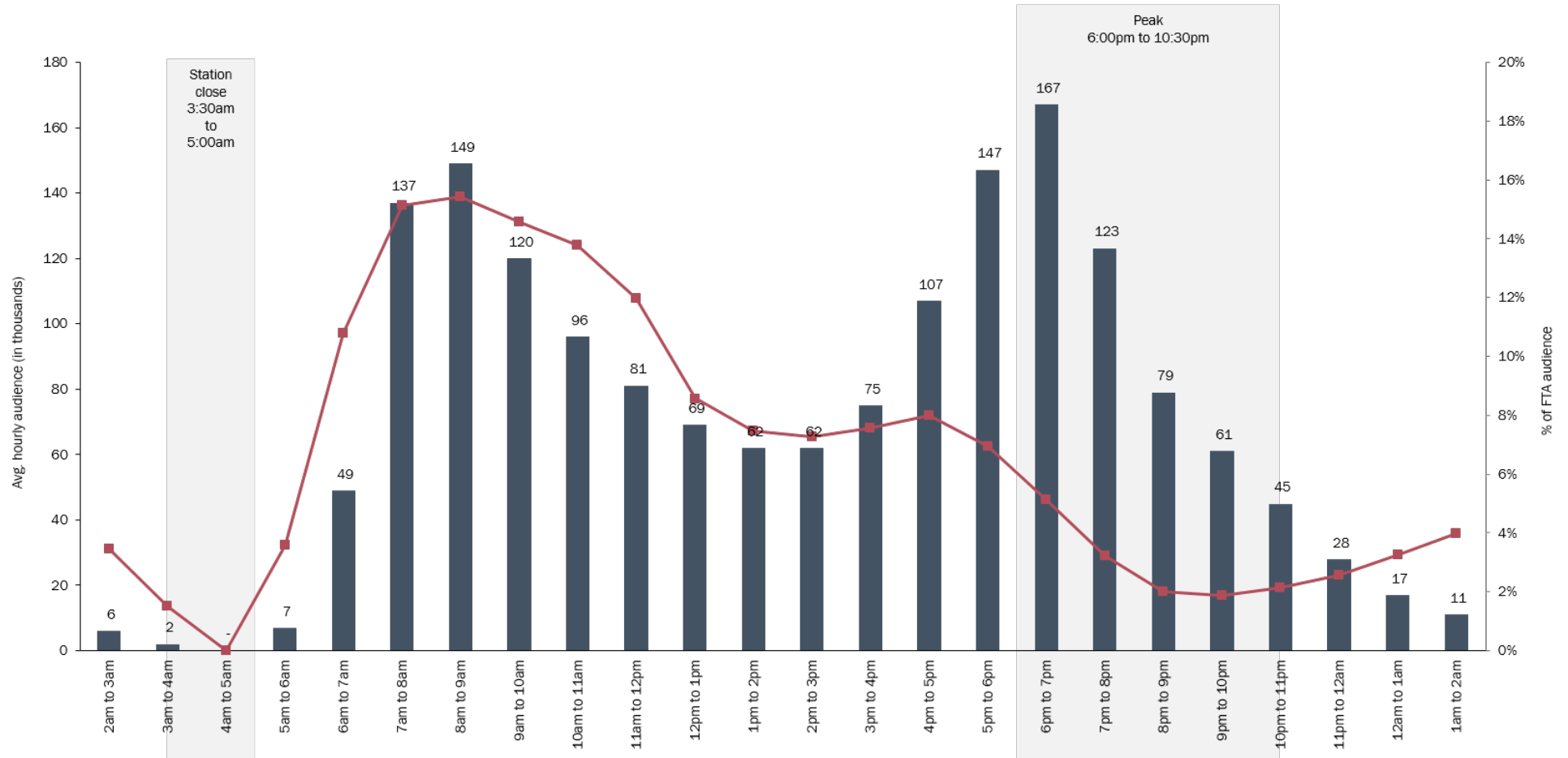
ABC2 (ABC Kids/ABC Comedy)

Peak viewing on ABC2 occurs during ABC Kids broadcasting hours, between 7:00 am and 9:00 am and between 5:00 pm and 7:00 pm. During morning peak periods, ABC2 holds a significant market share of between 12–14% (see Figure 33 on the following page).

¹¹⁹ ABC Kids runs from 5 am to 7:30 pm; ABC Comedy runs from 7:30 pm to 3:30 am (station close).

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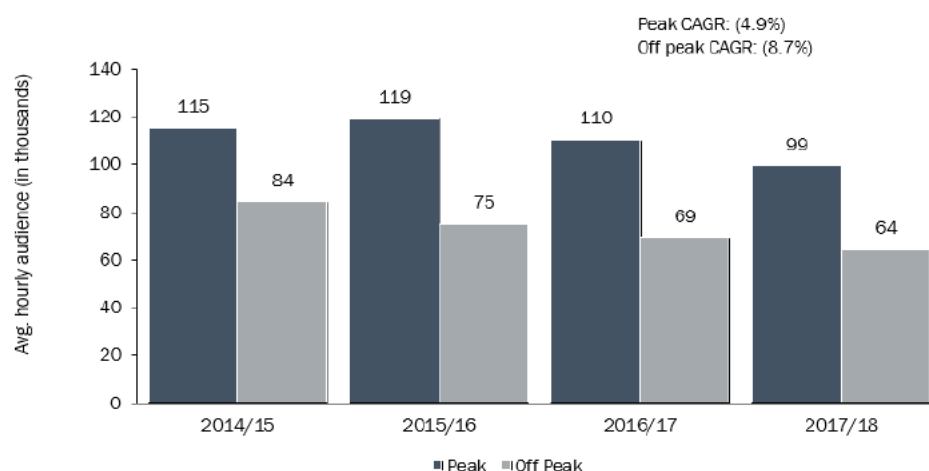
Figure 33: ABC2—Average hourly audience by hour (metro)



Source: KordaMentha analysis based on OzTAM data

In 2017–18, ABC2 achieved an average hourly metro audience of 99,000 during peak periods and 64,000 during off-peak periods. Both peak and off-peak audiences have declined over the last four years, with a higher decline during off-peak (Figure 34 below).

Figure 34: ABC2—Average hourly audience 2014–15 to 2017–18 (metro)



Source: KordaMentha analysis based on OzTAM data.

Note: peak is 6:00 pm to 10:30 pm; off-peak is all other times.

Approximately 38% of peak audiences were in the 0–12 age bracket. This was higher (63%) during off-peak periods (i.e. when children's content is being shown).

Over the last three years, 95% of broadcast hours on ABC2 has been repeat content. Despite the increase in produced hours by 221 hours over the period, purchased content still remains at approximately 75% of content shown (Figure 35 below).

Figure 35: ABC2—Content mix 2014–15 to 2017–18

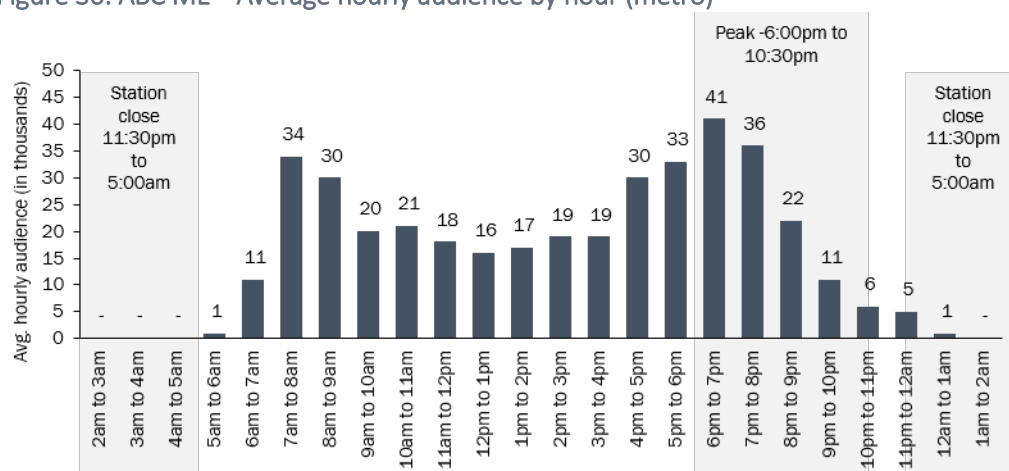
	2014–15	2015–16	2016–17	2017–18
Total content hours	7281	7338	7219	7180
First run (% of total)	7.5%	5.5%	4.9%	5.5%
Repeat (% of total)	92.5%	94.5%	95.1%	94.5%
Produced (% of total)	22.2%	20.7%	24.3%	25.6%
Purchased (% of total)	77.8%	79.3%	75.7%	74.4%

Source: KordaMentha analysis based on ABC data

ABC ME

Audience engagement with ABC ME is low, with peak viewing occurring before and after school hours, from 7:00 am to 9:00 am and between 4:00 pm and 8:00 pm (Figure 36 below), albeit at a fraction of that achieved on ABC Kids. This trend reflects ABC ME's target audience—primary school aged children.

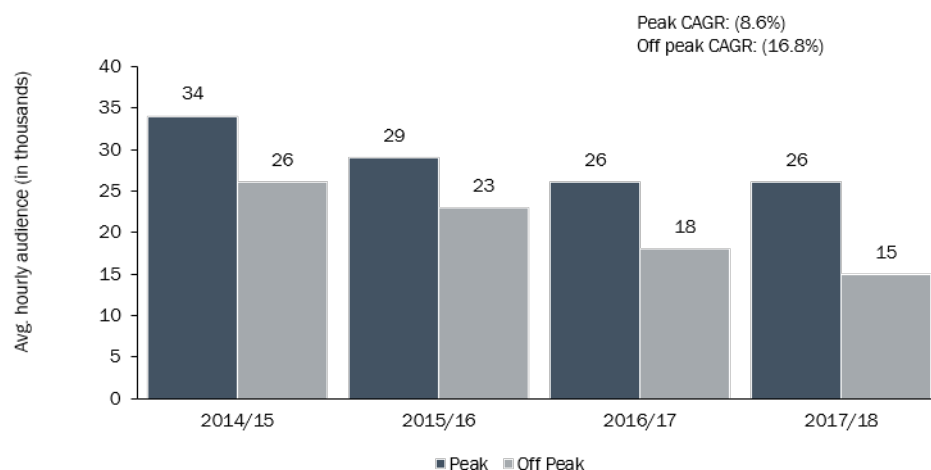
Figure 36: ABC ME—Average hourly audience by hour (metro)



Source: OzTAM

The ABC ME hourly metropolitan audience has declined over the last four years by 14.7% per year (8.6% in peak and 16.8% in off-peak) (Figure 37 below). This decline has been significantly higher than the metropolitan FTA market decline over the same period (5.1% per year) and is the highest of all ABC channels.

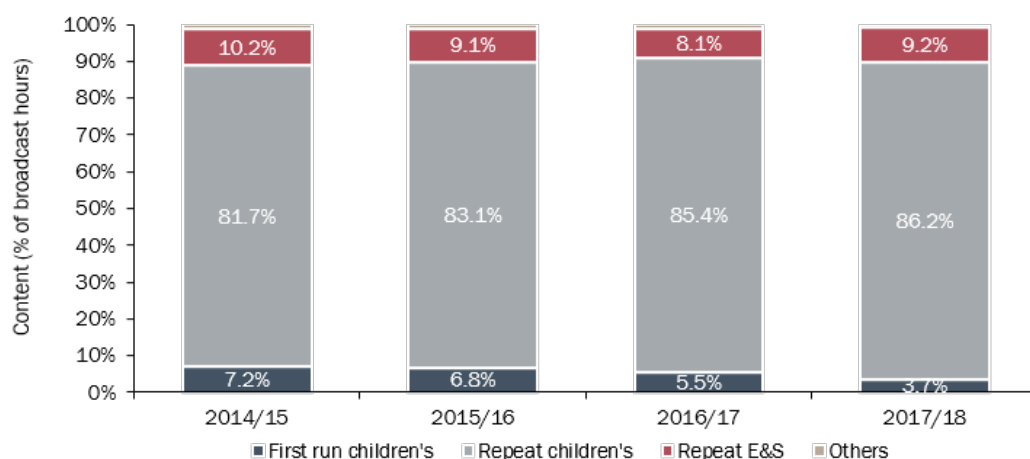
Figure 37: ABC ME—Average hourly audience 2014–15 to 2017–18 (metro)



Source: KordaMentha analysis of OzTAM data

The channel largely comprises repeat content, which makes up over 90% of total content hours over all of the last four years, with the percentage of first-run children's content almost halving to only 3.7% of broadcast hours in FY18 (Figure 38 below).

Figure 38: ABC ME—repeat levels



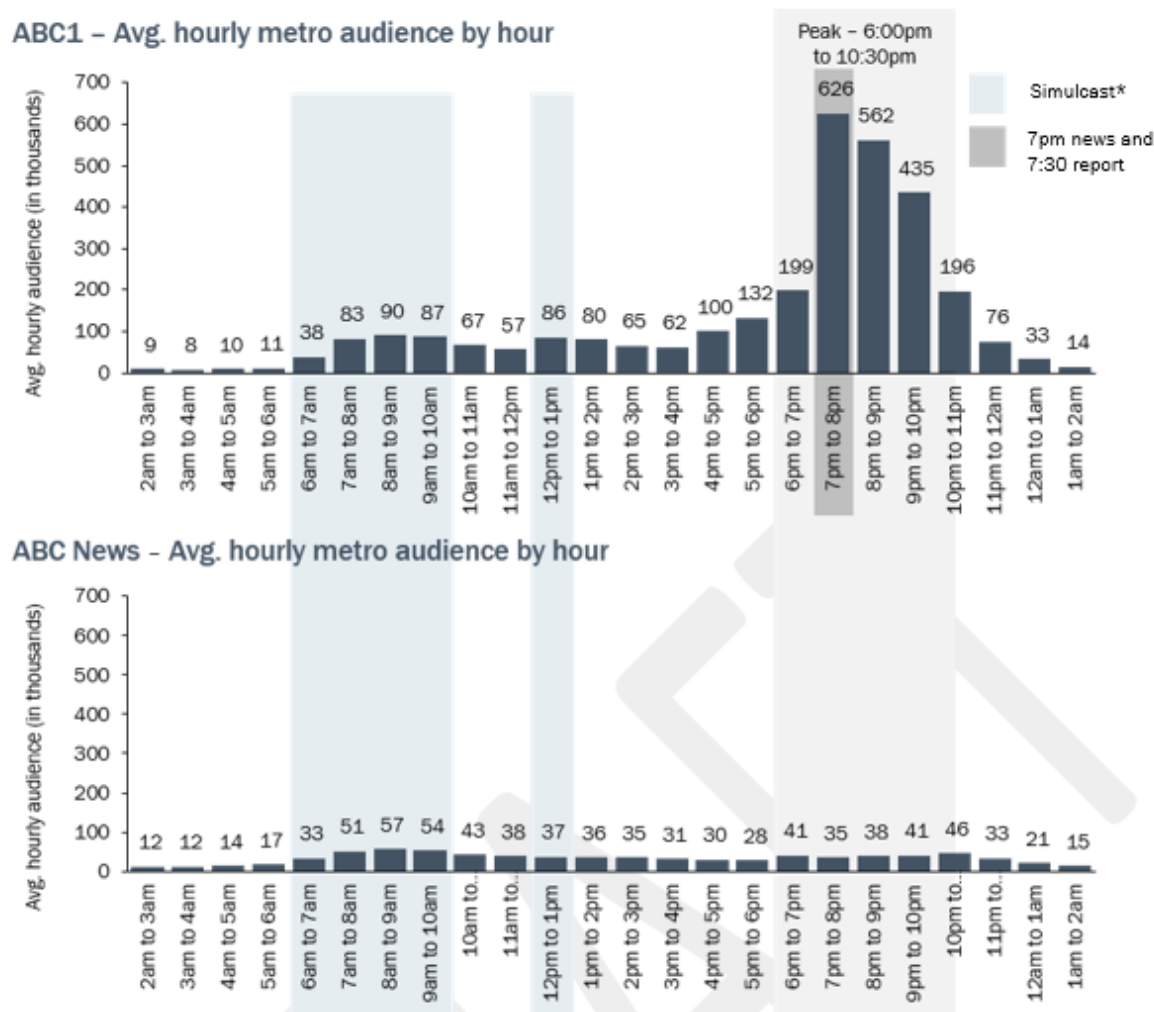
Source: KordaMentha analysis based on ABC data

ABC News channel

Based on 2017–18 OzTAM data and analysis of content on ABC News and ABC1, peak viewing on ABC News occurs during hours where content is simulcast from ABC1.

In 2017–18, 16.7% of total first-run news and current affairs content broadcast on ABC News was simulcast from ABC1, representing an average of 20.2 hours per week. Peak viewing on ABC1 occurs during the delivery of first-run news and current affairs programming: ABC News at 7 pm and the 7.30 program (Figure 39 below).

Figure 39: ABC1 and ABC News hourly metro audience by hour



Source: KordaMentha analysis based on OzTAM data

*Weekday simulcast during TV broadcast period—10 September to 16 September 2018

ABC News' hourly metropolitan audience has declined over the last year by 10.9% from 2016–17. Viewers of ABC News over the age of 50 have increased as a proportion of total viewers from 69.2% to 72.1% (Figure 40 below). ABC News and ABC1 have very similar viewer demographics. ABC1 has a slightly higher skew to viewers aged 50 and over (80.4%). This decline is perhaps not surprising given that, as the ABC has noted, 82% of Australians use online sources for news.¹²⁰

¹²⁰ ABC Submission to the Competitive Neutrality Inquiry, 2018, p. 17 (referencing Digital News Report 2018). Available at: <https://www.communications.gov.au/have-your-say/inquiry-competitive-neutrality-national-broadcasters>

Figure 40: ABC News—Average hourly metro audience by age group 2014–15 to 2017–18



Source: OzTAM

SBS multi-channels

SBS has three multi-channels: SBS Viceland, SBS Food Network and National Indigenous Television (NITV). All have small audiences, with very low levels outside peak viewing hours.

SBS Viceland

SBS Viceland's average hourly metropolitan audience peaks between 8:00 pm and 10:00 pm at 40,000 to 44,000 viewers (Figure 41 below). Before midday, SBS Viceland runs international news in languages other than English, in line with its charter obligations, with low audiences of between zero and 2,000 viewers.

SBS Food Network

SBS Food Network's average hourly metropolitan audience peaks between 7:00 pm and 11:00 pm (Figure 41 below). While low, with a peak of 30,000 from 9:00 pm to 10:00pm, the channel has a relatively consistent audience profile throughout the day. With the recent introduction of the Seven Food channel, based around the content supply previously used on SBS Food Network, it is likely that the audience will see further decline.

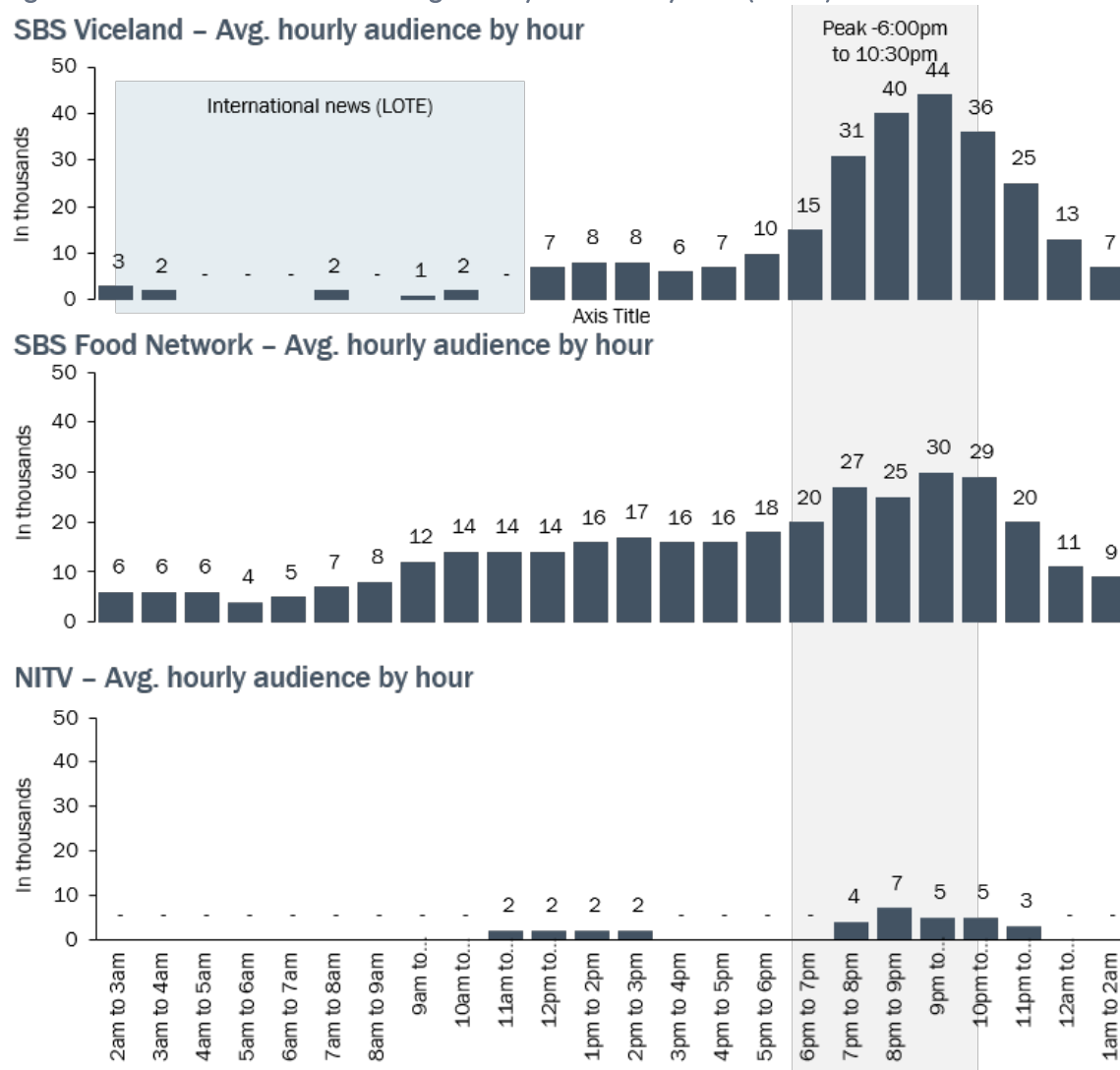
NITV

NITV—which is central to SBS's mission and remit—receives very low metropolitan audience engagement with large parts of the day registering zero audience data (Figure 41 below). It has been reported that SBS does not consider that the industry ratings system accurately reflects NITV's audience.¹²¹ SBS has also reported growth in the number of users of NITV's digital content.¹²²

¹²¹ Mumbrella, SBS boss: Oztam ratings are 'very unscientific' and underestimate size of NITV audience, 17 November 2014. Available at: <https://mumbrella.com.au/sbs-boss-oztam-ratings-unscientific-underestimate-size-nitv-audience-262848>

¹²² SBS, Annual Report 2017–18 p. 47. Available at: <https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

Figure 41: SBS multi-channels—average hourly audience by hour (metro)



Source: KordaMentha analysis of OzTAM data

5.5.2.4 Ongoing growth in digital delivery channels

The shift to digital delivery is continuing at pace fuelled by a proliferation of IP-enabled devices, lower cost high speed internet connectivity and the ever-increasing convenience of IP services, including multi-platform viewing and ease of finding desired content.

IP-enabled devices

The popularity of IP-enabled devices continues to increase with penetration of smartphones now well above 80%¹²³ and smart TV penetration doubling in the past five years to nearly 50%.¹²⁴

High speed internet access

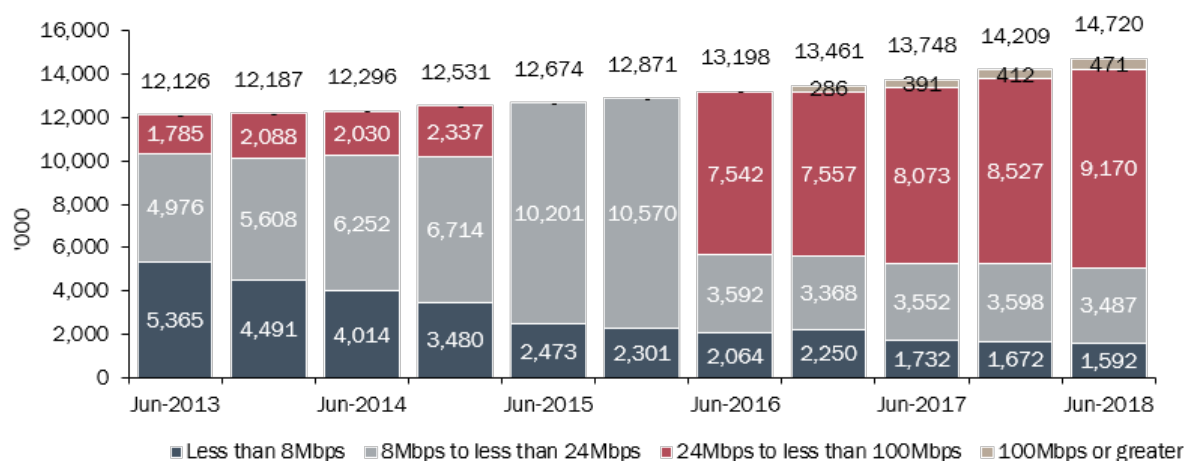
Streaming services generally recommend a minimum broadband speed of 1.5 Mbps with a requirement for 3 Mbps for standard definition quality and 5 Mbps for high definition quality.

¹²³ Australian Communications and Media Authority, Communications Report 2016–17, p. 4. Available at: <https://www.acma.gov.au/theACMA/communications-report>

¹²⁴ ThinkTV, Is That a Connected TV in Your Pocket?, January–June 2018. Available at: https://thinktv.com.au/wp-content/uploads/2018/08/THINKTV_FACT-PACK_H12018_Public_FINAL-1.pdf

The majority of the Australian population already has internet access capable of providing multiple concurrent SD streams. The chart below shows that, at June 2018, 13.1 million broadband subscribers had access to internet speeds over 8 Mbps.

Figure 42: Australian broadband subscribers by speed tier



Source: ABS, 8153.0 June 2018. Table 2

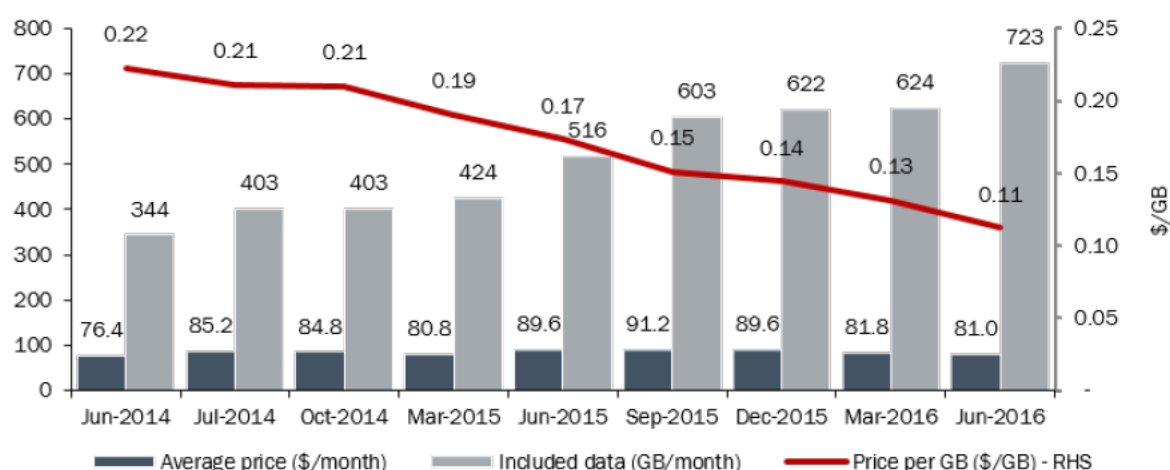
The National Broadband Network (NBN) is being rolled out 'to ensure all Australians have access to a fast, reliable broadband network'¹²⁵ through a combination of fixed line, wireless and satellite connections. NBN Co has a commitment to deliver access to peak wholesale download data rates of at least 25 Mbps to all premises, and at least 50 Mbps peak wholesale download data rates to 90% of the fixed-line network.¹²⁶ Many premises will be able to access speeds above these. The roll-out will allow for both an increase in picture quality and for more concurrent streams into the home.

Another major trend is in the reduction in data costs. As the chart below shows, the ongoing increase in the level of data inclusions in retail broadband plans has led to a halving of the price per gigabyte (GB) from \$0.22 per GB in June 2014 to \$0.11 per GB in June 2016.

¹²⁵ NBN Co, Corporate Plan 2019–22, p. 2. Available at: <https://www.nbnco.com.au/corporate-information/about-nbn-co/corporate-plan/corporate-plan>

¹²⁶ NBN Co, Corporate Plan 2019–22, p. 3. Available at: <https://www.nbnco.com.au/corporate-information/about-nbn-co/corporate-plan/corporate-plan>

Figure 43: ADSL on-net price trends



Source: BCAR, Trends and drivers in the affordability of communications services for Australian households. July 2017

Currently the usage levels of video delivered online are significantly higher in younger age groups. Figure 44 below shows around 30 hours per week of usage for the 18–34 age group versus only 18 hours for the 50–64 age group, and less than 7 hours for those aged 65 and over.

Figure 44: Time spent watching broadcast TV and online video by age group

Q4 2017 monthly time spent (hh:mm)	18–24	25–34	35–49	50–64	65+	All people*
Watching broadcast TV in the home within 28 days (live plus timeshifted TV)	26:26	40:46	71:28	114:46	149:24	74:58
Watching live TV	22:51	35:45	62:43	102:14	135:07	66:38
Watching online video on desktop, laptop, smartphone or tablet (people 18+)	31:05	30:45	25:10	17:44	6:38	21:36

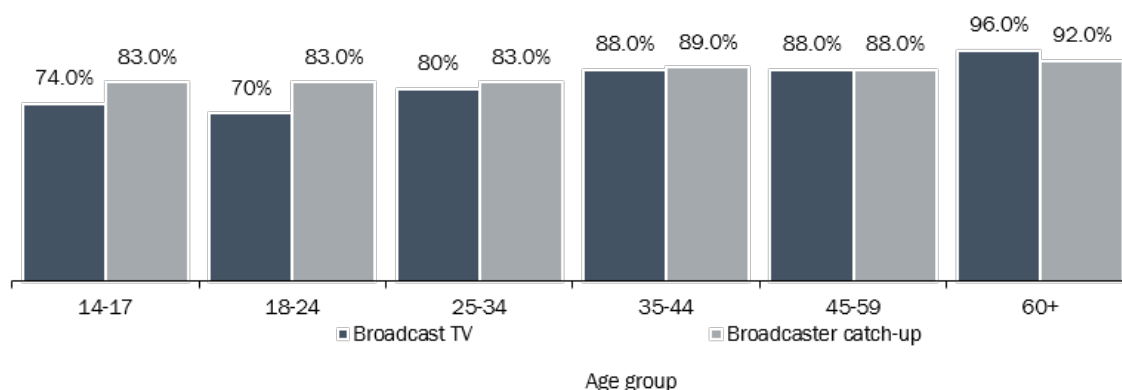
Source: p.15, PwC, Australian Broadcast Media Landscape 2018–2022

*'All people' includes kids and teens for the 'watching broadcast TV' and 'watching live TV' categories

However, importantly, this reflects hours of use rather than access. The chart below shows that the usage of catch-up services, regardless of hours used, is very high across all age groups.

Figure 45: Age profile of viewing platforms

Use of individual platforms as a percentage of sample



Source: p.17, Screen Australia, Online & On Demand 2017

Based on these trends, the migration of audiences from traditional linear broadcast services to online delivery services is expected to continue with online services dominating the delivery of video content in coming decades.

5.5.2.5 The need for ongoing investment in online delivery

Both the ABC and SBS have invested in online delivery services through, for example, SBS On Demand and ABC iview.

There has been an increase in content made available on ABC iview (driven primarily by additional children's programming).¹²⁷ Unique audiences (users) have increased from 2.1 million to 2.5 million over the last three years. However, average minutes viewed per person per month have declined to 103 minutes in CY2018 resulting in an overall 23.7% drop in total minutes consumed. Despite an increase in total unique audience and active reach, viewers are spending less time on iview.

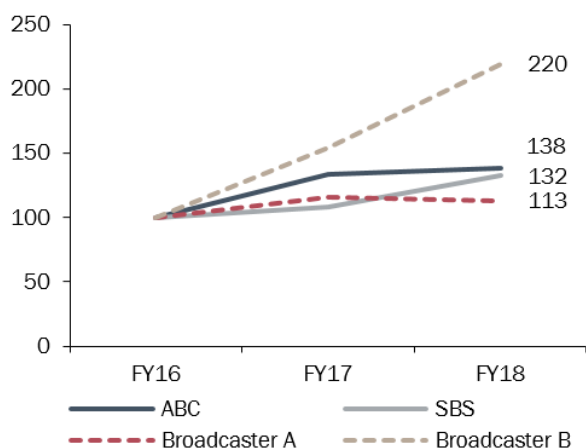
SBS's digital registrations have risen by 4.7 million from 0.4 million in October 2016 to 5.1 million in July 2018. The average number of unique visits per month to SBS websites has risen moderately from 2.5 million in October 2016 to 2.9 million in July 2018.

SBS measures viewing in chapters rather than time. Chapter views on SBS On Demand have increased 65.4% per annum between FY16 and FY18 with a large increase in the volume of drama watched. SBS has stated that this increase was driven in part by significant viewing of *The Handmaid's Tale*.

Figure 46 below illustrates the growth in users of the national broadcasters' IP platforms compared to two commercial broadcasters that provided data. Take-up of IP platforms has increased for all broadcasters.

¹²⁷ Based on broadcast hours provided by the ABC.

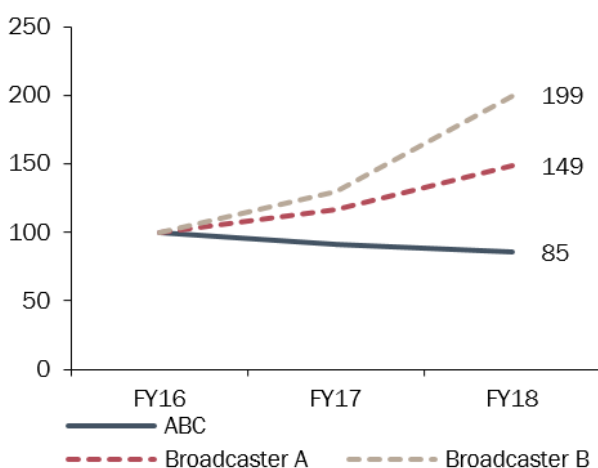
Figure 46: Active IP platform users (indexed)



Source: KordaMentha analysis of ABC, SBS and commercial broadcasters data

Figure 47 below compares consumption per IP platform user for the ABC to that of two commercial broadcasters. For the commercial broadcasters, the amount of content consumed per user has increased. Conversely, the ABC's per user consumption has declined over the last three years (the chart does not include SBS given the different way SBS measures viewing).

Figure 47: Viewing per IP platform user (indexed)



Source: KordaMentha analysis of ABC and commercial broadcasters data

Despite the success of these services it is clear that ongoing investment is required, particularly for the ABC. The nature of the digital delivery platforms, especially for video delivery, is that they must constantly evolve and adapt to the vast range of devices that are available to viewers.

The strength of global competitors taking advantage of their massive scale means that innovation will continue in this area and the ABC and SBS must continue investing to keep up with the expectations of their audiences.

This will include investment in viewer identity management systems, content delivery networks and their optimisation, ongoing feature development and the collection and use of data to enhance the user experience.

One of the success drivers for Netflix is its investment in data and analytics to not only support content decision-making but also drive a recommendation algorithm to personalise the user experience by surfacing relevant content.

In 2015, the BBC launched an initiative called 'myBBC' designed to personalise the BBC online service through use of data analytics (see 'Data-driven success' on page 104).

5.5.2.6 Recommendations—invest in digital delivery and consolidate linear channels

As linear broadcast audiences continue to decline the efficiency of continuing to deliver these services via terrestrial broadcast will also decline. This is particularly true of the multi-channels which already have small audiences and high levels of repeat content—often content that is nowadays typically consumed online.

The national broadcasters should continue to invest in digital delivery platforms. This should have a clear focus on:

- reliability, quality and ease of use of the platforms
- the quality and uniqueness of content (rather than volume)
- BVOD streaming
- timeliness and availability of catch-up content, and
- collection and utilisation of audience data (which should be a specific focus).

The national broadcasters should also consider the appropriate timing of migration of terrestrial services to online delivery to reduce costs, allow for greater focus on digital delivery channels and provide potential to reutilise spectrum in the future.

The ABC should consider, in the longer term, reducing its linear terrestrial broadcast channels from four to two. It would be a matter for the board and management how and when this might be achieved. By way of example, this might see ABC1 and another channel carrying the core, highest quality Australian news, drama, children's and indigenous programming supported by increased investment in those areas. Further investment would be made in enhancing children's and news content on the digitally delivered services, especially given that audiences for that type of programming are already strong users of IP platforms.

The aim would be a:

1. stronger core linear channel with more core programming including additional investment in news and current affairs, Australian stories and other content strongly aligned with the charter (including the most relevant content from ABC ME)
2. strong ABC Kids before and after school channel with the remainder of the day covering other Australian content such as comedy
3. continued focus on improving ABC iview, especially for the ABC ME target audience (which could be targeted with a specific iview app similar to the ABC Kids iview app)
4. continued focus on digital delivery of news content, especially for the ABC News audience.

Any reduction in the number of channels will be controversial especially if it involves Australia's only 24-hour free TV news service. There is a strong public interest in the ongoing delivery of high quality, independent news and analysis. Any change would therefore need to be accompanied by reassurance about expenditure on core news and current affairs programming and a notable enhancement of the ABC digital news offering.

SBS should take a similar approach. It would be a matter for the board and management how and when this might be achieved.

The aim would be a:

1. stronger SBS1 channel focused on core multicultural and other strongly charter-aligned content and including the most charter-relevant content from SBS Viceland and SBS Food Network
2. continued focus on enhancing SBS On Demand to deliver a wide range of charter-relevant programming, including low audience programming.

The review notes that SBS management argues that the existing SBS Viceland and SBS Food Network channels are currently at or near breakeven (or even modestly profitable) after advertising revenues. While the review accepts that that may be the case, it is understood that this is before the allocation of delivery and other support costs. The review considers that there is a need for a full analysis of the longer term avoidable cost.

The review was not provided with access to contracts with the providers of broadcast services. The review was therefore unable to confirm the timing that would allow for savings from reductions in terrestrial broadcasting to be generated.

The simplification of the ABC and SBS channels will provide a basis for greater focus and investment in their core services. Core services will continue to be found by audiences, be identified by their content, its quality and consistency, available on traditional and new platforms.

Recommendation 7

The national broadcasters should continue to invest in digital delivery platforms. This should have a clear focus on:

- reliability, quality and ease of use of the platforms (with compelling, state-of-the-art user interfaces and user experience)
- the quality and uniqueness of content (rather than volume)
- BVOD streaming
- timeliness and availability of catch-up content, and
- collection and utilisation of audience data (which should be a specific focus).

Recommendation 8

The ABC should consider, in the longer term, reducing its linear terrestrial broadcast channels from four to two to allow a greater focus on, and investment in, high quality Australian news, drama, children's and indigenous programming on those two channels and online, including on an enhanced ABC iview.

Recommendation 9

SBS should consider, in the longer term, reducing its linear terrestrial broadcast channels to allow a greater focus on, and investment in, core multicultural, indigenous and other strongly charter-aligned content on SBS1 and online, including on an enhanced SBS on Demand.

5.5.3 Potential efficiency benefits over the longer term

The review estimates that, longer term, between **\$80 million and \$115 million per annum could be redirected to reinvestment** through this 'focus' initiative. In addition, a minimum of **\$45 million** in content and resourcing would also be diverted from existing multi-channels to reconfigured ABC and SBS main channels and IP platforms.

These savings are based on high level estimates and would need to be developed in detail by each of the broadcasters.

In addition to the direct savings, freeing up the spectrum allocated to the multi-channels has the potential to generate value for the Commonwealth in the longer term. The national broadcasters should seek to negotiate with government to share any benefit realised from the re-farming of broadcast spectrum. The reviewers have not quantified this potential value. More detail about spectrum matters can be found in [Appendix C](#).

Chapter 6: Modernise work practices—near-term opportunities

6.1 Introduction

One of the many changes under way in the media industry around the world has been the transformation of work practices across all stages of production and distribution. This typically involves a combination of the revolution in content creation and transmission technologies together with the ability to then move to much more agile, flexible workforces. Many media organisations, both locally and globally, have been pursuing transformational modernisation initiatives and realising significant benefits as a result.

SBS has made substantial progress in modernising its work practices including adopting agile project management methodologies, successfully implementing a modern Media Asset Management system and outsourcing its play-out facilities to a cloud-based provider, Deluxe.

SBS sees this modernisation focus as integral to its organisation-wide long-term strategy, forming one of the five pillars of its ‘Four Year Strategic Journey’. This pillar, ‘Great Business’ states:

- *As we are small within our industry, this is about being smarter, faster and better—continuing to reduce our cost base and cycle times*
- *Best-in-class operational cost base, best-in-class operational processes, with globally unique deals*
- *Focusing on our core strengths, partnering with others in their areas of strength*¹²⁸

The ABC’s modernisation strategy was not made available to the review. The ABC 2018–19 Corporate Plan states:

Dependent on funding, over the coming four years the organisation plans to move away from legacy technology towards fit-for-purpose solutions...

*With significant technology investment, the ABC will create audience interfaces that are able to constantly improve and evolve based on data and innovation.*¹²⁹

The ABC has suffered from lack of reinvestment in many of its assets and this has led to many assets now approaching end of life, resulting in challenges in remaining on air unless these assets are refreshed in the near term. A recent PwC report indicated that 34% of the ABC’s asset base is at end-of-life in FY18, increasing to 68% by FY23, with 80% of this asset base within the content production and distribution areas.¹³⁰ No plans, either for Project Jetstream or an alternative, were provided to the review, though some were referred to and it appears that the ABC is focussing on delivering a modernisation program in-house.

Significant benefits would be available to the ABC from developing and implementing a transformational modernisation program, many elements of which should be outsourced.

While SBS is well advanced in its own program further improvements are possible, including in the costs of commercialisation and through greater collaboration on broadcast operations. In addition, there is a need to continue to iterate and evolve SBS platforms including, for example, SBS On Demand.

¹²⁸ SBS, Corporate Plan 2018–19, p. 18. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/120/h/SBS-Corporate-Plan>

¹²⁹ ABC, Corporate Plan 2018–19, p. 24. Available at: <https://about.abc.net.au/reports-publications/abc-corporate-plan-2018-19/>

¹³⁰ PwC, Funding and Trust: A review of the future funding requirements of the ABC, August 2018

6.2 Analysis

The review has not conducted a comprehensive analysis of all elements of the organisations' work practices. Rather, it has examined a number of key areas and conducted industry benchmarking to provide some examples of opportunities for modernisation.

The ABC should develop an ongoing comprehensive efficiency program focussed on modernising technology and work practices.

It is a matter for the management of each of the ABC and SBS to develop detailed plans for modernisation.

The review examined five examples of areas in which alternative approaches to work practices may give rise to efficiency opportunities:

- a. news gathering at the ABC
- b. radio production methods
- c. SBS's costs of commercialisation
- d. the ABC's commercialisation of news and current affairs footage
- e. broadcast operations.

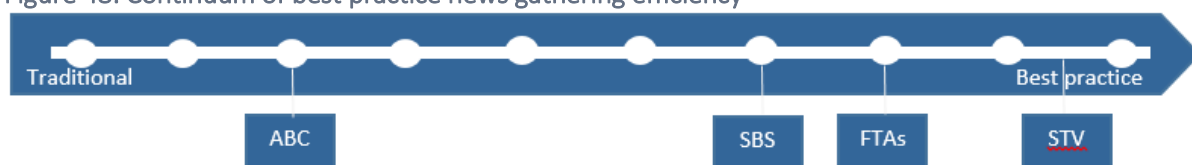
The broadcast operations opportunity is addressed in Chapter 7.

6.2.1 Improving news gathering efficiency at the ABC

The review finds that there is scope at the ABC to move towards industry best practice in news and current affairs gathering and production.

Sky News is considered the leader in efficient news gathering in Australia, employing most of the best practice techniques currently in use across the broadcasting industry, closely followed by the commercial free to air broadcasters, then SBS. It appears from the information available to the review that the ABC continues with more traditional, less efficient, news gathering practices.

Figure 48: Continuum of best practice news gathering efficiency



6.2.1.1 Moving to industry best practice

Moves to best practice news and current affairs involve centralised scheduling of news crews, multi-skilled teams, centralisation of facilities and remote, automatic control of equipment.

Figure 49: Moving to best practice news gathering efficiency

	From	To
Crew scheduling	<ul style="list-style-type: none"> Local scheduling, local crew Expertise-based mix of on-staff and freelancer/stringer 	<ul style="list-style-type: none"> Centralised scheduling—software-based Sophisticated mix of local and central and of FTE/on-staff and freelancer/stringer
Crew composition	<ul style="list-style-type: none"> Specialised skills—camera, sound, edit, journalist, communications Specialised program—news or current affairs 	<ul style="list-style-type: none"> Multi-skill—video journalist (VJ) with TVU-Pack Fit-for-purpose team size Multi-program where possible
Facilities and production control	<ul style="list-style-type: none"> Local studios, local control room for local program Manual camera, sound, lighting, cue Mostly manual control room 	<ul style="list-style-type: none"> Increasing centralisation of facilities, green screens Remote, automatic control of cameras, sound, lighting, auto-cue Automated, template based, centralised control rooms (e.g. Viz Mosart)
Sharing of 'generic' footage	<ul style="list-style-type: none"> Ad hoc—between two participants at a time—say five per cent to ten per cent of total footage 	<ul style="list-style-type: none"> Structured industry-wide, opt-in, including payment /cost offset ABC potential 'anchor' provider to industry if efficient and hungry Potential for 30 per cent to 50 per cent of total footage

Source: KordaMentha analysis

6.2.1.2 The cost of news gathering at the ABC

The review has found that the ABC's total TV news production costs (on ABC1 and ABC News 24) are higher than others in the industry, with much of the additional cost due to differences in work practices.

Estimates have been made on the basis of the cost centres used in the ABC's SAP resource management software, which were made available to the review. Late in the review's analysis, however, the ABC disputed the use of the SAP cost centres, preferring internal news allocations from its FY19 budget process.

If the allocations preferred by the ABC were applied to the review's analysis, more cost would be attributable to the News channel and less to news and current affairs on ABC1. The review would then expect proposed efficiency measures to be proportionally less rewarding on ABC1.

Industry benchmarking was conducted comparing the cost of core news and current affair services for ABC1 with those of the commercial broadcasters. This indicated costs to be in the order of 25–30% higher at the ABC.

The costs at 24-hour news channel, Sky News, are, as expected, considerably lower as they represent a different paradigm of automation and lean work practices and the ability to spread costs widely. The review estimates that the cost per hour at Sky News is in the order of 10–15% of that of the

commercial broadcasters. Achieving this level of production cost is unlikely to be possible for any but 24-hour news channels.

The ABC, too, has a greater breadth and depth of news and current affairs programming than most other broadcasters. It places a strong emphasis on accuracy and impartiality, ahead, for example, of being first to publish.

The review accepts that news and current affairs at the ABC will likely cost more per hour than at other Australian broadcasters, but considers that more efficient news gathering is nevertheless possible and that a mix of approaches could allow maintenance of core national news programming standards while extending the coverage of ABC's regional presence.

6.2.1.3 Potential efficiencies in news gathering at the ABC

There is an opportunity to save between \$10m and \$15m per year if the 25–30% cost gap to the commercial broadcasters were halved or reduced by 75%. Further savings would be possible through adopting more transformative changes in automation and work practices.

The ABC did not provide a breakdown of costs between ABC1 news and current affairs and the ABC News channel, resulting in estimates of the costs attributable to ABC1. The review remains confident, however, that substantial efficiencies are achievable and recommends the ABC carefully consider the way it allocates costs.

6.2.2 Improving radio production methods at the ABC and SBS

The ABC may have scope to move towards industry best practice radio production and operations. SBS also has opportunities, though smaller, to improve radio production efficiency.

Commercial broadcasters are considered the leaders in radio production efficiency. Based on information available to the review, the ABC uses more traditional, less efficient, radio production practices.

Figure 50: Continuum of best practice radio production efficiency



6.2.2.1 Examples of moving to industry radio production best practice

Moves to best practice in radio would involve better utilisation of personnel through multi-time (e.g. live breakfast and voice-track during the day) or multi-location production (all local stations serviced from a regional centre), a mix of local, national and international feeds and tech support shared between locations.

Figure 51: Moving to best practice radio production efficiency

	From	To
Hosts	<ul style="list-style-type: none"> Specialised by time/shift (e.g. breakfast, drive-time) and location (only 1) 	<ul style="list-style-type: none"> Multi-time—e.g. live breakfast, then voice-track for other times Some multi-location—nearby towns—record unique voice-track with local current events (researched)
News	<ul style="list-style-type: none"> Full local hosting with national, international segments 	<ul style="list-style-type: none"> Local-hosted local segment, national and international 'common' feeds
Programming	<ul style="list-style-type: none"> Full local hosting 24/7 	<ul style="list-style-type: none"> Mix of live local, voice-tracked, shared (across locations) own and purchased SBS—reduce number of languages broadcast
Tech support	<ul style="list-style-type: none"> Full local tech/engineering support 	<ul style="list-style-type: none"> Some shared between nearby locations and between local market players

Source: KordaMentha analysis

6.2.2.2 The cost of radio at the ABC and SBS

Based on industry benchmarking, the review estimates that the ABC is about 50% more expensive per hour than a broadly comparable commercial radio broadcaster.

While this is also true of SBS, given the lower broadcast hours and the nature of content broadcast (LOTE), the comparison is less useful.

Estimates have been made on the basis of the cost centres used in the ABC's SAP resource management software, which were made available to the review. Late in the review's analysis, however, the ABC disputed the review's use of the SAP cost centres, preferring internal news allocations from its FY19 budget process.

If the allocations preferred by the ABC were applied to the review's analysis, further efficiencies above those identified would be available in radio due to a resultant higher cost per hour against the benchmark.

The review recommends the ABC carefully consider the way it allocates costs.

In order to assess efficiency, the cost per first run hour of ABC and SBS radio was compared to commercial broadcasters. Some material differences are noted in the table below.

Figure 52: Comparison of costliness between broadcasters

	Type of cost	Comparison of costliness
ABC	Content only. Excludes transmission and delivery and overheads (including property).	ABC radio has a higher proportion of talk back to music—typically more costly.
SBS	Content only. Excludes commercialisation costs, transmission and delivery and overheads (including property).	SBS has lower broadcast hours and the nature of content broadcast (LOTE) is difficult to compare to other radio content.
Commercial broadcaster	Cost of radio has been adjusted for removal of commercialisation costs. Other costs not included for ABC and SBS (such as transmission, delivery and overheads (including property)) have not been adjusted out (conservative).	To account for different content profiles of the broadcasters and for comparison purposes, the commercial broadcaster's percentage of first run hours were adjusted down from an estimate of 50% (12 hours per day) to 30% (7.2 hours per day).

Source: KordaMentha analysis

To account for different content profiles of the broadcasters and for comparison purposes, the commercial broadcaster percentage of first run hours was adjusted down from an estimate of 50% (12 hours per day) to 30% (7.2 hours per day).

Both the ABC and SBS have higher costs per first-run broadcast hour than the comparison broadcaster. In FY18, the ABC was 1.49 times as costly and SBS was 1.63 times more per hour than the commercial broadcaster.

It is likely that SBS costs are higher than both the commercial broadcaster and the ABC because of the multilingual nature (and the higher associated costs) of SBS's radio stations (68 languages), although the review was unable to verify it.

6.2.2.3 Potential efficiencies at ABC Radio

Allowing for differing demands on ABC radio compared to commercial benchmarks, and the relative lack of data made available to the review, it is estimated that the application of best practice might achieve between 25% and 75% of the difference in costs, or between \$12.5 million and \$25 million per year.

The review accepts the vital importance of ABC local radio to communities large and small throughout Australia, and the ABC's commitment to localism may well mean that some of the efficient practices employed in commercial radio networks should not be applied at the ABC.

Savings potential is likely to be small at SBS at \$2.4 million to \$4.8 million per year.

Despite requests to both the ABC and SBS, limited information was provided to the review.

The review is nevertheless confident that efficiencies are achievable and recommends both the ABC and SBS carefully consider the practices employed in their radio operations, the commercial sector and international public service broadcasters.

6.2.3 SBS's cost of commercialisation

SBS's cost of commercialisation as a proportion of sales is materially higher than commercial free to air broadcasters.

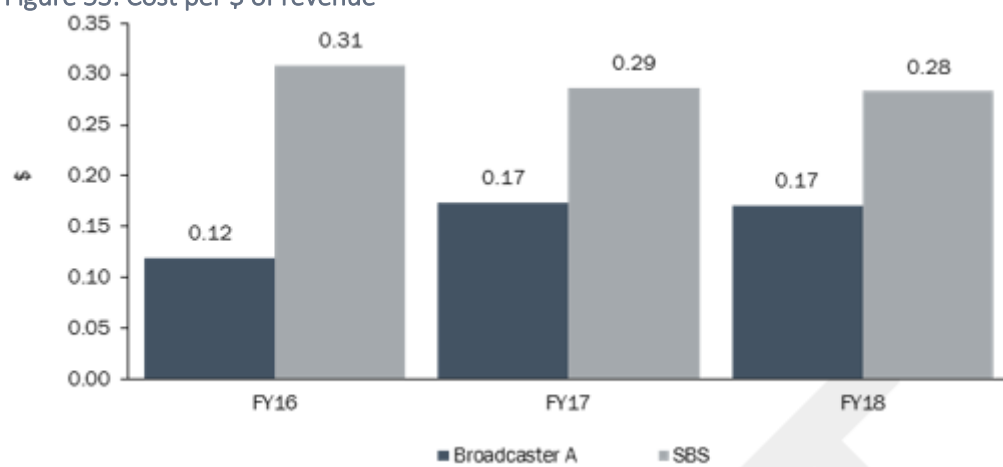
6.2.3.1 SBS's cost of sales as a percentage of gross revenue is high

SBS's cost of commercialisation has been benchmarked against a commercial sector practice. The benchmark cost of commercialisation in FY18 is 17.1% of gross revenue.

In FY18, SBS's cost of commercialisation was 28.3% of gross revenue, with a breakdown as follows:

- \$0.12 of employee costs per \$ of gross revenue
- \$0.10 of commissions per \$ of gross revenue
- \$0.06 of other costs per \$ of gross revenue.

Figure 53: Cost per \$ of revenue



Source: KordaMentha analysis

In FY18, SBS had 127 full time equivalent media sales staff generating revenue of approximately \$845,000 per year each. This level of staffing appears high compared to the commercial practice.

- MCN (Multi Channel Network), a joint venture between Foxtel and Fox Sports, has about 450 employees selling in excess of \$1 billion in sales annually, or \$2.2 million per year each.
- In addition, MCN manages advertising interests of 65 subscription television channel brands across Foxtel, 93 premium digital publisher websites, 48 m-sites, and 75 apps and online catch-up. Additionally, MCN represents 3 IPTV services and 73 Digital Out-Of-Home-TV screens with 21 major retail centres.

SBS has expressed the view that, though its cost of sales is high, so is the productivity of its sales team, with sales revenues climbing faster than costs. Information available to the review indicates that

- content commercialisation costs have increased on average by 8% per year from \$22.3 million in FY14 to \$30.4 million in FY18.
- costs as a percentage of gross advertising and sponsorship revenue has decreased from 30% in FY14 to 28% in FY18
- commercialisation staff have increased on average by 8% per year from 93 in FY14 to 127 in FY18
- advertising and sponsorship revenue per staff member has increased from \$793,457 in FY14 to \$845,304 in FY18.

6.2.3.2 Savings are possible

Material efficiencies should be achievable through the ongoing uptake of modern technologies and a resultant reduction in sales staff numbers. It is noted that advertising and sponsorship revenues have been increasing as a result of investment in sales staff, however, this does not mean that savings are not possible as new systems are embedded.

Modernisation of sales functions is well under way in the commercial sector. Hugh Marks, CEO at Nine Entertainment Co, was recently quoted on Nine's move into automation of advertising buys:

The launch of 9Galaxy, our TV automation buying platform, has been a game changer for Nine with already 30 per cent of our off peak and multichannel inventory traded on the platform. This removes a significant administrative cost on the business, while simultaneously providing major efficiencies in trading for both us and our clients. We are continuing to invest in this platform and will continue to ramp up its capabilities as the market moves to simplify the TV buying process.¹³¹

Cost savings of \$2.5m to \$5.0m may be possible.

6.2.4 The ABC would benefit materially from the commercialisation of 'generic' news and current affairs footage

Based on discussions conducted for the review with other industry participants it is estimated that 25%–50% of all news footage produced by the ABC is capable of being shared without competitive impact.

Several market participants supported the view that the ABC could become the 'sole' source of generic video footage for the industry. This would allow the ABC to maintain a local, Australia-wide news presence while offsetting the cost through footage sales. International footage would also form part of the offer assuming appropriate rights (i.e. ABC-created, or acquired with all Australian rights).

There is no doubt that demand exists and the ABC may have the potential to generate \$3.0 million to \$20.0 million of revenue to offset costs annually.

Calculations are based on high-level assumptions as detailed information was unavailable. Information that would have been useful to the review includes news gathering costs, number of crews, mix of full time equivalent staff versus freelancers and stringers, and average minutes of video footage that goes to air. The information on international bureaux was limited to cost per location.

Given the breadth and size of the ABC's news operations, including international bureaux, the ABC is well placed to become the industry source of generic news video—that is video that would not materially differentiate one news service from another. There will always remain demand for unique footage to be met by each service. The review notes that the ABC has said it would be interested in a generic video footage arrangement with the industry if it were the gatherer.

Other industry participants consistently express interest in more (and more structured) sharing of 'generic' news video footage. Careful consideration of the structure of the service would be required.

¹³¹ Sydney Morning Herald, Full responses: Media Monday chief executive survey, 29 October 2018. Available at: <https://www.smh.com.au/business/companies/full-responses-media-monday-chief-executive-survey-20181026-p50c60.html>

6.3 Recommendation

There are significant opportunities for efficiency savings at the ABC through modernisation of practices, although this will require investment in new technology and changes in work processes.

The review only examined a small number of areas and it is likely that there are many more opportunities that could be pursued to improve operational efficiency.

While there may be further opportunities available at SBS, it is apparent that SBS has put in place an effective program of continuous improvement which should capture further opportunities to improve work practices.

Recommendation 10

The ABC should develop an ongoing comprehensive efficiency program focussed on modernising technology and work practices.

Chapter 7: Increase collaboration and shared outsourcing

7.1 Industry collaboration and sharing

Collaboration and sharing are becoming increasingly common among Australian media businesses. In recent years there has been a dramatic change in the willingness of organisations, even historically fierce competitors which value their independence very highly, to work together to operate more efficiently and generate cost savings in areas that do not differentiate the products they provide to their audiences and customers. Savings can then be redirected to areas in which they do compete.

Collaboration and sharing, driven by industry-wide cost pressures, typically manifest themselves in areas that do not differentiate the services provided to the audience—such as broadcast operations, printing operations and administrative support functions. These are generally activities not visible to audiences, with opportunities arising from a combination of new technology and increasing benefits from scale, in the face of the threat of large, modern global competitors.

Examples of collaboration and sharing

Printing operations

News Corp Australia and Fairfax Media have reached an agreement to share printing presses and some distribution. They will each print for the other in their plants and both will close plants. Fairfax will save \$15 million in the latter half of the 2019 financial year¹³². The consolidation of resources recognises the challenges that the newspaper industry is facing, in particular rising costs of production and competition from digital platforms that do not face similar costs. The proposal will enable both companies to make the physical production of newspapers more efficient while they will continue to fiercely compete on content.

News gathering

Commercial free to air television networks Seven and Nine currently share helicopters and aerial vision in the five metropolitan capital cities¹³³. Additionally, sharing of news content is increasing—commercial broadcasters share non-exclusive pool footage on an ad-hoc basis, including SBS sharing this type of content with the commercial broadcasters.

The review has recommended in Chapter 6 that the ABC consider a role as the industry source of generic video footage, which would assist the ABC to maintain its local, Australia-wide news presence by offsetting the cost through footage sales.

Creative content production

There are a number of examples of cooperation in creative content creation among competitors, including Gogglebox (Foxtel and Ten) and Glitch and Pine Gap (ABC and Netflix).

Channel development

Sky News and Nine launched the 'Your Money' channel in October 2018. This is a 24-hour business and finance news channel on Nine's multi-channel and will replace Sky Business on Foxtel. It will also be streamed on 9Now and Foxtel Now.

¹³² ABC News, Fairfax Media and News Corporation agree to share printing facilities to offset newspaper decline, 18 July 2018. Available at: <https://www.abc.net.au/news/2018-07-18/fairfax-and-news-corp-agree-to-share-printing-facilities/10007442>

¹³³ Nine Entertainment Co Submission to the House of Representatives Standing Committee on Communications and the Arts Inquiry into the Australian Film and Television Industry April 2017, p. 6. Available at: <https://www.aph.gov.au/DocumentStore.ashx?id=8ca129d2-f6f4-44e6-b4e0-23a9e6312e33&subId=510350>

WIN recently launched a 24-hour news channel in 29 markets on a multi-channel—with a mix of newly produced and existing Sky News programming, all provided by Sky News.

Both these agreements enable Sky News to broadcast its content to a potentially much wider free-to-air audience, expanding its reach beyond the circa 30 per cent of Australian homes with subscription television.

Suggesting the national broadcasters realise efficiencies through collaboration and sharing is not new. Nor should it be confused with merger, which is outside the scope of this review. The 2014 Lewis review into the efficiency of the national broadcasters found that ‘the ABC and SBS should examine ways of modelling their operations in line with these prevailing industry trends.’¹³⁴ The report specifically considered whether efficiencies could be realised through collaboration between the two national broadcasters in human resources, legal and business affairs, finance and accounting, audience and consumer affairs, communications, marketing, publicity and promotion, technology, joint purchasing arrangements, co-location, and shared back-office operations.

While most of the Lewis recommendations for collaboration were not adopted, in early 2016, the ABC and SBS separately informed the Department of Communications that they had been working closely to investigate potential opportunities to work together on shared service contracts including:

- the Content Distribution Network (CDN)
- captioning and subtitling services
- terrestrial transmission services.

In addition, the ABC and SBS discussed collaboration on a joint electricity contract and the possibility of SBS's Melbourne office being collocated with the ABC at Southbank as part of the ABC's Melbourne Accommodation Project. The ABC informed the Department of Communications in 2016 that, upon examination, each of these projects was found not to be in the best interests of one or other of the organisations.

This review proposes a more aggressive assessment of opportunities to collaborate in four areas.

1. Broader industry-wide collaboration in broadcast operations—in the medium term, the ABC and SBS have the opportunity to outsource and share most or all of their broadcast operations. If they pursued this course, they could, for example, become ‘anchor tenants’ for an industry-wide consolidation of broadcast operations within three to four years. The review estimates that this could generate savings of between \$16 million and \$21 million per year.
2. Collaboration between the ABC and SBS in technology underpinning digital platforms. Both the ABC and SBS recognise that their future relevance depends on delivering their unique content to consumers in the ways in which they wish to consume it. This will require ongoing investment in digital platforms with a particular focus on collection and utilisation of consumer data to enhance the experience. The review recommends that ABC and SBS explore opportunities to leverage investment in this area.
3. Collaboration between the ABC and SBS in support, back office and property management areas—this review finds that an increase in collaboration and sharing across support, back office and property management functions would realise efficiencies of between \$33 million and \$49 million per annum across the two broadcasters, which would then be available for reinvestment. This excludes potential gains from property related cooperation and sharing.

¹³⁴ Department of Communications and the Arts, ABC and SBS Efficiency Study: Draft Report, April 2014, p. 37. Available at: https://www.communications.gov.au/sites/g/files/net301/f/ABC_and_SBS_efficiency_report_Redacted.pdf

4. Ongoing pursuit of industry collaboration opportunities in content acquisition and commissioning—both the ABC and SBS have pursued opportunities to work with traditional competitors in content acquisition and commissioning including SBS and Optus in sport and ABC and Netflix in Australian drama. These are important opportunities to drive efficiencies in content expenditure.

The ABC and SBS are fiercely independent and it is likely that the suggestion of increased sharing or collaboration will be viewed with caution and scepticism. However, when fierce competitors such as Seven and Nine or News Corporation and Fairfax have found a path to collaborating for efficiency while maintaining their competitive focus it is imperative that two non-competing government owned entities fully evaluate these opportunities. Importantly, these opportunities can be achieved in areas where there is significant value while independence and cultural distinctiveness can be maintained.

7.2 Industry-wide collaboration in broadcast operations

Engineering has been central to the broadcast sector since images were first transmitted. For much of television's life, the engineers and the technologists called the shots, deciding what was and wasn't possible and rising through the ranks of management. Over the last decade there has been a separation between the business and the technology. Just as car makers outsource much of their parts supply to focus on design and marketing (along with final assembly), broadcasters are outsourcing technical operations to focus on generating and commissioning content, scheduling and channel branding. They are creating a product to engage audiences and in the case of commercial networks, support advertising sales and subscriptions. Technology is the enabler, not the master.

Third parties are now able to provide all aspects of broadcast operations far more efficiently than every broadcaster managing its own, lowering operating costs and freeing up capital for investment elsewhere. Many broadcasters no longer run outside broadcast truck fleets or helicopters, for example, relying instead on specialists that can meet their needs transmitting live, from small local events up to the largest multi-faceted sporting and cultural events. Post-production facilities have been successfully outsourced to specialists that provide broadcasters with editing, sound, design and all aspects of playout. In Australia, the ownership and operation of towers and transmitters has been outsourced for some time.

Broadcast operations can be broken down into constituent building blocks (see 7.2.2 below), any or all of which may be outsourced or shared. Currently both the ABC and SBS outsource a limited number of these elements to separate service providers.

The review recommends that the ABC and SBS evaluate outsourcing most to all of broadcast operations to the same broadcast operations provider, to take advantage of the benefits of scale and, in time, so that they may become 'anchor tenants' for an industry-wide multi-tenant state of the art broadcast operations facility.

Examples of Australian and international media industry participants sharing and outsourcing broadcast operations components

Seven and Nine joint venture

Seven West Media and Nine Entertainment have entered into an agreement to share some media asset management (MAM), master control room (MCR) and playout functions in a combined facility at French's Forest in Sydney. Seven will close its broadcast centre in Melbourne with a reduction of about 150 staff from 2019 (with some increase in roles in a shared facility).

Tim Worner, CEO of Seven West Media was recently quoted as saying:

*They (rivalries) are not dead, but it is very different, and that is compared to how it was as recently as, say, two years ago. No question we are now in a world of 'frenemies'. Our mantra is 'collaborate on technology, compete on content'. As we showed with our playout operation joint venture with Nine Entertainment Co, there are opportunities to make savings, and maybe even build growth together. That business just announced Southern Cross as its first outside client.*¹³⁵

Southern Cross Austereo will join the joint venture, with plans to close its Canberra playout centre in 2020 and move to French's Forest. Grant Blackley, Southern Cross Austereo CEO, has said:

*Traditional media companies aren't competing on distribution channels, they are competing on content and sales, so it makes sense for us consolidate back office functions and save money which can be better used on delivering great content to engage our respective audiences and advertisers. This is particularly important in the face of emerging players and unregulated giants like Facebook, which have such a clear and inequitable competitive advantage. We have long worked with other regional TV broadcasters on transmission facilities. We are now working with Nine and Seven for TV playout. We have joint ventures with other commercial radio broadcasters to transmit digital radio around Australia. As an industry, we are moving together so we can spend more money on content, remain vibrant and entertain audiences in the great way we always have across new and existing delivery mechanisms.*¹³⁶

Fox Sports and NEP outside broadcast production

Fox Sports has entered into an agreement with NEP to shift to a multi-tenant, central-hub model provided by NEP Australia. This agreement commenced at the end of 2017. The relationship between Fox Sports and NEP is expected to lead to lower operational costs and greater efficiencies through a reduction in staff time spent travelling between venues, combined with efficiencies generated through resource sharing¹³⁷.

Other free-to-air broadcasters are expected to progressively move to the same shared facility, with savings of around 20 percent of current costs.

RedBee UK

Perhaps most relevantly, RedBee (owned by Ericsson) provides most broadcast operations as outsource provider for the BBC, ITV, Channel 4, UKTV and BT Sport from a single, multi-tenant facility near London.

¹³⁵ Sydney Morning Herald, Full responses: Media Monday chief executive summary, 29 October 2018. Available at: <https://www.smh.com.au/business/companies/full-responses-media-monday-chief-executive-survey-20181026-p50c60.html>

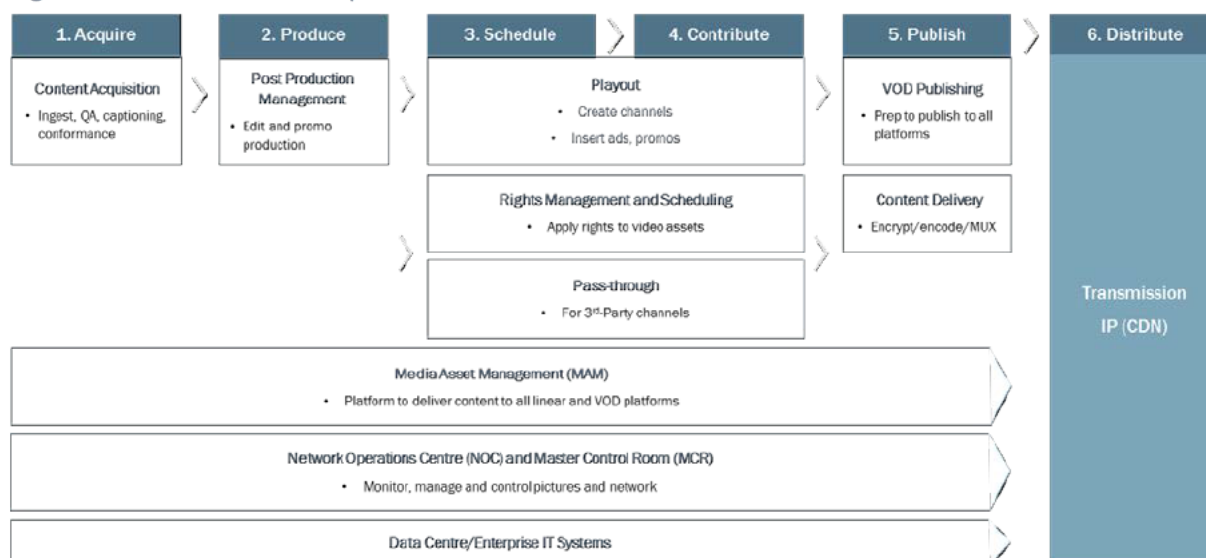
¹³⁶ Sydney Morning Herald, Full responses: Media Monday chief executive summary, 29 October 2018. Available at: <https://www.smh.com.au/business/companies/full-responses-media-monday-chief-executive-survey-20181026-p50c60.html>

¹³⁷ Media Week, Fox Sports and NEP Australia sign new six-year deal, 27 February 2017. Available at: <https://mediaweek.com.au/fox-sports-nep-australia-2017/>

7.2.1 The generic industry building blocks

The diagram below sets out the generic building blocks of broadcast operations—any and all of which may be shared or outsourced.

Figure 54: Media broadcast operations



Source: KordaMentha analysis

7.2.2 Broadcast operations—current and potential

The diagram below highlights each broadcaster's current status and potential for outsourcing. The ABC and SBS have the potential to share and outsource most or all of their broadcast operations and could become 'anchor tenants' for an industry-wide consolidation of broadcast operations within three to four years.

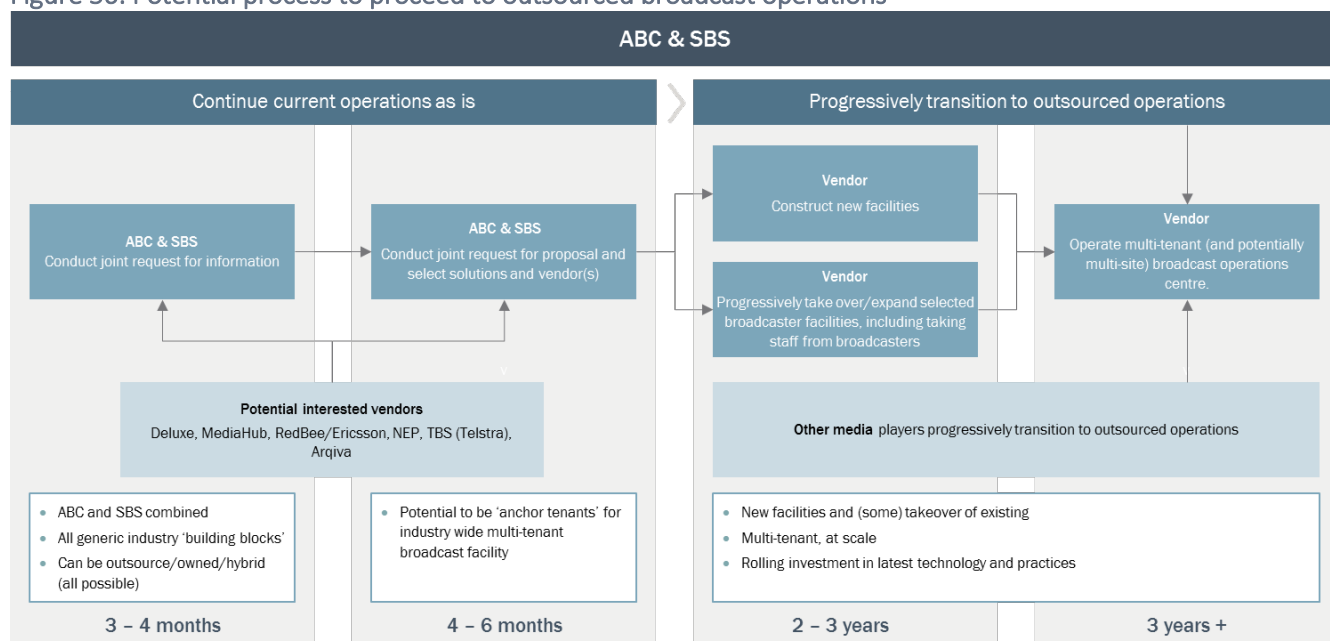
Figure 55: Current and potential outsourcing of broadcast operations

	Current	Potential
Building blocks	<ul style="list-style-type: none"> ABC—Outsource 1 building block—Payout—to MediaHub, a joint venture with WIN Television SBS—Outsource 1 building block—Payout—to cloud provider Deluxe 	<ul style="list-style-type: none"> All 10 building blocks outsourced to single provider
Tenants	<ul style="list-style-type: none"> ABC—modest multi-tenant SBS—single tenant, just moving to modest multi-tenant 	<ul style="list-style-type: none"> ABC and SBS move to same provider And become 'anchor tenants' for industry-wide multi-tenant facility
Tech	<ul style="list-style-type: none"> ABC—mainly hardware-based; different platforms for different content genres (e.g. News, Current Affairs, Entertainment) and distribution methods (broadcast TV, radio, digital) SBS—some cloud-based and software-defined; moving to common platforms 	<ul style="list-style-type: none"> IP-based and software-defined; cloud Common platform across genres and distribution methods Rolling renewal by outsourced provider—enabled by scale

Source: KordaMentha analysis

The following flowchart maps out a potential process for the ABC and SBS to proceed to outsourced broadcast operations.

Figure 56: Potential process to proceed to outsourced broadcast operations

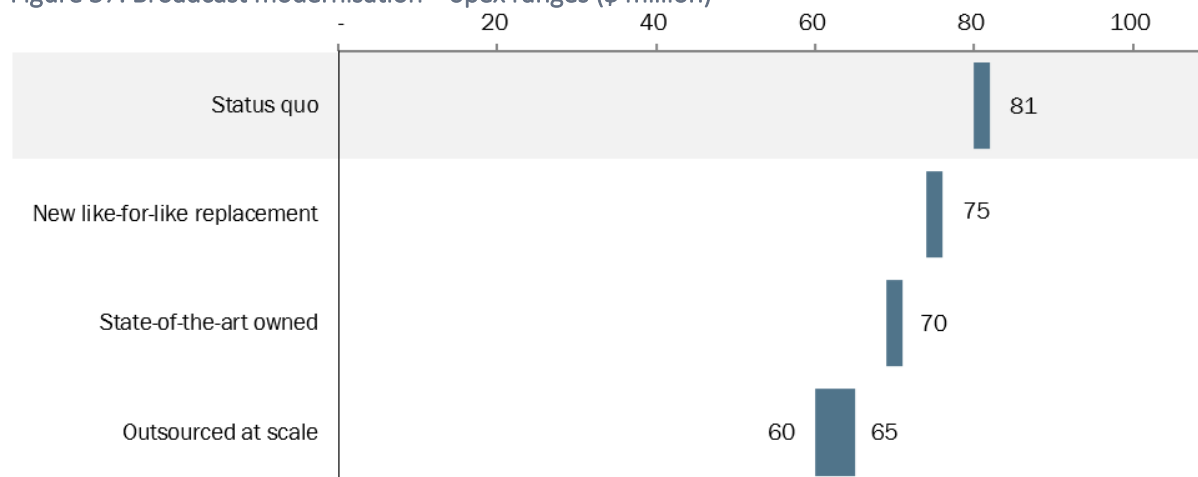


Source: KordaMentha analysis

The following graphs compare the estimated opex and capex costs for the ABC and SBS combined for keeping the status quo, like-for-like replacement of current assets as required, upgrading to state-of-the-art facilities while continuing to own these assets, and outsourcing at scale. The graphs show outsourcing to be the most cost-effective option.

Outsourcing most or all of broadcast operations to a multi-tenant operator will likely result in operating cost savings for the ABC and SBS combined in the order \$15 million to \$20 million per annum with dramatically lower capital investment required.

Figure 57: Broadcast modernisation—opex ranges (\$ million)

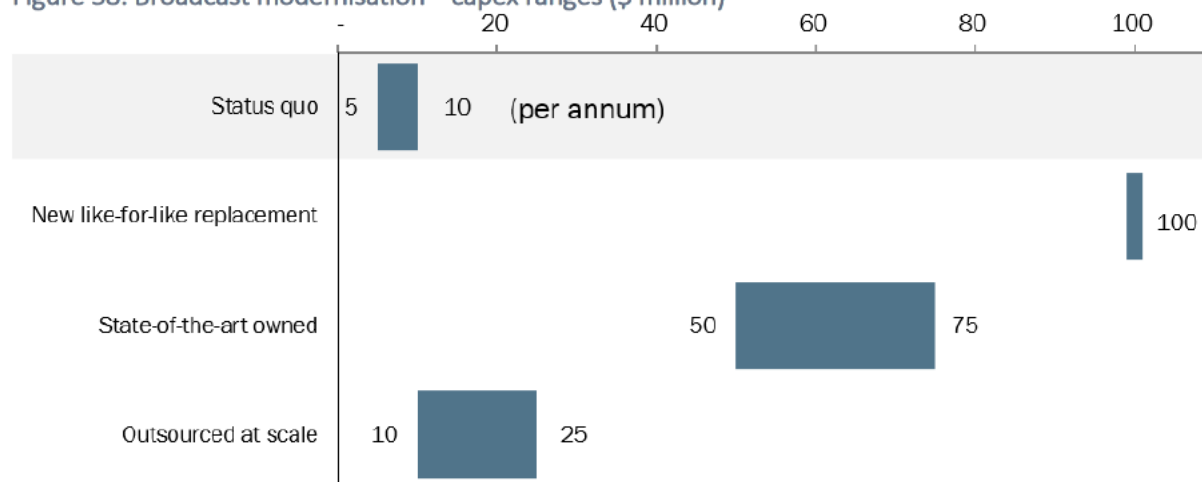


Source: KordaMentha analysis

In outsourcing the 'building blocks' the national broadcasters may find internal capex to be as low as zero (i.e. taken on entirely by the vendor that the broadcasters outsource to), however, to be conservative, the following estimates allow for internal capex for either or both of:

- one or two building blocks remaining in-house
- adaptation or modernisation of internal systems and equipment that interact with outsourced building blocks.

Figure 58: Broadcast modernisation—capex ranges (\$ million)



Note: Indicative cost range for medium to large scale multi-platform broadcaster. Estimates only.

The table below outlines potential implementation timeframes and key features of each option.

Figure 59: Options for broadcast operations—potential timeframes and features

Options	Status quo	New like-for-like replace	State-of-the-art owned	Outsourced at scale
Technology life cycle		3 to 5 years ago	Current	Next wave
Key features		New versions of existing platforms and equipment Some new technology	Significant use of Cloud-based technologies and software as a service	Large scale, multi-tenant, multi-location, rolling investment in latest technology
Time to implement		3 to 4 years	2 to 3 years	2 to 3 years

Source: KordaMentha analysis

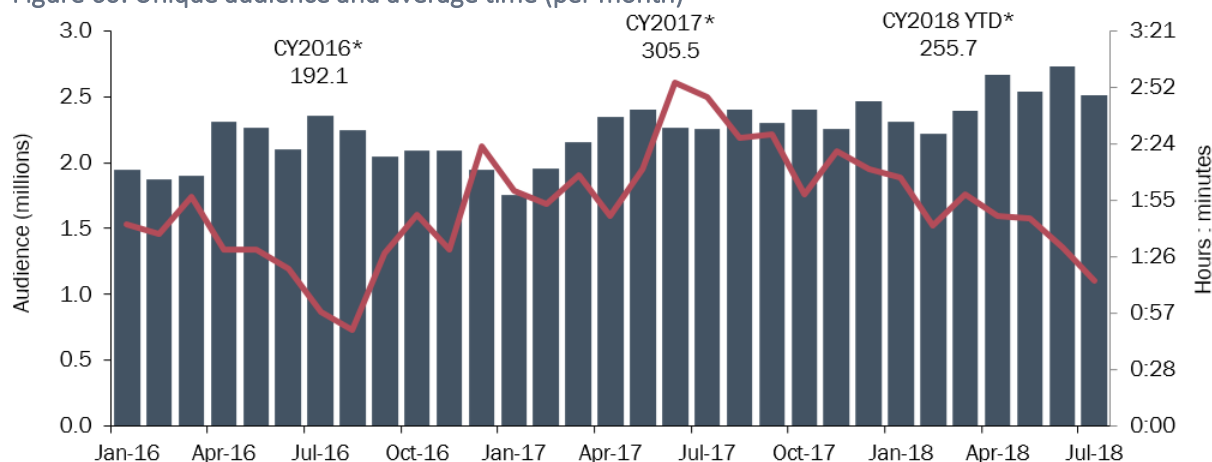
7.2.3 Collaboration in digital platforms

In all likelihood, 20 or 30 years from now free-to-air television and radio as we currently know them will have ceased to exist. During the 2030s Australians will have all but completed their migration from broadcast to digital services, streaming content as delivered or on demand. Content deliverers will have wound down their use of terrestrial broadcast networks, with today's broadcast spectrum bands moving to more efficient, higher value uses. The national broadcasters are in a position to lead this move, as the ABC led the way in IP delivered catch-up services with iview.

The ABC's over-the-top platforms such as iView and the ABC listen app have been developed over the last decade. The technology currently in use is inadequate to make the transition to entirely over-the-top IP delivery. Future IP delivery platforms will need to be more scalable and efficient, while at the same time content must be discoverable and universally available. The current content delivery ecosystem is being swamped by global providers like Netflix and Amazon Prime, which have scalable engines capable of meeting fluctuating audience demand, while, at the moment, Australia's domestic free to air media organisations do not.

iView is beginning to fall behind, and total unique audience has grown only modestly by 0.8% per month from January 2016 to July 2018 (8.7% CAGR per year). Since January 2018 viewer consumption has declined by 23.7% as average viewing time per person per month declined to 103 minutes from an average of 135 minutes in 2017. Figure 60 shows viewers are spending less time on iView despite an increase in total unique audience reach.

Figure 60: Unique audience and average time (per month)



*Average total minutes per month (millions)

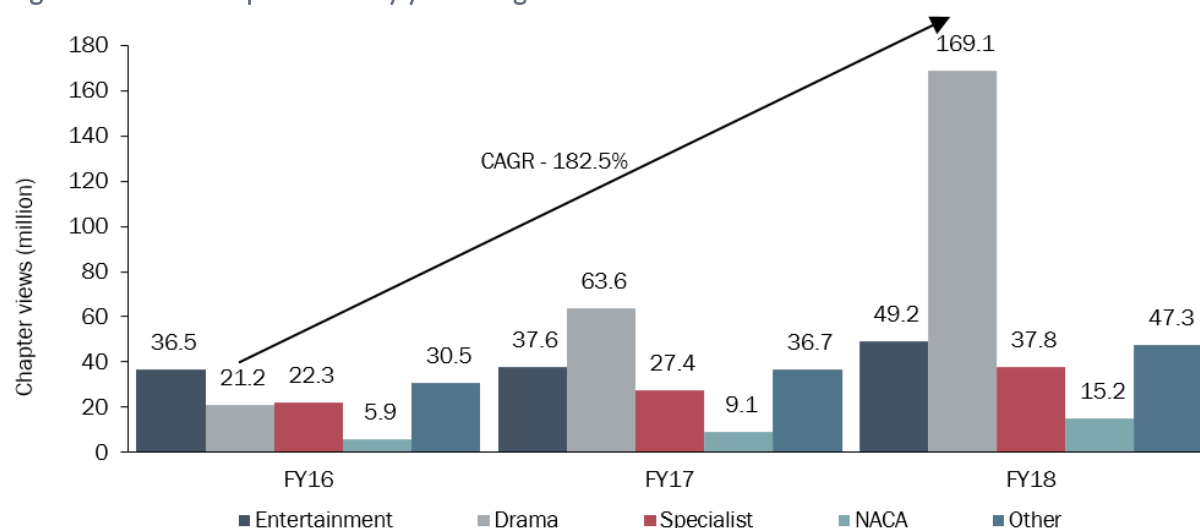
Source: KordaMentha analysis based on ABC information

SBS On Demand is a newer platform, and has benefited from the increasing popularity of streaming and video on demand with chapter views¹³⁸ increasing 65.4% per year from 116.5 million views in FY16 to 318.5 million in FY18. As well as significant viewing of *The Handmaid's Tale*, SBS has attributed the growth in chapter views to:

- shifts in audience consumption trends (i.e. rapid growth in online video viewing)
- new windowing strategies such as series drops and series stacking (rather than catch-up) for some drama series
- the launch of a campaign called 'Dramatically More' in June 2016 with 30 international dramas as premier and exclusive content (e.g. the Icelandic series *Trapped*), and
- increased consumption of catch up On Demand from key broadcast titles, again reflecting the shift in audience consumption trends.

¹³⁸ SBS measures viewing in chapters rather than time. A chapter is a fixed section of time of a program, the length of which is defined by SBS.

Figure 61: Video chapter views by year and genre



Source: KordaMentha analysis based on SBS information

7.2.3.1 Single platform, multiple skins

The user experience is key to driving greater consumption of over-the-top content. If users are unable to easily find what they want to watch, there is a plethora of other services and content from which to choose. Gathering data on what users watch, when, for how long and on what device is paramount in delivering a quality user experience.

The Boston Consulting Group wrote in late 2017 that:

Five years ago, a media company CIO who said that data was media's future would have received little support. The competitive landscape then was not the same as it is today, and boards of directors didn't appreciate the severity of the digital threat. Even if a visionary CEO had decided to fund such a project, finding the right talent to execute it might have been impossible.

Times have changed. Media companies must recognize that adopting a new approach to data management is not only necessary but an imperative of the first order. If print companies don't offer digital books and magazines, if broadcasters don't offer vastly more video content on demand, and if all of them don't capture data about their customers and provide personalized service—and go much further in imagining the future—they won't survive.¹³⁹

Data-driven success

One of the drivers of success for Netflix is its investment in data and analytics to not only support content decision-making but also drive a recommendation algorithm to personalise the user experience by highlighting relevant content.

In 2015 the BBC launched myBBC, designed to enable it to better understand and serve its audience by personalising the BBC online service through the use of data analytics. The two-year project created new capabilities for the BBC's online services, including for iPlayer and BBC News. Users were required to register, which allowed the BBC to provide individuals with tailored content recommendations and a viewing experience that moves between screens with the user.

¹³⁹ BCG, Media companies must reimagine their data for a digital world, 7 September 2017. Available at: <https://www.bcg.com/publications/2017/advanced-analytics-media-companies-reimagine-data-digital-world.aspx>

PwC recently wrote¹⁴⁰ that the project was transformational for the BBC, with data now being at the forefront of the BBC's content-planning decisions and editorial staff now using real-time analytics to tailor online experiences. The use of data extends beyond distribution and into marketing with the BBC personalising newsletters and social media campaigns.

A key enabler for this capability was the introduction of single sign-on for users of online BBC platforms. The BBC is able to identify who is using its platforms and store individual usage information over time. The BBC now has a data resource it can use to analyse individual and aggregated trends to improve audience experience.

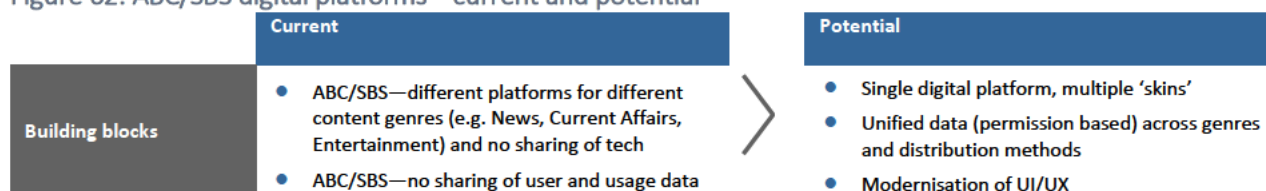
The ABC and SBS have taken different approaches to user data. SBS On Demand requires registration and has some five million registered users. For carefully considered reasons, including a commitment to universal accessibility, the ABC decided that iView would not require registration and the ABC has gathered relatively little useable user data, or data that it chooses to use. This means that SBS can provide a better user experience. SBS can also target its programming, promotions and advertising to individual users and the ability to do so will only improve as more data is collected.

The ABC does not currently individually target the user experience.

As they advance the development and functionality of ABC iView and SBS On Demand, the national broadcasters should consider collaborating on a single digital platform, with multiple skins to preserve their on-screen identities. A material difference to the user experience between the two skins could remain, but the back-end management of the platform would enable efficiencies through collaboration at scale, as well as the ability to share data if the two organisations saw value in doing so. Scale efficiencies would enable investment in improved platforms. For example, currently the ABC and SBS have different platforms for different content genres (e.g. News, Current Affairs, Entertainment) and no sharing of technology, users or user data.

The fact that the SBS carries advertising and the ABC does not should not prevent cooperation of this kind. Both would benefit from targeted program promotions, for example.

Figure 62: ABC/SBS digital platforms—current and potential



Source: KordaMentha analysis

7.3 Opportunities to collaborate in support, back office and property management

7.3.1 Observation

In the past suggestions that the national broadcasters share resources have been controversial and merger of the two organisations is outside the scope of this review. It is also well recognised that combining functions that are commonly referred to as 'back-of-office', such as payroll, procurement and property management may have cultural change implications and do not necessarily result in significant savings. However, industry experience shows that sharing these types of resources and functions can bring worthwhile efficiencies without sacrificing culture and independence.

¹⁴⁰ PwC, Funding and Trust: Review of the future funding requirements of the ABC, p. 27

While challenges exist, the national broadcasters should be able to navigate the cultural change risks and realise these savings.

7.3.2 Support and procurement

The ABC and SBS have advised that following the 2014 Lewis review they explored joint procurement opportunities. Some of these were successfully pursued but the majority were abandoned for a variety of reasons. Nevertheless, the review considers that the ABC and SBS should be able to share non-editorial, non-differentiating functions such as corporate support and procurement. Experience suggests that 10–15 per cent savings are achievable.

In FY18, the ABC spent \$139 million on procurement and SBS spent This text has been redacted., while on support functions the ABC spent \$92.6 million and SBS spent This text has been redacted.. The broadcasters should revisit these opportunities. The review estimates that \$33 million to \$49 million of savings should be possible across both national broadcasters.

7.3.3 Property management

The national broadcasters hold significant property portfolios, with the ABC owning 46 properties with a book value of around \$700 million, and SBS owning two properties.

The national broadcasters did not provide sufficient information to enable a value to be attributed to potential efficiency gains from their respective property portfolios. Nevertheless, there is enough information publicly available to suggest that a detailed strategic and operating property review of both organisations could deliver operational and strategic efficiencies.

The ABC does not have a dedicated head of property responsible for its portfolio, yet has approximately 40 staff managing it, which seems to be more than what is typically required for a portfolio of this size. The ABC also appears to be underutilising its properties, and it should consider options such as sale, sale and lease back, subleasing or co-location with the SBS.

SBS, although having a much smaller property portfolio, could still achieve efficiencies. Given the size of the ABC's property holdings relative to SBS's, future co-location with the ABC presents a potential opportunity for both organisations to gain material capital and operational efficiencies.

7.4 Potential savings

Further assessment is required by the ABC and SBS to determine the extent of the opportunity to collaborate and the costs of implementing any changes. However, high level estimates indicate potential long-term annual savings of up to \$49 million for the ABC and \$21 million for SBS (excluding any property savings or benefits from collaborating on digital platforms).

Figure 63: Potential savings from collaboration and outsourcing—ABC

Key initiative	Net opportunity range p.a.	Net opportunity range p.a.
ABC	Low	High
Sharing of support functions	\$9.3m	\$13.9m
Procurement	\$13.9m	\$20.8m
Broadcast operations outsourced at scale with SBS	\$10.93m	\$14.3m
Implementation considerations: Impact of arrangement with MediaHub and any other existing broadcast operations related agreements		

Key initiative	Net opportunity range p.a.	Net opportunity range p.a.
ABC Total	\$34.1m	\$49.0m

Figure 64: Potential savings from collaboration and outsourcing—SBS

Key initiative	Net opportunity range p.a.	Net opportunity range p.a.
SBS	Low	High
Sharing of support functions	\$2.7m	\$4.1m
Procurement	\$7.2m	\$10.8m
Broadcast operations outsourced at scale with ABC Implementation considerations: Impact of arrangement with Deluxe and any other existing broadcast operations related agreements	\$5.1m	\$6.7m
SBS Total	\$16.6m	\$21.6m

7.5 Recommendations

Collaboration between the ABC and SBS and with other players in the industry is no longer an optional consideration.

In particular, cooperatively outsourcing some or all of the elements of broadcasting operations is a strategic imperative.

The ABC and SBS should work together to produce a fully developed evaluation of opportunities to collaborate in order to drive efficiencies in the operations of their organisations.

Recommendation 11

The ABC and SBS should work together to explore industry-wide opportunities for creating (or joining) a broadcast operations utility to serve the ABC, SBS and other industry participants.

Recommendation 12

The ABC and SBS should work together to explore opportunities to jointly develop a digital delivery platform, including potential cross-promotion and (appropriately safeguarded and permission based) sharing of data.

Recommendation 13

The ABC and SBS should revisit opportunities to share support, back office and property services.

Recommendation 14

The ABC and SBS should, individually, continue pursuing opportunities for greater industry collaboration in the acquisition and commissioning of content.

Chapter 8: Invest in enablers—technology and cultural change

8.1 Introduction

The change required across all participants in the industry is significant. It must go well beyond incremental, evolutionary change.

Stopping some activities, dramatically changing work practices and collaborating with traditional competitors is challenging but necessary. The ABC and SBS are not unique in the funding constraints that they face but even if those constraints were removed the continued relevance of those organisations is not assured without significant change.

In particular, the ABC is confronting a major transformation with a likely requirement for a significant investment in upgrading its systems and modernising its work practices. This review was given many examples of the challenges of aging, inflexible and end-of-life systems, complex requirements, manual workarounds and prior failures in implementing major technology change.

The ABC did not provide any detail of its modernisation plans, though reference was made to Project Jetstream, a systems project requiring very large additional technology expenditure. It is clear that Project Jetstream's future is uncertain and likely to be resolved following the permanent appointment of a new managing director and chair.

It is estimated that 70–80% of significant transformation programs fail¹⁴¹ and those that do not rarely deliver the full benefits they promise. An important case study is the BBC's 'Digital Media Initiative' (DMI) described in the box below.

The BBC 'Digital Media Initiative'

The failure of the BBC's 'Digital Media Initiative' (DMI) provides valuable insights into an attempt to transition into digitisation.

The DMI was a complex business transformation program aimed at radically changing the way in which the BBC makes content for its audiences. The DMI comprised strategic investment in infrastructure, people and production processes focused on standardising the production, storage and use of digital content across television, radio and online. It included technologies allowing BBC staff and partners to develop, edit, share and manage video and audio content and programming on their desktops. In addition to the technology elements of the program, the DMI was to deliver a standard set of processes across the BBC, requiring a significant change in operational and cultural ways of working.¹⁴²

In May 2013, the BBC cancelled the DMI after concluding that most of the millions it had spent had been wasted. Over a period of six years the BBC planned, designed and attempted to build the DMI at an estimated net cost to licence fee payers of £98.4 million. Both PwC and the National Audit Office (NAO) conducted reviews into the DMI to understand what went wrong. The NAO concluded that:

The BBC was too optimistic about its ability to implement [the DMI] and achieve the benefits. It did not establish clear requirements for the system or obtain a thorough independent assessment of its technical design as a whole to see whether it was technically sound. Confusion about the content of technology releases and protracted problems with getting the system to work

¹⁴¹ John P. Kotter, *Leading Change*, Boston: Harvard Business Press, 1996

¹⁴² PwC, *BBC Digital Media Initiative—Review of the BBC's management of DMI*, 17 December 2013. Available at: http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/vfm/dmi/pwc_dmi.pdf

contributed to a growing gap between technology development and what system users expected.¹⁴³

The NAO also found:

The level of assurance and scrutiny that the BBC executive applied to the DMI was insufficient for a high-value and strategically important programme that involved significant risks. The BBC executive did not have a sufficient grip of the programme and did not appear to appreciate the extent of the problems until a late stage. If the BBC had established better governance and reporting for the DMI, it would likely have recognised the difficulties much earlier.¹⁴⁴

One of the specific findings of the NAO of particular relevance highlighted that:

the BBC's management of the DMI was focused more on the technological aspects of the programme rather than enabling BBC-wide change. To achieve the forecast benefits after building the system, the BBC would have to change its archiving and production processes. However, PwC found that DMI reporting focused on technology risks and issues rather than whether the programme could achieve operational change to business practices in the BBC.¹⁴⁵

Prior to embarking on a significant modernisation programme, the ABC must ensure that it invests in the enablers for successful transformational change—in this case, investing in the capabilities and methodologies required to deliver successful technology implementation including the significant cultural change that is required.

This section deals with the approach required to develop two core enablers:

1. a comprehensive approach to technology transformation, and
2. an investment in cultural change and employee engagement.

8.2 A comprehensive approach to technology transformation

Most major technology transformations fail outright or disappoint through cost overruns, failure to deliver benefits or missed deadlines. The Boston Consulting Group (BCG) has researched what is required from the outset to ensure that the best outcomes are delivered. BCG highlights six key levers:

1. Transform the business—not just the systems

Major technology transformations are not only about technology change. They are about using technology as an enabler for transforming work practices—from what activities get done to how it gets done. This includes, in the ABC's case, consideration of use of technology to facilitate multi-platform propositions (e.g. generate once, use multiple times), changes in approach to quality controls and elimination of manual activities. A key element is to ensure that work practices are adapted to the technology rather than technology being adapted to existing work practices. The review understands that this has not always been the case in the past for the ABC, particularly in relation to the management of digital assets.

¹⁴³ National Audit Office, British Broadcasting Digital Media Initiative, 27 January 2014, p. 11.
Available at: <https://www.nao.org.uk/wp-content/uploads/2015/01/BBC-Digital-Media-Initiative.pdf>

¹⁴⁴ National Audit Office, British Broadcasting Digital Media Initiative, 27 January 2014, p. 11.
Available at: <https://www.nao.org.uk/wp-content/uploads/2015/01/BBC-Digital-Media-Initiative.pdf>

¹⁴⁵ National Audit Office, British Broadcasting Digital Media Initiative, 27 January 2014, p. 8.
Available at: <https://www.nao.org.uk/wp-content/uploads/2015/01/BBC-Digital-Media-Initiative.pdf>

2. Design and execute for value

BCG found that many organisations focus on big ambitious plans with huge budgets. They then develop firm, detailed design and execution plans with clear multi-year milestones. This often involves making large, initial investments and then focusing on generating the payoffs. BCG believes that this contributes to failure and recommend that these projects have bold and ambitious targets but that system design and execution plans should be flexible and adaptive. Implementation should be conducted in small, manageable pieces, and high-value, low-risk components should be rolled out first to deliver early wins and gather lessons for future stages.

3. Select the right delivery approach and partners

The most successful programs choose their partners based on ability to innovate and adapt and then build flexibility into the solution upfront. Contracts have clear links to outcomes and are structured to share risk.

4. Establish a proactive, enabled governance capability

Most major projects have a Program Management Office (PMO) but with the most successful projects this plays a proactive role with a forward-looking process, authority to make decisions that ensure the integrity of the solution and has visible support from the most senior levels of the organisation.

5. Actively manage the stakeholder ecosystem

The best projects were found to actively engage a wide group of stakeholders with tailored communications to each group. The stakeholder focus is firmly on delivering the maximum value from the project rather than generating consensus support. Stakeholder management must focus on transparency around the implications of the change including confronting negative perceptions head on.

6. Overinvest in the right people and capabilities from day one

The capabilities and experience to deliver major transformation is rarely available entirely within an organisation. It is critical to make an honest assessment of the internal capabilities and to go outside to recruit the right talent when required.

SBS has implemented a number of very successful systems projects in recent years. Two of these are the successful implementation of a new Media Asset Management System (MAM) and the successful outsourcing of playout to Deluxe.

The SBS multiplatform content repository (MAM) project has demonstrably improved the efficiency and effectiveness of content creation at the organisation. The MAM project used many elements of the technology transformation approach above to achieve this outcome. The MAM was a four year, \$10 million information technology project delivered on time and within budget. As a result of the project, holistic media asset management now operates across all content divisions and has allowed for the deprecation of four platform specific solutions. This project is driving ongoing efficiencies of \$1.5 million per annum and the following operational improvements:

- improved content discovery, repurposing and automated workflows
- improved editing capabilities allowing desk-based production
- mobile content authoring
- creation of one newsroom through centralised workflows
- enhanced publishing to multiple platforms
- multi-skilled workforce using the same content system.

In another example, the outsourcing of SBS broadcast playout facilities helped modernise its delivery model and realise more than This text has been redacted. in operational efficiencies. SBS undertook this transformational outsourcing project in 2015 through a partnership with Deluxe Australia. Many other global broadcasters have now followed SBS' lead in adopting an IP based broadcast solution utilising cloud technology to gain efficiencies and flexibility. By realising this project, SBS eliminated the need for a significant future capital outlay to refresh existing broadcast and playout infrastructure. This was estimated to be in the order of This text has been redacted.. Successful completion of the project also allowed SBS to further focus on dedicating resources to content creation.

The review was not provided with any details of the ABC's technology transformation plans but understands that it is unlikely that management will pursue Project Jetstream, a complex, multi-year technology transformation program that was championed by the previous Chairman. However, it is clear that a significant investment program will be required to upgrade and modernise existing legacy platforms.

8.2.1 Recommendation

Any proposal for technology transformation should be supported by a detailed plan that comprehensively addresses each of the elements required to ensure successful program execution. The program should have a bold and ambitious goal to transform the organisation rather than be focused on the technology itself. The plan should be focused on specific, manageable phases of work that ensure that value is delivered early in the program. It should utilise a flexible delivery approach with a focus on core capabilities that enable adaptation over time. The program must have a plan for active governance (including a commitment from the managing director and senior team) and a comprehensive approach to communications and change management across the organisation. It must also have a detailed capability plan including an assessment of areas in which external talent will be required to support internal resources.

Recommendation 15

The ABC should ensure that its technology modernisation proposal is accompanied by a comprehensive implementation plan outlining the approach to each of the six key elements of successful technology transformation.

8.3 Investment in cultural change and employee engagement

Many of the changes required at the ABC will affect staff across the organisation. There will be changes in work practices, potential implications for organisation design and possible reskilling requirements. Without the engagement of employees and a willingness to embrace the change required transformation efforts are likely to fail.

Research has identified that one key differentiator of successful transformation programs is that they have strong leadership from the very top of the organisation coupled with high levels of employee engagement. Staff understand and believe in the vision for the organisation, understand the role that they play in helping to achieve that vision, know what is required from them, have the capabilities necessary to make the changes required and see the benefits for them in embracing the change.

The ABC and SBS are at different stages in the transformation cycle with different levels of engagement and alignment around the organisational goals and objectives.

The ABC is still early in its transformation efforts with significant change ahead. The organisation currently operates with many end-of-life, inflexible legacy systems and inefficient manual processes. The change required to modernise and digitise its processes and activities is significant and will likely require significant people change. The organisation has faced significant disruption in recent years and with recent changes to the Managing Director and Chairman will likely continue to face a level of uncertainty as to strategy in the short term until formal appointments are made.

The disruption in the organisation is reflected in a decline in staff engagement and evidence of uncertainty among staff as to the organisation's strategy. The 2017 Staff Engagement Survey built on the findings of the 2015 Survey, to give a whole-of-ABC picture of ABC employees' challenges and satisfactions in the workplace. In November 2017, morale among ABC staff had dropped lower than when the equivalent survey was conducted in 2015. According to a summary of results, staff engagement dropped from 52% in 2015 to 46% in 2017. Almost 2900 staff responded to the survey, conducted by Aon for the ABC. One of the worst performing criteria was whether action taken as a result of the previous survey had made the ABC a better place to work—only 17% of respondents thought this was the case.

SBS, on the other hand, has recently completed a successful transformation of many parts of its organisation. SBS has a shared approach to resource allocation and budgeting with shared key performance indicators across business units.

SBS's annual Employee Opinion Survey in 2017 showed a strong engagement result of 77%, placing the broadcaster ahead of the overall Australian and Media and Creative Industry average. 92% of employees are proud to work for the organisation and 85% believe that SBS provides a supportive culture for employees from diverse backgrounds.¹⁴⁶ This positive result came in an environment of continual change across the business and demonstrates a strong alignment around the organisation's vision and strategy. SBS provides a valuable case study in the approach that can be taken to achieve a successful transformation program.

With a newly appointed Managing Director it is an opportune time for SBS to take advantage of its strong engagement as it embarks on the next phase of its evolution.

8.3.1 The Qantas example

Qantas is a strong Australian transformation example. Like the media sector, the aviation industry has faced disruption and change in recent years. Qantas has had to respond to global market changes and has had a long running series of initiatives aimed at shoring up its business.

In 2014 Qantas made a loss of \$2.8 billion, grounded planes amid industrial disputes in 2011 and, at one point, considered looking to the Government for assistance.

In 2017, the airline completed its three year turnaround project, and reported its second highest profit before tax, of \$1.4 billion, following the previous year's record of \$1.53 billion profit before tax.¹⁴⁷

Transformation involves making fundamental changes in how a business operates in order to help cope with shifts in market environments.

¹⁴⁶ SBS, Annual Report 2018, p. 85. Available at:

<https://www.sbs.com.au/aboutus/corporate/view/id/111/h/Annual-Reports>

¹⁴⁷ Business Insider Australia, The Qantas turnaround is complete, 25 August 2017. Available At:

<https://www.businessinsider.com.au/the-qantas-turnaround-is-complete-2017-8>

PM Partners Group¹⁴⁸ has noted that the hallmarks that made the Qantas transformation successful were:

- CEO or equivalent sponsorship
- a clear business strategy
- a clear transformation strategy aligned to the business strategy with:
 - a) clear vision
 - b) objectives
 - c) a plan with milestones
 - d) a focus on people: succession planning and the CEO's ability to involve people with experience across multiple portfolios.
- transparency and governance.

Of particular note is that Qantas has signalled, post-turnaround, that its job is not done.

Qantas is now shifting its focus to an ongoing sustainable program of works. It is now in what it describes as an adaptive mode, characterised by an intention to remain focused on customer service, innovation and shareholder return by investing in upgrading planes, new routes and new planes. It is focussed on creating a culture and 'talent trap' for continuous adaption, creativity and change.

8.3.2 Recommendation

The new leadership team at the ABC will need to foster a healthy, high-performing and efficient organisation with strong engagement from staff from across the organisation if it is to achieve the transformation required.

This team needs to identify the factors most responsible for successful and sustained change. These include:

- CEO and board sponsorship of the change
- a clearly defined long term vision and strategy that builds on the DNA of the ABC
- a clear transformation plan aligned to the business strategy with:
 - e) clear vision
 - f) objectives
 - g) clear milestones
 - h) a focus on people including training as required
- a clear stakeholder engagement plan to ensure ongoing transparency
- clear tracking and reporting of performance against the plan to ensure strong governance.

This program, more than any other, will need to enable the diverse members of the ABC to feel aligned with the organisation's goals and its leaders' vision, and feel ownership of the change that is required.

Recommendation 16

The ABC should develop a comprehensive employee engagement program to support the changes required.

¹⁴⁸ PM Partners Group, When is a Transformation not a Transformation?, 7 September 2017. Available at: <https://www.pm-partners.com.au/transformation-vs-turnaround>

Chapter 9: List of recommendations

Take a long term perspective (Chapter 4)

Recommendation 1

The ABC and SBS should develop a public ‘statement of charter interpretation’ to:

- assist the national broadcasters to set priorities and guide swift and transparent differentiation between peripheral and core activities
- inform business plans for any proposed new services and activities and set out the rationale that supports the direction proposed
- explain each charter-related function that the broadcaster intends to perform, and why each function is important or valuable to the Australian public
- provide direction for long and medium term planning and form the basis for operational goals and performance metrics
- promote innovation as well as maintain emphasis on current core functions that continue to serve the Australian public well.

Recommendation 2

The ABC and SBS should develop a long term (10 year) strategic roadmap to guide investment decisions and focus of the organisations.

Recommendation 3

The ABC and SBS should adapt the PGPA mandated corporate plan to provide a medium term (1–4 year) detailed business plan including detailed annual deliverables.

Recommendation 4

The ABC and SBS should attach clear and detailed performance indicators to one, four and ten year forward plans to track progress toward strategic and operational goals.

Recommendation 5

The Government should introduce a 10 year funding model to provide greater certainty over a 10 year forward planning horizon.

Focus on the core (Chapter 5)

Recommendation 6

The ABC and SBS should clearly identify those areas of content that are at the core of their charter obligations and ensure that they are adequately funded. Where necessary to protect and grow those core areas, the ABC and SBS should reconsider expenditure in other content areas with the goal of stopping expenditure where necessary to reinvest in the core.

Recommendation 7

The national broadcasters should continue to invest in digital delivery platforms. This should have a clear focus on:

- reliability, quality and ease of use of the platforms (with compelling, state-of-the-art user interfaces and user experience)
- the quality and uniqueness of content (rather than volume)
- BVOD streaming

- timeliness and availability of catch-up content, and
- collection and utilisation of audience data (which should be a specific focus).

Recommendation 8

The ABC should consider, in the longer term, reducing its linear terrestrial broadcast channels from four to two to allow a greater focus on, and investment in, high quality Australian news, drama, children's and indigenous programming on those two channels and online, including on an enhanced ABC iview.

Recommendation 9

SBS should consider, in the longer term, reducing its linear terrestrial broadcast channels to allow a greater focus on, and investment in, core multicultural, indigenous and other strongly charter-aligned content on SBS1 and online, including on an enhanced SBS on Demand.

Modernise work practices—near-term opportunities (Chapter 6)

Recommendation 10

The ABC should develop an ongoing comprehensive efficiency program focussed on modernising technology and work practices.

Increase collaboration and shared outsourcing (Chapter 7)

Recommendation 11

The ABC and SBS should work together to explore industry-wide opportunities for creating (or joining) a broadcast operations utility to serve the ABC, SBS and other industry participants.

Recommendation 12

The ABC and SBS should work together to explore opportunities to jointly develop a digital delivery platform, including potential cross-promotion and (appropriately safeguarded and permission based) sharing of data.

Recommendation 13

The ABC and SBS should revisit opportunities to share support, back office and property services.

Recommendation 14

The ABC and SBS should, individually, continue pursuing opportunities for greater industry collaboration in the acquisition and commissioning of content.

Invest in enablers—technology and cultural change (Chapter 8)

Recommendation 15

The ABC should ensure that its technology modernisation proposal is accompanied by a comprehensive implementation plan outlining the approach to each of the six key elements of successful technology transformation.

Recommendation 16

The ABC should develop a comprehensive employee engagement program to support the changes required.

Appendix A: Charters of the national broadcasters

ABC Charter

Section 6 of the Australian Broadcasting Corporation Act 1983

- (1) The functions of the Corporation are:
- (a) to provide within Australia innovative and comprehensive broadcasting services of a high standard as part of the Australian broadcasting system consisting of national, commercial and community sectors and, without limiting the generality of the foregoing, to provide:
 - (i) broadcasting programs that contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community; and
 - (ii) broadcasting programs of an educational nature;
 - (b) to transmit to countries outside Australia broadcasting programs of news, current affairs, entertainment and cultural enrichment that will:
 - (i) encourage awareness of Australia and an international understanding of Australian attitudes on world affairs; and
 - (ii) enable Australian citizens living or travelling outside Australia to obtain information about Australian affairs and Australian attitudes on world affairs; and
 - (ba) to provide digital media services; and
 - (c) to encourage and promote the musical, dramatic and other performing arts in Australia.

Note: See also section 31AA (Corporation or prescribed companies to be the only providers of Commonwealth-funded international broadcasting services).

- (2) In the provision by the Corporation of its broadcasting services within Australia:
- (a) the Corporation shall take account of:
 - (i) the broadcasting services provided by the commercial and community sectors of the Australian broadcasting system;
 - (ii) the standards from time to time determined by the ACMA in respect of broadcasting services;
 - (iii) the responsibility of the Corporation as the provider of an independent national broadcasting service to provide a balance between broadcasting programs of wide appeal and specialised broadcasting programs;
 - (iv) the multicultural character of the Australian community; and
 - (v) in connection with the provision of broadcasting programs of an educational nature—the responsibilities of the States in relation to education; and
 - (b) the Corporation shall take all such measures, being measures consistent with the obligations of the Corporation under paragraph (a), as, in the opinion of the Board, will be conducive to the full development by the Corporation of suitable broadcasting programs.
- (3) The functions of the Corporation under subsection (1) and the duties imposed on the Corporation under subsection (2) constitute the Charter of the Corporation.
- (4) Nothing in this section shall be taken to impose on the Corporation a duty that is enforceable by proceedings in a court.

SBS Charter

Section 6 of the Special Broadcasting Service Act 1991

- (1) The principal function of the SBS is to provide multilingual and multicultural radio, television and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia's multicultural society.
- (2) The SBS, in performing its principal function, must:
 - (a) contribute to meeting the communications needs of Australia's multicultural society, including ethnic, Aboriginal and Torres Strait Islander communities; and
 - (b) increase awareness of the contribution of a diversity of cultures to the continuing development of Australian society; and
 - (c) promote understanding and acceptance of the cultural, linguistic and ethnic diversity of the Australian people; and
 - (d) contribute to the retention and continuing development of language and other cultural skills; and
 - (e) as far as practicable, inform, educate and entertain Australians in their preferred languages; and
 - (f) make use of Australia's diverse creative resources; and
 - (g) to the extent to which the function relates to radio and television services—contribute to the overall diversity of Australian television and radio services, particularly taking into account the contribution of the Australian Broadcasting Corporation and the community broadcasting sector; and
 - (h) to the extent to which the function relates to radio and television services—contribute to extending the range of Australian television and radio services, and reflect the changing nature of Australian society, by presenting many points of view and using innovative forms of expression.
- (3) The principal function of the SBS under subsection (1) and the duties imposed on the SBS under subsection (2) constitute the Charter of the SBS.
- (4) Nothing in this section imposes on the SBS a duty that is enforceable by proceedings in a court.
- (5) A subsidiary function of the SBS is to carry on, within or outside Australia, any business or other activity incidental to the fulfilment of the Charter.

Appendix B: International comparison of public broadcaster frameworks

Figure 65: Overview and comparison of public broadcaster frameworks

	ABC	SBS	British Broadcasting Corporation (BBC)	Canadian Broadcasting Corporation (CBC)
Charter/ Legislated Purpose	<p>The <i>Australian Broadcasting Corporation Act (1983)</i> establishes ABC's Charter as:</p> <ul style="list-style-type: none"> • "Programs that continue to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community" • "Programs of an educational nature" • To transmit Australian news and entertainment outside of Australia. • "to provide digital media services" • "to encourage and promote the musical, dramatic and other performing arts in Australia" 	<p>The <i>Special Broadcasting Service Act (1991)</i> establishes its Charter as "Provide multilingual and multicultural radio, TV and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia's multicultural society".</p> <p>The Act also provides a series of more descriptive statements under its principal functions.</p>	<p>The BBC has a renewed Charter every 10 years. The BBC's mission is "to act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain." More particularly its Public Purpose is to:</p> <ul style="list-style-type: none"> • To provide impartial news and information • To support learning for all ages • To show the most creative, highest quality and distinctive output and services • To reflect, represent and service the community and • To reflect the UK around the world. <p>The Charter also contains prescriptions around how it achieves its mission and its public purposes.</p>	<p>The <i>Broadcasting Act 1991</i> provides that the CBC should "provide radio and television services incorporating a wide range of programming that informs, enlightens and entertains". It further specifies that it should be:</p> <ul style="list-style-type: none"> • predominantly and distinctively Canadian • reflect Canada and its regions • contribute to cultural expression • be in English and French to equivalent quality • contribute to national identity • be available across Canada and • be multicultural.
Strategy/Interpretation of Charter	<p>"to be the leading independent source of Australian conversations, culture and stories"</p> <p>2018–19 plan contains four pillars:</p> <ul style="list-style-type: none"> • Creating distinctive content that matters for all Australians. • Providing an outstanding audience experience. • Delivering programs that reach and engagement with more people. • Building a great place to work. 	<p>"SBS inspires all Australians to explore, respect and celebrate our diverse world and in doing so, contributes to a cohesive society"</p> <p>2018–19 plan includes:</p> <ul style="list-style-type: none"> • Providing 'deep audience engagement on all platforms' • Having a distinctive network that focuses on linguistic and cultural diversity. • Engage with local communities. • Best in class operations 	<p>The annual plan contains a very detailed discussion how the BBC will address its Charter over the coming year through explaining the strategic context (a discussion of the objectives of the area and the issues impacting the area) and outlining a creative plan (detailed description of the actions and activities that area will undertake) for each of its public purposes.</p>	<p>CBC "expresses Canadian culture and enriches the life of all Canadians, through a wide range of content that informs, enlightens and entertains". CBC's vision is to be "the public space at the heart of our conversations and experiences as Canadians".</p> <p>This will be achieved by focusing on distinctive content and services that mirror Canadian's changing media consumption.</p>

	ABC	SBS	British Broadcasting Corporation (BBC)	Canadian Broadcasting Corporation (CBC)
Governance/ Oversight	<p>The Board of the ABC is responsible for ensuring its functions are “performed efficiently and with maximum benefit”.</p> <p>Board members are recommended by the Government.</p> <p>Minister may direct ABC to broadcast material they consider is in the national interest.</p> <p>ABC is regulated by ACMA as a TV broadcaster.</p>	<p>The Board of the SBS is responsible for ensuring its functions are performed in a “proper, efficient and economical manner with the maximum benefit”.</p> <p>Minister may give written directions to the Board not dealing with scheduling of programs or digital content.</p> <p>SBS is regulated by ACMA as a TV broadcaster.</p>	<p>The Board of the BBC is responsible for ensuring the BBC carries out its duties and contains a list of tasks the Board must carry out.</p> <p>The BBC is also regulated by Ofcom using specific powers under the Charter and related agreements.</p> <p>In addition the BBC has an Operating Licence which sets out the regulatory conditions it must operate in and provides specific conditions relating to distinctiveness and quotas for material.</p>	<p>The Board of the CBC is responsible for management of the business, activities and other affairs.</p> <p>The CBC is accountable to Parliament through the Minister.</p> <p>The CBC is regulated by the Canadian Radio-television and Telecommunications Commission as a TV broadcaster, there are no special oversight conditions like with the BBC.</p>
Planning	<p>Four year corporate plan prepared annually. 21 pages. Includes KPIs and summary financial projections.</p>	<p>Four year corporate plans prepared annually. 40 pages. Includes KPIs and summary financial projections.</p>	<p>Annual plan prepared each year for the following year which outlines creative remit, work plan, services to be provided to nation and to the World Service.</p> <p>Annual plan is 58 pages of predominantly text and exhibits. Includes detailed discussion of issues impacting the industry and how they plan to respond.</p>	<p>Five year corporate plan prepared annually. 50 pages. Includes re-cap of prior year objectives and achievements.</p>
KPIs	<p>24 KPIs across eight areas.</p> <p>Dealing with amount of Australian content, quality of content, corporate trust, user experience, reach, access and availability and corporate culture.</p>	<p>11 KPIs across four areas.</p> <p>Dealing with amount of programming, amount of first run programming, transmission and support expenditure as a percentage of total expenditure, population reach and service standards.</p>	<p>Detailed quotas as established by the Operating Licence.</p>	<p>Nine high level but specific KPIs across four areas, focusing on service standards but also goals (e.g. cost reduction)</p> <p>Deals with audience feedback, diverse content, reach, digital interactions, radio listening, property footprint, employee engagement and diversity and cost reductions.</p> <p>Also includes detailed capital investment plans and sources and uses of funds.</p>

Appendix C: Freeing up spectrum

Channel rationalisation will bring a number of worthwhile benefits, most significantly in the medium term the efficiencies referred to in Chapter 5, which will enable the redirection of resources to core programming and technological modernisation. The arguments for channel rationalisation are strong without reference to the potential financial and productivity returns to the public from spectrum re-farming. However, those potential benefits should also be considered when longer-term decisions are being made.

In addition to channel rationalisation and potential associated shared multiplexes, the introduction of new digital broadcast technologies such as DVB-T2 or HEVC would also free up spectrum for more efficient use.

In the longer term a significant benefit to be realised will lie in the re-farming of spectrum for higher value, most likely wireless broadband uses.

The current configuration of broadcast spectrum restricts its use to terrestrial TV. Realising the opportunity for a further 'digital dividend' in the 600 MHz range will require a combination of new technology adoption by industry and consumers and channel 'restacking', likely to take several years. Even then, as always, the realisable value of the freed-up spectrum will depend on local demand, which in turn will to some extent depend on world markets for wireless services, harmonised spectrum ranges, device ecosystems and so on. Nevertheless, terrestrial television broadcast is highly unlikely to be the most efficient and highest value use of this sub 1GHz spectrum in coming years.

There is room for the national broadcasters to take the lead among all terrestrial broadcasters and enter into negotiations with the Commonwealth for the release of some broadcast spectrum in the longer term and to discuss the sharing of the resulting benefits. These matters might be factored into discussions about the funding of shorter-term investments (for example in technology modernisation) and longer-term returns.

As alternative use for spectrum requires industry wide consolidation and global market support, consideration given to the channel architecture of the national broadcasters should be undertaken on the basis of Charter compliance and efficient use of capital. If the Government looks to advance a future digital dividend, the ABC and SBS should be at the forefront of channel rationalisation and consolidation. There are broadly two options as outlined in Figure 66 on page **Error! Bookmark not defined.**

- Current configuration of broadcast spectrum allows use for terrestrial broadcast TV only.
 - Broadcast spectrum is allocated into five 'six channel blocks' @7 MHz per channel in 2 bands.
 - Generally the three commercial FTA broadcasters (Seven, Nine and Ten) use three of the 'six channel blocks', the national broadcasters use two and the remaining block is unallocated.
 - Spectrum channel allocation varies by location around the country.
 - Broadcast towers only carry DVB-T and MPEG2 + MPEG4 (and radio) technology.
- A future digital dividend is possible but requires a combination of several factors, which will be expensive and take several years.
 - It would be possible to free up spectrum by ceasing some channels and/or using new technology (DVB-T2 and HEVC) and/or sharing multiplexes. A switch to new technology will require:
 - Installation of DVB-T2 equipment on broadcast towers using the existing vacant ('sixth') channel (and any further spectrum as it is freed) then the upgrade of the TV/tuner installed base in homes (similar to the analogue-to-digital switchover). This may be done initially by promulgating a 'roadmap to DVB-T2' that alerts retailers to import futureproof sets early on, or even mandating the right standards in sets.

- Progressively rollout the new DVB-T2 transmissions until there is matched coverage of new and old services.
- When coverage is matched, and domestic receiver penetration is deemed to be high enough, the old DVB-T signals can be turned off, then the remaining channels can be re-stacked to free up the digital dividend.
- The total cost could be in the hundreds of millions of dollars. It is possible to auction off the new channels before these processes are finished. In the case of a 'two-sided auction,' the Government could potentially do so very early on and direct the revenue to paying for the rollout and restack.
- The value of spectrum to others will depend on world markets for alternative uses.
 - Australia follows the world for spectrum bands for fixed or mobile wireless technology—mainly due to telecommunications and consumer equipment availability.
 - World trends may not favour use of the 600 MHz range for fixed or mobile wireless broadband, the two most likely uses.

Figure 66: Future digital dividend—options for the ABC and SBS

Options considered	Consolidation of ABC and SBS on to a single mux using DVB-T and MPEG-2 or MPEG-4	Consolidation of ABC and SBS on to a single mux using DVB-T2 and HVEC
Option overview	<ul style="list-style-type: none"> • This option would free up one channel in every market and could use existing transmitters. • Overall, the number of services carried would diminish by 50% in the MPEG-2 only option, less for MPEG-4. • No upgrade of domestic TV would be needed to support MPEG-2 only operation. Whereas a small percentage of sets may need to upgrade if ABC/SBS move to all MPEG-4 compression. • Technically, a re-stack to convert the two free channels at each site into a 'digital dividend' could then occur, however, this would likely be opposed by commercial FTA broadcasters, who would be trapped (as would ABC/SBS) on three DVB-T channels at each location, losing the option of accessing vacant channels to assist with any standards migration. 	<ul style="list-style-type: none"> • This option would free up one channel in every market, potentially more if commercial FTA broadcasters choose to consolidate on to fewer than three channels at each site. • Potential for services carried to remain the same due to use of superior transmission / compression (DVB-T2 and HVEC). • This option would require new transmitters (DVB-T2) and FTA broadcasters will require equipment upgrade. • Upgrade of domestic TV installed base would be needed to support DVB-T2 and HVEC. • Period of migration required and probably simulcasting in both standards. • Re-stack to convert the two (+) free channels at each site into a 'digital dividend' could then occur.
Timing to implement	<ul style="list-style-type: none"> • 3–5 years 	<ul style="list-style-type: none"> • 5+ years
Considerations	<ul style="list-style-type: none"> • This option could be implemented quickly. • Services carried would diminish. • Loss of option of accessing vacant channels to assist with any standards migration. • Change in services may have content agreement / Broadcast Australia implications. • Change in international standards for 600 MHz required. 	<ul style="list-style-type: none"> • This option would take much longer to implement. • Potential for services carried to remain the same due to improved compression. • Change in services may have content agreement / Broadcast Australia implications. • Requires FTA broadcaster investment/support. • Change in international standards for 600 MHz required.
Spectrum outcome	<ul style="list-style-type: none"> • Potential for second 'digital dividend' from two channels. 	<ul style="list-style-type: none"> • Potential for second 'digital dividend' from two (+) channels.

Appendix D: Reports and articles

Below are the details of a number of reports and articles of interest to the review.

BBC Efficiency Review

Ernst & Young, Benchmarking the BBC's overhead rate, July 2018. Available at:
http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/ey_benchmarking.pdf

BBC, A Simpler BBC—More Efficient, More Open, More Creative, 10 October 2018. Available at:
http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/efficiency_review_2018.pdf

Advanced Television, Review: BBC delivers ⅓ of £800m savings target, 11 October 2018. Available at:
<https://advanced-television.com/2018/10/11/review-bbc-delivers-%E2%85%93-of-800m-savings-target/>

Collaboration and video on demand

Advanced Television, Sky: 'Legislation not needed for PSB on-demand', 15 November 2018. Available at:
<https://advanced-television.com/2018/11/15/sky-exec-challenges-psb-prominence-claims/>

Advanced Television, Ofcom wants combined VoD from UK PSBs, 28 November 2018. Available at:
<https://advanced-television.com/2018/11/28/ofcom-wants-combined-vod-from-uk-psbs/>

Other reports and articles relating to the BBC

BBC, The BBC's Distribution Strategy, 12 February 2018. Available at:
http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/howwework/accountability/consultations/bbc_distribution_strategy.pdf

Ofcom, Ofcom's first Annual Report on the BBC, 25 October 2018. Available at:
<https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/bbc-operating-framework/performance/bbc-annual-report>

Advanced Television, Ofcom: BBC losing the young, 25 October 2018. Available at:
<https://advanced-television.com/2018/10/25/130015/>