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REPORT TO THE AUSTRALIAN BROADCASTING
CORPORATION

AN ANALYSIS OF THE ABC'S FUNDING RELATIVE TO
INTERNATIONAL PUBLIC BROADCASTERS AND DOMESTIC
PEERS

SEPTEMBER 2002

This Report is to be read subject to the disclaimer on page 51.

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1. EXECUTIVE SUMMARY

1.1 Scope of the Report

Macquarie Bank Limited (*Macquarie*) has been engaged by the Australian Broadcasting Corporation (the *ABC*) to provide an analysis of the ABC's funding compared to international public broadcasters and its domestic peers. As part of our analysis we have reviewed the ABC's level of funding, the funding levels of several international public broadcasters and the revenue and expenditure levels of commercial broadcasters in Australia. We have also considered a number of areas relevant to public broadcasting and broadcasting more generally, such as funding sources and mechanisms, genre and programming mix and market share.

1.2 Structure of the Report

This Report is divided into five parts, as follows:

This first section, *Executive Summary*, outlines the scope of the Report and summarises Macquarie's key conclusions from our analysis of the ABC's level of funding relative to the funding levels of other international public broadcasters as well as domestic peers.

Section 2, *Overview of the ABC*, provides a summary of the history, role, objectives and structure of the ABC.

Section 3, *History of ABC Funding*, analyses current and historical funding levels of the ABC.

Section 4, *Analysis of International Public Broadcasters*, analyses the funding levels and other key characteristics of other international public broadcasters and compares these to the ABC.

Section 5, *Analysis of Domestic Commercial Operators*, analyses other key broadcasters in the Australian media landscape and compares various parameters of these broadcasters to the ABC.

1.3 Conclusions

The ABC is Australia's major national broadcaster and has historically been primarily funded by Federal Government appropriations. In FY2003 the ABC is forecast to have total funds available of \$792m, of which \$736 million is funded from Federal Government appropriations. Government funding of the ABC declined between FY1994 and FY1998 but has since increased to levels comparable to funding in FY1994. This trend is also evident when historical funding is measured on a per capita basis and as a percentage of GDP.

Based on the measures we have used in our report, the ABC's current level of funding is significantly lower than other international public broadcasters and its domestic peers. A review of the funding levels of our surveyed international public broadcasters indicates

that the ABC's level of funding is lower than its international peers based on a number of relevant parameters. Additionally, ABC Television's expenditure is significantly below expenditure levels of Australian commercial networks.

On a comparison of Government funding per capita, Australia's funding of its national broadcasters is 79% of the average funding level of our surveyed public broadcasters. In terms of total revenue per capita Australia is ranked sixteenth out of the seventeen countries surveyed. As a percentage of GDP, Australia ranks tenth out of seventeen countries surveyed and is approximately 79% of the average. Based upon our analysis, an increase in ABC Government funding of at least \$200m to \$700m would be required to raise Australian public funding levels to levels comparable to international averages.

A key measure of public broadcasters is their level of distinctiveness, that is their commitment to a mix of content genre appealing to a diverse community and not just popular programming that appeals to a specific demographic. The ABC is quite distinctive with our analysis ranking the ABC fifth out of seventeen public broadcasters surveyed.

One consequence of relatively low funding and a commitment to distinctiveness is relatively low market share. Australia ranks sixteenth out of seventeen in terms of market share of the public broadcasters surveyed.

The issue of market share and reach is important, as it is a measure of the public broadcasters' relevance. Whilst distinctiveness is a positive attribute of a public broadcaster it is not enough to be distinctive without being relevant. It is difficult to conclude what minimum market share is needed to be relevant. However we can conclude that declining market share is a proxy for reduced relevance. The ABC's market share has remained static and in some instances has increased, even through periods of decreased funding.

In addition to differences in relative funding levels there are also differences in the funding models. The majority of public broadcasters surveyed supplemented their public revenue with advertising and/or sponsorship income, with advertising income constituting up to half the total funding for some broadcasters. To some extent the funding model is a result of the development of the market with some broadcasters such as the ABC and British Broadcasting Corporation (BBC) relying predominantly on public funding and other broadcasters, such as Ireland's RTE, Austria's ORF and Italy's RAI, deriving a large proportion of their income from advertising revenue.

Undue reliance on advertising by a public broadcaster may result in schedules tending towards popular and mass entertainment programming. The level of reliance on advertising can affect distinctiveness where public broadcasters are under pressure to produce popular content to attract viewers (and thus advertisers) rather than focussing on diversity and quality of programming. Spain is a good example of this issue. The main public broadcaster in Spain received over 60% of its income from advertising in 2000, and it rated last in our distinctiveness analysis.

Since 1992 the ABC's revenue relative to its commercial peers has decreased from 23% to 17% in FY2002 of total television and radio advertising revenues due to the strong rate of growth in advertising revenue available to commercial radio and television. The

increased revenue has enabled commercial broadcasters to significantly increase their expenditure on programming, which is difficult for the ABC to match given its different source of funding.

As an indication of the differences in television expenditure levels, an additional \$130m in funding to the ABC Television division alone would be required for the ABC's television expenditure to equate to that of its nearest peer in expenditure terms, the Ten Network. Despite this, the ABC's market share has remained fairly static and broadly in line with its expenditure. It needs to be considered how long this is sustainable in the face of the above analysis.

The ABC's programming is significantly more distinctive than the commercial networks. Even so, and although it is not required to do so, within its current funding constraints the ABC fails to meet certain Australian Broadcasting Authority (ABA) minimum standards set down for the commercial networks. Its major shortfalls are in Australian drama and children's drama.

Against this backdrop of low comparative funding, the ABC is operating in an industry going through a significant change in its structure and features. Key issues faced by the ABC in this environment include:

- increasing competition and viewer fragmentation in an already saturated market with the onset of new technologies such as the internet, subscription television, digital multi-channelling and other technologies;
- increasing costs domestically and internationally; and
- technological changes and advances, including the onset of digital television.

The ABC's level of funding will play an important role in helping the ABC maintain its charter commitments and relevance in the Australian community as it enters this period of change in the media industry.

2. OVERVIEW OF THE ABC

2. OVERVIEW OF THE ABC

2.1 Background

The ABC is Australia's national broadcaster and a major cultural organisation. The ABC's national focus embraces geographic diversity and a broad range of community interests. It broadcasts programs that are intended to provide a balance between wide appeal and specialised programs, making use of Australia's creative resources.

Founded in 1932 as the Australian Broadcasting Commission, the ABC initially consisted of a national network of twelve radio stations. The original aims of the ABC were far narrower than the Corporation's remit today and the expansion of the ABC has been driven as much by technological change as it has by social or legislative policy. Amendments to the Australian Broadcasting Act saw the establishment of an independent news service in 1946.

The ABC began television broadcasting in 1956, one month after Australia's first commercial broadcaster TCN went to air in Melbourne. It has continued to respond to further technological changes in broadcasting, moving to colour television soon after its introduction in Australia and more recently establishing a strong online presence and conducting detailed preparations for digital services.

Following a series of inquiries into the ABC, the *Australian Broadcasting Corporation Act* (the **ABC Act**) was passed in 1983, changing the ABC into a corporation and outlining the Charter under which the ABC is required to operate.

The ABC today has thirteen divisions and provides content and services across a range of media – television, radio and online. It provides its own independent news and current affairs. There are approximately 35 ABC Shops and 90 ABC centres around Australia. ABC TV broadcast 10,850 hours of television programs in FY2001, of which 58.7% were Australian programs. During the same period, ABC Radio broadcast a wide range of programs and music across its national and local radio networks. ABC Online continued to grow, and was awarded "Best Media Site" at the Australian Internet Awards in 1999.¹

2.2 Role And Objectives Of The ABC

The ABC Act sets out key guidelines for the ABC. These include being:

- independent;
- innovative;
- comprehensive;
- providing services of a high standard;
- encouraging and promoting the arts; and
- contributing to a national identity.²

¹ ABC Annual Report 1999-2000.

² "Submission – Review of the Role and Functions of the ABC", ABC, 1996 page 2.

While the Charter dictates some specific functions that the ABC must perform, overall it takes the form of a broad enabling document, allowing the Corporation flexibility to adapt to suit changing audience needs and new media platforms.

Strategic decisions taken by the ABC Board and management, in effect, serve to enact Charter obligations in ways that are intended to reflect the contemporary needs and interests of the Australian community. The provision of public benefit, through broadcasting and related activities, also takes account of the competitive mixed economy of the wider industry environment.

The ABC strives for an appropriate balance between services of broad appeal – which attract higher audience share – and its commitment to distinctiveness through such measures as the mix of content genre, quality Australian content, and spread of production and services throughout metropolitan and regional areas.

In its draft 2001 – 2004 Corporate Plan the ABC has outlined its four main objectives. These are listed below:

- *Relevance and Appeal*: Build and retain audience share and reach through multi-platform programming and content that is appreciated by a broad range of communities of interest and need.
- *Distinctiveness*: Enable audiences to be informed, educated and engaged with the challenges of contemporary life and with one another, through distinctive information, cultural and children's programming and content.
- *Organisational Capability*: Ensure effective alignment of the Charter, strategic aims and activities of the Corporation as an independent national broadcaster, through its governance, management and commitment to a skilled and flexible work force.
- *Value for Money*: Achieve access to adequate funding, supported by continued improvement in the measurable efficiency and effectiveness of resource utilisation.

2.3 Structure of the ABC

The ABC has a divisional structure, with two broad groups – Content and Operations – supporting twelve divisions between them.

The Content Group contains the divisions directly responsible for output across different media, while the Operations Group provides the corporate and business support needed by the ABC as a whole to function effectively.

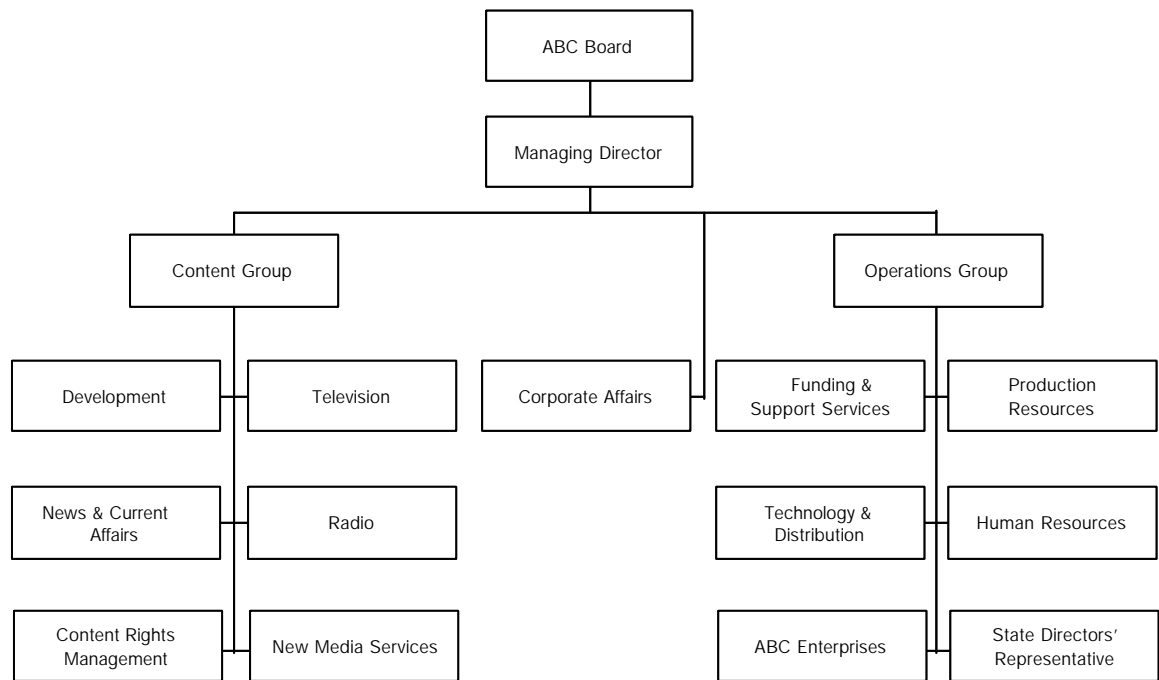
The key outputs of the Content Group include:

- a national television network;
- four national radio networks;
- an international radio service;
- an independent news and current affairs service; and
- an ABC online site.

The ABC has a strong local presence in all States, and produces local content for radio and television, as well as information specifically for rural areas.

Its Asia Pacific Television Service broadcasts Australian and other content to the Asia Pacific region. The ABC is also developing its multi-channelling capabilities, with the first of its specialty channels (aimed at kids and youth) already being broadcast.

2.4 Organisational Structure



3. HISTORY OF ABC FUNDING

3. HISTORY OF ABC FUNDING

3.1 History of ABC Public Funding

The ABC has been funded by Government appropriation for most of its existence. From 1948 until 1989 the ABC was funded by annual Government appropriation. Since 1989 the ABC has been funded by a three year Government appropriation known as the triennial funding system.

Under the triennial funding system, the Federal Government on a three yearly basis determines the ABC's funding levels following a funding submission from the ABC. The current financial year (FY2003) is the third and final year of the current triennial period.

Although the triennial funding system is designed to give the ABC certainty of funding over a three year period, it is not a binding agreement. Federal funding is still appropriated annually as part of the annual Federal budget process. As a consequence, actual ABC funding may differ from the levels specified under the triennial funding agreement. This occurred in FY1997 when ABC funding was reduced by \$10.8m in the second year of a triennial period and in FY2002 where an additional \$17.8m was allocated to the ABC.

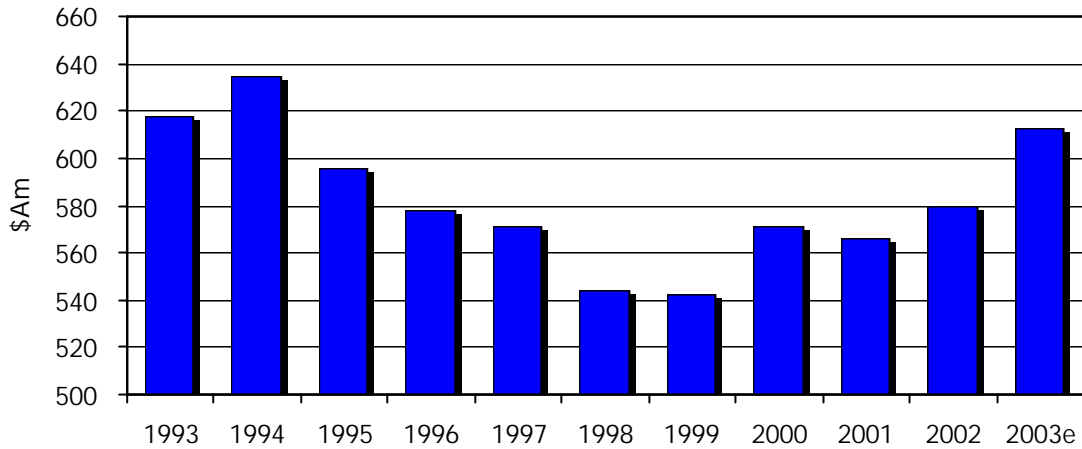
3.2 Funding trends

3.2.1 Government Funding

The largest proportion of ABC funding has historically come from Federal Government appropriations. The chart below illustrates Government funding over the last decade in December 2002 prices³. It shows that in absolute terms Government funding fell from FY1994 to FY1999 but has risen from FY1999 to FY2003. Funding is now comparable to levels in FY1993 and FY1994.

³ In order to make a consistent comparison over the decade, funding is adjusted by removing from Government appropriation the impact of transmission funding, capital use charge, Orchestra funding, Government loans and Asia Pacific Television. Prices have adjusted to December 2002 prices using the headline consumer price index. This indexing methodology seeks to compare historical funding levels on a comparative pricing basis. Charts previously published by the ABC may use a different indexing methodology (such as using a prior years index) to reflect funding allocation by Government.

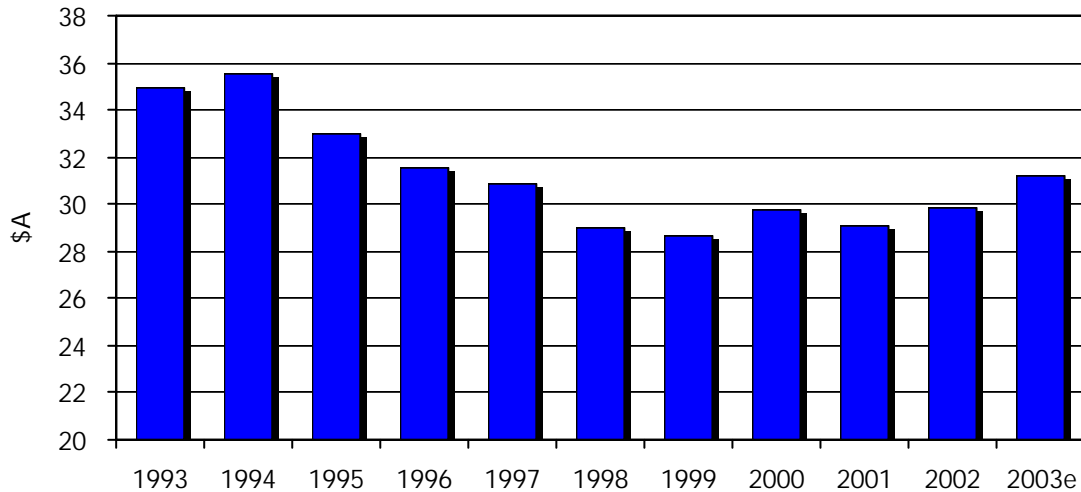
ABC Government Funding
- In Dec 2002 Prices



Source: ABC Annual Reports; ABC; Macquarie, Australian Bureau of Statistics (ABS)

The level of funding on a per capita basis is a measure of Government funding relative to the size of the Australian population. The graph below illustrates Government funding on a per capita basis. Similar to the absolute funding graph above, it shows funding declined between FY1994 and FY1999. Between FY1999 and FY2003 funding has trended upwards however it still remains below pre FY1997 levels.

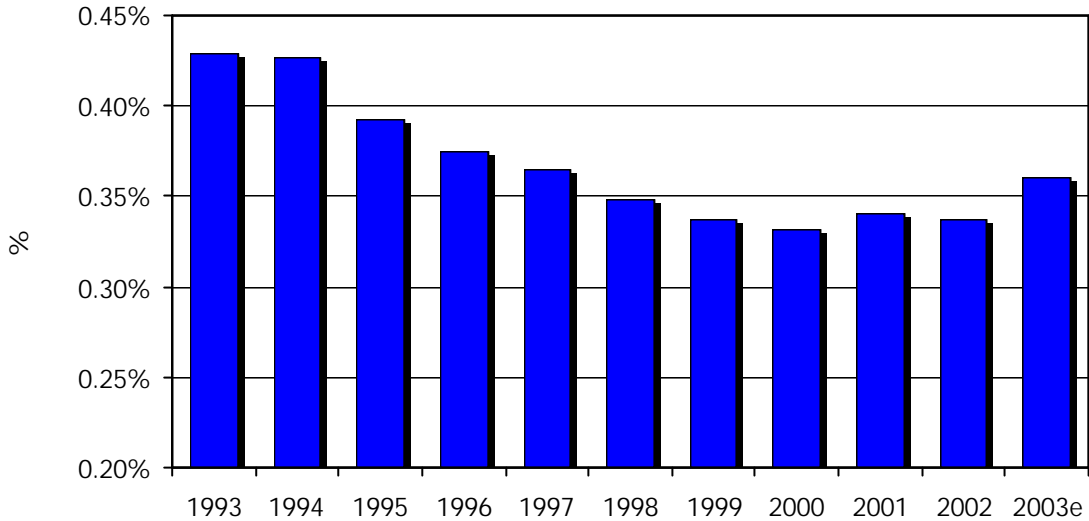
Funding Per Person
- In Dec 2002 Prices



Source: ABC Annual Reports; ABC; Macquarie; ABS

The chart below shows ABC funding as a percentage of total Federal Government outlays. By this measure funding fell between FY1992 and FY2000 and remained flat until FY2003. In FY2003 funding has reached levels equivalent to FY1997 levels.

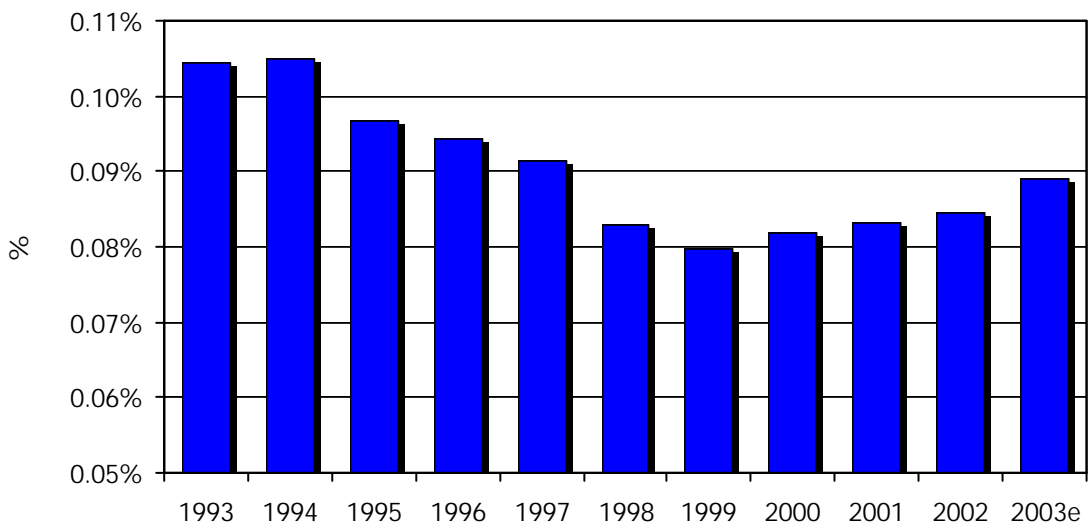
Funding As % of Total Government Outlays



Source: ABC Annual Reports; ABC; Macquarie; ABS

The chart below shows ABC funding as a percentage of Australian Gross Domestic Product. It shows how funding levels have changed relative to changes in domestic production in the Australia economy. It can be seen that relative funding fell between FY1994 and FY1999 and has trended upwards since that period but remains below FY1997 levels.

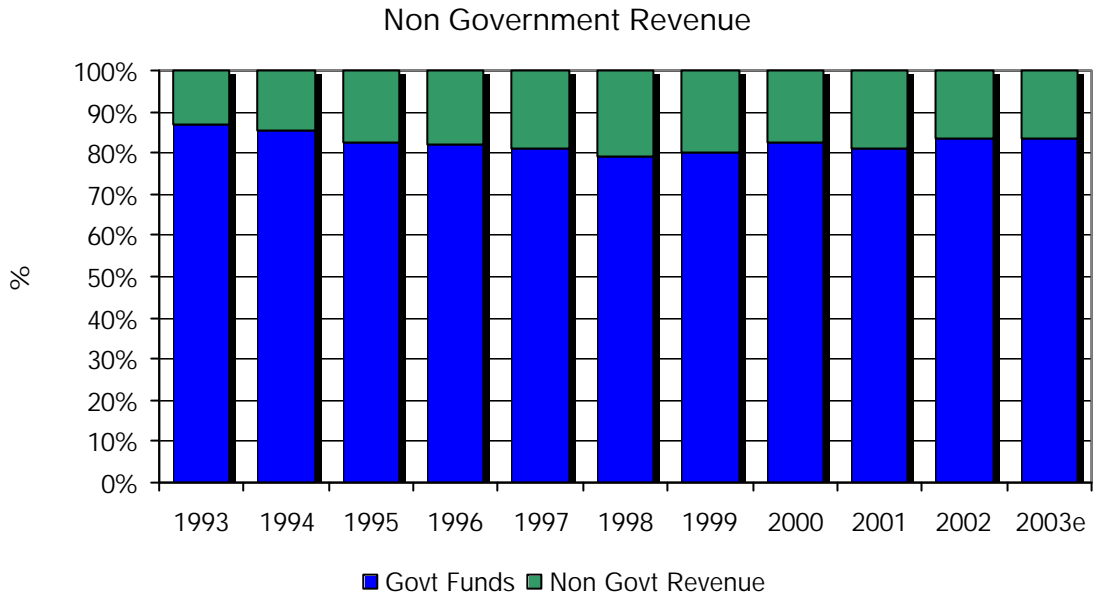
Funding As % of GDP



Source: ABC Annual Reports; ABC; Macquarie; ABS

3.2.2 Non Government Funding

Non Government revenue is an important form of funding for the ABC, as illustrated in the chart below which shows gross non Government revenue as a proportion of Government revenue⁴.

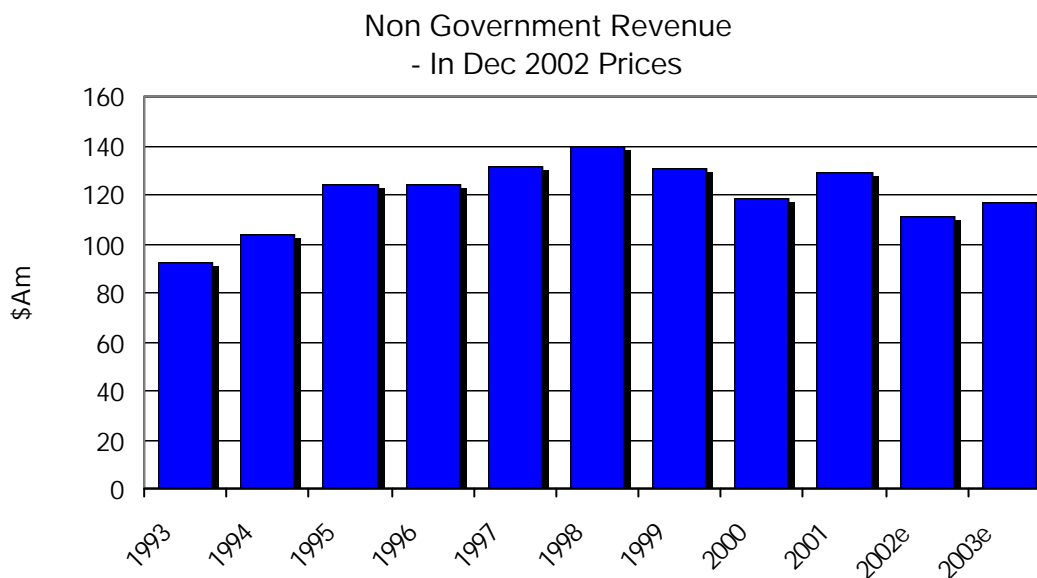


Source: ABC

It should be noted that whilst the total non Government revenue is substantial, only a fraction of this represents additional funding because expenses are incurred in generating the revenue. For example, in FY2003 ABC Enterprises is forecast to generate \$10.6m of profit on \$89.4m of revenue. It is only the profit on revenue (11.9%) that represents actual additional funding for the other areas of the ABC.

Gross non Government revenue grew steadily in the 1990's, reaching a peak in FY1998 but has fallen since FY1998. This has been caused by a number of factors including reduced product development and consumer demand. This reflects the volatile nature of this revenue source and its dependence on continued investment and product development from the ABC's content divisions.

⁴ For historical comparison purposes Government funding excludes loans, capital use charge and transmission funding. Note that gross non Government revenues is not representative of additional funding since significant costs are usually incurred in generating non Government revenue.



Source: ABC

The existence of the ABC Enterprises and Content Rights Management divisions emphasises the importance of these revenue sources as a source of funding. ABC Enterprises represents a large proportion of Non Government funding however other sources of revenue include content rights sales and co-production revenues.

Additionally, non Government revenue streams can only be created and maintained with continued investment in the businesses generating the revenue. Continued investment in the businesses will require increased content unencumbered by external rights and increased acquisitions that can be leveraged into revenue. Revenue from ABC Enterprises for example is dependent upon the quality of content and outputs from television, radio and new media.

3.3 Funding in FY2003

3.3.1 Sources of Funds

The Federal Government funds the ABC for both its operational and capital expenditures. To analyse the ABC's underlying Government funding level, adjustments need to be made to the headline figure quoted in Treasury Budget papers.

For example, in FY2003 \$807m is often quoted as the headline Government appropriation. The underlying level of Government funding however is \$736m after adjusting for following⁵:

- *Capital Use Charge (\$59m)*: represents a Federal Government Charge for the use of capital in the ABC and is based on the ABC's level of net assets. This amount must

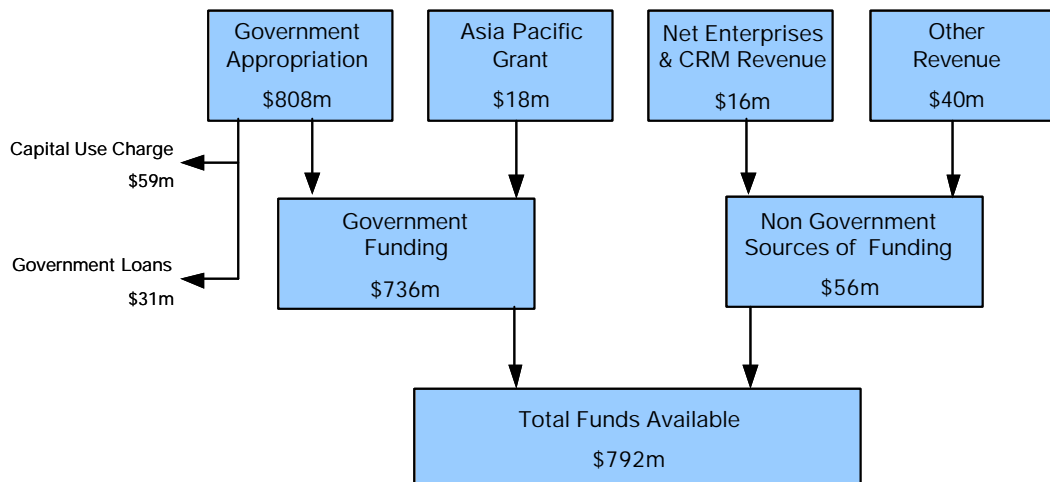
⁵ This amount includes \$14.6m of Government equity injections into the ABC (increasing its net assets) to partially fund phase 1 and 2 of digital conversion. It is not ongoing and is scheduled to end in FY2003

be repaid to the Government at the end of the Financial Year and hence is not considered part of underlying Government funding

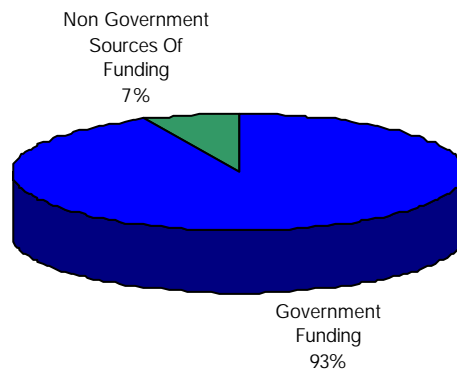
- *Loan (\$31m)*: represents Government loans that are repayable plus interest charges. Hence it is not considered part of underlying Government funding

The \$736m of Government funding discussed above includes additional funding of \$17.8m per annum announced in the FY2003 Federal Budget. Whilst the funding is not technically tied to a particular purpose, the ABC has stated the funds will be used for specified purposes, of which the single largest component is local and regional production and programming. Furthermore, the additional funding is only committed for a four year period from FY2002 to FY2005.

The chart below shows that in addition to the \$736m funded by the Government, in FY2003 the ABC will also receive \$56m of revenue from non Government sources for its activities. This includes dividends from ABC Enterprises and gross revenues from Content Rights Management, facilities hire and other activities. The ABC is therefore expected to have \$792m in total funds available to fund its operations.



FY2003 Total Sources of Funds



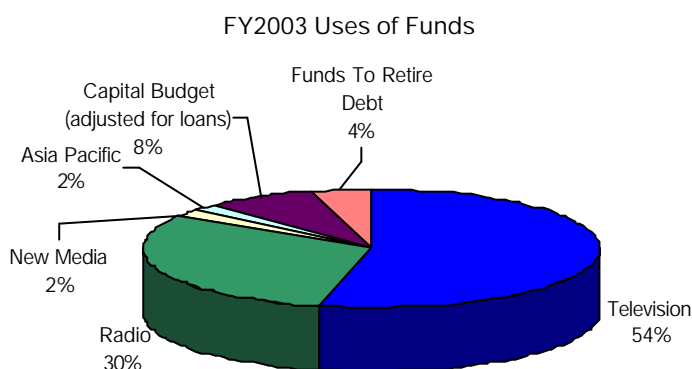
Source: ABC budget papers; ABC; Commonwealth Government 2002/03 Treasury papers

The ABC Enterprises and Content Rights Management dividend (rather than gross revenue) has been used in our calculation of non Government funding because it is more indicative of the additional funding that ABC Enterprises provides the ABC. Using gross revenue would exaggerate the level of funding since expenses are incurred for the purpose of generating the dividend. It is only the dividend which is reallocated to other divisions as extra funding by the ABC.

There are also a range of intangible benefits from the ABC Enterprises division which cannot be quantified in our financial analysis. The Enterprises division contributes to the profile of the ABC and allows consumers a greater level of interaction with the ABC.

3.3.2 Uses of Funds Available

The use of funds available can be broadly categorised into the three key output areas (television, radio and new media), transmission (digital and analogue) and the capital budget. The key output areas represent 86% of the total uses of funding.



| Uses of Funds Available | \$m |
|--------------------------------------|------------|
| Television | 424 |
| Radio | 239 |
| New Media | 16 |
| Asia Pacific | 18 |
| Capital Budget (adjusted for loans) | 62 |
| Funds To Retire Debt | 33 |
| Total Uses of Funds Available | 792 |

Source: ABC budget pa pers; ABC; Commonwealth Government 2002-2003 Treasury papers

3.3.3 Asia Pacific Television

In June 2001 the ABC was selected by the Federal Government to provide an Australian television service to the Asia Pacific region (Asia Pacific Television). An online service is also planned to be provided. The Department of Foreign Affairs and Trade entered into a contractual arrangement with the ABC to provide funding of \$90.4m over five years. Additionally, the service is able to generate advertising and sponsorship revenue for the benefit of the service.

Asia Pacific Television operates as a separate unit from the ABC. Importantly:

- its funding is separate and distinct from the ABC's funding;
- the service cannot return a profit to the ABC;
- the service will purchase content and facilities from the ABC at market rates; and
- the service will also purchase content from other sources, for example, other domestic broadcasters

3.4 Conclusion

ABC funding comes from both Government and non Government sources. Government funding in absolute terms fell during the 1990's to a low in FY1999 but this trend has since been reversed and current Government funding is comparable to Government funding in FY1993 and FY1994. This analysis is supported when funding is measured relative to total population, total Government outlays and gross domestic product.

Non Government revenue meanwhile increased during the 1990's but has fallen since its peak in FY1998. Whilst the growth in revenue has been substantial compared to historical levels, only a fraction of this represents additional funding as there are significant expenses in earning the revenue such as cost of sales for ABC Enterprises.

4. ANALYSIS OF INTERNATIONAL PUBLIC BROADCASTERS

4. ANALYSIS OF INTERNATIONAL PUBLIC BROADCASTERS

4.1 Defining a “public broadcaster”

There are significant differences amongst public broadcasters, however the common feature of all public broadcasters is their public service remit. It is generally accepted that public broadcasters should⁶:

- be widely available and accessible;
- reflect the pluralistic nature of society and not be dominated by any one viewpoint or controlled by any one interest group;
- make available the information necessary for citizens to make informed choices about their lives and communities; and
- provide the means whereby the public debate which underpins free and democratic societies can take place.

4.1.1 Contrast with commercial broadcasters

The obligation on public broadcasters is typically to ‘inform, educate and entertain’. In contrast, the function of commercial broadcasters is to maximise shareholder value through increasing profit usually by maximising audience share (or at least market share in respect of the most lucrative audience segments).

A broad distinction may therefore be made between:

- public broadcasters, which are required by their public service remit to provide ‘distinctive’ and ‘high quality’ programming; and
- commercial broadcasters, which attempt to maximise shareholder value by growing market share in the most profitable audience segments.

In simple terms, the public broadcasters’ remit requires them to focus on content and, moreover, ‘distinctive’ content (a proxy for market distinctiveness is the proportion of factual, cultural and children’s programming relative to total programming output).

It is not only content that distinguishes public broadcasters from commercial broadcasters. Typically, public broadcasters carry a higher level of operations, large internal production groups and commitments to cater for the more diverse needs of the community, including regional areas and their charter requirements.

⁶ European Public Broadcasting in the Digital Age, Molsky, N., 1999, p6.

4.2 Survey of comparable public broadcasters

4.2.1 Identification of comparable broadcasters

In terms of broad funding comparisons, Macquarie has undertaken comparative analysis of selected European broadcasters, notably those public broadcasters in the European Union, as well as the public broadcasters of Canada and New Zealand. Public broadcasters in Central and Eastern European countries have not been reviewed, as these countries are, to varying extents, still in a transition stage from a rigorously controlled state broadcasting structure to the more 'Western' concept of public service broadcasting.

Additionally, public sector broadcasters in the United States have not been reviewed in any detail in this Report. Although the US does have a public broadcasting presence,⁷ its public broadcasters do not enjoy the government-mandated public service remit of the ABC and the other public broadcasters considered in the Report. As noted in a recent study⁸:

public broadcasters are considered as having a very special and even vital role to play in society, extending well beyond that of an ordinary economic activity, an approach radically different from that observed in the US where broadcasting is primarily, if not entirely, considered to be economic activities whose regulation is best left to the market.

While some countries have several minority or special interest broadcasters, our analysis has attempted to include only the major public broadcasters in each surveyed country, which provide at least a national free to air television service. Many of these broadcasters, like the ABC itself, are full service broadcasters providing public radio services as well.

Canada's public broadcaster, the Canadian Broadcasting Corporation (CBC), has also been used in comparison to the ABC. Of the broadcasters surveyed, the CBC is a good proxy for the ABC and has been used in the past for comparison by the ABC itself, as there are a number of similarities between the two broadcasters including:

- similar population sizes;
- English speaking (an important factor in terms of availability of content for acquisition although the CBC has a dual language requirement);
- full service public broadcasters (providing both television and radio services, and supporting an online presence);
- geographically dispersed populations, making availability of services a more difficult issue than for broadcasters in smaller, more densely populated countries; and
- funding from government in the form of annual appropriations.

⁷ The PBS (Public Broadcasting Service) is the main public broadcasting entity in the United States. Founded in 1969, it is a private, non-profit media enterprise owned and operated by America's 347 public television stations. In the 1999 financial year, US public broadcasters' total income was US\$1.6 billion. Leading sources of income were: viewers (23.2%), State Governments (16.9%), and grants and contracts (14.5%).

⁸ European Public Broadcasting in the Digital Age, Molsky, N., 1999, p6.

New Zealand has also been included in our analysis due to its cultural and geographic similarities with Australia. NZ On Air funds radio and television programming that promotes New Zealand interests, is responsible for providing radio and television coverage to New Zealand communities and covers several administrative functions such as archiving and research. NZ On Air is entirely dependent on Government appropriations.

TVNZ, New Zealand's public broadcaster, is undergoing some significant changes. This includes being re-established as a Crown Owned company, and having a public broadcasting charter implemented in order to meet the needs of the New Zealand population. However, TVNZ is required to remain a commercial business. It continues to source much of its revenue through private means such as advertising.

4.3 Variations between public broadcasters

4.3.1 Services and programming

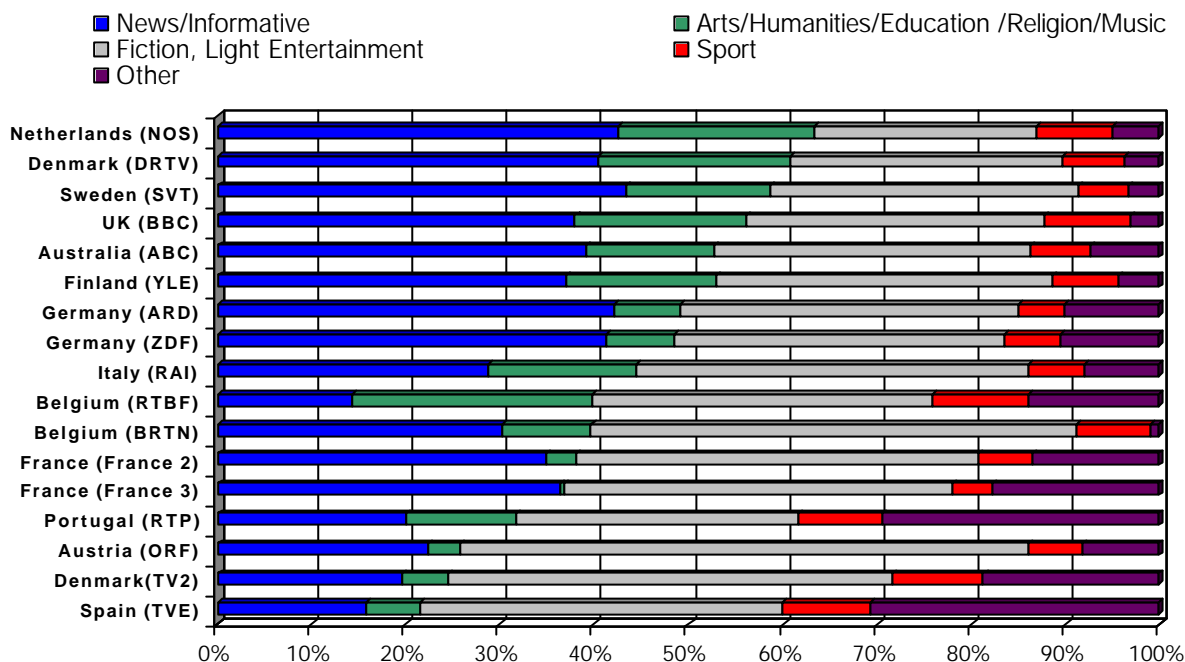
There is general acceptance that public broadcasters should provide a wide range of programming that appeals to all; to inform, educate and entertain, rather than populist programming that drives advertising revenue; and to fill the gaps in programming left by the commercial broadcasters. Independence and promotion of national culture are strong themes in public broadcasters, supporting the inclusion of factual and cultural programming in a measure of distinctiveness.

The programming genre analysis below compared the television content output of broadcasters, rather than countries, to allow a direct comparison to the ABC rather than Australia as a whole. Where a broadcaster had more than one channel (such as the BBC), the average output of the two channels was reported, reflecting the overall nature of the content output of a broadcaster. Where more than one major public broadcaster operates in any country each of the public broadcasters have been shown separately, such as Germany (ARD, ZDF), Belgium (RTBF, BRTN) and France (France2 and France 3). No comparable genre data was available for Greece, Ireland, Canada and New Zealand, accounting for their exclusion.

There are wide variations between public broadcasters in terms of programming content, as shown in the chart below⁹:

⁹ European Broadcaster data is 1999 Data from the European Audiovisual Observatory Yearbook. ABC's genre data is also from 1999.

Percentage of Hours Broadcast Across Categories



Source: European Audiovisual Observatory Statistical Yearbook 2001, ABC.

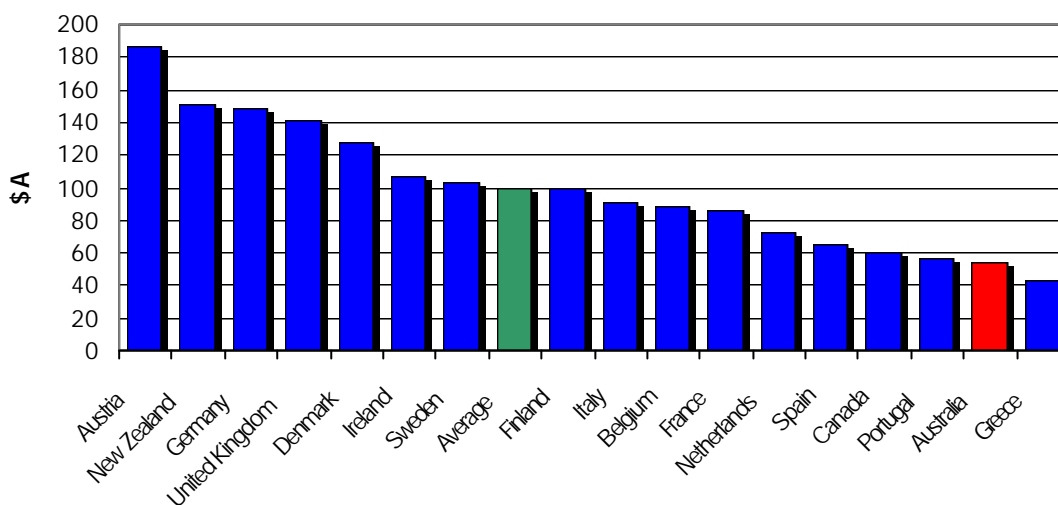
The programming mix of public broadcasters was divided into five broad categories. The first two categories, containing factual and cultural programs, served as a measure of distinctiveness. The ABC rated fifth out of the seventeen public television networks surveyed in distinctiveness as measured by the percentage of broadcast time devoted to factual and cultural programs. It should be noted that the ABC also broadcasts a large amount of children’s programming (around 20% of broadcast hours in FY2002 were children’s programming), which tends to add distinctiveness.

4.3.2 Funding levels

The income received by public broadcasters differs markedly, both in absolute terms, and in terms of income per capita. Given the substantial differences in population size of the countries considered, a per capita measure of funding is a more appropriate gauge of the levels of income for the selected public broadcasters. Per capita levels of total funding of selected public broadcasters can be seen below¹⁰.

¹⁰ A total revenue per capita based on 2000 operating revenues as reported in European Audiovisual Observatory Statistical Yearbook 2002, CBC Annual Report 2000-2001, and TVNZ and NZ On Air Annual Reports 2001. Australia’s funding level is the combined operating revenues forecast for the ABC and SBS for FY2003. All other broadcaster’s revenues have been indexed forward to match ABC and SBS’ figures. All figures have been adjusted for comparative price levels.

Total Revenues Per Capita of Public Broadcasting Sectors



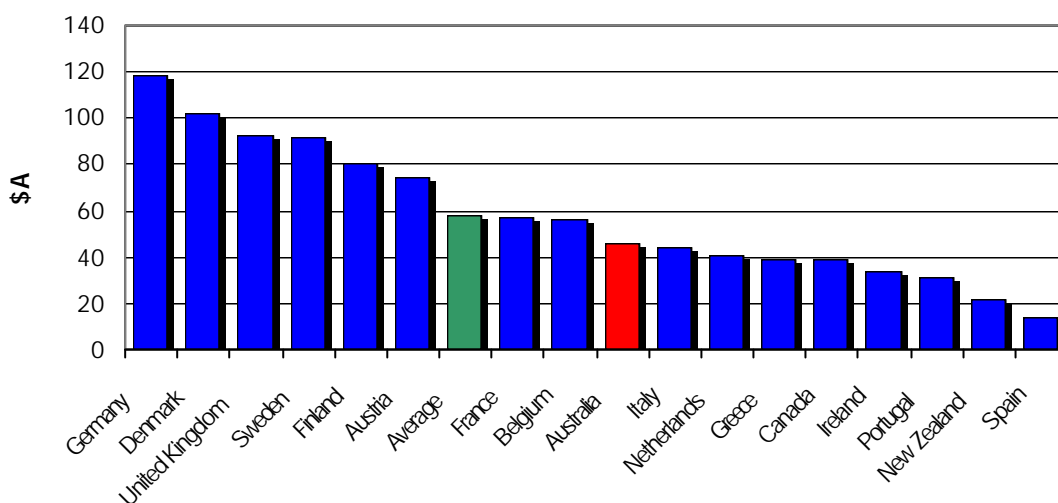
Source: European Audiovisual Observatory Statistical Yearbook 2002, CBC Annual Report 2000-2001, ABC and SBS Parliamentary Appropriations and Budget Papers, NZ On Air Annual Report 2001, TVNZ Annual Report 2001.

Australia's public broadcasting sector operates on a relatively small amount of income compared to its peers, with only 54% of the average per capita revenues for the public broadcasters surveyed. It should be noted that the ABC and SBS are combined in this analysis of Australia's public broadcasting sector, with the ABC accounting for approximately 83% of total public broadcasting revenue in Australia.

The measure used in the chart below is the amount of government funding (excludes advertising and other revenues) per capita (in Australian dollar equivalent)¹¹.

¹¹ Government funding levels based on 2000 government revenue as reported in European Audiovisual Observatory Statistical Yearbook 2002, CBC Annual Report 2000-2001, and TVNZ and NZ ON Air Annual Reports 2001. Australia's funding level is the combined government appropriations forecast for ABC and SBS for FY2003. All other broadcaster's revenues have been indexed forward to match the ABC's and SBS's figures. All figures have been adjusted for comparative price levels.

Government Funding Per Capita



Source: European Audiovisual Observatory Statistical Yearbook 2002, CBC Annual Report, ABC and SBS Parliamentary Appropriations and Budget Papers, BBC Annual Report, NZ On Air Annual Report, TVNZ Annual Report.

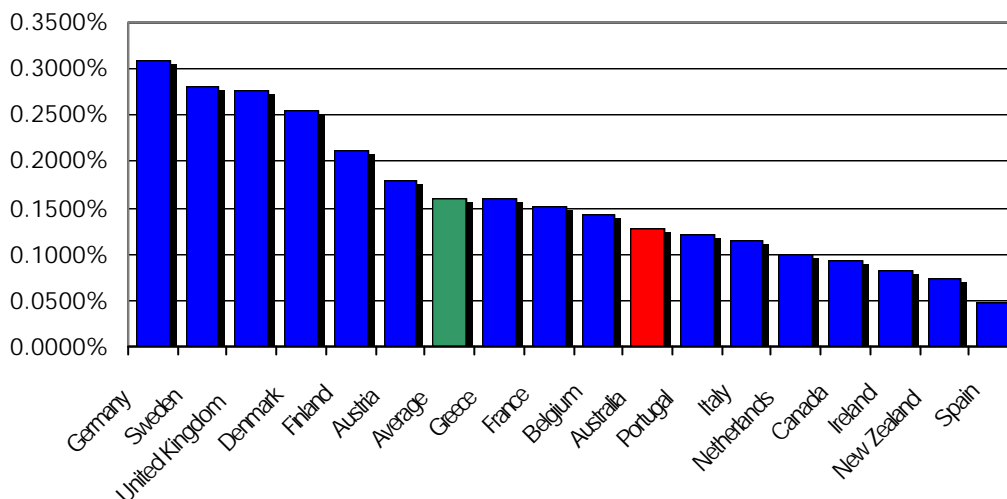
On a per capita measure, Australia's annual per capita government funding is 79% of the average of all surveyed broadcasters, and only 49% of the BBC's government funding per capita. There are a number of important factors which may distort direct comparability between countries on this basis. This includes:

- economies of scale exist in favour of broadcasters in countries with a higher population;
- the geographic reach of a broadcaster impacts the level of transmission and distribution charges. Countries with a larger geographic reach tend to have higher costs than smaller countries; and
- some countries broadcast in more than one language.

Government funding of public broadcasters can also be compared as a percentage of Gross Domestic Product (GDP) which is a measure of government funding relative to the size of the economy of the country. The graph below shows a comparison of public broadcasters using this measure:¹²

¹² Based on 2000 GDP data, adjusted for comparative price levels and indexed forward to FY2003.

Government Funding as a % of GDP



Source: European Audiovisual Observatory Statistical Yearbook 2002, ABC and SBS Parliamentary Appropriation, CBC Annual Report 2000-2001, TVNZ Annual Report 2001, NZ ON Air Annual Report 2001, World Bank GDP data.

Using this measure, it can be demonstrated that Australia's government spend on public broadcasting is again below that of its peers, with Australia ranking tenth out of seventeen countries surveyed, and 79% of the average government spend as a percentage of GDP.

4.3.3 Market share

Television market share of public broadcasters has been analysed at two levels:

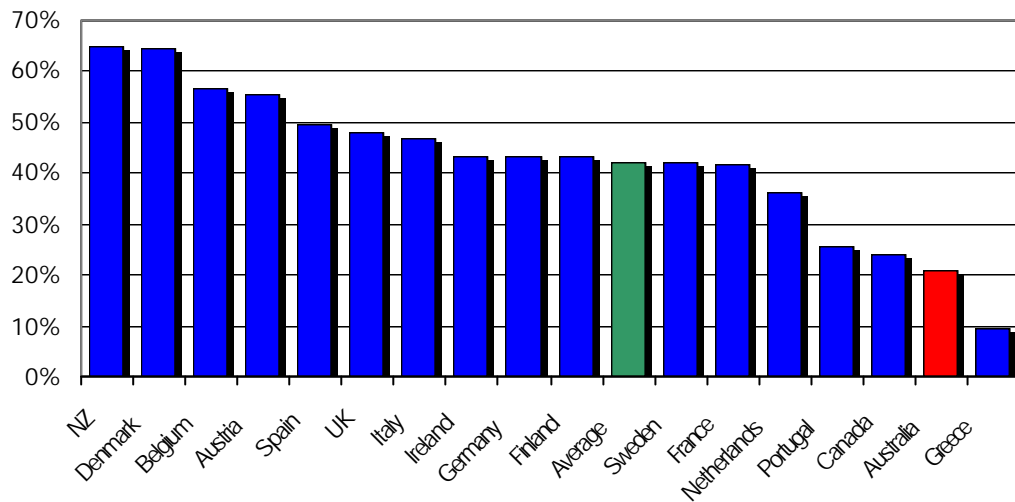
- total combined market share of all public broadcasters in the market (a measure of market share at a country level); and
- market share of an individual broadcaster in the market (a measure of market share at a broadcaster level)

Market share can also be examined at an individual channel level however this is not considered a good comparability measure as many broadcasters have multiple channels.

The chart below shows the portion of each country's overall public broadcasting market share relative to their domestic free to air commercial peers¹³:

¹³ Note that market share is the total public broadcasting share of public broadcasters in each country, where multiple broadcasters exist, or the combined share of a broadcaster's channels, when a broadcaster has multiple free to air channels. Hence Australia's share is calculated as the sum of ABC's and SBS's share. Where a country has a single national public broadcaster, its market share will be the same at the country and broadcaster level. Market share is most recent attainable – 2002 for Australia, 2001 for European broadcasters and CBC, 2000 for New Zealand.

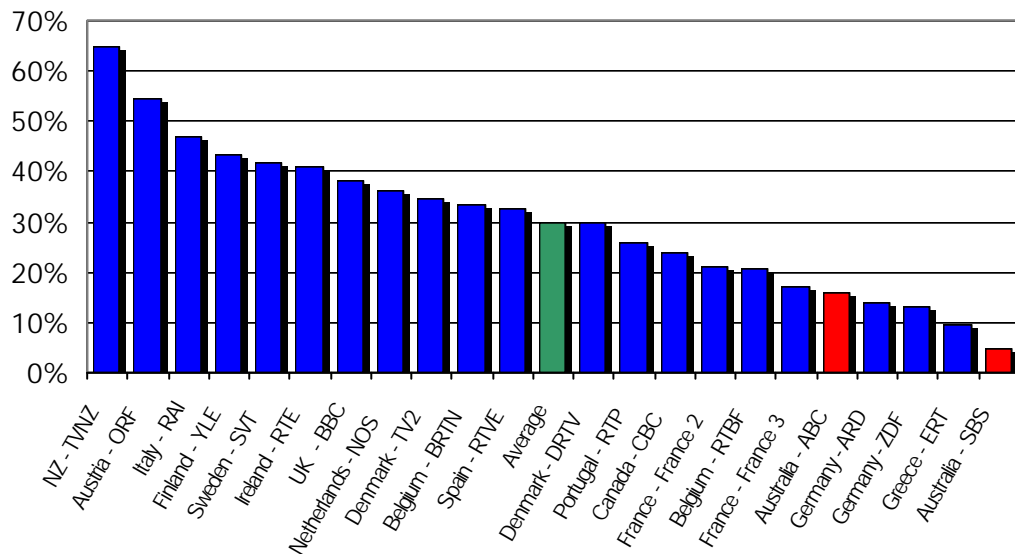
Share by Country



Source: European Audiovisual Observatory Statistical Yearbook 2002, AC Nielsen Data, CBC Annual Report 2000-2001.

The following graph shows market share attributable to each surveyed public broadcaster:

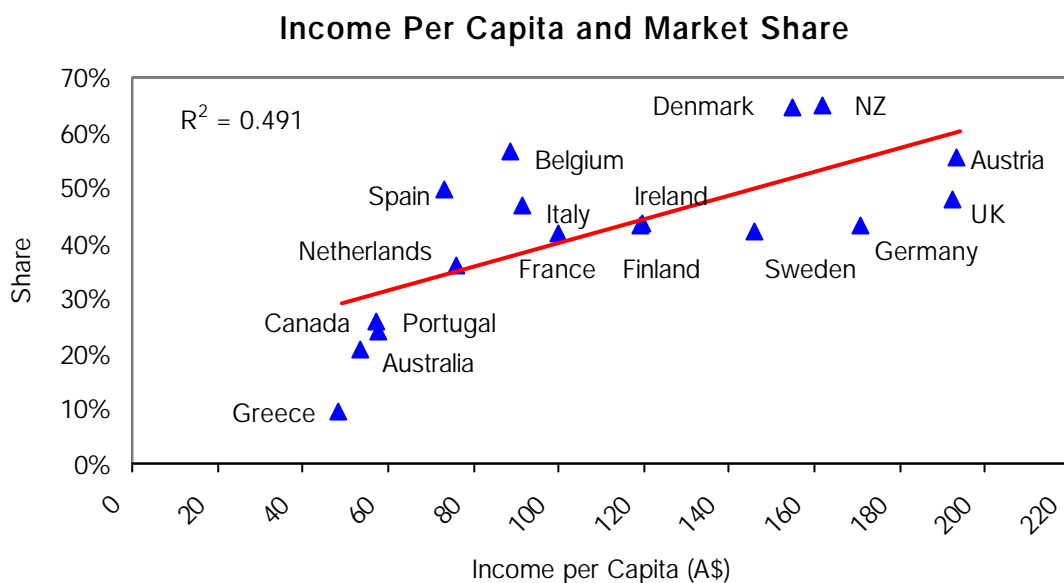
Share by Broadcaster



Source: European Audiovisual Observatory Statistical Yearbook 2002, AC Nielsen Data, CBC Annual Report 2000-2001.

The charts above indicate that Australia’s public broadcasters hold a relatively small amount of market share, both on an individual broadcaster level and between them at a country level compared to the surveyed public broadcasters, with some countries having several highly rating public free to air channels (such as Germany, the UK and France).

As might be expected, there is some correlation between the levels of funding of public broadcasters and their market share, as shown below:



Source: European Audiovisual Observatory Statistical Yearbook 2002, AC Nielsen data, CBC Annual Report 2000-2001, ABC and SBS Parliamentary Appropriations and Budget Papers, TVNZ Annual Report 2001, NZ ON Air Annual Report 2001.

Australia's public broadcasters fit within the general trend demonstrated above. Operating on a relatively small income per capita, the ABC and the SBS captured only a 20.8%¹⁴ share of the market combined. Those countries where public broadcasting has higher income levels tend to have public broadcasters with greater market share. A number of other influences also impact on market share including the history of the market and its regulation, and the nature of the commercial competition.

4.3.4 Funding model

As noted previously, in addition to differences in relative funding levels between public broadcasters, there are also differences between the funding models employed for these broadcasters.

Broadly, income received by public broadcasters may be classified as either "public" or 'commercial' revenue. In the following analysis:

- **public revenue** is defined as revenue derived from government appropriations or other public funds, from mandatory licence fees paid by viewers and listeners, or from 'concession fees' paid by commercial broadcasters for use of spectrum which are then passed on to public service broadcasters;¹⁵
- **commercial revenue** is defined as income derived from contractual transactions on the market, including advertising, sponsorship and program sales. Commercial revenue can be split into two sources – external and internal;

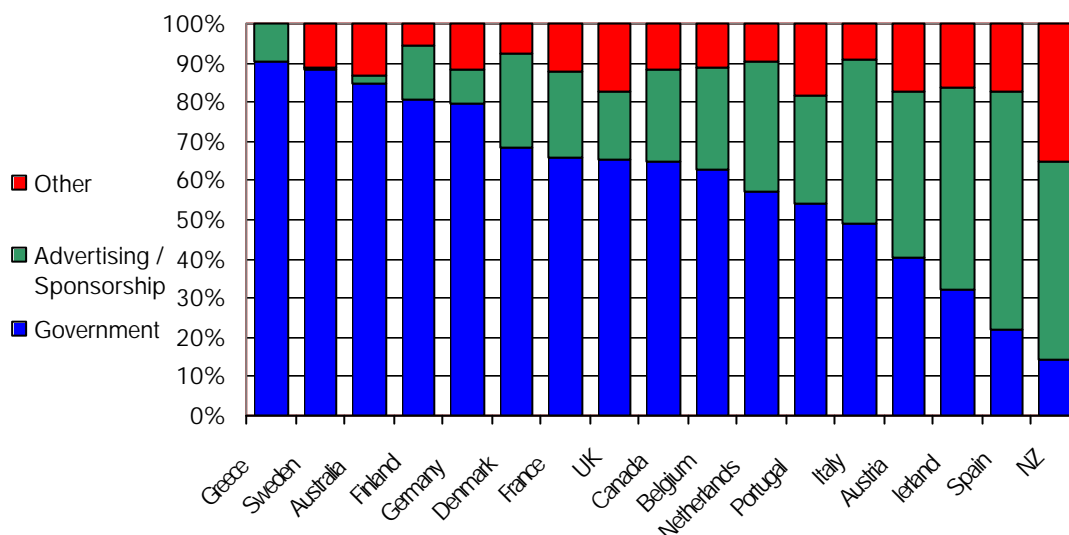
¹⁴ Based on metro weekly share, 6am–12am, January – June 2002.

¹⁵ Concession fees paid by commercial broadcasters are only used for the funding of public broadcasting in Finland, where concession fees together with licence fees are used to fund the state broadcaster, YLE.

- **advertising and sponsorship**, is defined as income supplied by external parties for access to the public broadcaster’s network;
- **other revenue** is generated internally by a public broadcaster through leveraging its own content (eg. retail sales) or other initiatives.

As can be seen by the chart below, the funding mix of public broadcasters differs markedly, with some broadcasters (such as the ABC and the BBC) relying predominantly on public revenue and other broadcasters (such as Ireland’s RTE, Austria’s ORF and Italy’s RAI) deriving a large proportion of their revenue from advertising and sponsorship. Australia’s lack of reliance on advertising and sponsorship as a means of funding should also be noted.

Funding Mix of Public Broadcasting



Source: European Audiovisual Observatory Statistical Yearbook 2002, ABC and SBS Parliamentary Appropriations and Budget Papers, CBC Annual Report 2000-2001, TVNZ Annual Report 2001, NZ On Air Annual Report 2001.

It can be seen from the graph above that Australia ranks well among its peers in terms of revenue sourced through “other” means, such as sale of programs and content. The overall impact of these revenues as a source of funding however is limited because it is only the net profit from the gross revenues which can be used for other activities. Additionally these types of revenue sources typically require investment and are reliant on the content areas within the broadcaster for product development.

4.4 Evaluation of alternative funding mechanisms

In addition to the funding model, the types of public funding received by these broadcasters differs, with the primary distinction being between direct government appropriations and a licence fee system. The table below shows public broadcasters split by public funding mechanism and advertising as a component in the funding mix:

| | | Public Revenue Mechanism | |
|---|------|---|--|
| | | Government Appropriation | Licence Fee |
| Advertising as a Component in Funding Mix | None | Australia (ABC) | Denmark (DR) Sweden (SVT) United Kingdom (BBC) |
| | Some | Canada (CBC) Netherlands (NOS) Portugal (RTP) Spain (RTVE) | Austria (ORF) Belgium (VRT, RTBF) ¹⁶ Denmark (TV2) France (F2, F3) Germany (ARD, ZDF) Ireland (RTE) Italy (RAI) |

Source: *European Audiovisual Observatory Statistical Yearbook 2002, McKinsey & Company*

Although the BBC and the CBC are considered the most comparable broadcasters to the ABC in terms of their charter and perceived role, each of these broadcasters utilise different mechanisms to fund their operations.

- The ABC, as noted previously, receives the bulk of its income (86% in FY2003) from direct Government appropriations, with the remainder of the ABC's income deriving from commercial activities (which cannot include advertising or sponsorship).
- The BBC receives around 91% of its income in the form of an annual licence fee levied on all British households which have television or radio receivers. Like the ABC, the BBC does not use advertising or sponsorship arrangements as a means of obtaining income.
- Finally, the CBC relies on a mixed funding model, whereby around 65% of the CBC's income is provided by the Canadian Government and the bulk of the remaining income derives from advertising and program sales and other services.

Similarly, although all Continental European broadcasters utilise a 'mixed funding' model (that is, public or government revenue combined with income from advertising or sponsorship arrangements), there are a wide variety of funding permutations within this broad model.

The analysis below considers the main types of public and commercial revenue open to public broadcasters (excluding commercial revenue from program sales, licensing, merchandising etc), and cites key advantages and disadvantages of each revenue source.

¹⁶ In Belgium, commercial advertising is allowed only for radio services.

4.4.1 Influence of “environmental” factors

In evaluating a particular funding structure, it should be noted that the funding model for a given public broadcaster is usually the product of its history and operating environment.

For example, the licence fee / advertising arrangement enjoyed by the German public broadcasters reflects to a large extent their monopoly status for a significant period of their existence. Viewers could access only these public entities (and thus the Government could be sure that a licence fee captured all users of these services) and advertisers demanded some forum to market their products. In contrast, the ABC and the BBC – which prohibit advertising – developed in a more deregulated market in which commercial operators could provide a medium for advertising campaigns.

Additionally, there is general acceptance that¹⁷:

The choice of the funding scheme is ... an important way of influencing the activities of public service broadcasting organisations, and, in particular, the content of their program services.

For example, undue reliance on advertising by a public broadcaster may result in schedules tending towards popular and mass entertainment programming, and thus in conflict with the broadcaster’s charter obligations. It is for this reason, combined with the overriding need for a secure funding framework, that the form and mix of funding (and not only the total of level of funding) is an important consideration when evaluating funding mechanisms.

The level of reliance on advertising can affect distinctiveness. Public broadcasters that source a significant proportion of their income through advertising and sponsorship are often pressured to produce popular content that will attract viewers and hence advertisers, rather than being able to concentrate on producing diverse and high quality programming. Spain is a good example of this issue – the main public broadcaster in Spain received just over 60% of its income from advertising and sponsorship in 2000, and it rated last in our distinctiveness analysis.

4.4.2 Direct Government appropriations

Government appropriations (which may include allocations from the government budget, special funds or support programs, and/or other measures such as capital increases or restructuring aid) are the key funding element for the ABC, the CBC and certain other European public broadcasters.

The main advantages of direct Government appropriations include:

- funding can be quickly adapted to needs
- the burden of funding a public broadcaster can be more equitable than a licence fee.

Main disadvantages include:

¹⁷ p2, “The Funding of Public Service Broadcasting”, The European Broadcasting Union, 2000, p2

- there may be exposure to undue political influence¹⁸
- in times of economic downturn, public broadcasters relying on Government appropriations may be more susceptible to reductions in public revenues.

4.4.3 Licence fees

The licence fee, which is usually levied on those households with the relevant receiving equipment, exists in most European countries, the exceptions being Luxembourg, the Netherlands, Portugal and Spain. Most states distinguish between a radio licence fee and a television licence fee, and there has been recent debate as to whether the new media services of public broadcasters should be funded by a special "digital supplement".¹⁹

Advantages of the licence fee as a means of public funding include:

- revenue from a licence fee is generally less volatile than other means of funding.²⁰ The licence fee establishes an additional link between public broadcasters and their audiences (that is, audiences understand what they are paying for and can assess the value of the services provided).

Disadvantages of the licence fee include:

- in the absence of new funding avenues (such as a digital supplement), there tends to be limited growth potential for licence fee income.
- a method of funding relying solely on the ownership of a television or a radio is increasingly anachronistic given the development of new technologies (for example, it is now possible to receive radio and television services through a personal computer)²¹.
- a flat licence fee is a regressive tax which disproportionately affects low income households. As noted by the Davies Panel Report²²:

... while the licence fee is a good way of financing public service broadcasting, it is a very bad way of taxing the public.

- many countries using the licence fee system report relatively high levels of evasion.²³
- many countries have generous exemption standards (mainly on age and income related bases), resulting on a relatively low yield from the licence fee system.²⁴

¹⁸ The Davies Panel Report, for example, stated that direct funding models have "tended to create broadcasters that are inextricably linked to political moods and have the potential to lose management or editorial independence" (p67).

¹⁹ The Davies Panel report, for example, proposed that a separate digital licence fee be imposed in respect of the BBC's digital services. This proposal was strongly opposed by commercial competitors, who argued that a digital supplement would discourage the take-up of digital services in Britain. In February 2000, the Government rejected the idea of a separate digital fee, and instead imposed an increase in the general licence fee (see Section 6.2.5 of this Report).

²⁰ A study by McKinsey and Company showed that over the survey period (1992-1997) licence fee funding was more stable and predictable than either of advertising or Government grants. *Public Service Broadcasters Around the World* (1999), McKinsey & Co, page 31.

²¹ It may be for this reason that public consensus in respect of the appropriateness of a licence fee appears to be breaking down: the Davies Panel Report, for example, noted that 45% of respondents stated that the licence fee was good value for money, whereas 42% said it was not.

²² "The Future Funding of the BBC: Report of the Independent Review Panel", Gavyn Davies, July 1999, p9

²³ The estimated evasion rate in France, for example, was 7.7% in 1997.

4.4.4 Concession fees

Concession fees – that is, fees paid by commercial broadcasters for their broadcasting licences and use of spectrum – are only rarely used as a form of funding to public broadcasters.²⁵

Advantages of concession fees include:

- Funding follows general market trends, and public broadcasters benefit indirectly from the stronger growth of advertising revenue in the commercial sector.
- Public and commercial broadcasters do not compete for advertising revenue.
- Public broadcasters are not under pressure to maximise their audiences, and therefore their remit is less likely to be compromised.

The main disadvantage of the concession fee system is that advertising and sponsorship income from the commercial sector can be volatile and impact on distinctiveness.

4.4.5 Advertising

As can be seen from the analysis above, income from advertising is an important source of revenue for the majority of public broadcasters surveyed.

The main advantages of advertising as a source of income for public broadcasters includes:

- Advertising revenue tends to develop in line with the broader market, and the rate of growth of advertising tends to be higher than the growth rate of public funds.
- Possibly protects against marginalisation as a niche programming provider.
- Facilitates the funding of new services and reinforces independence from political pressure.

Disadvantages of advertising include:

- It is an inherently unstable source of funding.²⁶ In general, the share of advertising in the overall funding of public broadcasting has decreased in the context of greater competition from commercial operators. The share of advertising income in the total budget of the German public broadcasters ARD and ZDF, for example, fell from between 15% and 40% in the mid-1980s to between 5% and 10% in the late 1990s. Reliance on advertising as a key source of revenue may result in a programming policy which is more concerned with maximising audience share than fulfilling the terms of the public broadcaster's remit. Inherent in any pursuit of mass audiences is the risk that the distinctiveness of public

²⁴ A number of recent developments indicate that licence fees may be viewed less positively by some European broadcasters and their viewing public. In 1999, the Netherlands Government decided to switch from licence fees to direct state funding, with the new settlement guaranteeing Dutch public broadcasting a fixed amount of public funding, which is indexed for inflation and is collected as part of income tax. Additionally, a recent "Attitude Survey" of UK adults showed that advertising - rather than a licence fee - was the preferred method of funding the BBC (Davies Panel Report, p178).

²⁵ Finland is the exception: concession fees together with licence fees are used to fund the state broadcaster, YLE.

²⁶ The McKinsey and Company study for the BBC, for example, found that advertising income tends to be quite volatile due to its dependence on the business cycle and susceptibility to commercial pressures.

broadcasters' programming will be compromised. The McKinsey study for the BBC, for example, found that²⁷ '*... an increased dependence on advertising has led inexorably to a more populist and less distinctive schedule.*'. Similarly, the 1986 Caplan/Sauvageau Task Force on Broadcasting Policy concluded that the increasing reliance on advertising²⁸ '*... militates against being distinctive in a sea of look-alike commercial networks.*'

- Editorial decisions may be exposed to commercial pressures and possible conflicts of interest.

In a number of countries, there has been discussion as to whether advertising time on public networks should be reduced, and offset instead by an increase in public funding or a rise in the licence fee.²⁹

4.4.6 Sponsorship

Sponsorship is essentially a more limited form of advertising, amounting to a statement in a program that it is being financed by a particular organisation. Although less intrusive than advertising, the arguments for and against sponsorship as a source of additional commercial revenue are similar to those for advertising. The main additional disadvantage of sponsorship is that there is a risk of interference by sponsors in respect of the content or scheduling of sponsored programs.

4.4.7 Subscription fees

In recent years, fees for pay television services in particular have become a major source of income for commercial operators. In general, public broadcasters have been considerably slower in offering pay broadcasting services, in part due to continuing debate on the broad question of whether public broadcasters should offer services against payment.³⁰ Notwithstanding this, some public broadcasters are deriving a significant proportion of their income from subscriptions services, including the CBC which earned C\$97 million from pay television and audio services in FY2000.

Advantages of using subscription fee as an element in the commercial funding mix include:

- provides access to a new and growing area of revenue;
- provides a direct link between the providers and users of the public broadcaster's services; and

²⁷ "Public Service Broadcasters around the World", McKinsey & Co., 1999, page 29.

²⁸ Caplan, G and Sauvageau, F, Report of the Department of Communications Task Force on Broadcasting Policy (1986), p312; quoted in Kirpitchenko, L, Public Service Broadcasting in the 21st Century – international Perspective (2001).

²⁹ In France, for example, an opinion poll published in 1998 showed that the majority of viewers thought that there was too much advertising on the Television France networks. Various proposals have been considered to offset reduced advertising income by increasing revenue from other areas, such as an increase in licence fees or growing commercial revenue.

³⁰ Although European Union policy documents have previously noted that "where appropriate, funding may also be provided from charges for thematic services offered as a complement to the basic service": *Prague Resolution on the Future of Public Broadcasting* (1994).

- allows public broadcasters to remain competitive with pay television operators, which are expected to command higher sums for the acquisition of premium content (such as sports) than FTA broadcasters³¹.

The main disadvantage of subscription fees is that use of this revenue may undermine the public broadcasting role as a service for all. As noted recently by the BBC ‘... subscription tends to focus services around delivering the profitable genres of sport, films and adult entertainment for a limited audience³².’

In relation to the BBC, it should be noted that the Peacock Committee Report of 1986 proposed a subscription-based model for the BBC, in line with the marketing of satellite and cable.

4.5 Conclusions

Public broadcasters need to be adequately funded to meet their obligations to ‘inform, educate and entertain’. In providing a national audience with a distinctive mix of high quality programming, public broadcasters often drive their commercial broadcasting peers to improve their quality of offerings. Higher levels of funding generally drive higher market share, with well funded broadcasters often holding a large proportion of the market against their commercial peers. A higher level of market share also drives relevance.

This chapter has examined the level of funding of the public broadcasting sector in Australia relative to a number of countries and using a variety of measures. Australia, and the ABC, appear to be relatively under funded when measured against the international broadcasters surveyed. This is consistent with ABC’s share of the market being generally lower than those broadcasters surveyed.

On a comparison of Government funding per capita, the ABC funding levels are below its peers and it would need approximately an additional \$200m pa of funding to be on par with the average of the surveyed countries³³. When compared against the total revenues per capita of public broadcasters, the ABC would approximately require an additional \$700m pa in revenues to have a level of revenue equivalent to the average level of total revenues per capita in our survey group. Finally, when measured against government funding as a proportion of GDP, the ABC would approximately require an additional \$200m in funding to equal the average proportion of funding of the public broadcasters surveyed.

Based upon the comparisons to international public broadcasters made in this chapter, the current level of ABC funding is lower than its international public broadcasting peers. Using the measures of funding analysed in this chapter, additional government funding in the range of \$200 - 700m would be required to increase ABC funding to level comparable to its international peers.

³¹ See the European Broadcasting Union’s paper *The Funding of Public Service Broadcasting* (2000) for further analysis of the pros and cons of subscription fees.

³² The Future Funding of the BBC: The BBC’s Response to the Department of Culture, Media and Sports’s consultation on the Report by the Independent Review Panel (1999), p22.

³³ Adjusted for comparative price levels

Public broadcasters surveyed were funded by a variety of methods: public funding (either by government appropriation or a licence fee) and commercial revenue mostly via advertising and sponsorship but also via leveraging content and other means.

Many public broadcasters today supplement their revenue through some advertising. However advertising has been shown to impact on distinctiveness, as broadcasters surveyed seek audience share to drive their advertising revenues, rather than remain focused on their breadth of programming. While the ABC is currently prevented from advertising, it does source additional revenue through such activities as sale of programs and revenue from content related products sold through ABC Enterprises. However, this form of revenue as a source of funding is limited.

The ABC maintains a high level of distinctiveness relative to its international peers. However, as shown above, additional funding would put the ABC more on par with its overseas counterparts, and help drive market share and in turn relevance in the face of an increasingly competitive media landscape.

5. ANALYSIS OF DOMESTIC COMMERCIAL OPERATORS

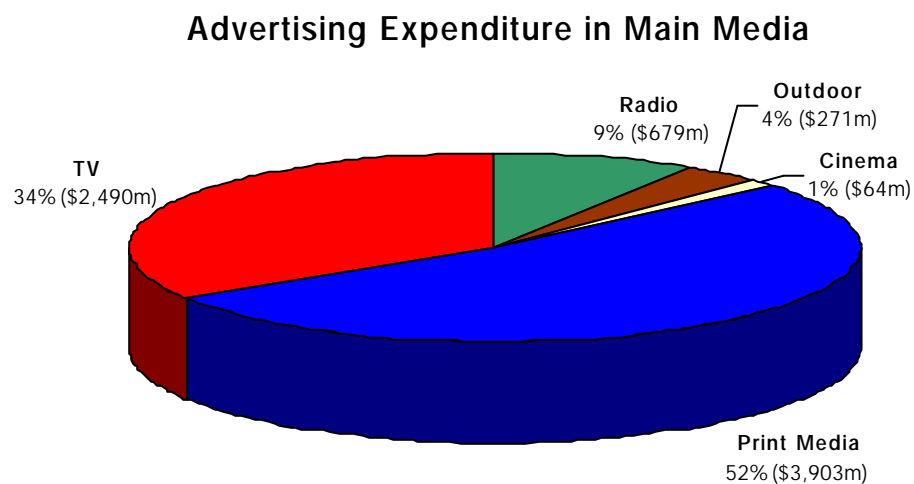
5. ANALYSIS OF DOMESTIC COMMERCIAL OPERATORS

5.1 Overview

The Australian domestic broadcasting industry is made up of a number of different media operators.

- Television: there are 48 commercial television licences, the majority of which are affiliated with one of the three commercial national networks, Seven, Nine and Ten. There are also two national public broadcasters (the ABC and SBS); three major Pay TV operators (Foxtel, Optus and Austar); and six community television stations.
- Radio: there are over 200 commercial radio licences in metropolitan and regional areas. The major commercial radio networks are owned by Austereo, the Australian Radio Network, RG Capital and Southern Cross Broadcasting. There is a similar number of regional and community radio licences in operation, as well as over 100 open narrowcast radio licences, and a number of internet radio operators.

Television and radio together are expected to capture approximately \$3.2 billion in advertising revenue which represents over 40% of total advertising expenditure in Australia across all main media, as shown in the graph below³⁴:

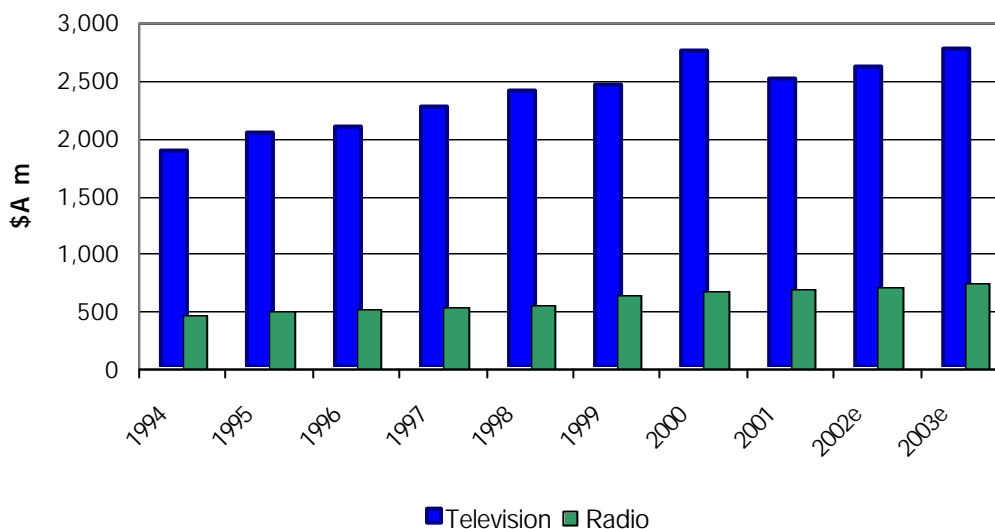


Source: CEASA

The domestic commercial market for both radio and television has experience strong growth over the last decade. The last 18 months however has seen a substantial fall in the growth of advertising revenue after strong growth in 2000. This is illustrated in the chart below:

³⁴ FY2003 estimates from CEASA.

Advertising Expenditure in Radio and Television



Source: CEASA.

5.2 SBS

The SBS was established in 1978, with two radio stations, in Sydney and Melbourne, which had been broadcasting since 1975. Today, the SBS provides a wide range of services to Australia's multicultural and multi-lingual community, as instructed by its charter. It provides services through five main areas:

- SBS Radio: broadcasting in 68 languages;
- SBS TV: a national TV network, broadcasting programs in 60 languages;
- SBS Independent: commissioning programs from independent Australian producers;
- SBS New Media: maintains SBS Online and provides additional content; and
- SBS Pay TV: interests in foreign language content, supplying the Pay TV market.

The SBS receives revenue in the form of a Government appropriation, as well as earning some revenue through limited advertising and sponsorship. While the SBS has been allowed limited advertising to grow their revenue, the ABC is explicitly prevented from advertising on radio and television.

5.3 Pay television

Pay TV began in Australia in 1995 and is now dominated by the three major operators:

- Foxtel: owned by Telstra, PBL and News. Broadband network owned and operated by Telstra;
- Optus Television: owned by SingTel; and
- Austar: regional operator listed on the ASX. It is 80% owned by Austar United Communications, focused on regional Australia.

Revenues for the Pay TV industry are estimated at \$960 million for 2002.³⁵

5.4 Other media

5.4.1 The Internet

The Internet is a key medium in today's environment. However, while it delivers a vast amount of content, its revenue model has proved more elusive than originally thought, with content providers generally providing content free to the growing online audience.

5.4.2 Digital TV

Television broadcasters were required by the Television Broadcasting Services (Digital Services) Act 1998 to begin digital broadcasting to metropolitan areas at the start of 2002. Digital technology will bring substantial change and innovation to television broadcasting, potentially providing:

- a greater number of channels;
- programs will be able to be accessed on demand, rather than on a fixed schedule;
- interactivity with programs will be possible; and
- viewers will become consumers, as new methods of commerce emerge.

One of the most significant changes will be the globalisation of broadcasting³⁶:

Broadcast media have hitherto developed behind national frontiers, and with heavy regulation by national governments. The new technologies will not recognise such boundaries. You will be able to receive material from any point on the globe, and it will be difficult for governments to stop the free flow of information.

5.5 Overview of the market and ABC's performance

The media market in which the ABC operates has become much more challenging due to factors such as:

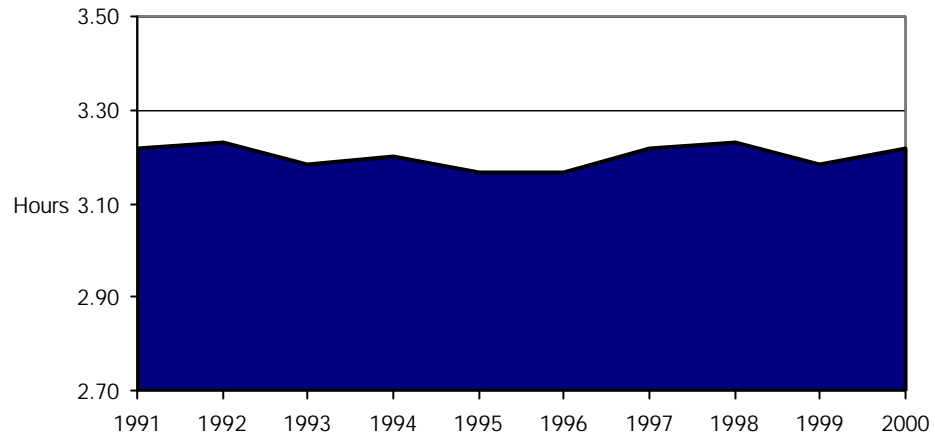
- Saturation of TV viewing and reach
- Increasing competition from commercial channels and pay TV
- Substitution from the internet and other forms of media
- Increasing costs of programme and acquisition rights.

The average daily television viewing time per day in Australia is around three and a quarter hours. The graph below shows the average viewing time over ten years:

³⁵As estimated by Paul Budde Communication, in their report "Australia – Pay TV – Industry Statistics", 2002.

³⁶Speech by Birt, J, Director General, BBC, "The Prize and The Price – The Social, Political and Cultural Consequences of the Digital Age", 1999.

Daily TV Viewing Times



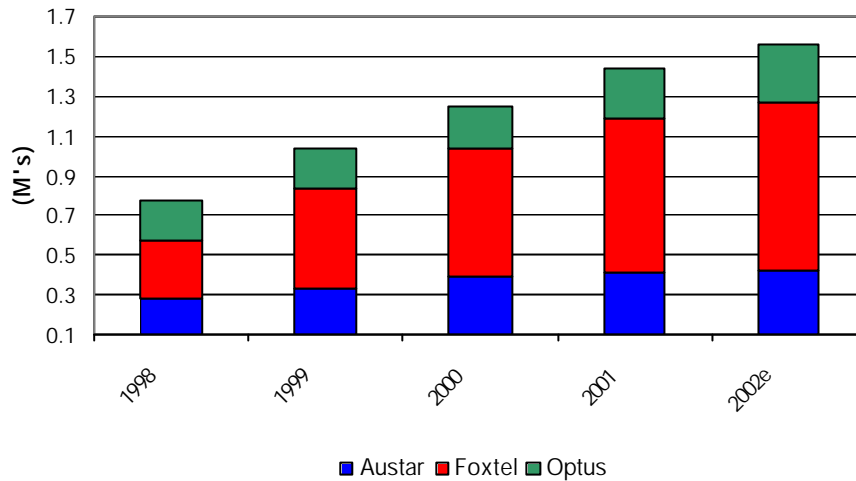
Source: AC Nielsen "Australian TV Trends 2001" ³⁷.

The daily viewing time has remained relatively constant for the last decade, suggesting a saturation effect – despite increased competition in the form of pay TV, viewing time has not increased significantly. This means that broadcasters will have to compete more fiercely for a share of that viewing time as consumers have more television services available to them.

In addition new forms of media are growing, also increasing competition for consumers' attention. The graphs below show the rise in pay TV penetration and internet access in homes in Australia:

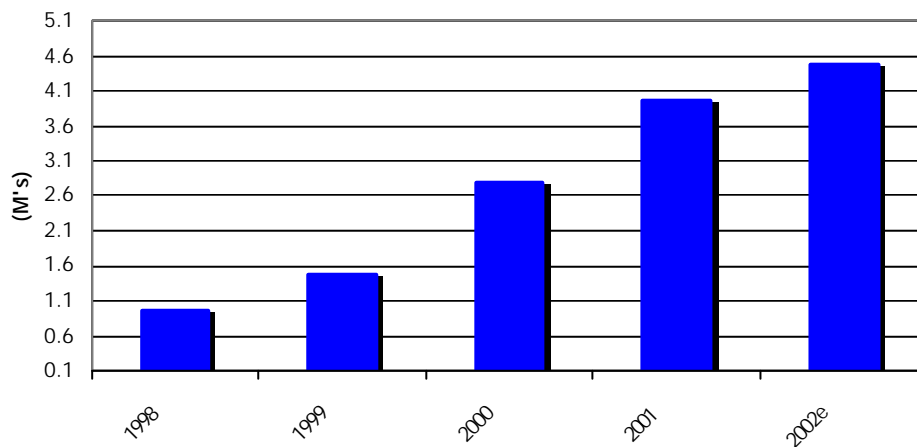
³⁷ Metropolitan viewing times

Pay TV Subscribers in Australia



Source: Paul Budde Communications.

Number of Australian Internet Households



Source: Paul Budde Communications.

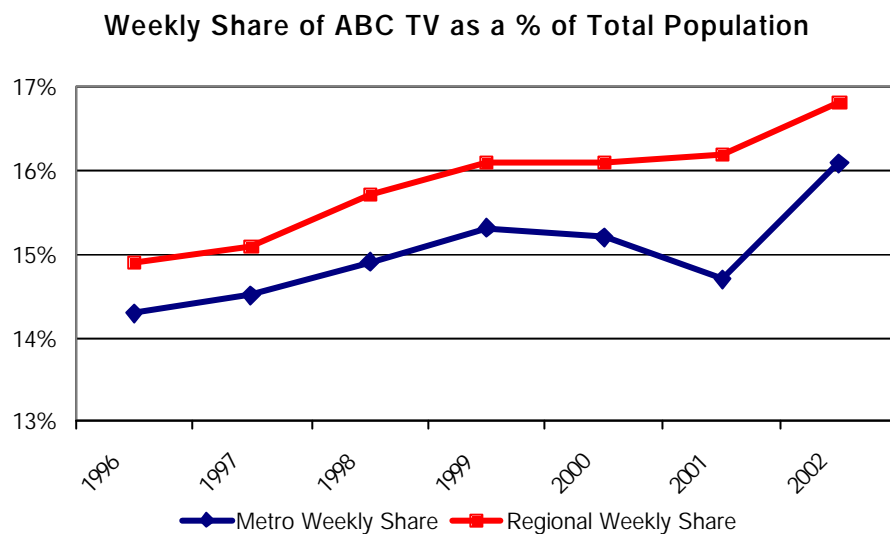
These penetration rates illustrate that a substantial number of Australian homes have access to alternative forms of media, causing fragmentation of the media market as consumers spread their time more thinly across a larger range of media.

The commercial television industry in Australia incurs approximately 70%³⁸ of its programming costs on Australian content. Commercial programming expenditure is directed at content that will attract viewers, with much of Australian programming costs incurred for sporting event rights, and foreign content expenditure focused on drama and

³⁸ ABA Broadcast Financial Report 00/01.

movies.³⁹ In recent years the commercial networks have experienced differing degrees of content cost increases.⁴⁰

Nevertheless, the ABC has continued to attract and maintain its audience's interest with its radio and television services, despite competition from its commercial peers, and new entrants to the commercial broadcasting arena. The graph below shows ABC TV's market share. The ABC has experienced a mild average increase in its market share over the last five years, with a greater increase in regional areas.



Source: AC Nielsen.

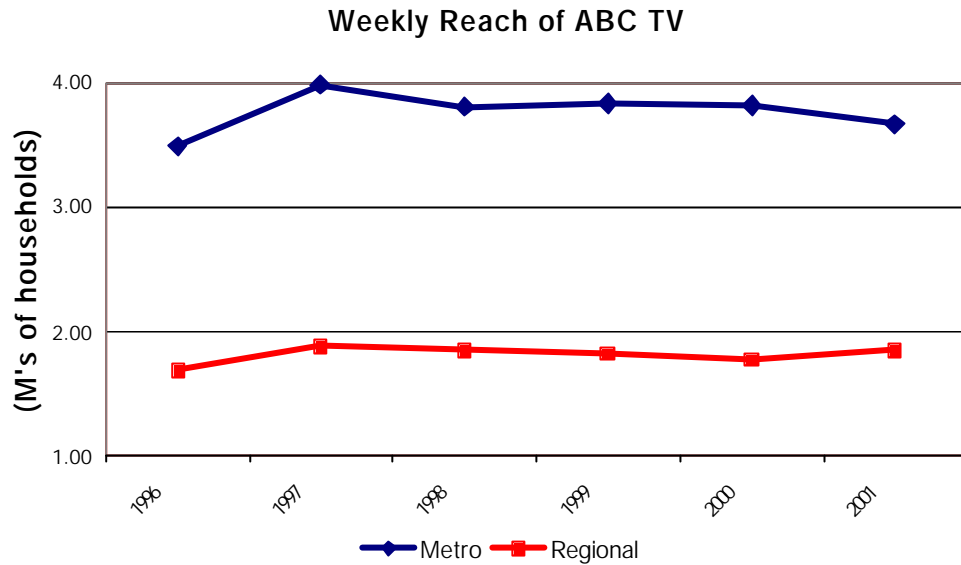
The ABC's metropolitan TV share has remained relatively stable, with small increases over the years and showing an upward trend during the first half of this year. Monthly average share figures tend to vary and can be significantly affected by broadcasting of certain sporting events and first release movies on commercial channels, as well as being subject to seasonal trends.

The ABC's regional TV share has exhibited continued growth over the last few years. This may be partially explained by the growth of Pay TV in regional areas. This may have a greater impact on commercial free to air share than public free to air share due to similarity of product offering and target audience.

The graph below show ABC television's reach as a percentage of households. While the percentage of households reached has shown a small decline over the last five years, it should be noted that estimated number of households reached has actually increased. The rapid increase in households in Australia has meant a decline in the ABC's reach when measured as a percentage of total households.

³⁹ ABA's "Commercial Television Report 1978-79 to 1998-99", pp17.

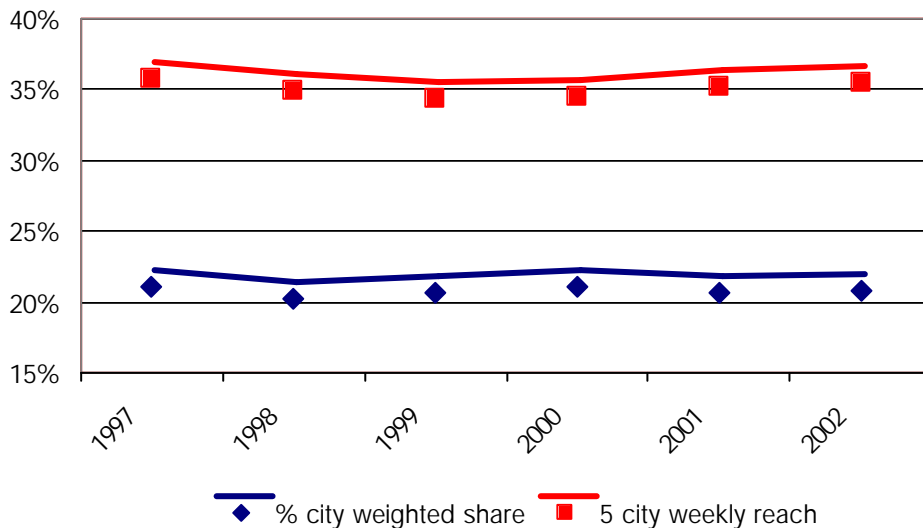
⁴⁰ The ABA Commercial Television Report found that Network Seven's foreign programming costs rose 54% in 1998-99, and that the Nine Network's Australian programming costs in the same year increased 16.4%. The Ten Network contained costs through its strategy of targeting a smaller, but lucrative audience of young viewers.



Source: AC Nielsen, Oztam.

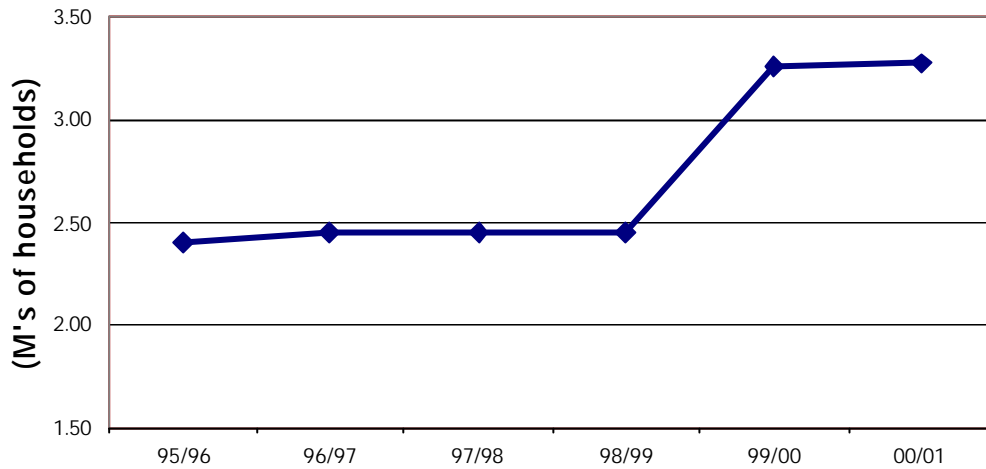
ABC Radio's overall reach and share has also remained constant, despite the recent introduction of, and plans for, additional commercial licences. ABC's weekly combined radio reach in the five major metropolitan markets has been basically static for the past five years, around 35% of the population. Share for ABC Radio in metropolitan areas has also remained steady.

All ABC Radio Reach and Share - Metro



ABC Radio reach in regional areas has grown in the past few years, as illustrated by the graph below:

All ABC Radio Reach - Regional

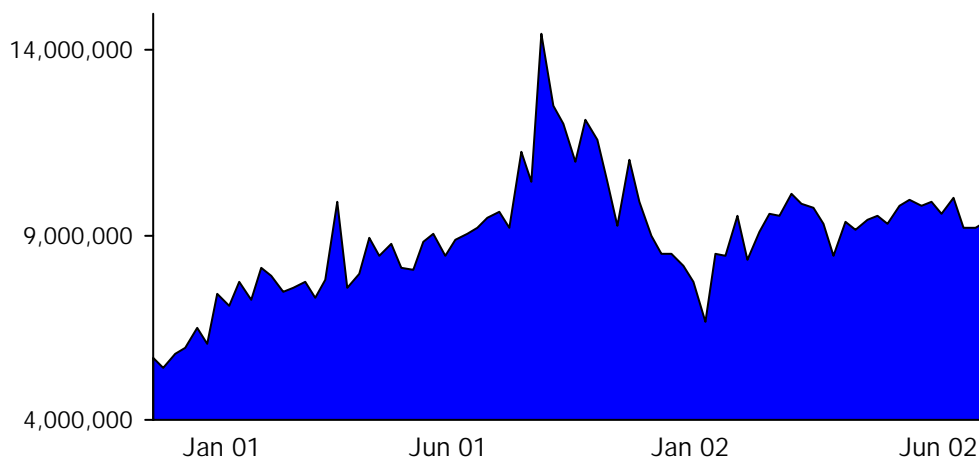


Source: ABC

The ABC has been strengthening its regional production centres, and is committed to a decentralised operating policy. Local programming for television, radio and online has increased, and the ABC has also extended its local coverage in certain areas.⁴¹ In contrast, commercial regional radio stations are trending towards sourcing content from capital city networks, with limited number of personnel operating in regional areas.⁴²

ABC Online has experienced strong growth in its audience, with weekly accesses increasing rapidly. This demonstrates the ABC's successful adoption of new media, and adds to its relevance in today's media environment. The growth in the ABC's online audience is shown in the graph below.

ABC Online Weekly Accesses



Source: ABC Data.

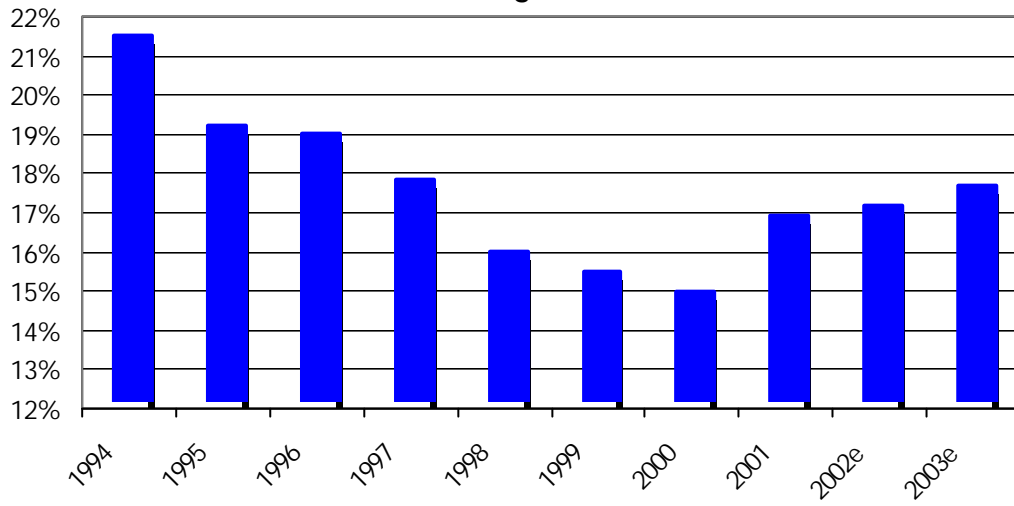
⁴¹ ABC Regional Services

⁴² ABC Local and Regional Services Business Plan 1999-2001, p3.

5.6 Analysis of ABC Television Against Commercial Networks

Since 1992, the ABC's revenue relative to its commercial peers has decreased, due to the strong rate of growth in advertising revenue available to commercial radio and television. Since 2000 the trend has reversed however remains at levels below 1997 levels.

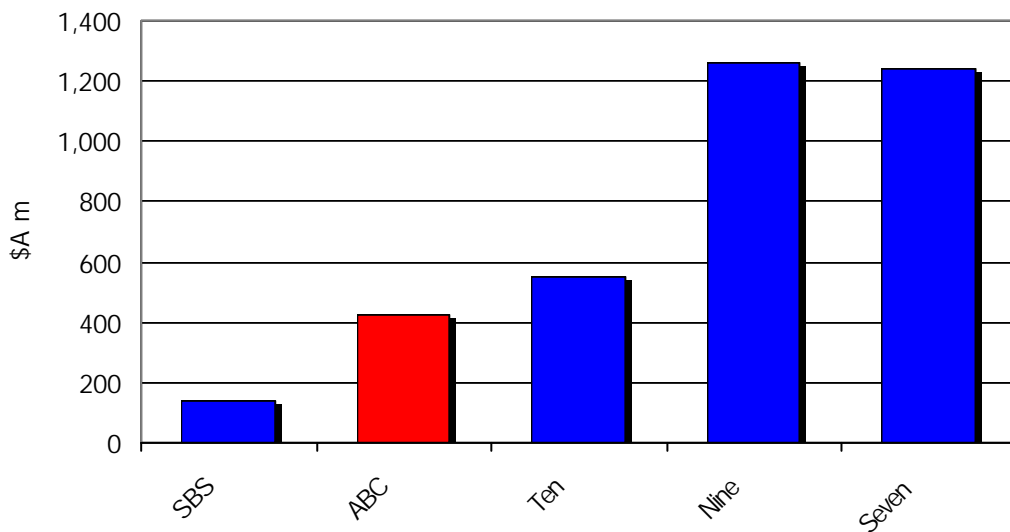
ABC Operating Revenues as a % of Total TV and Radio Advertising Revenue



Source: Macquarie, CEASA, ABC Government Appropriation.

Expenditure by the networks also varies. The graph below illustrates that the ABC's expenditure on television is also below that of its commercial peers.

Expenditure on Television

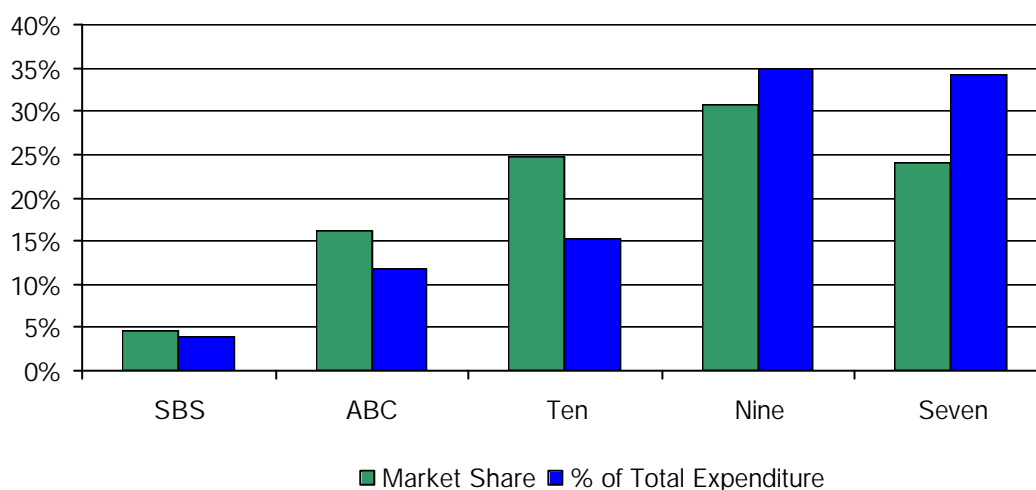


Source: ABA financial Reports, ABC data, SBS Parliamentary Appropriations

As the above chart shows that the ABC's television expenditure is below all three commercial networks. Its expenditure is approximately \$800m less than that of the Nine and Seven Networks and approximately \$130m less than the Ten Network. It is likely the differential between the ABC and the Ten Network will increase as Ten's recent initiatives to increase local programming and production are not fully reflected in our data. Ten, on the success of its recent Australian productions has increased its local production plans compared to prior years and has secured new US content, in addition to renewing its existing US programs. It is also broadcasting the 2002 home-and-away season of the AFL, with exclusive free to air rights for the Finals Series.

Despite having a smaller expenditure than the average commercial broadcaster, ABC Television uses its revenue effectively in terms of capturing market share. The following graphs shows the proportion of total expenditure belonging to each network, and their audience share.⁴³

FTA Networks' Percentage of Total Expenditure vs. Market Share

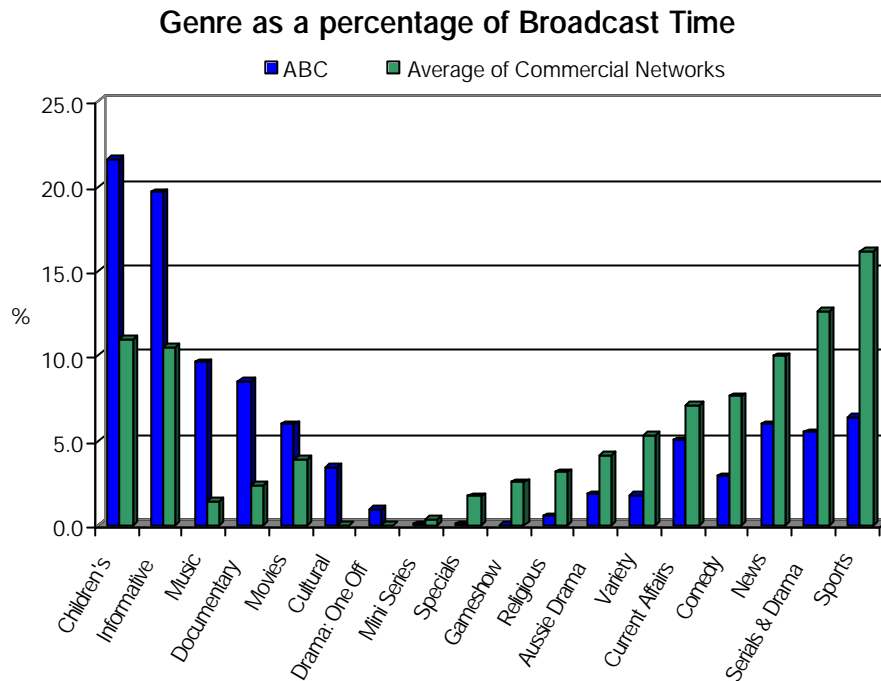


Source: ABA financial Reports, ABC, SBS, AC Nielsen

The ABC provides programming across a wide range of genres in order to provide the programming required by its charter and to offer a diverse range of programs to appeal to many segments of the community. The commercial operators are driven to produce or purchase programming that will attract their target demographic, at a minimum cost. The graph below shows the percentage of broadcasting time the ABC and the commercial networks dedicate to different genres.⁴⁴ The commercial broadcasters focus on genres that will appeal to their target audiences, broadcasting sporting events, serials, dramas and game shows.

⁴³ Based on average weekly TV share of viewing for the five Metro markets, 6am – 12mn, 2000.

⁴⁴ 1999 data supplied by the ABC.



Source: ABC Data.

The ABC provides a significant amount of informative programming, children’s programming, and often provides programs in genres largely ignored by the commercial broadcasters, such as cultural, documentary and music programs.

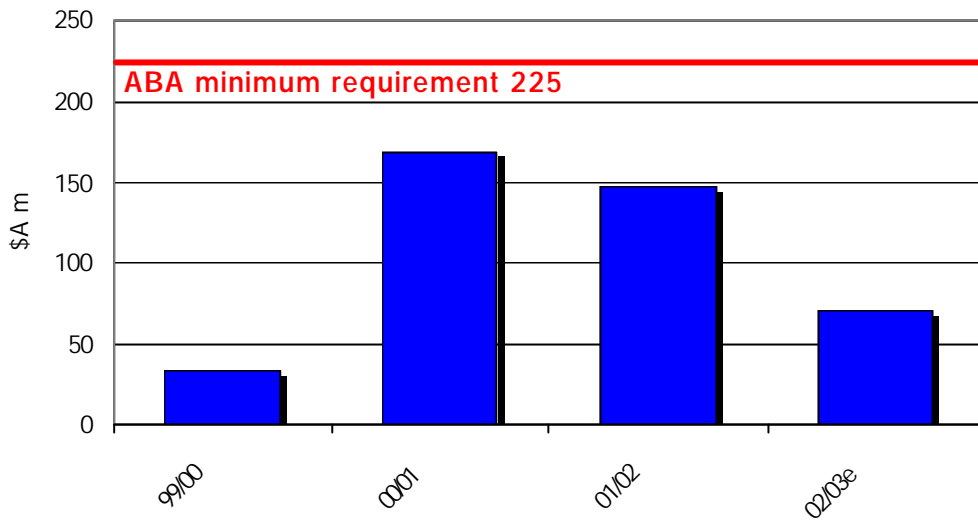
The commercial networks are governed by minimum content standards imposed by the ABA⁴⁵, which they must achieve to maintain their licences. While the ABC broadcasts a large percentage of Australian content overall, it does not currently meet all the ABA minimum content requirements. The ABC is not required to conform to these ABA standards however the ABC Act states that the ABC should “take account of the standards from time to time determined by the Australian Broadcasting Authority in respect of broadcasting services.”⁴⁶

The ABA content requirements include a minimum amount of Australian drama and children’s drama, with the Australian drama based on a score of 225 (different types of Australian drama programs are allocated different scores) and a minimum number of hours requirement of children’s drama. The table below shows the scores for the ABC in 2000 and 2001:

⁴⁵ The Broadcasting Services (Australian Content) Standard 1999.

⁴⁶ ABC Act (1983) Section 6, (2a)ii.

ABC's ABA Drama & Comedy Score



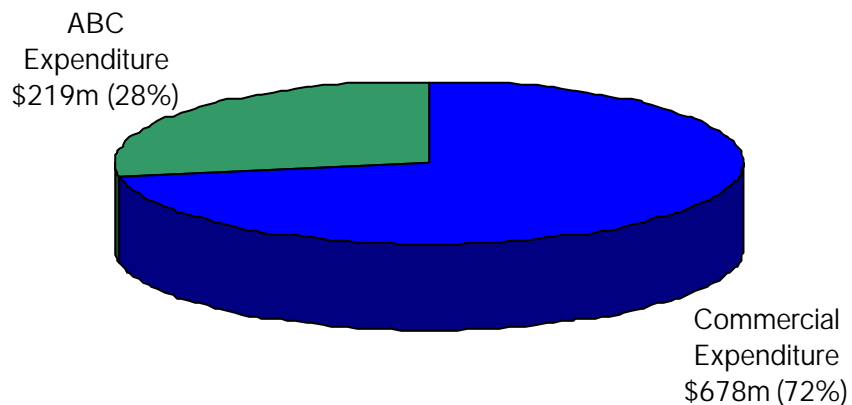
Source: ABC Television

5.7 Analysis of ABC Radio against the commercial networks

ABC Radio has substantial combined market shares in both the metropolitan and regional markets in which it broadcasts. In 2002 the combined market share of ABC's five city radio stations was an average of 21%⁴⁷.

When combined with commercial radio expenditure, the ABC's total radio expenditure represents some 26% of total Australian radio expenditure⁴⁸.

Total Domestic Radio Expenditure

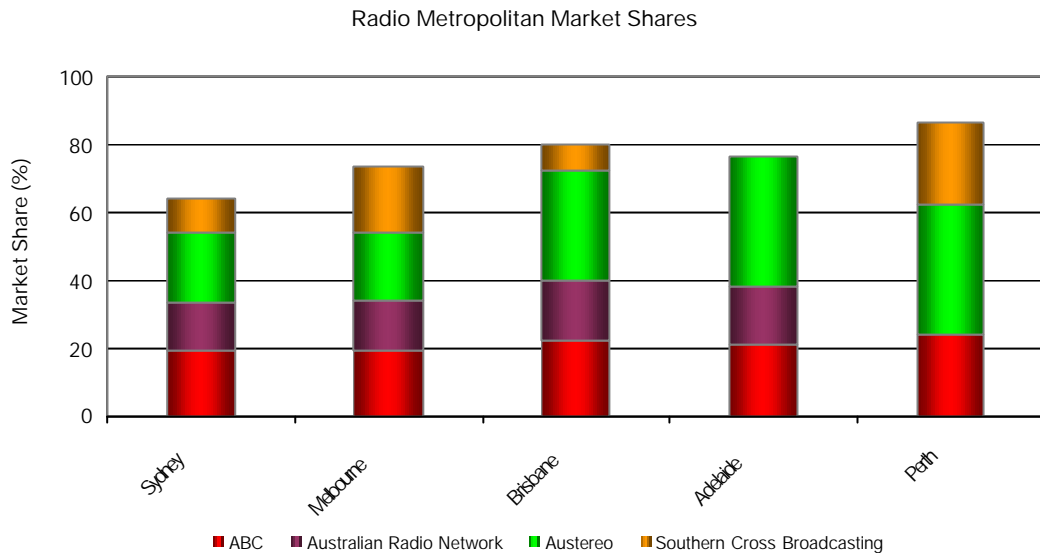


Source: ABC, ABA

⁴⁷ 2002 estimates provided by the ABC

⁴⁸ Using estimated FY2003 ABC radio expenditure provided by the ABC; FY2001 total commercial radio expenditure as reported by the Australian Broadcasting Authority indexed forward.

The 5 city weekly average metropolitan market shares of Austereo, ARN and Southern Cross Broadcasting compared to the ABC are shown below⁴⁹. This illustrates that the ABC has substantial market share positions in aggregate, even in the metropolitan areas. It is expected the ABC's market share in regional areas would be even greater since in many areas the ABC is either the only or one of a few broadcasters in regional areas.



Source: ABC, AC Nielsen

While some reasonable comparison can be made between the ABC's TV service and that of the national commercial networks, it is more problematic to find comparisons for ABC's Radio services. The ABC Radio network is unique in Australia and substantially different from the commercial broadcasters. Key features of the ABC Radio network include:

- the extensive geographical coverage of the ABC;
- the ABC's commitment to providing regional radio services, which is relatively costly to provide;
- the greater amount of local programming by the ABC; and
- the unique and specialised nature of some of the Radio services provided.

Austereo adopts a gender focused strategy which seeks to maximise audience share and minimise audience overlap. It is focused on achieving a large share of the 16-39 year old demographic which is considered the most attractive market to radio advertisers. In contrast, the ABC is focused on providing a full service to all Australians, as well as addressing specific communities that exist within Australia.

RG Capital Radio's strategy focuses on minimising costs through the use of centralised programming for its regional stations, supplemented with local content. ABC Radio has a strong commitment to local content and services. Like Austereo, RG Capital Radio

⁴⁹ Austereo has 2 stations in the each of the 5 cities; ARN has 2 stations in each of the 5 cities except Perth where it has no stations; Southern Cross has 1 station in Sydney and Brisbane and 2 in Melbourne and Perth.

targets particular demographics, and provides music stations with news and some weekly programs such as sport programs.

ABC Radio differs from commercial networks such as Austereo and RG Capital Radio in its programming mix. Austereo's networks broadcast a large amount of popular music, with announcers and short news, and some guest appearances from comedians and celebrities. RG Capital also broadcasts music based programming, with essentially two streams of music radio for its thirty stations, supplemented by minor local content and news. ABC Radio produces a wide variety of programs and its four national networks appeal to different demographics and interests in order to conform to its remit of entertaining, informing and educating.

ABC Radio also bears considerable costs compared to other radio broadcasters through its maintenance of a strong regional presence and local content, with regional studios located across Australia. There are many instances of the ABC being the only radio broadcaster in a regional area. The ABC's commitment to news and current affairs also drive the cost of ABC radio.

From a cost effectiveness comparison, the ABC provides twice as many national networks as Austereo, on a budget approximately 60% larger. In addition, the ABC provides a large regional radio service and a distinctive programming mix to appeal to all Australians. While RG Capital Radio's costs of operations are low, it does not provide the breadth of content or the reach of the ABC Radio networks, instead focusing on select regional markets and demographics.

5.8 Conclusions

New media entrants, such as Pay TV operators, and the increasing access to the Internet, with services such as Internet radio, are changing the dynamics of the market. Fragmentation and increased competition for viewers and intrusion of overseas content are making it increasingly difficult for traditional operators to maintain their audiences and relevance.

The ABC operates alongside the commercial broadcasting sector in Australia, which has benefited from strong growth in revenue from advertising over the past decade. The ABC's revenues have declined relative to radio and television advertising revenue over the past decade. In order to increase the ABC's funding as a percentage of TV and radio advertising revenue to a level equal to its percentage in 1993 (23%), additional funding of approximately \$100m would be required in FY2003.

The ABC Television expenditure is substantially lower than its commercial peers. Its performance in terms of market share relative to expenditure however exceeds that of Seven Network and Nine Network but is below that of the Ten Network.

On a comparison of the ABC to its television free to air commercial peers, ABC Television alone would require approximately an additional \$600m to equal the average of the three commercial networks. This equates to an additional \$950m of funding in order to maintain

existing proportions of funding across its content areas⁵⁰. If it were benchmarked to its nearest peer in terms of funding, the Ten Network, ABC Television alone would require an additional \$130m in funding. This equates to an additional \$200m of funding in order to maintain the existing proportion of funding across its content areas.

ABC Radio enjoys substantial market shares in both regional and metropolitan markets. It is clear that the ABC network of radio stations is unique in the Australian radio industry. Key features of ABC radio which differentiate it from its commercial peers include its extensive geographical and regional presence, programming diversity and local content.

It has been demonstrated that the ABC provides a wide range of programming across genres not addressed sufficiently by commercial operators, in both radio and television, and is committed to maintaining its regional services and content.

The ABC has also built and maintained a strong and growing online presence, promoting its other media services and programs, as well as increasing its relevance in the changing multimedia environment in which it operates.

⁵⁰ Based on increasing ABC's expenditure on television to the average expenditure of the commercial networks. A total ABC funding amount is then arrived at, by maintaining ABC Television's share of ABC expenditure, approximately 54% of the total ABC funding.

This Report has been prepared solely for the use and benefit of the Australian Broadcasting Corporation (ABC) for the purpose of providing a review and analysis its level of funding relative to other international public broadcasters and domestic peers.

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