



Australian Government

Department of Communications

ABC and SBS Efficiency Study

Executive Summary

9 May 2014



Australian Government

Department of Communications

ABC and SBS Efficiency Study - Executive Summary

Australia's national broadcasters—the ABC and SBS—are a vitally important part of community and national life. Each are diverse organisations that supply a more extensive range of services than any single commercial television or radio broadcaster in Australia. Together they receive around \$1.4 billion per annum from government sources and they achieve very substantial outputs with these resources, as evidenced by the level of respect and trust the Australian community holds in them.

However, there is an ongoing imperative on the broadcasters—as with all government agencies and authorities—to use these resources as efficiently as possible with the flexibility to respond to audience demands and technology changes.

With this in mind, the Minister for Communications, the Hon Malcolm Turnbull MP, requested that the Department undertake a study into the efficiency of the operations of the ABC and SBS. Announced in January 2014, the study was to examine costs for the day-to-day operations that deliver ABC and SBS programs, products and services, and propose options to increase efficiency.

Programming decisions by the broadcasters or resource allocation to different programs and services—such as local radio or online services—were not within the scope of the study. The study's job was to provide advice to the Minister, the ABC and the SBS on where operational efficiency could be achieved. Improving operational efficiency may make current resources more productive so that they can be used to support programming or other services.

The Department was assisted in the study by Mr Peter Lewis, ex-Chief Financial Officer of Seven West Media and staff seconded from the ABC and SBS. The Department acknowledges the support and input of the ABC and SBS in the study which could not have been undertaken without the full cooperation of the broadcasters.

For the purposes of the study a broad definition of efficiency has been adopted, encompassing the traditional definition of increased output for a given level of input, but also including options that may increase revenue generation or create more flexibility in the cost base of the broadcasters. A reduction in the duplication of service delivery is not considered a reduction in services when a service is provided on multiple platforms.

In the time available, the study has not been able to form a definitive view on every aspect of the broadcasters' operations. However, it has identified a wide range of potential efficiencies for both broadcasters. The study focuses on tactical elements of achieving efficiencies rather than a more in-depth structural and strategic review but does point toward a range of areas for further exploration by the broadcasters where future additional efficiencies may be able to be made.

Importantly, the study recognises throughout that identified efficiencies will vary in their achievability and risk. Many efficiencies involve implementation costs with savings being realised over time. Wherever possible, the study has attempted to identify these implementation costs. The study also recognises that, while taking action on most of the identified efficiencies is solely a matter for the broadcasters' boards and management, a small number are dependent on changes to government



Australian Government

Department of Communications

policy or legislation. These are identified in the report. In keeping with the study's Terms of Reference, no changes to the Charters of the broadcasters have been considered or are proposed.

The study found that the broadcasters are already active on a number of fronts in looking for efficiencies. The efficiencies and other comments in this report are offered to help the boards and management of the organisations expand on these activities and provide a 'view from the outside' on possible improvements to the broadcasters' operations.

The Department is also separately analysing current and future costs of transmission services of the ABC and SBS, which currently make up around 20 per cent of the total annual funding from government.

The ABC and SBS are comprehensive national broadcasters. The study includes a brief overview of the national broadcasters, including the range of services provided, level of funding received, current cost base, the audiences that watch, listen and download these services and how audience demands may be changing over time.

Audience demand appears to be shifting away from the linear experience of the past towards a preference for on demand content accessed through multiple devices. While the traditional broadcast model is proving more robust than some predicted, the national broadcasters are likely to face pressure to make their content available on a wider range of devices and to plan for content to be increasingly provided to consumers on demand. The challenge for national broadcasters is to rebalance their resources to adjust to these pressures whilst continuing to meet expectations of providing traditional services.

Efficiencies

The study has identified five key areas that may lead to significant operational efficiencies or savings:

- Working together—efficiencies from greater operational cooperation between the ABC and SBS, while retaining their separate and unique programming identities
- Harnessing technologies—efficiencies from technology use in the businesses and retiring older technologies
- Modernising the business—efficiencies from better integration of the national broadcasters with the wider broadcasting and productions sector, in keeping with contemporary business practice
- Revenue opportunities—opportunities for the national broadcasters to earn additional revenue in ways which are consistent with their Charters
- Better resource allocation—efficiencies from better matching supply and demand in service delivery.

Working together

Modern organisations are capitalising on efficiencies by exploring opportunities for shared services, joint purchasing, or using joint facilities. There are substantial potential efficiencies from the broadcasters jointly sourcing corporate services. The ABC and SBS have taken limited steps to achieve efficiencies by sharing services and facilities and the study identifies a range of areas where further opportunities might exist.



Australian Government

Department of Communications

The study assessed the efficiency and cost effectiveness of a range of back of office functions. The study found that cost efficiencies may be achieved if the more efficient broadcaster's benchmark was applied to the other broadcaster in the areas of Human Resources, Legal and Business Affairs, and Finance and Accounting.

The study estimated the ABC may achieve potential savings from outsourcing its payroll and rostering process using a model similar to that adopted by SBS. Similarly, by comparing the output of the Audience and Consumer Affairs functions (which respond to public enquiries) for each broadcaster, the study identified that SBS may achieve efficiencies. The study understands SBS is already considering reform along these lines. In addition, the study conducted a high level comparative analysis of the cost effectiveness of each broadcaster's Communications, Marketing, Publicity and Promotions divisions which suggested that further efficiencies could be achieved by SBS in this area. The study assessed the efficiency and cost effectiveness of each broadcaster's technology and IT functions. This high level analysis also found efficiencies may be available in each organisation.

These back of office efficiencies would be further enhanced if the broadcasters entered into a shared back office centre arrangement either jointly or with a third party operator for appropriate functions. This could involve the creation of an independent entity, either jointly owned by the ABC and SBS, or with a third party owning a small percentage and operating the company. This approach would enable the broadcasters to capitalise on the expertise of a private sector operator while setting the service standard for performance. The study found that outsourcing functions to a third party operator would achieve additional savings by eliminating duplicate levels of administration and management.

These proposals do not envisage a merger of the national broadcasters, given their very different roles and Charter responsibilities. Joint venture arrangements would also allow for joint decision making, which may be more difficult to ensure in a model where one broadcaster provides back of office services to the other.

Significant savings may be able to be achieved from the broadcasters entering into a joint purchasing arrangement for services. The study identified approximately \$150 million per annum of services eligible for joint purchasing, including telecommunications, travel and content delivery networks. Based on discounts already achieved by the ABC across these activities, the study found that a range of further efficiencies could be achieved.

The potential efficiencies from integrating the back of office functions of the two broadcasters would be further enhanced by co-locating the ABC and SBS in Sydney and Melbourne. The study undertook a high level analysis of potential cost efficiencies that could be achieved if SBS co-located its operations with the ABC in Sydney. While some significant and challenging changes to operational and cultural practices would need to be made, the flow-on effects would be substantial and co-location is worthy of in-depth analysis by the broadcasters.

The co-location of ABC and SBS in Sydney and Melbourne would deliver valuable flow-on benefits such as removing the need for a significant capital investment for a new or upgraded SBS facility in Sydney. A co-location model would assume the ABC and SBS continue to remain separate, distinct entities and a service level agreement or a similar agreement between the ABC and SBS would be needed to ensure appropriate access to joint facilities for both broadcasters.



Australian Government

Department of Communications

Harnessing technology

The ABC and SBS have made significant investment in and use of new technology in their online services and have often been leaders in their catch up services. It may now be possible for the ABC and SBS to use digital technology and resources more efficiently through collaborative or outsourcing arrangements. Both broadcasters have also begun to invest in digital production capability.

The study found that the ABC may be able to achieve savings through centralising its digital services department and infrastructure into one Division over time. The ABC could also benefit by adopting an automated self-help system for providing transmission advice to the public, consistent with the approach being adopted by SBS.

Both ABC and SBS offer content online through their standard definition catch up services. Given audience demand, continued growth in these services is inevitable, with the broadcasters facing associated increases in content delivery costs. The study explored initiatives which could provide revenue opportunities for the broadcasters to offset the growing cost of delivering online catch up services. For example, it is open to the ABC and SBS to direct viewers to a pay per view service at the conclusion of the period during which their catch up services are available for free on their websites. The ABC and SBS could also direct viewers to a pay per view service should viewers wish to see these programs in high definition or access archival material. Consistent with the collaborative approach used in the development of FreeviewPlus, the ABC and SBS could also explore the feasibility of forming either a joint venture or entering into a partnership with other free-to-air broadcasters to develop an industry-wide digital platform for providing catch up services.

The Government has yet to form a view on the roll out of digital radio beyond metropolitan areas. The ABC and SBS provide their digital terrestrial radio services under a joint venture company through a long term supply arrangement with Broadcast Australia. Digital radio is a supplementary service that operates alongside AM and FM radio and the vast majority of ABC and SBS digital radio content is duplicated in analog radio, online, on mobile apps or on digital television. Subject to wider government policy considerations, and contractual obligations, the study notes that significant savings over time could be realised if digital terrestrial radio services were no longer provided, with online and mobile alternatives maintained.

The ABC and SBS could achieve a significant saving if they no longer bought satellite capacity to provide their services on Foxtel. ABC and SBS TV and radio services, as well as commercial free-to-air services, are all retransmitted free-to-air on the Viewer Access Satellite Television (VAST) satellite service, which covers virtually 100% of the population. As a result of the VAST service, and the broadcasters' extensive terrestrial networks, online and mobile platforms, there may no longer be a need for ABC and SBS to pay for their services to be rebroadcast on Foxtel, if it does not impact significantly on audiences.

The continued use of older technology in some areas may hamper the national broadcasters' efficiency due to sub-optimal work practices. The study asked the broadcasters to suggest capital projects that would reduce ongoing operating costs. The ABC suggested centralising its eight Radio Master Control Room (MCR) operations into one integrated operations facility. The ABC also advised it has been incrementally migrating to file based production technologies since 2007. While the incremental approach has achieved efficiencies, it has resulted in some file based process 'islands'.



Australian Government

Department of Communications

Completing the move to tapeless TV and other associated projects, which will ingest media once to be used many times, could realise further efficiencies.

That said, the study observed that some long-standing technologies will still need to be fully supported, such as AM radio which continues to be efficient and highly valued, particularly in its use by the ABC in regional and rural Australia in times of emergency.

Modernising the business

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

The ABC has TV production studios in Sydney, Melbourne, Adelaide and Perth. The study focussed on production in Melbourne as a test case for outsourcing TV production nationally. The study estimated the cost of operational labour and facilities hire to produce the total commissioned and planned TV production demand for the 2013-14 financial year using commercial rate cards. The analysis found that the additional operational expenditure incurred by using external resource providers for labour and facilities could be offset from the reduction of ABC Resources and Technical Services functions in Victoria. As well as providing significant flexibility in its TV production operations, there may be scope for the ABC to rethink the inclusion of two large TV studios in the Melbourne Accommodation Project, on which construction has just commenced. The ABC could use its existing capital and proceeds from the sale of its Elsternwick properties to build or finance office accommodation at Southbank without production capability. The loan from the Commonwealth of \$90 million may not be needed.

SBS is currently undertaking a competitive process to outsource its presentation, playout and monitoring services. The ABC already achieved efficiencies from outsourcing similar functions to Media Hub in 2010-11, which suggests that efficiencies would be available to SBS from this activity.

By the end of 2014 the ABC expects to have a fleet of six outside broadcast (OB) vans (Adelaide, Brisbane, Darwin, Melbourne, Sydney and Perth). The ABC's ownership of OB vans is in contrast to commercial networks which have long term contracts for the supply of these services with external suppliers of OB equipment. The study estimates that the ABC could achieve modest savings if it outsourced its use of OB vans. The sale of the six OB vans could also provide some additional financial returns or enable the ABC to negotiate substantial rate card discounts.

The ABC leases a helicopter in Sydney and owns a helicopter in Melbourne. If the ABC decided to terminate its pilotage and operations contract, savings could be transferred to the purchase of helicopter footage. A one-off saving may also be possible if the Melbourne helicopter were sold at its current book value. The ABC also currently owns a facility with a substantial book value at Lanceley Place, Sydney, which is used for storage of its OB van and several trucks, as well as a soundstage, costume hire facilities, field operations, and audio post production. In addition, the ABC's Sydney based helicopter is stationed here. Should the ABC outsource its OB vans and Sydney helicopter



Australian Government

Department of Communications

services and relocate the remaining functions, Lanceley Place could be sold achieving a significant capital saving.

The ABC occupies many other properties across Australia in metropolitan and regional areas, and has a substantial facilities management function. Based on informal approaches to the facilities management market the study estimates that savings can be achieved by outsourcing this function.

Most modern organisations are focussed on increasing the variability of their expenditure to ensure their cost bases are able to adjust to changing economic conditions. This 'variabilising' of the cost base provides greater levels of fiscal efficiency even without specific cost reductions by providing the organisation with capability to manage its activities with less risk across both the short and longer terms. A number of the efficiencies noted above would assist in achieving this objective.

Revenue opportunities

Consistent with the study's approach to defining efficiencies, opportunities for the national broadcasters to earn additional revenue in ways which are consistent with their Charters have been explored.

The *Special Broadcasting Services Act 1991* (SBS Act) restricts advertising on the SBS to no more than five minutes in any hour of broadcasting before or after programs or during natural program breaks.¹ The SBS earned around \$50 million from TV advertising in 2012-13, which is significantly less than a commercial broadcaster with equivalent audience share would receive. Options could be explored to allow SBS to earn a higher level of revenue. These options are likely to be strongly opposed by commercial broadcasters if they increase the number of minutes of advertising allowed, as well as by sectors of the public.

The study also investigated the sale and lease back of ABC and SBS offices, using Sydney as a model. The financial analysis revealed that no cost efficiencies would be achieved. However, the study identified that the ABC currently occupies office properties in Brisbane, Adelaide and Perth that have a relatively low level of utilisation. The study assessed property information relating to these locations and found that although a refurbishment cost would be incurred in the short term, there is an opportunity to raise revenue over the longer term from rental of this underutilised space.

Better resource allocation

The study identified a range of areas where the broadcasters may be able to achieve efficiencies by modifying the way they deliver services or reducing the resources allocated in a particular service in line with changes in demand. For example, the ABC could abolish State and Territory Directors and absorb their functions within other positions in ABC management. The ABC could achieve modest efficiencies if it centralised its switchboard operations to Sydney and (for evening operations) Perth. The ABC could also achieve savings in its Communications Network department in line with reduced workloads as digital switchover and restack activities come to an end.

¹ *Special Broadcasting Service Act 1991*, subsections 45(1) and (2).



Australian Government

Department of Communications

The terms of reference for this study include international broadcasting. Responsibility for the Australia Network (AN) service lies with the Department of Foreign Affairs and Trade (DFAT). The study therefore limited its consideration to the future of the Radio Australia shortwave radio service. Noting shortwave is a largely superseded technology, discontinuing this service would release resources for other purposes. If shortwave was discontinued, Radio Australia would continue to be broadcast in target countries through existing or equivalent FM retransmission. DFAT has advised that shortwave delivery of Radio Australia provides the only current source of the service in some sensitive areas in Vanuatu, Solomon Islands and Papua New Guinea; it supports a review of more cost effective alternatives for delivery of Radio Australia but considers that access to the service in these areas should be maintained.

The study supports the ABC's current project to devolve ABC Resources (which provides technical and production support) into the TV and News and Current Affairs Divisions, called 'Vertical Integration'. The project is intended to provide the content divisions with greater control over their technical and production resources. The study estimates there are likely to be efficiencies achieved from the implementation of the Vertical Integration project or by benchmarking against equivalent production divisions.

The study notes that the provision of retail services is not, on the face of it, a core responsibility of a national broadcaster. Despite this, retail activities are embedded in the national broadcasters, particularly the ABC, and have the benefit of providing a further outlet for valuable content and for the 'brand'. The study endorses the ABC's actions to reduce its losses in this area and notes that these existing measures are likely to achieve savings in the short and longer terms. Technology trends clearly suggest that over time investments in 'bricks and mortar' shopfronts should continue to be shifted more towards online distribution methods.

Financial Management and Governance

The study found that each broadcaster has established robust governance structures that are fit for purpose. However, there are improvements that could be made to enable them to operate more efficiently on an ongoing basis. These approaches are considered to be in line with good business practice.

SBS has recently revised its planning and budgeting process to integrate setting strategic directions with identification of efficiencies, setting annual budgets and operational planning. A similar approach by the ABC would better enable it to identify efficiencies on an ongoing basis and address concerns regarding the high fixed component of its budget. Each organisation would also benefit from considering the degree to which fiscal responsibility ranks in their organisational priorities, for example, ensuring a corporate structure with a stand-alone Chief Financial Officer (CFO) at the senior executive level. There may also be merit in considering how financial efficiency is measured in terms of staff performance management systems.

Interpreting Charter obligations and turning them into business plans with appropriate performance indicators is an ongoing challenge for the broadcasters as the generality of the Charters mean that many activities can fall within their scope. The study found that the ABC and SBS do not appear to have in place a clear, consistent and transparent 'whole of organisation' methodology to decide how



Australian Government
Department of Communications

initiatives relate to their Charters. As a result decisions to change programming or service delivery and the reasons behind them may lack transparency for staff, the Government, and the Australian public.

The lack of a clear evidence-based and published methodology for aligning functions with Charters appears to make it difficult for the broadcasters to decide what their priorities are when allocating resources between alternative competing activities or when to cease or replace an activity. In these circumstances, budgets may become locked to historic divisions of activity within the organisations.

The study also considered that the ABC and SBS boards may benefit from a clearer understanding of the Government's financial priorities in making its operational decisions. The legislative framework for the broadcasters provides for their independence from government, and prevents the Minister from intervening in programming decisions. The Minister may provide statements of policy for consideration by the ABC Board, and written directions to the SBS Board, which could go to matters such as the administration and financial management.

The study does not propose any changes to these statutory arrangements. However, a Statement of Expectations (SoE) from the Minister, which is consistent with these arrangements, could focus on administrative or financial matters in the broadcasters' operations and assist the boards to clearly understand the efficiency and transparency outcomes the Government is seeking from its annual investment of taxpayer funding. As an example, a SoE may make clear to the broadcasters that the Government expects them to cooperate closely to identify and implement back office efficiencies. Similarly, a SoE may make clear to the broadcasters the level of transparency expected of commercial agreements, such as transmission arrangements, which have government funding implications.